

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE IN CASE OF
AWASH INTERNATIONAL BANK S.C JIMMA BRANCH

RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING
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ABSTRACT

The study is designed to assess the assessment of credit management in Awash International Bank. For the assessment of credit management of the bank, both primary and secondary data would be used. Primary data was gathered through questionnaire. Secondary data was collected from books, journals articles and the bank's files and web site. Table and percentage were used to analyze the data. The findings of the study revealed out that most of the bank's employees have few work experience, the bank provides credit services mostly for services and domestic trades. The bank lends mostly medium term loan which comprises of about 60 percent. Building, cash deposit and vehicles are highly used collateral in the bank to give credit to the customers. The bank relays mostly on installment method to repay loan. The population from which judgmental samples will be taken comprises of branch manager and employees of the bank who have more experience in the area.

Based on the finding summary, conclusion is drawn and finally recommendation that supposed to be important to solve the existing problem of credit management practices on Awash International Bank of Jimma branch made.

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CHAPTER ONE

1. Introduction

1.1 Background of the study

Credit is the power or ability to obtain goods or services in exchange for a promise to pay for them later. Similarly, it is the power or ability to obtain money by the borrowing process in return for a promise to pay the obligation in the future. Futurity is thus a basic characteristic of credit and risk which is necessarily connected with the time element is an accompanying characteristic. Credit is sometimes defined as “mans confidence in man” (Theodore N. Beckman and Ronald S. Foster, 1924)

Credit management is thus, the process in which one person manages credit exchange functions in which creditor gives some good or money to debtor with a belief that after sometimes he/she will return it (www.investowards.com).

Credit management has the profound implication both at micro and macro level. when credit is allocated poorly it raises cost to successful borrowers ,erodes the fund ,and reduces bank flexibility in the redirecting toward alternatives activities .moreover ,the more the credit ,the higher is the risk associated with it .the problem of loan default, which is resulted from poor credit management ,reduces the lending capacity of the bank(shekhoder,1985).

Poor quality of a loan is sometimes due to factors not attributable to the lending bank such as adverse selection and moral hazard or any other external shock that may alter the borrower's ability to repay the loan (Stieglitz and Weiss(1982)). (Minsky1982&1985) there are cases where the banks grant and monitor credit and can be responsible for bad loan portfolio. Weak credit risk management systems can also be sources of the problem of loans (Nishimura and al, 2001).. Significant bank credit management processes can be summarized in three main stages. These are credit initiation, documentation and disbursement.

Credit management practice continues to remain the largest source of risk for banking institutions in the world (Negara, 2001) and it is vital to insure a banking institution's credit activities are conducted in a prudent manner and the risk of potential bank failure is reduced

Credit management practice is one of the major functions, which financial institution undertake for proper mobilization of funds. Credit management function includes loan and advance. It also involves a large number of activities ranging from credit investigation to contract with borrower, appraisal, review, and follow-up, documentation, nursing, recovery and writers-off. Method of credit delivery can generally be divided into the two broad categories of individual and group approaches based on how the bank delivers and guarantee its loans (Joanna Ledger wood, 1998).

There are costs associated with offering credit to customer. First granting credit exposes the firm to the possibility that the customer default on the payment, resulting in losses for the firm. The second cost is the interest forgone between the time of credit and the time of payment by customers (Rama Mouthy, 1976).

(Theodore N. Beckman and Ronald S. Foster, 1924 credit manager is responsible for the credit of the bank. The principal tasks of credit manager are: Assessment of credit standing of both new and existing customer, Monitoring and control of customer balance and Collection of payment

1.2 Background of the organization

Awash International Bank is the pioneer private commercial bank in Ethiopia after the downfall of the military regime and introduction of market economic policy in 1991. It was established by 486 founder shareholders with a paid-up capital of Birr 24.2 million licensed on November 10, 1994. It started banking operations on February 13, 1995. It was named after the popular river “Awash” which is the most utilized river of the country especially for irrigation and hydroelectric power. Awash River plays pivotal role in the economic development of the country.

The number of share holders and paid-up capital increased continuously and currently reached over 3000 and 910 million respectively. Awash International Bank S.C is the first private bank to build its own headquarters at the hub of what is growing into the Ethiopian financial district. The

twins building named “Awash Towers” built at cost of more than Birr 217million in collaboration with its sister company, Awash Insurance Company S.C in 2010.

Currently, the bank has more than 190 branches spread throughout the country, (www.awashbank.com). thus boosting the wider branch network next only to the state owned, Commercial Bank of Ethiopia. All city branches and almost half of the outlying branches are providing online services. The bank is working on a project aimed at replacing the existing core banking system with a new one in order to improve its services and promote efficiency.

Awash International Bank of Jimma branch was established in 1991 and began its operations in the same years. After its establishment the bank have been providing different services to the different sector of the society and has been contributing greater role in economic development of the country as one financial institution do. This bank provides different services such as deposit service, current account, advancing loan, money transfer and other different services to its customer

1.3 Statement of the problem

Assessment of credit management practice is good for successful of credit service given by the bank. Credit is the backbone of investment, trade and other business activity. Managing and maintaining credit is a common problem of banking industry due to the poor credit managing techniques which create negative influence on the activity of the banking industry (www.awash.bankbank) The consequence of failure to pay back is the realization and sale of the collateral pledged to settle the amount pledged. (www.investowards.com)

Many researchers have conducted researches concerning credit management practices and forwarded their findings. For example Aspire Umlaut (2003) argues that if you not follow the credit management policies and procedures one cannot think of managing credit and at the same time credit decision will be come arbitrary subject to individual discrimination and judgment.

On the other hand (Meaza, 2010) said the group based lending method is not effective in achieving the bank objective because due to default payment is made by the group members. In addition the beneficiaries who use this method also face a problem in the repayment of loan, the rest who pay regularly were enforced to pay the default amount.

So, the intention of my research is to assess the credit management practices in the bank industry specifically on Awash international bank Share Company in the case of Jimma branch.

The consequence of failure to pay back is the realization and sale of the collateral pledged to settle the amount pledged.

My objective is to assess credit management practice as general objective with some of specific objective like identification of the problem of the bank to collect its loan with the due date. To this end, the study tried to answer the following research

- Does the bank consistently comply its policy and procedures entertaining its loan applicants, loan processing, and collecting?
- To what extent is the bank accelerating the performance of credit management in line to its policy
- Do customers of the bank support the prevailing loan policy and procedures that could result long lasting relationship?

1.4 Objective of the study

1.4.1 General objectives

In the context of the problems explained above, the intent of this study is to assess the credit management practice of Awash International Bank Jimma branch.

1.4.2 Specific objectives

In line with the general objective highlighted above, the specific objectives are

- ✓ To evaluate the compliance of the bank to its policies and procedures in processing loan application and collection.
- ✓ To evaluate the ability of the bank in the creating credit and collecting its loan on their due date
- ✓ To assess the perception of the customer towards the bank' policy in relation to its loan provision

1.5 Significance of the study

The significance of this research includes the following.

- ✓ The result of the study will be expected to give certain knowledge how to manage credit for the manager of the bank as well as for the customer.
- ✓ It will also provide solution that enable the bank to improve service of credit provision and efficient payback on due date
- ✓ It teaches the bank how to eliminate customer dissatisfaction and its impact

1.6 Scope of the study

The study will be conducted on Awash International Bank of Jimma branch. The study focuses on assessment of credit management and its impact. The study also views the service delivery on credit management system and impact of credit management.

1.8 ORGANIZATION OF THE PAPER

The main research report will contains five chapters. The first chapter contains an introduction to the study which as different parts. Background of the organization and the study; statement of the problem, objectives of the study; significance of the study; scope of the study; limitation of the study and organization of the paper. The second chapter contains literature review on credit management. The third

chapter contains methodology of the study. The fourth chapter contains data analysis, interpretation, and chapters five contain recommendation and conclusion. drawn in the study is to the stud

CHAPTER TWO

2. Literature Review

In this part it is made to give some highlights on theoretical backgrounds and empirical evidence in the area of credit management. In this task of providing credit to individual, the decision whether to extend or not to extend credit to individuals with credit policy, function of credit and other are briefly explained.

2.1 Theoretical Review

Banks in today world have many functions. Lending is the most important one. Credit or loans covers the large portion of banks total asset and a backbone of every bank structure. In formulating policies and procedures for the credit granting process several basic steps must be taken by credit management (Theodore N.Beckman and Ronald S. Foster).

Step 1: there must be determination of the grade or amount of risk that the firm is willing to accept.

Step 2: each credit applicant must be investigated.

Step 3: credit management must analyze the information obtained in its investigation in order to establish in the applicants credit worthiness.

Step 4: the credit manager or another person to whom such responsibility has been delegated must decide whether to accept or reject the applicant.

2.1.1 Meaning and types of credit management

Credit means delaying payment for goods or services you have already received until a later date. Credit management is concerned with making sure that payment of good to be produced or service given is payback within a specified time (<http://www.icm.org.uk>).

2.1.2 Types of credit

Credit can be classified according to different dimension. According to Theodore N. Beckman and Ronald S. Foster credit is classified according to their purpose of the loan borrowed and time they are borrowed. According to the purpose of the loan they are borrowed the type of loan can be classified in to real estate loan, consumer loan and agricultural loan.

Real estate loan includes long-term mortgage on the provision of properties and business enterprise. It is a loan build a real estate for which are generally paid off which the property is completed and sold.

Consumer loan is one of the loans which are granted by bank. Many consumer loans are mainly for the purpose of purchasing durable goods like refrigerators, automobiles and etc. from the banks point of view consumer loans are generally more liquid than other types of loans because most of the time consumer loans are rendered as short term loan.

Agricultural loan is a credit financing vehicle, which is designed especially for agriculture products. Typically this financing is used to fund operations, purchase equipment or acquire real estate.

Based on the time they are borrowed credit can be short term loan, medium term loan and long term loan.

Short term loan is the loan that is provided for a short period of time. Most of the time short term loan is provided for one year and less.

Medium term loan is the type of loan that is provided above one year and less of five year.

Long term loan is the loan that is provided for long term times. Most of the time long term loan is provided more than five year loans (Shelagh Heffernan, 2005).

2.1.3 Dimension of credit management

According to IM Pandey, 2010 credit management particularly performs the following core concepts in related to credit policy:

- i. **Formulation of credit policy:** - for firms with usual credit sales the prime responsibility is formulation of credit policy which includes the decision about three credit terms that is

cash discount, discount period and credit period. Credit term refers to the duration of credit and the term payment customers including discount if any credit standard specifies the attributes customer should demonstrate to get credit.

ii. Evaluation of credit policy: - these involve evaluating the credit applicant's worthiness.

It involves three steps:

1. Collection of credit information
2. Analyzing and evaluating information
3. Making of credit decision

iii. Implementation of credit policy: - once credit policy is formulated and evaluated the next step is adapting it and use it.

iv. Administering and controlling credit policy:-the purpose of this step is to check and control whether implemented policy is properly working or not.

2.1.4 Method of credit delivery and repayment method

Methods of credit delivery can be generally divided in to the two broad categories according to Joanna Lidgerwood. These are individual loans and group based loan.

Individual loans are delivered to individuals based on their ability to repay the loan within an agreement period.

Group based lending involves the formulation of groups of people who have a common wish to assess financial service.

In other way repayment methods of credit is divided in to two methods according to Theodore N Beckman and Ronald S Foster:

Installment method: - is the way in which the borrower repays the loan periodically.

Lump sum: is the other way of repayment method in which the borrower repay the loan once totally.

2.1.5 Variables of credit policy

the principal factor to be taken into consideration in deciding whether or not to grant credit, in what amount and on what terms and conditions comprise what are commonly referred to us in

the credit profession as the “ five C’s of credit”. That is character, capacity, capital, condition, and collateral (Theodore N. Beckman and Ronald S. Foster).

Character comprises those qualities of credit risk which make him or the individual want or intend to pay when debt is due. The character of an individual is the aggregate of mental and moral qualities which identify him.

Capacity in credit signifies the ability to pay when debt is due.

Capital shows the financial position of the firm. It also shows the profitability of the company by evaluating debt to equity ratio.

Condition refers to analyze the economic, industry, business and firm’s level of condition of business undertaking.

Collateral is the analysis of asset available for collateral to secure obligations. It is an asset pledged for security in case of default of payment of credit.

2.1.6 Functions of credit

According to Theodore N. Beckman and Ronald S. Foster credit performs functions which may be classified as economic, social and managerial.

The first economic function of credit is to secure as a medium of exchange in the economy. Money exchange is cultural stage ahead of barter, but a credit economy is a step in advance of mere money economy.

The second function of credit explained by this book is to make independence of thought and action for social purpose. Credit bridges the gap between capital and labor enabling the latter to secure assistance in attempt at independent enterprise.

The other function is managerial function. For business manager credit performs several functions. It is a tool of business promotion with which he may expand his business to customers who want to buy their merchandize on credit.

2.1.7 Components of credit policy

There are three components of credit policy. They are credit standard, credit terms and collection policy (IM Pandey, 2010).

- i. **Credit standard:** - is the guidelines issued by a company that are used to determine of potential borrower is credit worthy. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower no making credit payments or defaulting on loaned money.
- ii. **Credit term:** - specify the length of credit period and the discount given early payment. The common credit term for the firm to offer of “net 30” or “2/10 net 30”. Net 30 means the customer must pay its bill within 30 days of the invoice date. Term 2/10 net 30 means the customer is offered a 2% discount if payment is made within 10 days of the invoice date. Otherwise the full amount of the receivables is due in 30 days. The stated terms of credit extension will have a strong impact on the eventual size of the accounts receivable balance
- iii. **Collection policy:** - refers to the procedures that firms follow to obtain payment of past due account.

As a general rule, the more quick account receivable is converted in to cash the greater will be the profit. Collection policy is final element in credit policy. It involves to spot trouble in obtaining payment of past due accounts.

$$\text{collection period} = \text{receivable} \times 365 \text{ days} / \text{amount of orders sales}$$

This formula shows how many days, sales amount are tied up in receivables.

2.1.8 Credit planning

The concept of the credit planning has gained importance during recent years. The term credit planning is used to mean the allocation of financial resources from which over source they are available. In such way that the plan target of output and investment are achieved in full and distribution of these resources doesn't hamper the implementation of plan programmers (www.businessdictionary.com).

Viewed from this angle credit planning at each level of the banking system is a subsidiary one since the bank credit is only one of the financial resource available from several sources. Bank credit however occupies a very prominent position and as such national allocation of the

resources available with bank is an important aspect of economic planning and policy. The significance of such planning is enhanced when banks have to operate principally with the deposit (Shekhar, 1961).

2.1.9 Collection procedures

According to IM Pandey, 2010 firms use different collection procedures of their receivables from credit customer.

- ✓ Write letters to remind customer
- ✓ Telephone calls
- ✓ Personal visit by firms collection personnel
- ✓ Collection agent assign
- ✓ Legal notice to customer
- ✓ Legal action by court

2.2 Empirical review

Many researchers have studies on credit management practice in bank from different direction views. The following were used for my research;

James Christopher (2011) reviews empirical evidence on the use of bank lines of credit as a source of corporate liquidity. Traditional explanation for lines of credit is that they provide insurance against liquidity shocks in much the same as way of loading cash does. However, this research suggests that assess to lines of credit is contingent on the credit quality of the borrower as well as the financial condition of the lender. These finding suggest that lines of credit are an imperfect substitute for cash as a source of corporate liquidity. Non-performing loan ratios (NPLs) are loans especially mortgages which organizations lend to borrowers but do not capitalize on. In other words the borrower cannot pay loan back in full or even enough for the bank to make profit.

According to the IMF (2001) poor risk management and plain bad luck in form of external independent factors are the two main causes of NPLs. In fact, there is abundant evidence that the financial/banking crisis in East Asia and Sub-Saharan African countries were preceded by high non performing loans. The current global financial crisis which originated in the US was also attributed to the default of sub-prime loans/mortgages.

Brewer et al (2006) use non-performing loan ratios as an important economic indicator. Efficient credit risk management implies that lower NPLs ratios are associated with lower risk and lower deposit rate. However, it also implies that in the long run relatively high deposit rate increases the deposit base in order to fund high risk loans. This increases the possibility of NPLs. The study shows that the allocation of the available fund and its risk management heavily depend on how the credit risks are handled and diversified to decrease the NPLs amount.

Taking Felix Achou and Ntui Claudine Tenguh (2008) studied the link between bank performance and credit risk in Qatar. The main concern of their thesis was to determine to what extent banks can manage their credit risk and to what their performance can be amplified by proper risk management policies. They did a time series analysis of a five year financial data to attain their research objective. The study should that indeed there is a significant relationships between profitability and credit risk management. They argued that better credit risk management leads to better bank performance. In other words, they argued that banks with good policies on credit risk management have lower loan default ratios (bad loans) and higher interest income (profitability). Furthermore, the study revealed that there is a direct but inverse relationship between profitability and ratio of non-performing loans to capital. They concluded that conclusion that bank with higher interest income have lower non performing loans, hence good credit risk management strategies.

This confirms the work of Sam Hakim and SimanNeime (1998) who investigated the performance and risk in Egyptian and Lebanese banks. They used annual observations of 43 Lebanese and 62 Egyptian banks and analyzed same using a panel data estimation technique. The study revealed that return on equity in banking is a direct and an increasing function of the bank's lending activities irrespective of Lebanon and Egypt. In conclusion James Christopher (2011) suggests access to lives of credit is contingent on the credit quality of the borrower as well as the financial condition of the lender. Brewer et al (2006) shows the allocation of the available fund and its risk management heavily depend on how the credit risk is handled and diversified to decrease the NPLs amount. Taking Felix Achou and Ntui Claudine Tenguh (2008) argued that banks with good policies on credit risk management have lower loan default ratios (bad loans) and higher interest income (profitability) by studying the link between bank performance and credit risk in Qatar. Sam Hakim and SimanNeime (1998) revealed that return

on Egypt in banking is a direct and an increasing function of the bank's lending activities by taking annual observation of 43 Lebanese and 62 Egyptian banks. My objective is to assess credit management practice as general objective with some of the specific objectives like identification of the type of load provided by bank, method of bank uses while they deliver credit by taking a sample of 10 employees from the bank.

CHAPTER THREE

3. Research Methodology

In the last two chapters the study focused on the introduction of the study, objective and review of related literature is widely explained. But in this chapter the study was focused on the methodology of the study.

3.1 Type and source of data

To conduct this study I used both primary and secondary data to its successful accomplishment. The primary data was gained from employees of Awash International Bank S.C of Jimma branch by using questionnaire while the secondary data was gained from different banks written materials like magazine, journals, banks website and other relevant materials.

3.2 Method of data collection

The primary data was gathered through self administrative questionnaire which was prepared for employees of Awash International Bank S.C of Jimma branch. The secondary data was collected from different written documents such as journals, books, published and unpublished materials.

3.3 Sampling technique

In order to collect primary data the researcher used the judgmental or purposive sampling. Because, the researcher uses his judgment to select people that he feels are representative of the population to have a particular expertise or knowledge which make them suitable and select target respondent that provide the relevant information.

3.4 Sample size and population

For the purpose of identifying the necessary information about credit management the Bank total employees are 23. Out of this the researcher selected 10 employees who are decided that they fit the area of the study. The respondents were selected based on judgmental sampling method. The reason for using judgmental sampling is to involve the personnel who have understanding about the topic under the study

3.5 Methods of data analysis and processing

Data processing implies editing, coding and classification of the collected data, so that, it is suitable for further research analysis. The method of data analysis used was descriptive analysis including table and percentages. The rationale for choose of these method of data analysis was that it allows describing, summarizing and presenting the quantitative data.

Data was analyzed by tables and percentages. Finally data was presented in understandable way to draw conclusion and interpretation.

CHAPTER FOUR

4. Data presentation and analysis

The primary data used for this study is collected from employees of the bank working on loan in Awash International Bank S.C of Jimma branch. Structured questionnaire were prepared and distributed to branch employees in an open and closed ended questions form as a result the analysis made on the valid of responses only. Secondary data used for collected from secondary sources such as manuals.

4.1 Analysis and interpretation of questionnaire result in table form

In this point of the study the data gathered from primary sources are analyzed and interpreted. A total of ten (10) questions were distributed to the employees of the bank which is related to the problem of the study area.

Table 4.1 Demographic information or summary of the number and percentage of respondent by age, sex and educational qualification.

Item		Respondents	
		Numbers	Percentage (%)
Sex	Male	8	80
	Female	2	20
	Total	10	100
Age	Less than 20 years	-	-
	21 – 30 years	6	60
	31 – 40 years	3	30
	41 – 50 years	1	10
	Greater than 50 years	-	-
	Total	10	100
Educational qualification	High school graduate	-	-
	College Diploma	3	30
	Master Degree	-	-
	Technical school graduate	-	-

	BA/BSC	7	70
	PHD	-	-
	Other	-	-
	Total	10	100

Source: questionnaire result and own computation

The above table (table 4.1) shows that the respondents background which include three classes that are sex, age and educational qualification. As we can see from the table 80% of respondents are male and 20 % are female. This shows that most of the employees of the bank are male. Also the researcher can see the second item of the table which is age range of the respondents. Out of the total number of respondents 60% belongs to age group of 21 – 30 years, while 30% belongs to the age range of 31 – 40 years and the remaining 10 % belongs to the age range of 41 – 50 years and this shows that most of the bank employees are found in the adult age. This implies that most of employees of the banks are fresh and they are not still equipped with necessary experience of best credit management practices. Finally, the researcher had seen the educational qualification. As we know education is the best instrument for the development of the country. The credit activities are facilitated easily if the people involved are educated. And According to the sample of the respondents about 70% of respondents are BA/BSC Degree holder 30% of the respondents are Diploma holder. So that the researcher can conclude that more number of employees of the banks was literate but not enough.

Table 4.2 Job experience in the bank with current job

Item		Respondents	
		Numbers	Percentage (%)
Job experience in the bank with current job	Less than one year	2	20
	1 – 3 years	5	50
	4 – 6 years	3	30
	Total	10	100

Source: survey result and own computation

From table 4.2 we view the experience of each respondent in the bank under their current job. It has been 20% of respondents working experience is less than one year, 50% is between 1 -3 years and 30% of respondents are between 4 - 6 years. From this the researcher can conclude that most of the employees of the bank are not new for the bank service and know about the study area and this is good for researcher in order to get full information about the problem under study.

Table 4.3 Borrowers pay back or not pay back the loan exactly on time.

Response	Number of respondent	Percentage
Pay back loan on time	-	-
Not pay back loan on time	10	100
Total	10	100

Source: survey result and own computation

. As indicated in table 4.3 100% of respondent responded borrowers do not pay back the loan exactly on the maturity date.

The main reason for not to pay back the loan on the time may be due to:

- ✓ Fluctuations of price of commodities
- ✓ Failure of the market
- ✓ Weather condition

Table 4.4 Sector use of the bank credit

Items		percentage
Sector which is the most user of the bank credit	Agricultural	-
	Industry	-
	Hotel	20
	Construction	10
	Others	70
	Total	100

Source: survey results and own computation

As we have seen from table 4.4, the most user of the credit of the bank was other sector (service sector and domestic trade) which is 70% and 20% is Hotel sector and the remaining 10% is construction purpose. This indicates that the users of the bank credit are very limited sectors, so the bank is exposed to accumulated risk on few areas.

Table 4.5 Repaid loan and used Method

Method of loan repayment	Number of respondents	Percentage (%)
Installment method	8	80
Lamp sum method	2	20
Other	-	-
Total	10	100

Source: survey results and own computation

As indicated in the above table the number of respondents indicates the major part of the loan was repaid by installment method on. As indicated in the above table about 20% of loan was repaid on lamp sum method while the remaining 80% is on installment method. The researcher concludes that the method which is preferable is Installment method. This is may be due to:

- ✓ The borrower uses the money and repays periodically

Table 4.6 Types of the loan extended by the bank and purpose of the credit provision

Items	Respondents		
	Numbers	Percentage (%)	
What type of loan advanced or granted by bank	Short term loan	3	30
	Medium term loan	6	60
	Long term loan	1	10
	Total	10	100
Purpose of credit provision	Real state purpose	2	20
	Consumption purpose	1	10
	Agriculture purpose	1	10

	Business purpose	6	60
	Other purpose	-	-
	Total	10	100

Source: survey results and own computation

As indicated on table 4.6, most of the time bank lends medium term loan which is about 60% of the respondents' response, while 30% is short term loan and 10% shows the long term loan response. This is concluded as the bank provide medium term loan as a major concern.

In other way, table 4.6 also shows the purpose of the loan granted. As it is observed from the table about 60% of borrowers used the loan for the business purpose, 20% for real state purpose, 10% for consumption purpose and the remaining 10% is for agricultural purpose.

Table 4.7 Items requested to guarantee a loan

Item		Respondent	
		Number	Percentage (%)
Type of collateral does the bank request from the borrower	Vehicle	1	10
	Building	7	70
	Land	-	-
	Educational document	-	-
	Cash deposit	2	20
	Other	-	-
	Total	10	100

Source: survey results and own computation

From this table we can consider what types of collateral is bank request from the borrower. Accordingly to the responses of the sample study 70% of the bank collateral is building, 20% is cash deposit and 10% is vehicle.

Table 4.8 Customer guidance and advisory service given by the bank

Items		Respondents	
		Numbers	Percentage (%)
Does the bank provide adequate customer guidance and advisory service to customer	Yes	10	100
	No	-	-
	total	10	100

Source: survey results and own computation

The above table shows the 100% of respondents' response the bank provide customer guidance and advisory service to customer. Generally the researcher can concluded from the above question that the majority of respondent or all are response they give the consultation service for their customer. The bank advice the borrowers in the following ways:

- ✓ Do not shifting the field of business activities to other field of business activities without the permission of the bank. Some of the borrowers borrowed money from bank for the purpose of trading activities but shifting this purpose for the building house. In such case there is a problem of non pay back of loan.
- ✓ Do not doing illegal business activities which is blocked by the government.
- ✓ Your business activities should be profitable
- ✓ Pay back loan on time.

4.2 Sequences of procedure for borrowers whose payments are overdue

For this question almost all of the respondents list their view as follows:

- ✓ The bank send out delinquency letter information to the customer of the past due status of the account an account receivables becomes overdue a certain number of days. The bank normally sends a polite letter remaining the customer of its obligation.
- ✓ It makes phone call to the customer if letter prove successful, a telephone call may be made to the customers to request immediate payment. Such a call is typically directed to the customer accounts payable department where the corresponding employee acts on institution of his/her boss.

- ✓ It employed collection agency: a firm can turn collectable accounts over a collection agency or an attorney for collection.
- ✓ It takes a legal action against the customer: is the most stringent step in the collection process. It is an alternatives collection agency not only indirect legal action but it may force the debtor into bankruptcy, thereby reducing the possibility fortune business without granting the ultimate receipt of the over.

4.3 Credit granting criteria used by Awash International Bank

Regarding the collateral accepted by the bank of Awash International of Jimma branch respondents' response as the bank evaluates five things before they give the loan to the applicants. These are:

Character: - borrowers' honesty, responsibility, integrity and consistency. This show the borrowers will in press to pay and date remind by taking the record of paying behavior.

Capacity: - the ability of borrowers to pay their financial obligation. Ability to pay can be judged by assessing the customers' capital and assets which he/she may offer as security.

Capital: - the customers financial resource or financial condition of borrowers. It is the amount of assets that can be liquidated for the payment of debt.

Collateral: - an asset pledged for security in case of default of payment of credit.

Condition: - the banker is going to assess the conditions the company to determine the key risks facing in the company and also whether or not these risk are sufficiently mitigated. Even if the company's historical financial performance is strong, the bank wants to be sure of the viability of the company.

Based on the question about mechanism or credit granting criteria almost all of the respondent responses that the bank uses the above five credit granting criteria that are used to grant credit to customer.

Table 4.9 Financial high lights as December 31, (2011-2015) in million Birr

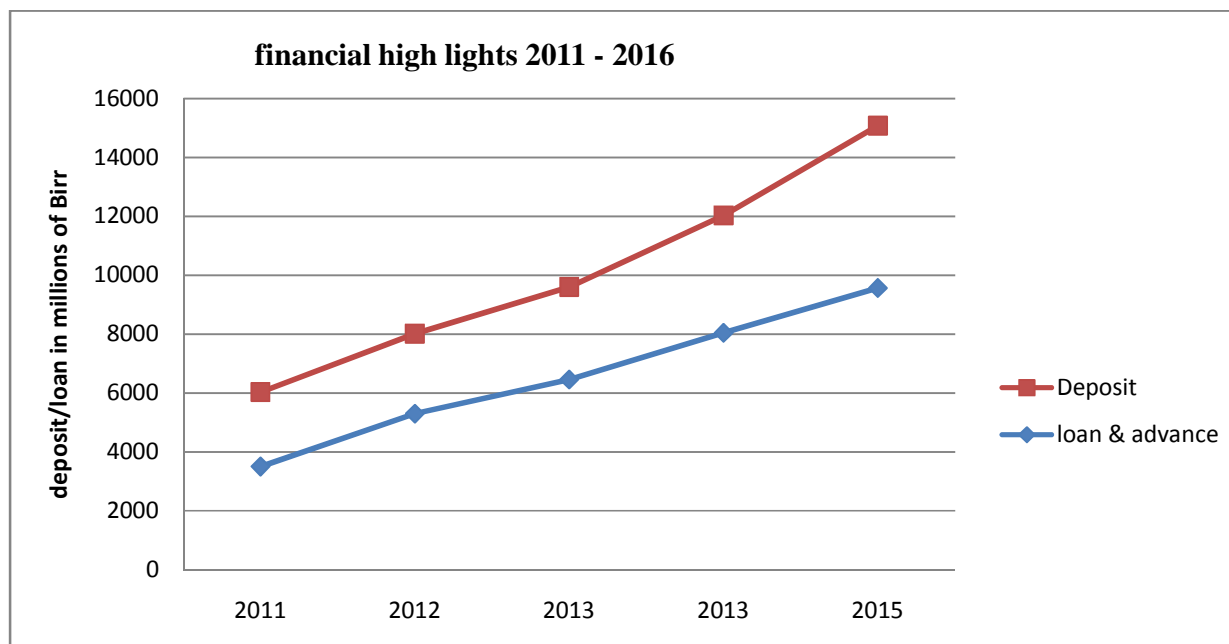
Year	Deposit	Loan and advance
2011	3,508	2,529
2012	5,302	2,713
2013	6,456	3,146
2014	8,045	3,986
2015	9,565	5,05

Source: Financial statements of Awash International Bank S.C

As it is observed from the above table or the listed data (deposit data and loan and advance) it is possible to say that:

- ✓ The amounts of deposit of Awash International Bank increases from year 2011–2016/17 by different amount of range
- ✓ The loans and advances granted by Awash International Bank was increases for the past four year by some different amount range.

The above data is displayed on the graph as follows



Source: Financial statement of Awash International Bank and own computation

Total outstanding loan and advances reached about 5.6 million in 2015. This high growth of loans and advances is supported by the growth of the banks deposit during 2011/12.

CHAPTER FIVE

5. Summary of finding, conclusion and recommendation

In the previous chapter the researcher tried to investigate problems, weakness and strength of Awash International Bank regarding credit delivery system. In this chapter the researcher summarize the findings result, conclusion and recommendation.

5.1 Summary of finding

Loan is the main factor for the development of an economic activity of one country. Awash International Bank of Jimma Branch is one of the financial institution that provide short term loan, medium term loan and long term loan to different sectors of the economy such as industry, agriculture and other service sectors. Awash International Bank of Jimma Branch plays its own role in contributing to each sector of the economy.

So far, the researcher has summarized the major finding of the study as follows:

- ✓ About 100% are not pay back loan on maturity date on the payment of the loan according schedule
- ✓ More than half of the respondent's response is shows that the most user of credit of the bank was service sector and domestic trade sector.
- ✓ About 80% of respondents collect the loan on installment method and 20% of respondents on lump sum method.
- ✓ 60% respondent response show the for bank lend medium term loan, 30% short term loan and 10% is long term loan
- ✓ As the data shows the bank provide a credit more for business purpose around 60%, 20% for real state purpose, 10% for consumption purpose and 10% for agricultural purpose
- ✓ About 70% of respondents say the bank request building from the borrower as a collateral, 20% cash deposited in the bank and 10% vehicle as a collateral
- ✓ As the data show 100% of respondents say the bank provide adequate customer guidance and advisory service.

- ✓ The sequence of procedures for borrowers whose payment are overdue are as the researcher get from open ended question:
 - Send polite letter
 - Make telephone call
 - Employs collection agency
 - Finally take a legal action
- ✓ Mechanism / credit granting criteria being used by Awash International Bank :
 - Character
 - Capacity
 - Capital
 - Collateral
 - Condition
- ✓ As the data show the amount of deposit of the bank growth from year to year
- ✓ The loan and advance granted by the bank increase from year to year

5.2 Conclusions

All data analysis and detailed discussion made in preceding part of this study are means to lead the researcher to possible conclusion and recommendation, so that the fact and solutions are aimed to state explicitly for measures to be taken up on. Once those impacts are known, efforts can be made to avoid such impact credit management practice of Awash International Bank of Jimma Branch. The banks have to identify the negative and positive impact and to ensure continued inclusion of those impacts which have a positive relation to the credit management. The researcher concludes all the finding as well as:

- ✓ Education levels are the determinant factor in the delivery of credit service. But large numbers of respondents of the bank are Degree rather than Diploma.
- ✓ Most of the time the bank request building for settlement of outstanding debt rather than giving additional loan.
- ✓ According to the majority of respondents the bank gives adequate customer guidance and advisory service to its customer. This in turn decreases the amount of un collectable loan.

- ✓ The bank follows the sequence of procedures for borrowers whose payments are overdue.
- ✓ The bank follows all 5C's of credit granting criteria while they give credit to its customer.
- ✓ According to the majority of the respondents most of the customers of the bank or borrower repay back their loan on lump sum method. This in turn decreases the interest which is charged on the loan until the maturity date.
- ✓ The bank deposit, loan and advances increasing from time to time

5.3 Recommendation

Based on the findings of the study the following possible recommendations were forwarded.

- ✓ To increase high quality of credit service, all staff working on the loan should get adequate training on areas of loan disbursement and collection. The training should be given on continuous basis like every six month and every year to refresh what they know and through group discussion they may share their ideas and finally come to some solution for customer problem.
- ✓ Before giving the loan to customer, evaluation of their plan of performance and the collateral they retain for the bank is important.
- ✓ Although the bank gives some advices to its customers on how to use the amount they borrow from it .sometimes default of repayment by customers is seen. This affects profit of the bank so the bank should give intensive technical advice to borrowers and seriously follow up the proper utilization the borrowed money.
- ✓ The bank should assign loan officer to different places operation area of the bank branch with the specific term of references to do all the best in the area of evaluating projects inspection and follow up of the activity of the customer performance on time. With special emphasis to accelerating payback period of loan and purchasing new policies or cancelling unnecessarily one and prepare necessary information and availing document related to non performing loans to super visiting authority as and when requested.
- ✓ The bank also try to expand the service of automatic teller machine (ATM) service and interbank transfer service since it is better for customers because customer prefers the bank according to performance and technology.

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Appendix:-Questionnaires

Jimma University

College of Business and Economics

Department of Accounting and finance

Questionnaire to be filled by staffs of awash international bank Share Company of Jimma branch

Researcher: Misba Jihad

Research Topic: An assessment of credit management practice in case of Awash international bank of Jimma branch

Dear respondents

I would like to show my heartily respect for your generous time and honest as well as important responses.

Objective

The purpose of this questionnaire is to obtain information concerning credit management practice of the bank. The information shall be used as a primary data in my case study research which I am conducting in partial fulfillment of the requirement of the course research in accounting and finance (ACCT 441) at Jimma University for completing my BA degree in accounting under the college of business and economics. Therefore this research is to be evaluated in terms of its contribution to our understanding of credit management in your bank and in terms of its contribution in filling the knowledge gap that exists in the area.

General instruction

- ✓ There is no need of writing your name
- ✓ In all case where answer options are available please tick(x) in the appropriate box.
- ✓ For questions that demands your opinion, please try to honestly describe as per the question on the space provided.

Confidentiality

I want to assure you that this research is only for academic purpose authorized by the JimmaUniversity. No other person will have access to data collected. In any sort of report I might publish. I will not include any information that will make of possible to identify any respondent.

If you have any question, you can contact the researcher by the following address.

Telephone no: 0917379642

Thank you again, for your cooperation and timely response in advance again!!!

Section one - Demographic information

1. sex

Male Female

1. Age

Less than 20 years

20-30 years

31-40 years

2. educational qualification

High school graduate

College diploma

Master degree

Technical school graduate

BA/BSC degree

PHD

Other

3. Job experience with current job in the bank

Less than one year

1-3 year

4-6 year

Section two: Questions related to the study

1 Would the borrower pay the loan on time or not?

Payback on time

Not pay back on time

2 If the above question above answer is not pay back on time what is the main reason?

.....
.....
.....

3 Which sector is the most user of the bank credit?

Agriculture

Industry

Hotel

Construction

Other

4 What is the method of loan repayment should the customer follow?

Installment method

Lump sum method

Others

5 If question no 4 is installment method. Why?.....

.....
.....

6 What types of loan extended by the bank?

Short term loan

Medium term loan

Long term loan

7 For what purpose credit is provided for the customer?

Real state purpose

Consumption purpose

Agricultural purpose

Business purpose

Others

8 What types of collateral does the bank request from the borrower?

Vehicle building land

Educational document cash deposit other

9 Does the bank provide adequate customer guidance and advisory service to customer?

Yes no

10 if question no 10 is yes in what ways?

.....

11 What are the sequences of the procedures followed by bank for borrowers whose payment is overdue?.....

.....

12 What mechanism or credit granting criteria used by awash international bank Jimma branch?

.....

.....

13 If you would like to add any comments please add on it.....

.....

DECLARATION

This is to certify that this research paper entitled "assessment of credit management practice of awash international bank shares company (in case study of Jimma branch)

Accepted in partial fulfillment of the requirements for the award of the BA in Accounting, done by Misba Jehad is a genuine work carried out by him under my guidance. The matter embodied in this research paper work has not been submitted earlier for the award of any degree or diploma. The assistance and help received during the course of this investigation have been duly acknowledged. Therefore, I recommend that it can be accepted as fulfilling the research paper requirements

Name SigMisba Jehad nature: _____ Date of Submission June, 2017

Place: Jimma University, Jimma

Advisor: Wolde Mikiael shibiru

nature _____

Date_____