ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Assessment of Factors Affecting Loan Collection Performance of Development Bank of Ethiopia

A Thesis Submitted to St. Mary's University, School of Graduate Studies, in Partial Fulfillment of the Requirements for the Degree of Master of Accounting and Finance

By: - Gelaye Nemera

Advisor:- Demis H/Gebreal (PhD)

June, 2022

Addis Ababa

Saint Mary's University
School Of Graduate Studies

Assessment of Factors affecting loan collection performance of Development Bank of Ethiopia

BY
Gelaye Nemera

Approved by Board of Examiners

___________________	___________________	___________________
Dean, Graduate studies	**Signature**	**Date**
Demis H/Gebreal (PhD)	___________________	**July 7, 2022___________**
Advisor	**Signature**	**Date**
Giday G. (Ph.D)	___________________	**July 8, 2022**
External Examiner	**Signature**	**Date**
___________________	___________________	___________________
Internal Examiner	**Signature**	**Date**

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to my advisor Demis H/Gebreal (PhD) for his support. Next I am glad to express my gratitude to staffs of Developmental Bank of Ethiopia for their support to undertake this research. Lastly, I would like to thank my family for their encouragement and support throughout my education life.

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Demis H/Gebreal (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Gelaye Nemera

Name Signature ________________________

Saint Mary's University, Addis Ababa May, 2022

ENDORSEMENT

This thesis has been submitted to Saint Mary's University, school of Graduate studies for examination with my approval as a university advisor.

Demis H/Gebreal (PhD)

Advisor Signature_______________________________

Saint Mary's University, Addis Ababa July 2022

Acronyms

ACH	Automated Clearinghouse
APR	Annual Percentage Rate
DBE	Development Bank of Ethiopia
HPR	House of People Representative
MFI	Microfinance Institution
ISHOPA	Imperial Savings and Home Ownership Public Association
LTV	Loan-to-Value
MOP	method of procedure
NPL	Nonperforming Loans
NBE	National Bank of Ethiopia

ABSTRACT

The main objective of Development Bank of Ethiopia is to operate profitably in order to maintain its stability and improve growth and sustainability by supporting large and macro level enterprises to reduce unemployment rate in the country. However, DBE experience high levels of non-performing loan collection and sustainability of the institution and hinders the achievement of its goals. This study was aimed at Assessment of Factors affecting loan collection performance. However, its nonpayment also leads to incidence of huge loss on institution in particular and country in general. Hence, this study was conducted to assess Factors affecting loan collection performance Developmental Bank of Ethiopia. To this end, the researcher has selected 43 loan collectors to distribute questionnaires and 2 management bodies of the institution to conduct interview and collect data through structured questionnaire. This study used primary sources of data, which is the data was gathered through questionnaires and interview. This research applies descriptive research design that describes the cause of nonperforming loan collection and also possible challenges and corrective measures for the factors that affect performance of loan collection in the institution. The finding of this study shows the increment of non-performance of loan collection rate in the institution from time to time and this is because of factors like lack of follow up of the borrowers, lack of adequate manpower, methods of loan collection not suitable, the bank cannot run its activities according to the schedules it sets, it did not supervise regarding utilization loan, the policy and principle that the bank has are not strong and sufficient. And finally, the researcher tries giving some necessary recommendation for the problems obtained for the concerned bodies. The following are some of recommendation. These are the bank ought to solve lack of skilled and experienced man power, it should collect the loan based on the schedule it set, it should be revised its loan collection method and etc.

Key words: borrowers, loan collection performance and DBE

Contents

Chapter One 1

Introduction 1

1.1 Background of the Study 1

1.2 Statement of the Problem 3

1.3 Research Questions 4

1.4 Objectives of the study 4

1.4.1 General objectives of the study 4

1.4.2 Specific Objectives of the Study 4

1.5. Scope of the Study 4

1.6. Significance of the Study 4

1.7. Limitation of the Study 5

1.8. Organization of the Study 5

Chapter two 6

Review of Related Literature 6

2.1 Introduction 6

2.2 Background of Developmental Bank of Ethiopia 6

2.3 Definition of Key terms 7

2.4. Definitions and Concepts of Loan 8

2.5 Types of Loans Made By Bank 9

2.6 The Business of Banking 10

2.6.1 Lending Procedures 10

2.6.1.1 The Principle of Lending 10

2.6.1.2 Credit Worthiness of Customer 11

2.6. 2 Nonperforming Loans (NPLs) 12

2.6.3 Loan Collection Procedure 12

2.6.4 Five Strategies to Improve Loan collection 14

2.6.5 The Future of Bank Loan Collection 16

2.6.6 Traditional collection process 16

2.6.7 Problems in Traditional Loan Collection/ Recovery 17

2.6.8 Evaluating the Effect of Credit Collection Policy 18

2.6.8.1 Collection Policy and Portfolio Quality of Microfinance Banks 19

2.6.8.2 Credit Management 20
2.6.8.3 Credit Management Variables 21
2.6.8.4 Collection Policy 21
2.8 Conceptual Frame work 22
Chapter Three 24
Research Methodology 24
3.1 Introduction 24
3.2 Research Design 24
3.3. Research approaches 24
3.4 Population and Sampling Method 26
3.5 Sampling size 26
3.6 Source Data and Data Collection 26
3.7 Data Collection Procedure 26
3.8 Method Data Analysis 27
Chapter four 28
Data Interpretation, Analysis and Presentation 28
I. Personal Information about the employees who work on loan Collection 28
Table 4.1: Personal Information about the employees 28
Section II Responds concerning the problem 30
Table 4.2 how was the follow up of your borrowers in most of the months after you give the loan? 30
Table 4.3 the organization follow up mechanism 30
Table 4.4 whether the organization evaluation loan collection performance 31
Table 4.5 the reason for not evaluating the performances of loan collection 32
Table 4.6 Method of loan collection 32
Table 4.7:- Whether the organization know the purpose of the credit taken 33
Table 4.8 Follow up and giving training on what the borrowers spend the entire loan on purpose of specified in the loan agreement 33
Table 4.9 the factors that affect performance of loan collection 33
Table 4.10 the status of recent loan collection performance 34
4.11 The problem for the loan to be in arrears 35
Table 4.12 Have you ever supervised regarding loan utilization by your client? 35

Table 4.13: Whether they have supervised regarding loan utilization by client or not 36
Table 4.14 whether the organization perform its loan collection responsibility according to the schedule it sets 36
4.16 performance of collecting loan on the set schedule 37
4.17 What was the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years? 37
4.18 Whether the bank had sufficient and strong principle and policy for performing loans collection 38
Responses on interviews 38
Chapter Five 40
Summary, Conclusion and Recommendation 40
5.1. Summary of Major Findings 40
5.2. Conclusion 41
Factors of non-performing loan 41
5.4 Suggested Areas for Further Research 43
References 44

Chapter One

Introduction

1.1 Background of the Study

Bank's role in the economy of any country is very significant. They play financial intermediation function and collect money from those who have excess and lend it to others who need it for investment. Availing credit to borrowers is one means by which Banks contribute to the growth of economies. They play intermediary roles between money depositors and those in need of fund for their investments thereby ensure that money flows are smooth (Richard, 2011). Economic development in any country is impossible without a sound Banking industry (Rajaraman and Visishtha, 2002). On the other hand, loans are the dominant assets and account the highest percentage share of operating income and at the same time it represents Bank's greatest exposure to risk of defaults (Mac Donald and Koch, 2006). Good performance of financial institutions is the symbol of prosperity and economic growth in any country or region and poor performance of these institutions not only hamper the economic growth and structure of the particular region but also affects the whole world (Muhammad et al, 2012).

In- deed, the Development Bank of Ethiopia (DBE) exists to stream the limited financial resources of Ethiopia to- wards priority areas. To align the DBE's role with the government development plans, the bank produces its own five-year strategic plans, and then used to develop detailed annual plans.

In literature and practice the term "development bank" is commonly applied to investment banks for the financing of private projects which deserve to be promoted on general economic grounds. Their salient task is usually to provide medium- and long-term funds. Complementary consultative functions are occasionally performed as well while other bank transactions, especially of a short-term nature, and debit business were, as a rule, not considered. This concept of the purpose of a development bank has proved too narrow, too normative and too general.

It is the task of the development banks to help to promote the socio-economic advance of a country through their banking services. With this aim in view they must in many cases pioneer banking services which are not - or at least not adequately - provided by the other credit institutions in a banking system, and especially not by those with purely private commercial motivations.

The development banks apply a major part of their potential capacity for the performance of banking functions to the aim of narrowing down the qualitative gap between the latent demand for banking services and the supply of such services by the rest of the banking system which is a characteristic of developing economies. Whether a specific banking service ranks as the principal function of a development bank or not can be ascertained in the individual instance only by comparing the socio-economic requirements with the available banking services of the country.

It is not claimed here that development banks should confine themselves to the performance of pioneer services or stop-gap functions. For competitive reasons, to balance earnings and risks in their operations or because of availability of attractive savings media they often have to engage in established types of banking business involving smaller hazards. These should never however be the focal point of their activities (Charles, 1999).

As the development banks' activities are oriented towards development, they do not only provide above-average support measures for the commercial purposes of the individual enterprise but at the same time assist in improving and extending the financial infrastructure of the developing countries. Their contribution in this respect may be described provisionally as follows: Development banks provide innovatory banking services through the introduction of new financing instruments or techniques such as are not, or only inadequately, provided by other banks. These may include long-term investment finance, the issue of shares and debentures, acceptance of new forms of securities for credits, leasing, factoring and additional non-financial services as a complement to the grant of credits.

From the above mentioned points, study focuses on the factors that affecting loan collection performance of Development Bank of Ethiopia (DBE). However, there are a few researchers conducted research on the effect of loan collection performance of DBE; but still, their research did not focus on loan collection identification. Thus, this research tries to lend empirical support issues on the factors affecting loan collection performance in DBE, Head office, Addis Ababa.

1.2 Statement of the Problem

Development bank of Ethiopia is state owned and specialized financial institution with the mandate of providing long, medium and short term loans to feasible and viable projects of commercial agriculture, agro processing and manufacturing sectors following government priority area. To address the main objective of the study, Development Bank of Ethiopia, Head office is selected for the study purpose.

Ethiopia has long history by establishing the first Development Bank in Africa. Similarly, DBE has long history in financing Development Projects. However, the bank exhibit poor loan collection performance and practice as compared to its long period practices in the industry. The bank's high non-performing loan ratio for extended period can be evidence to the presences of poor loan collection performance. For instance, the bank's non-performing loan (NPL) ratio grew to almost 40 percent in the year 2018, which is worst performance the bank had experienced. However, the National Bank of Ethiopia's standard is that NPLs not to be higher than 15 percent for development finance institutions.

Several studies had been done on DBE, for example a study conducted by (Meheretu, 2015) focused on loan collection practice and credit risk management and tries to investigate the reasons for the accumulation of bad loan at DBE. But my study focus on loan collection performance and the factors that affect the activities of loan collection.

As the components of loan collection administration functions, responsible management must understand and demonstrate, in monitoring and controlling of the loans collection from the clients. These include not only implementing appropriate policy procedure, but also assessment of the borrower business liability, through various key indicters.

Thus, studying loan collection performance and knowing the related factors that may contribute to the exhibited weak loan collection performance of the bank, factors like problems in credit policy, the appraisal process, disbursement, follow-up, repayment contracts, and other unforeseen cause of default, which enforce the researcher to conduct this study.

Hence, this study takes an approach to assess the factor that affect loan collection performance practice, assess the level of performing of the banks in recent years and to highlight some recommendations that will improve DBE loan collection performance and that will enhance its loan collection quality.

1.3 Research Questions

The research will attempt to answer the following basic questions

1. What are the existing challenges that affect loan collection performance of the bank?
2. To what extent DBE up-grade loan collection performing?
3. How does DBE manage the problems encountered in the collection of loan it provides to its client?

1.4 Objectives of the study

1.4.1 General objectives of the study

The general objective of the study is to assess the factors affecting loan collection performance of Development Bank of Ethiopia (DBE).

1.4.2 Specific Objectives of the Study

1. To know the existing challenges that affect loan collection performance of the bank.
2. To evaluate to what extent DBE up-grade loan collection performing.
3. To examine how DBE manages the problems encountered in the collection of loan it provides to its client

1.5. Scope of the Study

This study covered Ethiopian Development Bank; mainly the loan collection department located in Addis Ababa. And the study was concentrating on assessment of factors affecting loan collection performance of Development Bank of Ethiopia (DBE). Emphasis shall be placed on loan collection performance of institution. The data was obtained from Development Bank of Ethiopia managing bodies and the concerned employees.

1.6. Significance of the Study

Bank institutions are important for rapid economic development, investment and creating employment opportunity especially in developing countries like Ethiopia. One of the key factors for loan collection performance and sustainability of the bank is the presence of good loan collection management policy. The result of this study shall expect to have a great importance to evaluate macro finance institutions in providing efficient and effective services to the investors and who are in strong investment bases and also for economic development activities. This study tries to provide information for a better understanding on the general aspects of loan collection management issues like credit policy and procedure, credit application evaluation, credit administration and documentation and follow up, supportive supervision and monitoring of the banks' financial system from both lender and borrowers side. The primary advantage of this study is to establish a knowledge base that enables to makes a sound decision and take corrective action on loan location. In addition, the information will be useful for policy makers, other lending institutions and stakeholders.

1.7. Limitation of the Study

Sufficient documents concerning the subject under study were lacking. Time constraint has prevented proper and thorough review of empirical and theoretical data that are related to the study. Lack of relevant data and biased judgment of interviewees were some of the other problems which were encountered. On the other hand the sample size of respondents may not represent the total employees because of its size was not sufficient. And it did not incorporate employees at different regional levels.

1.8. Organization of the Study

S/n	Chapters	Activities
1	One	Chapter one contains background of the stud, statement of the problem, basic research questions, objectives of the study, limitation of the study and significance of the study
2	Two	This chapter explains about the review of the related literatures
3	Three	shows research design and methodology
4	Four	shows the analysis of the data's collected
5	Five	The study to an end with findings, conclusion and recommendation.

Chapter two

Review of Related Literature

2.1 Introduction

Financial institutions; especially, like developmental bank gives access to financial and non-financial services to investment and economic development, who wish to access money for starting or developing an investment generation activity. The individual loans and savings of the clients are so significant. Developmental bank came into being from the appreciation of investment and some clients can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs but some of the cannot; so the institution should make its efforts to collect the loan it provided and make its best performance on loan collection. Bank as a discipline has created financial products and services that together have enabled people to become clients of a banking intermediary.

2.2 Background of Developmental Bank of Ethiopia

The Development Bank of Ethiopia is a state owned development finance institution, established in 1909 and is headquartered in Addis Ababa, Ethiopia. The current key mandate of the Bank is the provision of development credit to viable priority area projects along with technical support and advice by mobilizing resources from domestic and foreign sources.

Development Bank of Ethiopia operates as a finance institution in Ethiopia. The company offers current accounts, time deposits, safety deposits, and demand deposits. Its loan portfolio comprises agricultural, industrial, fertilizer, and other business loans. The company also offers medium and long term loans for investment projects, which are engaged in agriculture, agro-processing, and manufacturing industries. It operates approximately 32 branches in Ethiopia. The company was formerly known as Agricultural and Industrial Development Bank and changed its name to Development Bank of Ethiopia in 1994.

The Development Bank of Ethiopia (DBE) is a state owned development finance institution. DBE is supervised by the Public Financial Enterprises Supervising Agency. A Board of Management (BOM) consisting of nine senior government officials administers the Bank. The President of the Bank also attends the regular meetings of the BOM as a non-voting member.

These two apex bodies (PEFA and BOM) are, among others, responsible for issuing major policies of the Bank, approval of its strategic and operational plans as well as the close and regular monitoring of the Bank's operations.

Overseeing the operations of the Bank is the direct responsibility of the top Executive Management Committee (EMC), which consists of the President and four Vice Presidents. The President chairs the EMC and acts as the officials' representative of the Bank. A Management Committee comprised of twenty five members is, on the other hand, responsible for the day-to-day management of the Bank's operational activities. The Bank also has 5 Regional offices, 12 Branches and 20 Sub branches. https://www.developmentaid.org

2.3 Definition of Key terms

Collection fees: - A fee (or charge) that a debt collector adds to the amount it attempts to collect from a consumer. The fee must be authorized by an agreement or permitted by law.

Credit: - The ability of a consumer to borrow money with the promise to repay it, plus any interest and fees, at a later date. As examples, credit includes loans and credit cards.

Credit Bureaus (also *Credit Reporting Agencies*, *Consumer Reporting Agencies*) Private companies that collect and share consumer credit information and make it available on *credit reports*.

Creditor (also *Original Creditor*): A person, company, or entity to whom the debt is claimed to be owed. The original creditor is the person or business that provided the original service, product, or credit that is the source of a debt collection attempt.

Credit Report: - A record of a consumer's credit history, as reported by creditors and other sources, including: employment; addresses; credit inquiries; credit cards and loans; accounts; liens; wage garnishments; and other data.

Debt collector (also *Collector*, *Debt Collection Agency*): A private company or person—including a debt collection attorney or law firm—that attempts to collect personal or household debt from New York City residents. The debt collector may:

- own the debt (purchased from a *creditor*) and collect for itself; OR
- be hired by a creditor or other company to assist in collecting the debt.

Debt settlement or payment plan: - An agreement by the debt collector to accept from the consumer an amount less than the originally claimed balance either as a payment in full or as scheduled partial payments

Debtor: - A consumer who owes or is claimed to owe money to a *creditor*.

Default (also *Defaulting on a debt*) Failure to meet the repayment obligations on a *debt*.

A default can occur when a consumer:

- is unable to make timely payments;
- misses payments; or
- avoids or stops making payments

Dispute a debt (also Contest a debt): Consumers who do not recognize a debt or do not agree that they owe the amount of debt claimed may contest all or part of the debt verbally and/or in writing.

Misrepresentation: - The use of false, deceptive, or misleading practices in debt collection. *Debt collectors* may not make misrepresentations to consumers, including:

- falsely representing or implying that the debt collector is an attorney, legal office, government agency, marshal, or sheriff;
- falsely representing or implying that the consumer committed a crime, or that nonpayment of any debt will result in the consumer's arrest or imprisonment or the seizure, *garnishment*, attachment, or sale of the consumer's property or wages unless the action is lawful and the debt collector or *creditor* intends to pursue it; or
- reporting, or threatening to report, inaccurate credit information to a *credit bureau*.

  https://www.nyc.gov. dca. Pdf.consumers

2.4. Definitions and Concepts of Loan

Loan is any financial asset of bank arising from a direct or indirect advance or commitment to advance funds by bank to a person that are conditioned on obligation of the person to repay the funds either on specific date or date on demand, usually with interest (National bank of Ethiopia, 2008).

Loans are some provisions will be made for repayment of the principal (the original loan amount). Loan might be repaid in equal installments or single lump sum (Jordan, 2000).

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 (Mishkin, 2003).

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 activates of banks. It is through this credit granting activates that they made up large portion of their earnings (Bilihatu, 2007).

2.5 Types of Loans Made By Bank

1. **Real estate loan**; which are secured by a real reporting, land, building and other structure and including short term loans constructions and land development and long term loans to finance the purchase of farm lands, homes, apartments, commercial structures and foreign properties?

2. **Financial institutions loans**: including credit to banks, insurance companies, financial companies and other financial institutions.

3. **Agricultural loans**: extended to farms and ranch operations to assess it in planning and harvesting crops and to support the feeding and care of livestock.

4. **Commercial and industrial**: granted to the business to cover such expenses as purchasing inventory, paying taxes and meeting payrolls.

5. **loans to industrials**: including credit to finance to the purchase of automobiles, homes, appliances and other retail goods to repair and modernized homes, cover the cost of medical care and other personal expenses with extended to directly to individuals or indirectly through retail dealers.

6. **Miscellaneous loans**: which included all these loans reclassified above including securities loans?

7. **Loans financing receivables**: when the bank buys equipment or vehicles and lease terms to its customer [Peter, et.al. 2008].

2.6 The Business of Banking

Banks are financial institutions that accept deposits and make loans. Banks serve as intermediaries by transferring fund from those with surplus to those who have productive need for them. For instance, person who needs a loan to buy house or car usually obtain it from bank.

2.6.1 Lending Procedures

2.6.1.1 The Principle of Lending

Bank Lending policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients will the bank approve for loans and which will be avoided, and must be based on the bank lending laws and regulations (owino,2012). Lending must be designed in such a way that it could be a total benefit to all different interest group of the bank, which includes the shareholders, depositors and the borrowers (Owino, Michael Otieno, 2012).

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 (Bilihatu, et al,, 2007).

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 (Bilihatu, et al,, 2007).

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 for examination of loan applications, as far as possible in two or more installments (Bilihatu, et al,, 2007).

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 given 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 banks 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 their 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 (Bilihatu, et al,, 2007).

2.6.1.2 Credit Worthiness of Customer

The most popular methods of analyzing customer worthiness (ability to repay loans) also known as 5c are;

Character: the loan officer must be convinced that the customer has well defined purpose for requesting credit and serious intention to repay. The loan officer must determine the borrower has responsible, truthfulness, serious purpose and serious intention to repay owed make up.

C**apacity**: the loan officer must be sure that the customer has authority to request a loan and the legal standing to sign a binding loan agreement.

Capital: does the borrower have ability to generate enough cash, in the form of cash flows to repay the loan?

Collateral: assuring the collateral aspects of a loan request, the loan officer must ask and does the borrower process adequate net worth or own enough quality assets to provide adequate support for the loan? The loan officer must assess: the age, condition and degree of specialization of the borrower assets.

Condition: the loan officer and credit analysis must be aware to recent trends the borrowers line of industry and how changing economy condition may affect the loan (J. brand ford Delong, 2002).

2.6. 2 Nonperforming Loans (NPLs)

There is no common definition of nonperforming loans (NPLs) in the whole country since it is recognized that it is possible that what is appropriate in one country may not be so in another. There is, however, some common opinion on this issue. Accordingly the IMF's Compilation Guide on Financial Soundness Indicators, NPLs is defined as:

> *"A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full" (IMF, 2005).*

Besides, the Ethiopian banking regulation also defines NPL as follows:

"Nonperforming loan and advances are a loan whose credit quality has deteriorated and the full collection of principal and/or interest as per the contractual repayment terms of the loan and advances are in question" (NBE, 2010).

Generally, NPLs are loans that are outstanding both in its principal and interest for a long period of time contrary to the terms and conditions under the loan contract. Any loan facility that is not up to date in terms of payment of principal and interest contrary to the terms of the loan agreement is NPLs. Thus, the amount of nonperforming loan measures the quality of bank assets (Tseganesh, 2012).

2.6.3 Loan Collection Procedure

Efforts made by an Institution to collect loan from its loanees is an important element in reducing loan default and is defined as an effort made by an institution to collect past due accounts (Rodrigo A. C and Claudio G., 2016). This may result to a loss on goodwill between microfinance and the individual borrower (Cole, Harold L. & Kehoe, Patrick J. 2007) as it includes, attaching the property of the defaulter or group members who are guarantors and as this study found out involves hounding the property to force repayment including the children of the defaulter (Rhyne & Elisabeth, 1998).

A Policy on collection procedures is therefore of essence because some clients do not pay the repayments are not in continuum with all borrowers, hence they are aimed at accelerating collections from slower payers to avoid bad debts in one hand and acceleration of Prompt payments on the other hand (Bloem, M. A & Gorter N.C, 1995) while care must be taken to avoid severing the relationship between the microfinance and its permanent customers, rest they move to more friendly MFI's , who are their competitors in the market (Eric B, 2006).

a) Loan Collection Procedures

The loan recovery procedures employed by various micro finances will contribute to loans default to a greatest extent. Poor loan recovery procedures for example will create a huge portfolio of debt uncollected thus lending to loan defaults and vice versa. Most Women Groups affiliated to MFI's in question have adopted a joint loan liability model also referred to as Grameen loan model where members pay their loans on a weekly basis regardless of the profits made in their micro enterprises. This study attempts an investigation to find out how the weekly collection procedures affect loan default under the area of study.

A collection procedure is a detailed statement of steps to be taken regarding when and how the past due amounts of a debt is to be collected. Each company has its own collection procedure, with information such as due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to collection agency, among others. The collection procedure for any loan arrangement should be spelled out as part of the loan terms. It is important for borrowers to be aware of the details of the collection procedure so as to avoid penalties, and in the case of collateral or secured loans, repossession of the collateral. While collection procedures may vary for each company they should all be complaint with existing laws. Third party collection agencies must also adhere to set Acts, not just in the collection procedure details but also the manner in which the collection takes place (Latifee, 2006). The Acts specifies not only collection procedures to be followed by government financial institutions, but also specifies that a person or organization indebted to the United States, against whom a judgment lien has been filed, is ineligible to receive a government grant. What this means is that it is of utmost importance to comply with the debt collection act, especially since non-compliance carries with penalties that can range from steep fines to imprisonment. If microfinance institutions do not come up with well administered collection procedures then this could be a recipe for one defaulting to repay the loan (Christian A& Neville J., 2008).

2.6.4 Five Strategies to Improve Loan collection

1. **Monitor Customers Behavior**

Data-driven customer process is essential to better understand your customer behavior and map customer journey. The process of aggregating data across all lines of business including structured and unstructured data can provide a holistic customer view while eliminating the data silos issue. This process enables the debt collectors to identify the key characteristics of defaulters and trends and patterns of the debtors with potential high default risk.

2. **Leveraging on Alternative Data**

Alternative data is critical to create a successful collection process by improving the data quality before moving to the next collection step because inaccurate and outdated data does not serve the purpose to achieve high collection efficiency. All internal data include structured and unstructured data across all departments and the online data sources especially those that provide indications of actual & current situations should be utilized to enhance analytics results. The impact of external factors shouldn't be neglected too since it could directly affect the debtor's or customer's behavior. Therefore, external data such as market trends, gaps and risks should be included when performing big data analytics and predictive analytics. Artificial Intelligence must be embedded in this process to achieve nearly-real time data aggregation to enhance business insights and improve the accuracy of prediction for a more effective collection process.

3. **Early warning through Dynamic Models**

Ruled based approach is the typical approach for most of the debt collectors in indicating the debtor's ability to pay and the data is largely static. This approach is no longer effective enough to provide on-time insights to the lenders especially in this fast-changing era because it is a lagging indicator that is not able to capture the latest change in trend and patterns of debtor's credit risk. A dynamic collection propensity scoring model is a leading indicator that improves indication accuracy by including both static and dynamic data. Advanced technologies like AI and machine learning are employed in the dynamic model to classified debtors into various segments in nearly real-time for downstream processes and integrate with an early warning system to quickly alert and identify red flags for proactive outreach plans.

4. Provide Mediation Recommendation

The traditional approach is no longer effective enough to drive repayment action since one debtor may hold more than one debt and not all of them may care about the delinquency consequences especially when they are under financial pressure due to an economic downturn. Thus, providing a mediation recommendation to the potential default debtors could result in a win-win situation if the organizations policies permit. A targeted mediation plan based on the latest situations of the debtors (such as reduce income short term) and powered by AI recommendations such as extending the payment period and lowering the monthly payment could encourage the defaulters to pay your debt first among the rest of the debts which reduce your non-performing loan and delinquencies rate.

5. **Leveraging Behavioral Science throughout the Process**

All applications are made for humans, either for internal employees, consumers, or other third-party entities. Thus, understanding human behavior based on your data allows you to understand the underlying behaviors of the debtors first before tailoring the approaches accordingly. Behavioural Science methodologies can be embedded into analytics for effective segmenting the debtors and customers so that you can select the right approach to the right debtors at the right time. People react to a choice depending on how it is presented. By apply behavioral science in the system, you are able to create great design personalized messages and channels to elicit positive responses from the debtors. A government tax department added one sentence in the tax notice based on the behavioral recommendation and it resulted in 66% more tax collection. www.kowman com/resources/blogs

2.6.5 The Future of Bank Loan Collection

The collection process is no longer as simple as previously because the number of debtors will not be reducing in time and the debtor's behavior will differ as to the previous generation. How can you ensure the debtor will pay you first and how can you optimize your resources to improve collection efficiencies? Here's your solution: The enhanced approach with the above 5 strategies will not only help your organization to survive an unexpected event but also allow you to achieve your desire outcome with high debt collection efficiency.

2.6.6 Traditional collection process

Loan collection is usually a process which is highly regulated. As the creditor wants to get back the loan with its interest, they usually offer the loan with either a mortgage or a guarantor to back the debtor. The debtor enters into a legal agreement with the lender to repay the loan by a particular time and date.

This is monitored by both the creditor and the rating agencies to track how prompt a debtor is in repaying the loan. This is used to calculate the credit score of a debtor for future loans.

Generally, the method to collect a loan follows the steps given below:

- Collect the money coinciding with the arrival of the debtor's income cycle
- Maintain a systematic follow-up on how the customer can handle the repayment
- If the customer shows discrepancies in one or two installments, reach out to the customer to find out the cause.
- If the customer is prompt, preserve goodwill and promote more offers to him.

When it comes to collecting back the loan, banks usually two methods of collection. As loans are paid back to EMIs, the banks do not intervene or disturb a customer if the payment is prompt and on time. They maintain a cordial relation with the debtor and accord them with further credit proposals if the client exhibits discipline in the repayment process.

However, not all debtors can pay back on time. Owing to various reasons, they may default on the payment of their owed capital. Such defaulters are usually provided with several opportunities to pay back their owed sum.

1. **Credit assessment** – Manual checking on each applicant's credit behavior with own credit risk scoring system or external party's credit bureaus. Approve low-risk applicants and decline high-risk applicants. Require more credit assessment on medium risk applicants.
2. **Customer's loan approved or accepted as a customer and start payment journey**
3. **Organizations collect payment**
4. **Detect late payment and gather to the collection database**
5. **Follow up with default customers** – Pass the defaulters' data to desk collector to proceed with follow up, hire field collector to follow up more defaulters (usually applicable to banking sectors.)
6. **Debt Recovery** – if the debt continues to go unpaid, the lender will hire a third party which is known as a collection service to focus on collecting the debt and report delinquency if the debtors or customers remain unpaid (Cole, Harold L. & Kehoe, Patrick J. 2007).

2.6.7 Problems in Traditional Loan Collection/ Recovery

Debt collection process is increasingly focused upon by regulators and is heavily scrutinized by regulatory bodies who have laid down several stipulations for traders to follow.

Since the current debt collection systems involve several legally mandated processes and involve multiple layers of handling, they involve a huge amount of manpower to maintain records and involve several repetitive functions with very little integration between them.

Debt collection agencies do not segment the customers efficiently. As these processes have been handed down for decades, the processes do not account for the change in the mindset of creditors and their earning patterns.

Segmentation of customers based on their income bracket is still inefficient. Collection agencies do not dedicate resources to analyze a customer and his income bucket. They have a broad category where they tend to bring all defaulters under the same umbrella.

Some defaulters are capable of paying back their loans if they are motivated appropriately and offered extended assistance. Since collectors are not provided with appropriate tools to accurately analyze borrowers, they are unable to provide flexible payment arrangements.

Collectors currently do not have right tools at their disposal to maintain borrowers as customers.

There has been a lack of a consolidated borrower-centric approach, and the system makes it increasingly difficult for debtors to get out of the interest trap. The current system does not allow collectors to recover piecemeal segments of the owed money from customers.

- **Time-consuming and insufficient workforce** – manual credit assessment is time-consuming and it may cause erroneous during the approval process due to human error; manual collection process that purely relies on human resources to monitor and track debtors' payment and follow up all the debtors may experience insufficient workforce when there is an unexpected increase in defaulters.
- **One-size-fits-all communication methods** - not all defaulters have the same profile, background & behavior, thus a cookie-cutter approach that often adopted by lenders may not bring significant effect.
- **Inappropriate tones and actions** – the debtors may feel threatened by the desk collectors or field collectors with the harass typed calls and messages at an inconvenient time.
- **Customer's inability to pay** – continue to harass the debtors persistently by mass calling or texting instead of coming up with a guided solution to lead the debtors who are in financial difficulties will not encourage the debtors or customers to pay on time.

2.6.8 Evaluating the Effect of Credit Collection Policy

Credit management is an important activity that cannot be overlooked by any financial institution irrespective of its business nature. It is the process of controlling and collecting payments from customers for the service rendered to them. Credit management can be seen as the methods and strategies employed by a firm to maintain an optimal level of credit (Myers and Brealey, 2003). Good credit management will help reduce the amount of capital tied up with debtors and minimize your exposure to bad debts.

Credit management refers to the process of lending starting from inquiring potential borrowers up to recovering the amount granted. In the banking industry, credit management involves accepting applications, client appraisal, loan approval, monitoring, and recovering of these loans Credit management is vital for any entity dealing with the grating of loans since it is impossible to have a zero credit or default risk. Nelson (2002) opined that credit management deals with the way an entity manages its credit sales effectively and efficiently. A weak credit management system automatically leads to business failure. Charles (1999). Stressed the importance of credit management as follows; Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions; therefore, the need to employ proper credit policies and procedures that enhance the performance of credit management and protect the banking industry from failure. According to Hettihewa (1997). Credit Management is important as granting credit is considered to be equivalent to investing in a customer. However, payment of debts should not be delayed because bad debts are a cost to a firm as credit management is concerned with managing debtors and financing debts.

2.6.8.1 Collection Policy and Portfolio Quality of Microfinance Banks

An effective collection policy strategy begins with a spelled out credit policy and credit management tools for enforcing the policy. Success comes from the overall performance of the whole credit value chain. Collection policies within financial institutions can make the difference between a good and excellent performance for the bank, through making use of opportunities to make the collection processes strategically effective, operationally efficient, and customer-oriented (Benveniste, 2003). A debt collection policy can be defined as a legitimate and necessary business activity where creditors and collectors are able to take reasonable steps to secure payment from customers who are legally bound to pay or repay the money they owe (Kitua, 2002). Once a loan or credit agreement has been finalized and paid out to a customer, the next phase of the credit provider's task will start. The credit agreement has to be actively managed over its life cycle up to the payment dates when customers are expected to fully pay their debt. However, as a result of various reasons the payment agreement may not usually be honored as anticipated, this could lead to late repayment (Benveniste, 2003). A sound collection policy is paramount because some clients are slow payers while some do not pay at all. Collection efforts should therefore be aimed at accelerating collections from slow and non-payers in order to reduce bad debt and for the bank to have enough funds to meet up with its customer's demands.

Portfolio quality deals with how well or how best a microfinance institution can protect this portfolio (loans) against all forms of risk. Portfolio Quality entails the total fund available for the MFIs to use as loans to satisfy a client. The availability of funds by MFIs depends largely on the collection policy; if the collection policy is effective and properly applied the portfolio quality automatically increases likewise the customers' satisfaction, on the other hand, overdue payment will have a negative impact on the credit provider's financial performance, since cash flow targets cannot be met and collection cost increases. Risk is also indicated by overdue payments, taking into account that overdue payment may become payment that cannot be collected and inevitably resulting in losses and bad debt. As a result of all these negative consequences, the collection of overdue accounts is extremely important to any credit provider (Harvey, 2005) Weak collection policy could mean poor asset quality while a sound collection policy ensures high asset quality. The management's ability to recover loans disbursed to its client's results to fat loan portfolio, with effective measures put in place by MFIs to ensure the full recovery of loans, banks will record-high profit.

The loan portfolio is not only considered as the largest asset or pre-dominant source to generate revenue but one of the biggest risk sources for the financial institution's soundness and safety as well (Richard, Chijioriga, Kaijage, Perterson and Bohman 2008). Hence, credit risk management is considered to be one of the road maps for soundness and safety of the sector through prudent actions as well as monitoring performance

2.6.8.2 Credit Management

The credit management process begins with assessing the creditworthiness of the customer and his or her business viability. Nduta (2013) stressed that the first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. This is very important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, some specific criteria are established to ensure that the customer or client is qualifying for that credit.

The credit management process involves certain factors or elements used to evaluate the customer for any form of financial services. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer and collateral value. Hagos (2010). Sound credit management seeks to protect both the customers involved and the bank extending the credit from possible losses.

When the process of credit management functions effectively, everyone involves benefits from that and the chance of default is defeated. . Financial institutions should have a reasonable assurance that loans granted to a client will be paid back within the agreed terms. This can only be possible with the help of an effective credit policy. Credit policy can be seen as those decision variables that influence the amount of credit given out to customers. The formulation of the policy is the responsibility of the bank directors and management. The credit policy of any bank can be lenient or stringent depending on its approach; *Lenient Credit Policy*: Banks operating a Lenient credit policy tend to give credit facilities to customers very liberally that credit is granted even to those customers whose creditworthiness is not known or is doubtful. *Stringent Credit Policy*: These are banks that are very selective in extending credit or loans. They offer credit facilities to their customers who have proven creditworthiness. The banks with stringent policies follow tight credit standards and terms and as a result, minimize cost, risk, and chances of bad debts and also, the problem of liquidity.

2.6.8.3 Credit Management Variables

Sound credit management has the same certain key variables which the customers must meet before receiving the proposed credit arrangement. These are; client appraisal, credit terms, Credit Risk Control, and Collection Policy.

2.6.8.4 Collection Policy

The collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010). Micro Finance Institutions can develop policies to ensure that credit management is carried out effectively since some of the customers are slow payers while others are non-payers.

2.7. Empirical Review

According to Abigail (2012), in his study on the effectiveness of credit risk management on financial institutions in Ghana illustrated that, Credit Risk Management is a management task that generates chances for financial institutions to minimize bad debt provisions and loan collection performance as well as credit risk. It was realized from the study that for financial institutions to prevent credit risk, key methods and policies should be followed in order to attain effective management practice. From the researcher findings, it was concluded that credit risk management is effective because there was reduction of credit default rate, increase in cash flow, increase in portfolio growth and a reduction of loan collection performance. (Schreiner, 2001)) used Australian banks data over 1990-2001 to investigate macro-economic determinants of non-performing loan s using simple regression analysis on real GDP, CPI, industrial production, money growth, stock market indices, interest rates and other macroeconomic variables as explanatory variables. Stock market indices, interest rates, industrial production and business confidence index strongly influenced the quality of loan s.

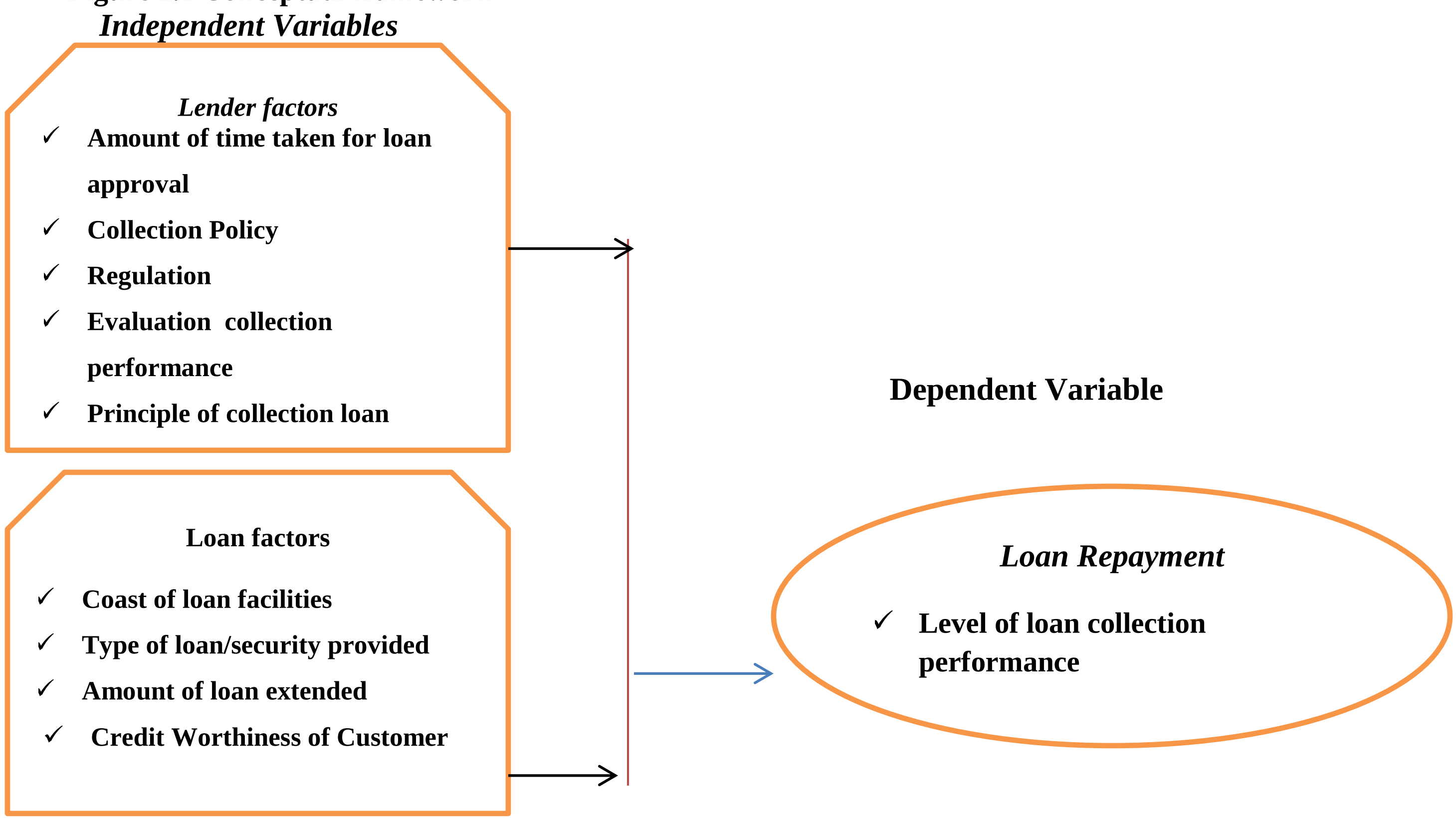
Schreiner, (2001) investigated the performance of Ethiopian MFI by using Micro banking bulletin (MBB) benchmarks. In the study a sample of 16 MFIs utilized from year 2001 to 2007. For the data analysis he has used sample t test, one way ANOVA and Pearson correlation coefficient. The result of the study conclude that the Ethiopian MFI in general has poor performance in properly using of debt capacity, depth of outreach, ratio of GLP to asset and they allocate lower proportion of their asset into loan s. Whereas, most s are good in breadth of outreach, efficiency and productivity and cost management. From the computation of correlation he found a positive association between serving the poor and operationally self-sufficiency. Indeed, he explained that the age of the s positively related with efficiency, productivity and the use of debt financing.

2.8 Conceptual Frame work

The main objective of the research paper is to assess the factors that affect loan collection performance of development bank of Ethiopia. According to the objective of the paper, the following conceptual frame work is formed. As we have stated in the literature review, nonperformance of loan collection are highly affected by both bank nature (specific) and macroeconomic factors. Bank specific factors are profitability, capital adequacy ratio, liquidity, diversification, bank size, poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful defaults by borrower and their knowledge limitation, and overdue financing deposit rate, and capital structure; whereas macroeconomic factors are interest/lending rate, inflation rate, public debt, exchange rate, money supply(Farhan *et al.*(2012).

The following frame work developed to show the main focus and scope of this paper in terms of variables (dependent and independent variables).

Figure 2.1 Conceptual framework



Source: Researcher own work (2022)

Chapter Three

Research Methodology

3.1 Introduction

In this Chapter, the research identified the procedures and techniques that are used in the collection, processing and analysis of data. This chapter focused on the research design used, the target population of the study, the sampling design and the sample, the data collection instruments and the data analysis techniques used.

3.2 Research Design

The research design was a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Kothari, 2008). The methodology used by the researcher was descriptive approach for both qualitative and quantitative data. The research adopted descriptive research design in order to analyze the topic thoroughly. This method of research was preferred because a researcher is able to collect data, describe the state of affairs and answer questions concerning the subject of study. Descriptive research determines and reports the way things are and also helps a researcher to describe a phenomenon in terms of attitude, values and characteristics (Mugenda and Mugenda, 2003). According to Orodho (2003), descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals.

3.3. Research approaches

According to Creswell (2003), there are three approaches available for researchers to design their research methodology. These are quantitative, qualitative, and mixed methods research approaches.

A quantitative approach is one in which the investigator primarily attempts to use post positivist claims for developing knowledge like cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories. It employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data.

Quantitative inquiries use numerical and statistical processes to answer specific questions. Statistics are used in a variety of ways to support inquiry or program assessment/evaluation.

Descriptive statistics are numbers used to describe a group of items. Inferential statistics are computed from a sample drawn from a larger population with the intention of making generalizations from the sample about the whole population. The accuracy of inferences drawn from a sample is critically affected by the sampling procedures used. It is important to start planning the statistical analyses at the same time that planning for an inquiry begins. Decisions about analysis techniques to use and statistics to report are affected by levels of measurement of the variables in the study, the questions being addressed, and the type and level of information that you expect to include in reporting on your discoveries (Wholey et.al. 2004).

In quantitative research your aim is to determine the relationship between one thing (an independent variable) and another (a dependent or outcome variable) in a population. Quantitative research designs are either descriptive (subjects usually measured once) or experimental (subjects measured before and after a treatment). A descriptive study establishes only associations between variables. An experiment establishes causality (Patton, 2002).

On the other hand, a qualitative approach is one in which the investigator often makes knowledge claims based primarily on constructivist perspectives like the multiple meanings of individual experiences, meanings socially and historically constructed, with an intent of developing a theory or pattern, or advocacy/participatory perspectives like political, issue oriented, collaborative, or change oriented or both (Creswell, 2003). In this approach, the researcher collects open-ended, emerging data using strategies of inquiry such as narratives, phenomenology, ethnographies, grounded theory studies, or case studies.

Gall et.al. (1996) defined qualitative research as the inquiry that is grounded in the assumption that individuals construct social reality in the form of individuals construct social reality in the form of meanings and interpretations, and that these constructions tend to be transitory and situational.

Qualitative research typically involves qualitative data, i.e., data obtained through methods such interviews, on-site observations, and focus groups that is in narrative rather than numerical form. Such data are analyzed by looking for themes and patterns. It involves reading, rereading, and exploring the data. How the data are gathered will greatly affect the ease of analysis and utility of findings (Wholey et.al. 2004).

3.4 Population and Sampling Method

A population is also known as a "universe" refers to all the items in the field of inquiry (Kumar, 2008). The population of the development bank of Ethiopia at head of is 86 employees. The researcher will take the staffs those who concerns about loan collection of the bank. For the purpose of her study, the researcher used non-probability sampling method. It is a less stringent method. This sampling method depends on the expertise of the researcher. In a non-probability sample, some members of the population, compared to other members, have a greater but unknown chance of selection. There are five main types of non-probability sample: convenience, purposive, quota, snowball, and self-selection. For the purpose of this research, the research used convenience type of non-probability sampling method. It is simply includes the individuals who happen to be most accessible to the researcher.

3.5 Sampling size

As the researcher mentioned under the target population, the focus group consisted employee of Developmental Bank of Ethiopia in Addis Ababa; therefore, out of 86 employees who work in the organization questionnaires were distributed to 50% of the total population that is 43 employees. In addition, the researcher has conducted interview for manager.

3.6 Source Data and Data Collection

This source provides data which is original and might have not been used before. The questionnaire and interviews were used as the principal source of data gathering. The research relied on the use of qualitative and quantitative methods of collecting data. The data which is put together and controlled by the researcher is primary data. The questionnaire was served on the following sampled group of people, credit committee members, the managers, members of the board of directors of the credit institution.

3.7 Data Collection Procedure

This study collected quantitative data using a self-administered questionnaire and interview. The researcher informed the respondents that the instruments being administered are for research purpose only and the responses from the respondents would be kept secret and confidential. The researcher obtained an introductory letter from the university to collect data from the organization then personally delivered the questionnaires to the respondents and had them filled in and then collected later and the interview will be made face to face.

3.8 Method Data Analysis

After the data required for the study are collected, charts and tables are used to present the data and statistically figures like percentages have been use for data presentation and analysis.

Chapter four

Data Interpretation, Analysis and Presentation

As mentioned in chapter three, the research is descriptive type of would be used. Quantitative and qualitative analysis methods are used to analysis the collective data. Therefore, the analysis of the collected data are interpreted, analysis and presented by percentage and tables.

The study is conducted by distribution of questionnaires to the staffs those who concern about loan collection of the bank. Closed and open ended questionnaires were prepared and distributed for respondents.

The questionnaire was distributed to 43 employees of DBE. That is in loan department that includes customer relationship manager, customer relationship officer, loan analyses and Loan recovery and rehabilitations officers. Out of 43 questionnaires, 40 were completed and collected. As the result of response rate was 93 percent.

I. Personal Information about the employees who work on loan Collection

Table 4.1: Personal Information about the employees

Items	Responses	
	Frequency	**%**
1. Age		
21-28	8	20
29-38	16	40
39-48	16	40
Above 49	0	0
Total	**40**	**100**
2. Gender		
Female	13	32.2
Male	27	67.5
Total	**40**	**100**
3. What is your level of education?		
BA degree	21	**52.5**
MA/MSc degree	15	**37.5**
PHD	4	**10**
Total	**40**	**100**
4. Work experience		

1-5 years	5	**12.5**
6-10 years	12	**30**
11-15 years	20	**50**
16 years and above	3	**7.5**
Total	**40**	**100**

Source: Field survey, 2022

From table 1 item 1, it can be seen that about 8(20%) of the respondents age was below 21 to 28 years; 16(40%) of them were between the ages of 29 to 38 and 39 to48 years respectively and 0(%) of them at the age group above 50 years. This shows that majority of the informants were within the age group of 21-40 years.

The genders of the respondents were seen in table 1 of item 2 to be 27 (67.5) of the respondents were males while 13 (22.5%) of them were females. The distribution shows that the number of male and female of the respondents were not proportionate.

Proper management of business of organizations often depends on the level of educational background of the individuals in charge. According to the analysis results for the educational level, from table 1 item 3 above that, 21(52.5%) of them were BA holder, 15(37.5) of them were postgraduates (master's degree holders, while 4 (10) of them were PHD degree holders. From which it is seen that all of the respondents held an educational level of first degree and above which in turn indicates that the respondents had enough knowledge background to respond to the study subject area.

Work experiences of the respondents in the microfinance institution were analyzed and observed to be distributed in table 1 item 4 as 5(12.5%) of them had work experience 1-5 years, 12(30%) between 6-10 years; 20 (50) of them between 11-15 years of work experience whereas 3 (7.5%) of them between 16 and above years of experience in the area. The above data showed that majority of the respondents had above 11 years of work experience in the mentioned institution which in turn points that they are quiet experienced to the bank it helps explore their strength and identify the gap on the increment of non-performing loan and it helps to minimize the NPLs rate based on their past experience.

Section II Responds concerning the problem

How much is the monthly collet amount of your loan (Principal and interest only) in birr it depends on the performance of the organization. So, I cannot mention the amount of birr.

Table 4.2 how was the follow up of your borrowers in most of the months after you give the loan?

Items	Frequency	Percentage
Increasing	16	40
Decreasing	21	52.5
Remains the same	3	7.5
Total	**40**	**100**

Source: Field survey, 2022

According to the above table 4.3, from the total respondents 16(40%) are given responses on requirement of the follow up of your borrowers in most of the months after you give the loan increasing; 21(52.5%) of them respond the follow up of the borrowers was decreasing and 3(7.5%) of them said the follow up is remaining the same. As we can see from the respondents, majority of them said follow up is decreasing as the course of the time. This indicate that the institution does not give concern about the money it provides to its browsers and it can affect the performance of loan collection from its clients

- For the question what was the monthly average planned collection amount while you are planning to give loan that is during the loan appraisal period in birr?

  Most of the respondents said the bank has schedule and plan to collect but it is not applicable accordingly. This show that the bank did not run the activities based on the planned it set. This also highly affects the performance of the bank.

Table 4.3 the organization follow up mechanism

Items	Frequency	Percentage
Yes	40	100
No	0	0
Total	**40**	**100**

Source: Field survey, 2022

From the table above 4.3, the distribution showed that all respondents answered yes on the issue that credit follow up mechanism and implemented by the bank; therefore, researcher is able to determine that credit follow up mechanism for credit designed and implemented by the institution. However, past records of performance guarantee future, though they serve as useful guide to project trend in performance. Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, and conformity of financial data with other records.

The purpose of legal follow up is to ensure that the legal recourse available to the institution is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, proper follow up of insurances. Specific issues pertaining to legal follow up include: ascertaining whether contracts are properly executed by appropriate persons and documents are complete in all aspects. Monitoring and follow up deals with ensuring compliance with terms and conditions, monitoring end use of approved funds, monitoring performance to check continued viability of operations, detecting deviations from terms of decision. (Ahmed, 1998)

- For the questions if yes to question 8 what are they? Very significant question intended to know the kind of mechanism the bank taken to minimize the burden of borrowers'. And the respondents forwarded the following responses 10(25%) of them said Change of the credit policy, 15 (37.5%) of the respondents answered awareness creation with customer, 13 (32.5%) of them replied include strong collateral requirement and 2(5%) of them said all necessary mechanism.

Table 4.4 whether the organization evaluation loan collection performance

Items	Frequency	Percentage
Yes	8	20
No	32	80
Total	**40**	**100**

Source: Field survey, 2022

As shown in the above table 4.4, the researcher presented to the concept of the bank if the bank evaluate loan collection performance or not, the research got the following result. 8(20%) of the respondents replied yes whereas 32(80%) of them said no. From this finding one can understand that the bank does not evaluate its loan collection performance. Therefore the concerned bodies ought to take their action to correct this gap.

Table 4.5 the reason for not evaluating the performances of loan collection

Items	Frequency	Percentage
Lack of adequate man power.	0	0
Failure to timely provide the necessary documents by the bank.	17	42.5
Failure of the promoter to timely fulfill the preconditions stipulated on the loan collection	14	35
Lack of skilled and experienced employees	9	22.5
Total	**40**	**100**

Source: Field survey, 2022

On table 4.5 question were presented to the respondents the reason for not evaluate the performance. For this 17(42.5%) of the respondents said lack of adequate man power, 14(35%) of them answered failure to timely provide the necessary documents by the bank and 9(22.5%) replied lack of skilled and experienced employees. From this one can understand the bank has many gaps. It has to take action to remove these problems.

Table 4.6 Method of loan collection

Items	**Frequency**	**Percentage**
Suitable	17	42.5
Not suitable	23	57.5
Total	**40**	**100**

Source: Field survey, 2022

As indicated in the above table 4.6, 17(42.5%) of them responded suitable while 23(57.5%) of the respondents said not suitable. From this we are able to understand that the situation is not facilitated to collect loan that it provided to the clients. This condition highly affected the performance of loan collection.

Table 4.7:- Whether the organization know the purpose of the credit taken

Items	Frequency	Percentage
For running Agriculture	28	70
Production of construction inputs	0	0
For planting industry	12	20
Hotel and catering services	0	0
Total	**40**	**100**

Source: Field survey, 2022

Table 4.7 shows as the purpose of the credit taken. From this 28(70%) of the respondents said the loan was taken for running agriculture while 12(20%) of the respondents replied for planting industry. This shows that the bank gave loan for developing projects.

Table 4.8 Follow up and giving training on what the borrowers spend the entire loan on purpose of specified in the loan agreement

Items	Frequency	Percentage
Yes	6	15
No	34	85
Total	40	100

Source: Field survey, 2022

As shown in the above 4.8, majority of the respondents that is 34(85%) of the respondents said no and the rest of the respondents, 6(15%) of them said yes. We can understand that the bank did not have relation with the borrowers after it provide loan.

Table 4.9 the factors that affect performance of loan collection

Items	Frequency	Percentage
The bank cannot run according to the schedules it set	14	35
Delay in contacting with the clients	14	35
The loan agreement did not coincide with annual plan of the bank	5	12.5

The concerned bodies are too reluctant	7	17.5
Other (specify	--	---
Total	**40**	**100**

Source: Field survey, 2022

In the above table 4.9 the researcher tries to assess the existence of detailed analysis about the factors that affect performance of loan collection. 14(35%) of the respondents said the bank cannot run according to the schedules it set and delay in contacting with the clients respectively, 7(17.5%) of them answered the concerned bodies are too reluctant and 5(12.5%) of them said the loan agreement did not coincide with annual plan of the bank. From this detail analysis increases the inefficiency of loan collection performance.

Most of the time financial institutions failed to manage their customers in the collection of their disbursed loan and they also failed to review the behavior of loan repayment practice of their customers. The business and experience of its management are critical factors in assessing a company's ability to satisfy its financial obligations. Look at how long the business has been under the same control, and check for any previous litigation or bankruptcy information. Also, get a clear understanding of who owns the business, and who is ultimately responsible if a problem arises. (Stephen, 1999)

Therefore, it shows the way how the institution evaluates the factors that affect loan collection performance from its customers.

Table 4.10 the status of recent loan collection performance

Items	Frequency	Percentage
Fully collected	12	30
Collected on schedule	8	20
Collected in arrears	20	50
Total	**40**	**100**

Source: Field survey, 2022

Table above 4.10 clearly shown that half of the respondents replied the distributed loan was collected in arrears, 12(30%) of the respondents said fully collected and 8(20%) of them said collected on schedule.

4.11 The problem for the loan to be in arrears

Items	Frequency	Percentage
Loan based business activity was not profitable	12	30
Loss of assets acquired by the loan	--	--
Lack of follow up	21	52.5
Change business environment	3	7.5
Unfavorable collection schedule	4	10
Total	**40**	**100**

Source: Field survey, 2022

Respondents were asked which of the following is the most important on motivating or forcing you to collect the loan on time with this regard 12(30%) of them said loan based business activity was not profitable, 21(52.5%) of the respondents answered lack of follow up, 3(7.5%) of them said change business environment and 4(10%) of them said unfavorable collection schedule. As it can be seen from the result the institution faces loan based business activity was not profitable, lack of follow up, change business environment and unfavorable collection schedule problems for the loan to be in arrears. Therefore, the concerned bodies should take appropriate measure to correct the challenges.

Table 4.12 Have you ever supervised regarding loan utilization by your client?

Items	Frequency	Percentage
Yes	23	57.5
No	17	42.5
Total	**40**	**100**

Source: Field survey, 2022

From the above table 4.12 the researcher presented the concept of the supervision regarding loan utilization by your client. The existence of the concept of supervision regarding loan utilization by your client 23(57.5%) of the respondents said yes while 17(42.5%) of them said no. This shows that the institution make supervision regarding utilization of loan.

Table 4.13: Whether they have supervised regarding loan utilization by client or not

Items	Frequency	Percentage
Yes	9	22.5
No	31	77.5
Total	40	100

Source: Field survey, 2022

As shown in the above table 4.13, 40 respondents were asked whether they supervised loan utilization by the clients or not, 9(22.5%) of the respondents said yes while 31 (77.5%) of them said no; this shows that the bank did not supervised the loan utilization by the client. Therefore, this is one of the problems that we get in the organization.

Table 4.14 whether the organization perform its loan collection responsibility according to the schedule it sets

Items	Frequency	Percentage
Yes	29	72.5
No	11	27.5
Total	**40**	**100**

Source: Field survey, 2022

As in indicated in table 4. 14, 29(72.5%) of the respondents replied yes whereas 11(27.5%) of them said no. This may be an indicator of the fact that the organization performs its loan collection responsibility according to the schedule it sets.

.4.15 Did you get any training before start collecting loan?

Items	Frequency	Percentage
Yes	14	65
No	26	35
Total	**40**	**100**

Source: Field survey, 2022

Table 4.15 illustrates the respondents having training before start collecting loan. To this regard 26965%) of the respondents said the bank did not give training to the employees how to collect loan while 14(35%) of them said no. This indicates that the bank did not build the skill and knowledge of the employees how to collect loan from its clients and this can affect the performance of collecting loan.

4.16 performance of collecting loan on the set schedule

Items	Frequency	Percentage
High	0	0
Average	12	30
Low	28	60

Source: Field survey, 2022

From the analysis of the above table 4.16, 12(30%) of them said the performance of collecting loan on set schedule is average whereas 28(60%) of the respondents said the performance of collecting loan on the set schedule was low. Thus the bank did not collect the loan it gave from its client according to the schedule it sets.

4.17 What was the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years?

Items	Frequency	Percentage
Increased	23	57.5
Decreased	7	17.5
Stayed the same	10	25
Total	**40**	**100**

Source: Field survey, 2022

From the above table 4.17, majority of the respondents 23(57.5%) said the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years was increased, 7(17.5%) of them replied the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years was decreased and 10(25%) of the respondents answered the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years was stayed the same.

4.18 Whether the bank had sufficient and strong principle and policy for performing loans collection

Items	Frequency	Percentage
Yes	13	32.5
No	27	67.5
Total	**40**	**100**

Source: Field survey, 2022

Table above 4.18 clearly shown that 13(32.5%) of the respondents replied the bank had sufficient and strong principle and policy for performing loans collection while 27(67.5%) of them said the bank had not sufficient and strong principle and policy for performing loans collection. Thus, this shows that the bank may have principle and policy for performing loans collection but they may not sufficient and strong. If the principle and policy of the bank is not strong and sufficient, because of this the performance of loan collection highly affected.

Responses on interviews

- ✓ There are different factors that affecting loan collection performance of the banks. These are unfavorable schedule, lack of different incentives, unknowing the right place of borrowers and the institution has policy and principle but they are not strong and sufficient.
- ✓ The bank most of the time measures its performance by the amount of money that it collects from its borrowers and application of policy, principle and regulation it formulated or stated.
- ✓ It manages the problem it faces by applying the regulation, principle and policy. And also the institution regularly evaluates its performance. It asks itself if it applies the schedule it sets to perform loan collection program.
- ✓ Yes, the bank performs its loan collection responsibly according to the schedule it sets.
- ✓ Yes there are different factors that affect the performance of loan collection. These are lack of knowledge of the employees, lack of necessary contact with the clients; the organization did not give training for the concerned bodies on loan collection and others.

- ✓ One of our weaknesses is application of the schedule the organization sets.
- ✓ Yes, we collect the necessary information about our clients.

Chapter Five

Summary, Conclusion and Recommendation

This chapter discussed the summary, conclusions and recommendations of the study. The chapter organized in to three sections, the first section 5.1 presents the Summary of the study, the second section 5.2 presents the conclusions of the study and section 5.3 presents the recommendations provided depend on the findings of the study and give highlights the direction for further research.

5.1. Summary of Major Findings

The study which was conducted to Assessment of Factors affecting loan collection performance of Development Bank of Ethiopia shows that there are internal and external factors contributing to NPLs. From those major factors ridged the bank does not follow up of the borrowers in most of the months after it gives the loan, , Evaluation loan collection performance and proper as well as week follow up to gate back the loan given to the customers by the bank has negative influence on the Loan collection performance of the Bank. From the study it was discovered the reason for not evaluating the performances of loan collection are Lack of adequate man power, Failure to timely provide the necessary documents by the bank, Failure of the promoter to timely fulfill the preconditions stipulated on the loan collection and lack of skilled and experienced employees. In addition to this the Bank plan of Method of loan collection not suitable, the bank has the factors that affect performance of loan collection problem on loan collection activity which are the bank cannot run according to the schedules it set and delay in contacting with the clients. Still the bank does not supervise regarding loan utilization by client or not, it does not collect loan on the set schedule and as an organization the bank had sufficient and strong principle and policy for performing loans but they are not strong and sufficient. This, therefore, lead the Bank to problem of perform well on loan collection. As the study got from the interview the bank also the following short coming lack of knowledge of the employees, lack of necessary contact with the clients; the organization did not give training for the concerned bodies on loan collection and others.

5.2. Conclusion

Developmental bank of Ethiopia has unique features that differentiate it from other areas of the economy. It is widely dispersed, responds to economic changes, and involves large number of firms. These and among other distinguishing characteristics makes it exposed to nonperformance of loan collection. The study thus concludes as follows: The purpose of this study was to find out the possible factors that affect non-performing of loan collection of DBE. The study therefore addressed the following research question; what are the factors affecting loan collection performance of DBE? To what extent DBE up-grade loan collection perform? How does DBE manage the problems encountered in the collection of loan it provides to its client? Does the organization perform its loan collection responsibly according to the schedule it sets? Accordingly, the study came to the following conclusions;

Factors of non-performing loan

- The bank does not follow up of the borrowers in most of the months after it gives the loan, , Evaluation loan collection performance
- The reason for not evaluating the performances of loan collection are lack of adequate man power, Failure to timely provide the necessary documents by the bank, Failure of the promoter to timely fulfill the preconditions stipulated on the loan collection and lack of skilled and experienced employees
- The Bank's method of loan collection not suitable
- The bank cannot run according to the schedules it set and delay in contacting with the clients.
- The bank does not supervise regarding loan utilization by client or not, it does not collect loan on the set schedule and as an organization the bank had sufficient and strong principle and policy for performing loans but they are not strong and sufficient.
- The bank also the following short coming lack of knowledge of the employees, lack of necessary contact with the clients; the organization did not give training for the concerned bodies on loan collection and others.

5.3. Recommendation

After analyzing result obtained for responses to questioners gathered from the Bank employees and comparing with the theoretical framework in various literatures and sound international practices, the following recommendations are made the view to improving the Loan Recovery performance of DBE.

- ✓ The bank should follow up of the borrowers in most of the months after it gives the loan, Evaluation loan collection performance. As loan collection performance from borrowers with lower ability of performance, loan collection process is being hindered. In addition, DBE poorly evaluates performance. As poor evaluation of collection makes it difficult for DBE to deal with problem loans as they occur, it is one of the factors bringing low level of loan collection performance. Thus, the management of Development bank of Ethiopia should make its staff capable of undertaking tasks related to loan collection performance and poor evaluation of performance.

- ✓ Furthermore, borrowers are not getting finest follow up, monitoring and controlling services by DBE after loans are granted. Ineffective monitoring and controlling of debtors is hindering the loan collection process and lowering its performance. Thus, the management of Development bank of Ethiopia should solve its lack of man power and lack of skilled and experienced employees.
- ✓ DBE's policy choices are poor and ineffective in creating improved loan collection, resulting in high risk exposure and financial instability. In addition, it is not shaped towards restricting loan concentration, creating high number of wrong loans. In addition, weak loans collection is occurred as a result of poor implementation of loan collection policy. Thus, the management of Development bank of Ethiopia should review its policies to be effective in creating improved loan collection.
- ✓ The Bank should make the method of loan collection more suitable. Suitable loan collection System improves a Bank's loan collection performance and make it more performing. Yet, unsuitable method is being applied in DBE. Good collection systems are intended to suitable. But the results indicate DBE's is not well tuned to bring suitable collection system so as to grow the level of loan collection performance.
- ✓ The bank should run according to the schedules it set and avoid any delay in contacting with the clients. Although the bank has schedule to collect the loan it provided to its client, it could not applied accordingly. Having schedule by itself is nothing but the bank has to apply it as possible as it can
- ✓ The bank ought to supervise regarding loan utilization by client, it should collect loan on the set schedule and as an organization the bank had sufficient and try to make strong

principle and policy for performing loans collection work. Otherwise the borrowers may waste the money they get from the bank.

- ✓ The bank ought to solve lack of skilled and experienced employees, lack of necessary contact with the clients; the organization should give training for the concerned bodies on loan collection and others. Lack of skilled man power could affect the performance the bank.

5.4 Suggested Areas for Further Research

- ➢ Political influence and its contribution to loan collection performance
- ➢ More social factors affecting loan collection performance need to be investigated e.g. legal system, corruption, cultures etc.
- ➢ It would be interesting to extend this research to a few commercial banks operating within Ethiopia that have a much larger client size.
- ➢ Macroeconomic determinants of performing loans collection. The focus of this study was institutional determinant of performing loan collection. A similar study should be conducted on macroeconomic determinants of performing loans collection within Ethiopian's banking industry.

References

- ✓ *Agrekon et al., (2004).The Impact of Market Access on Input use and Agricultural Productivity*.
- ✓ Fofack, H. (2005). Nonperforming loans in Sub-Sahara Africa: Causal analysis and macroeconomic implication. World Bank Policy Research Paper
- ✓ Bloem, M. A & Gorter N.C (1995). *Treatment of Non-performing Loans in Macroeconomic statistics,* IMF Working Paper, WP/01/209.
- ✓ Benveniste, L.M. (2003). Evidence of Information Spillovers in the Production of Investment .
- ✓ Bilihatu, et al, (2007). *Assessment of loan advancing procedures and practices in commercial bank of Ethiopia. Ethiopia.* : The case study of Adigrat branch, senior research paper, Adigrat University.
- ✓ CGAP. (2012). *A Guide to Regulation and Supervision of Microfinance Consensus Guidelines*. Consultative Group to assist the poor. Washington DC.
- ✓ Charles, M. (1999). *Financial Management Analysis*. USA, Carlos.
- ✓ Christian A& Neville J. (2008). *Can micro-credit bring development*? Journal of Development Economics.
- ✓ Cole, Harold L. & Kehoe, Patrick J. (2007). *Reviving Reputation Models of International Debt*, Federal Reserve Bank of Minneapolis Quarterly Review, winter.
- ✓ Eric B. (2006). *Invisible hand*: Entrepreneur gets big banks to back very small loans.

- ✓ Fofack, H. (2005). Nonperforming loans in Sub-Sahara Africa: Causal analysis and macroeconomic implication. World Bank Policy Research Paper

- ✓ Hagos, M. (2010). *Credit Management*. A Research submitted to the Department of Accounting and Finance. Mekelle University Ethiopia.
- ✓ Harvey, C. (2005). Banking in Africa, James Currey, and Oxford.
- ✓ Hettihewa, S. (1997). *Introduction to Financial Management*. Oxford University, UK

- ✓ IMF, Annual report 2005
- ✓ Kariuki, J. (2010). *Effective Collection Policy*. KASNEB Publishers, Nairobi.
- ✓ Kitua, M. (2002). *Bad loans and Entry in Local Credit Markets*. Bank of Italy Research Department, Rome.
- ✓ Kristianti, R. &. (2016). Factors Affecting Bank Performance: Cases of Top 10 Biggest Government and Private Banks in Indonesia
- ✓ Kumar, P., Joshi, P.K., and Muralidharan, M.A. (2018). *Estimation of Demand for Credit on Marginal Farms A Profit -Function Approach.* Indian Journal of Agricultural Economics.
- ✓ J. brand ford Delong (2002). *Macroeconomics, updated edition*, McGraw hill, Illinois.
- ✓ Kumar, R. (2008). *Research Methodology*. New Delhi, India: APH Publishing Corporation.
- ✓ Kumar, R. R., Stauvermann, P. J., Patel, A., & Prasad, S. S. (2018). *Determinants of non-performing loans in the banking sector in small developing island states*: A study of Fiji. Accounting Research Journal,
- ✓ Kothari, C. R. (2008). *Research Methodology: Methods and Techniques (2nd ed.).* New Age International. Nairobi Kenya.
- ✓ Mugenda, M. O., & Mugenda, G. A. (2003*). Research Methods. Nairobi, Kenya*: Laba Graphics Services Ltd.
- ✓ Mulualem, et al, (2013). *Assessment of loan related factors and loan repayment performance in commercial bank of Ethiopia. Ethiopia. Case study of Bahirdar branch, senior research paper,* Bahirdar University.
- ✓ Myers, C.S. and Brealey, R.A. (2003). *Principle of Corporate Finance*. New York McGraw-hill NBFC. International Journal of Management and Strategy.
- ✓ National Bank of Ethiopia, Directive No.SBB/43/2008: *Licensing and Supervision of Banking Business Proclamation No.83/1994, Addis Ababa.*
- ✓ Nduta, R.N. (2013). *Effect of Credit Management on the Financial Performance of Micro Finance* Institution in Kenya.

- Nelson, L. (2002). *Solving Credit Problem. [Online] Available* http://www.cfo.com
- Orodho, A.J (2003). *Essentials of educational and Social Sciences Research Method*. Nairobi. Masola Publishers
- Olomola, A.S. (2000). *Determinants of smallholder loan repayment performance evidence from the Nigeria micro-finance*. Journal of financial management, 45:
- Owino, Michael Otieno (2012), The effect of the lending policies on the levels of nonperforming loans of commercial bank in Kenya, kenya.
- Richard, E., Chijioriga, M., Kaijage, E., Perterson, C., and Bohman, H. (2008). *Credit Risk Management System of a commercial bank in Tanzania.* International Journal of Emerging Markets.
- Rhyne & Elisabeth (1998), "*The Yin and Yang of Microfinance: Reaching the Poor and sustainability",* Micro Banking Bulletin.
- Rodrigo A. C and Claudio G.(2016) . *The design of successful rural financial intermediaries*: Evidence from Indonesia.
- Turyahebya, A. (2013). *Financial Performance in the selected Microfinance Institutions* in Uganda, Kampala International University, West campus.
- Wilson, J. (2010). Essentials *of Business Research: A Guide to Doing Your Research Project.* London, United Kingdom: Sage Publications Ltd.
- Zena Lemat Bank (2009). no 45 http://www.dbe.com.et
  https://www.abyssinialaw.com

www.wegagenbanksc.com

www.kowman com/resources/blogs

https://www.abyssinialaw.com

https://www.debt.org › Credit › Loans

APPENDIX A

Questionnaires

These questions are designed to view the loan collection performance of Development Bank of Ethiopia. This field work is part of the work for the award of Masters of Accounting and Finance at St/Marry University. This study is purely academic and as a matter of fact, the information you provide here would be kept confidentially. Thank you for your support.

Section I Personal Information about the employees who work on loan Collection

1) Age of the employee_______ Years

2) Gender

1) Female 2) Male

3. What is your level of education?

1. BA degree 2. MA/MSc degree 3) PHD

4) How many years of experience you have in serving your organization (bank)? ______________years

Section II Questionnaires concerning the problem

5) How much is the monthly collet amount of your loan (Principal and interest only) in birr___________________

6) How was the follow up of your borrowers in most of the months after you give the loan?

1. Increasing 2. Decreasing 3. Remains the same

7) What was the monthly average planned collection amount while you are planning to give loan that is during the loan appraisal period in birr_____________________?

8) Do you have any mechanism to collect the loan from your borrowers?

1. Yes 2. No

9) If yes to question 8 what are they?

____

____

10) Have you scheduled for the loan collection activities from customers?

1. Yes 2. No

11) Did your organization evaluate loan collation performance?

1. Yes 2. No

12) If your answer to question 11 is no, what is the reason for not evaluate the performance?

1. Lack of adequate man power.

2. Failure to timely provide the necessary documents by the bank.

3. Failure of the promoter to timely fulfill the preconditions stipulated on the loan collection

4. Lack of skilled and experienced employees

5. Others (specify)

____
____

13) What was the impact of not evaluate the performance? ______,______________________,

,____,______________________________
________________________,______________________________,________________________
____

14) How do you get the method of loan collection?

1. Suitable 2. Not suitable

15) If your answer to question 14 is not suitable, what do you think the suitable form of disbursement?

16) Does your organization know the purpose of the credit taken?

1. For running Agriculture 2. Production of construction inputs

3. For planting industry 4. Hotel and catering services

5. Other Miscellaneous business please describe -

____
____

17) Did you follow up and give training on what the borrowers spend the entire loan on purposes specified in the loan agreement?

1. Yes 2. No

18) Do you know the factors that affect performance of colleting loan?

1. The bank cannot run according to the schedules it set

2. Delay in contacting with the clients

3. The loan agreement did not coincide with annual plan of the bank

4. The concerned bodies are too reluctant

5. Other (specify)____

19) What is the status of recent loan collection performance?

1. Fully collected 2. Collected on schedule 3. Collected in arrears

20) What was the problem for the loan to be in arrears? (Multiple answer possible)

1. Loan based business activity was not profitable

2. Loss of assets acquired by the loan 3. Lack of follow up

4. Change business environment 5. Unfavorable collection schedule

6. Other (specify)________________________

21) Which of the following is the most important on motivating or forcing you to collect the loan on time? (Multiple response possible)

1. Claim as personal duty 2. Claim personal responsibility

3. Fear of accountability 4. Fear of sentence that comes from bank

5. Fear of losing job because of weak performance

5. Other (specify) ____

22) Have you ever supervised regarding loan utilization by your client?

1) Yes 2) No

23) Does the organization perform its loan collection responsibly according to the schedule it sets?

1. Yes 2. No

24) If your answer to question to 23 is no what is the problem faced in relation to this?

____

____

25) Do you consider supervision as being important for loan collection?

1. Yes 2. No

26) Did you get any training before start collecting loan?

1. Yes 2. No

27) If yes, what kind of training was it?

1. Scheduling 2. Inspection and regulation

3. Follow up how and on what the spend the money

4. How do I remained the customers to repay the loan

5. Other (specify)________________________

28) Do you think that the training has helped you increase your performance?

1. Yes 2. No

29) Please list the major factors that affect your performance of collection loan from your customers?____

____

____

30) How was your performance of collecting loan on the set schedule?

1. High 2. Average 3. Low

31) What was the performance of the bank on collection the loan it provided to the borrowers in the level of your collection loan in the past 5 years?

1. Increased 2. Decreased 3. Stayed the same

32) If your response for question number 31 is decreasing/stayed the same, what do you think is the reason behind?

1. Unfavorable schedule 2. Lack of contact with client

3. Unknowing the right place of borrowers 4. Lack of different incentives

5. Lack of loan collection knowledge 6. High number of borrowers to reach

7. Other (please describe)

____
____

33) Did you have sufficient and strong principle and policy for performing loan**s** collection?

1. Yes 2. No

34) If your response for question number 33 is yes, write some of them?

____
____
____

35) Does the organization perform its loan collection responsibly according to the regulation it sets?

1. Yes 2. No

36. If your response for question number 35 is no, what do you think is the reason behind?

1. Lack of knowledge 2. Lack of adequate information about the clients

3. Lack of necessary contact with the clients

4. After the clients took the amount of money they want they lack willingness to repay the loan according the schedule the bank gave them

3. Other (please describe)_______________________

37. Does DBE has policy to manage the problems encountered in the amount of loan extended it provides to its client?

APPENDIX B

Interview

4. What are the factors affecting loan collection performance of DBE?
5. To what extent DBE measurer its performance of loan collection?
6. How does DBE manage the problems encountered in the collection of loan it provides to its client?
7. Does the organization perform its loan collection responsibly according to the schedule it sets?
8. May you tell me the factors that affect your organization loan collection performance?
9. How was your performance of collecting loan on the set schedule?
10. Do you collect necessary information about the borrowers before you advance the loan?