

**ASSESSMENT OF LOAN COLLECTION AND DISBURSEMENT
MANAGEMENT PRACTICE (CASE STUDY WEGAGEN BANK BOLE
BRANCH)**

**A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF BANKING
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Abstract

The study conducted on assessment of loan collection and disbursement management practice of wegegen bank Bole branch. Therefore, the purpose of undertaking this study was to assess the loan management practice of the company and to recommend possible solutions.

The study will significant to the management to evaluate the performance of loan collection at the bank and take necessary measures to correct weaknesses and keep up strength. In data collection the researcher used both primary and secondary sources. The primary data were collected through unstructured interview and questionnaires. The secondary data to be collected from published material and manuals which are available in the bank. Regarding the sample techniques, judgmental sampling of non probability was used and the data was processed and explained by descriptive method of data analysis. according to major finding the bank has loan evaluation method, through evaluating source of income, renewed trade license for the current fiscal year, commercial registration certificate, investment license, collateral they borrower have and kind of business borrower doing. Finally the researcher recommends that for the bank it is better to apply modern methods of valuation collateral asset and hires a competent independent and well qualified personnel.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Disbursement practices are essential to perform its credit function effectively and minimize the risk inherent in an extension of credit .therefore the study will assess the loan collection and disbursement management practices in case of Wegagen bank. The business of the banking essentially involves the lending. The deposits are accepted by the banks for the purpose of lending or investment .It is the most Profitable employment it is funds. But while lending his funds, the banker shall be very cautions. The banker shall conduct his business on the basis of well- Loan is an arrangement of advancing a sum of money on interest for a pre agreed period sometimes for a particular purpose as well. Currently many business organizations are emerging rapidly so in order to run their business they borrow money from lending intuition. Loan is becoming the backbone of most business our country. Today the government bodies are supporting microenterprise to participate in economic development sector of the country. Therefore government is preparing suitable ways of providing loan in order to maintain the sector. Due to increase of population and advance of new technology products in the word both private and government sector including individual investor has need financial resources in order to enhance the country economic development to a great extent. Therefore loan has a vital important for the working of an economy which helps in the economic prosperity of a given country through increasing the productivity of capital ,convenient mode of capital, convenient mode of national and internal payment ,encourage investment, increase demand for participating in various sector related with proper utilization of economic resource(national bank of Ethiopia).these care full ending policies and known principles of sound lending so that the risk may be minimize (Kumar and Mittal, 2002).

1.2 BACK GROUND OF ORGANIZATION

The history of banking in Ethiopia goes back to the 1905 when the Bank of Abyssinia was established in partnership with National Bank of Egypt under the British financial influence. The promoter of bank has been granted. After fifteen years Ethiopian emperor order the purchaser of foreign company with the intention of recognized the banking and currency of the country.(Fasil alemayu and merha beb teklemedin 2009)

Wegagen bank has established and become a good competitor in the 1997 as private commercial bank by seven corporate shareholders with subscribed capital of 30,000,000.thebanks board of directors has decided to raise its paid up capital to birr 180,000.000 and subscribed capital to birr 140,000,000.wegagen bank is a very competitive bank and deliver its quality service This study conducted on Wegagen bank in Bole branch Wegagen bank is located Addis Ababa of Ethiopia.

Wegagen Bank has a network of 125 branches of which 57 are in Addis Ababa and the remaining 68 are located in other cities and towns of the country. To expand its service coverage, the Bank keeps on opening additional branches both in Addis Ababa and regional towns.

As at March 31, 2015, the number of employees of the Bank stood at 2,951, of which 987 are diploma holders, 1,067 are holding first and second degrees, while the remaining 897attended high school and different levels of education.

1.3 Statement of the problem

Loan collection and disbursement management practice is a mechanism to control risk in addition to effective evolution of the credit worthiness of loan application. Due to the fact that majority of investors which are found in our country face financial problem. Therefore in order to avoid the problem bank is play an important role over the country economic development through granting a sound credit processing system to fulfill the need and wants of the society. Before extending credit, the management analysis the nature of credit carefully, but due to improper credit administration a credit risk might occur in loan process and in handing those problems which are arise due to carelessness prospective customers in appropriate setting of loan term. In today's business world the loan function become is the more important and complex, because, satisfying various types of costumers

With their own needs is so difficult, it needs proper loan and advance management

Therefore the study was addresses the following questions:

1. What factors to be considered in setting loan terms?
2. What are the problems that have seen in the valuation of collateral asset in loan sanction and disbursement?
3. What requirements have to be fulfilled by prospective customers?
4. Why non-Performance of loan is occurred?
5. What are the criteria of the bank to evaluate the loans?

1.4 Objective of the study

1.4.1 General objective

The main objective of this study was to assess the loan collection and disbursement management practice of wegegen bank in Bole branch.

1.4.2 Specific objective

The specific objects ware the following;

- ❖ To investigate the factors that will be considered in setting loan terms
- ❖ To assess the problems that has seen in the valuation of collateral asset in loan sanction and disbursement.
- ❖ To evaluate the requirements that has to be fulfilled by prospective customers.
- ❖ To investigate why non- performance of loan is occurred
- ❖ To assess the criteria of the bank to evaluate the lo

1.5 Significance of the study

The researcher believes that the study will have the following significances i.e provided guide line information for policy makers, government officials and other stock holder to more necessary decision. The finding obtained in this study will also serves as a basis for further research on the subject matter, and finally the benefit of this research to the researcher is the first gain to entering how to prepare the researcher hope fully believe that will make the researcher easily to prepare the researchers own research. That the researcher publishing different thing in addition it is key of the partial fulfillment of requirement for the researcher's bachelor degree in banking and finance

1.6 Scope of the study

The wegegen bank Bole branch is one of the financial institution that is located in Addis Ababa city The study was focus on the loan collection and disbursement management practice in the case of Wegegen bank in Bole branch

1.7 Limitation of the study

To conduct this study there are a limitation that may hindered the researcher to work in their study. Those hinders are:

- Lack of experience on researcher side
- Lack of reference materials
- Lack of access to the right data

1.8 organization of the paper

The paper consists of five chapters. The first chapter includes introduction, background of the study, background of the organization, statement of the problem, objectives of the study, significance of study, scope of study, limitation of the study and organization of the paper. The second chapter focuses on review of related literature. Chapter three mentions research methodology. The fourth contains details of data analysis and presentation. Finally the last chapter deals with summary of finding, conclusions and recommendations that is forwarded both by the respondent and by researcher based on the result obtained.

CHAPTER TWO

2. Literature review

2.1 Concept of Loan

A Loan is type debit like all debit instrument, a loan entails the redistribution of financial assets over between the lender and the borrower. In a loan the borrowers initially receives or barrows an amount of money called the principal from the lender and is obligated to pay later.(Jane Russell 2005)

The loan is generally provided at low cost referred to as interest on the debt, which provided incentives for the lender to engage in the loan. In a legal loan, each of these obligations and restriction is enforced by counteract, which can also place the borrower under additional restriction known as loan covenants. Although these article focuses on monetary loans, in practice any materials objective might be lent, (loan Wikipedia, the free encyclopedia).

Banking is essentially a business dealing with money and credit like every other business activists, banks are profit oriented. A bank invests its fund in many ways to earn income. The bulk of its income is derived from loans and advance. Banks make loans and advance to traders, Business men and industrialists against the security of some assets or one the basis of the personal security of the borrower. In either case, the banks run the risk of default in repayment. Therefore, banks have to follow cautious policy and sound lending principle in the matter of lending. For each lender a loan is an investment comparable to bond stocks or other assets. On the other, for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest.

There are three cordial principles of bank lending that have been followed by the banks since long. These are the principle of safety, liquidity and profitability. (Gordon E. 2003). Bank loans also classified in variety of ways, they can be classified as follows: the first normally bank loans can be classified according to the purpose for which it is borrowed. For e.g. loan given for industrial activities are knows as commercial loans, loans given for industrial activities are known as industrial loans and loans given for the purchase or consumer durables (refrigerator,

television, etc) are called consumer loans. The second is on the basis of the availability of security, bank loan can be a secured loan or unsecured loan. The third: bank loans can be classified according to the maturity of the loan into short-term, medium- term, and long-term loans. The last is on the basis of repayment i.e., repaid in one lump sum or installment basis (Pronchnow, Herberth, 1949). Banks may receive requests for loans from applicants who do not have acceptable credit worthiness. To save the time of the credit department and lending officers, it's advisable to outline what is considered acceptable credit worthiness. Consumer loans might be restricted to persons who are presently employed and have been for a minimum period, and who have on assured income and a satisfactory credit record. Loans to business men may also be restricted to those who have been in business for ascertain length of time and have proved their ability to produce a commodity or render service profitability.

In general, banks diversify their loan portfolio among the various broad categories of loans such as business, consumer, Industrial and agricultural and strive also for considerable diversification with in each of these broad categories (Murray N .Rothbard 1983)

2.2 Types of Loans and Advance

The types and proportions of loan carried in the portfolio vary greatly from bank to bank. This variation generally reflects factors both external and internal factors include the economic character of the area in which the bank is located, the kind and stability of deposits hold, the background and evolution of a particular bank, and the preferences of management within the frame work of current opportunities and pressures.

2.2.1 Short- Term Loans

Short-term loans have duration not exceeding one year and are normally for working capital to meet short term financial requirements.

2.2.2 Medium-Term Loans

Medium-term loans have duration between one to five years and are used for purchase of capital goods, light vehicles, public transport vehicles, completion of building, purchase of residential buildings, etc

2.2.3 Long- term Loans

Long-term loans have a duration exceeding five years; such loans are granted for the construction of residential house, commercial and industrial buildings, large scale investments, and other long term projects. (Pronchnow, Herbert, 1949)

2.3 Loan Categories

2.3.1 Agricultural Production Loan

These are loans granted for crop harvesting, purchase of inputs, fertilizers, improved seeds, combined harvester trucker, construction of storage facilities, etc.

2.3.2 Consumer Loan

Consumer credit is defined by the Federal Reserve's board of governors as loans to individuals for house hold, family, and personal expenditures (except for real-estate mortgage loans).

2.3.3 Project Loan

These loans are among the most profitable loans made by banks. Project loans usually finance the construction of high risk, high-cost projects that are beyond the financial capacity of a single creditor. Such multibillion- dollar projects include refineries, pipeline

2.3.4 Real-estate Loans

These loans constitute the largest category of loan made by commercial banks. These mortgages represented the financing of ownership, construction, and remodeling of both housing and commercial and industrial facilities. Real-estate loans are loans made to farmers for the purchase of farmland. This type of credit, however, is relatively insignificant

2.3.5 Mortgage Loans

Mortgage loans atypically a long-term credit, the maturity varying between 10 and 30 years. Over half of mortgage loans are for residential property that is; they are secured by one-to-four family residential properties and multifamily properties. (Altman, I. Edward, 1993)

2.3.6 Overdraft Facilities

It is one method of financing by which customers are allowed to draw beyond the deposited amount in their current account. Such facility is usually granted to well establish customers with sizable businesses as a supplement to their working capital. (Michael and Jackshim 2004)

2.3.7 Overdraw Facilities

An over draw is a facility where by customers are allowed to draw temporarily funds to bridge, temporary shortage of funds. Overdraws can be approved by the authorized officials of the banks when recovery of such over draws is expected from reliable remittances in transit, export bills pending negotiations or any other source of repayment considered genuine.(k.c shakhar 1974)

2.3.8 Advance on Import Bills

Advance on import bills is a written promise that the bank gives to foreign banks on behalf of its clients. This is designed to accommodate the non-withdrawal of import document by the importer and a letter of credit (L/C) is used as an instrument. (K.c shaker 1974)

2.3.9 Merchandise Loan

Are provided with credits against pledged of goods. Commodities and agricultural products are acceptable. The duration of this loan most of the time is for three months.

2.4 Applications for loan and their processing

Standard schedule of feel/ charges relating to the loan application depending on the sequent to which the accounts belong will be made to the entire prospective borrower in a transport manner alone with the loan application irrespective of the loan amount. Likewise amount of fee refundable in the event of non-acceptance of the application prepayment options and any other matter which affects the interest of the borrower will also be made known to the borrower at the time of application.

All loan application will be disposed of within four weeks from the date of receipt of duly completed loan application i.e. with all the requisite information paper.

2.4.1 Loan appraisal and terms/condition

In accordance with banks prescribed risk based assessment procedure, each loan application will be assessed and suitable, margin /security will be stipulated based on such risk assessment and bank's extent guideline, however without compromising by on due diligence.

The sanction of credit limit along with the terms and condition thereof is to be conveyed to the loan applicant in writing. Such terms and condition as have been mutually agreed up on between the bank and borrower prior the section will only be stipulated.

2.4.1. Disbursement of loans including changes in term and conditions

Disbursement of loans sanctioned is to be made immediately on total compliance of terms and condition including execution of loan document governing such sanction.

2.4.2. Post disbursement supervision

Before taking decision to recall accelerate payment or performance under the agreement or seeking additional securities the bank would give reasonable notice to the borrower.

All securities pertaining to the loan would be released on receipt of full and final payment of the loan subject to any legal right or lien and set off for any other claim that the bank may have against the borrowers.

2.4.3. Other general provisions

The bank would refrain from interference in the affairs of the borrower except for what is provided in the terms and conditions of loan sanction (unless new information, not earlier disclosed by the borrowers, has come to the notice of the bank as lender) bank will not discriminate on the grounds of gender, caste or religion in its lending policy and activity.

In the case of recovery, bank would result to the usual measures as per laid down guidelines and extant provisions and would operate within the legal framework. Bank is already having a model policy on code for collection of due and repossession of security.

2.5 Loan Disbursement

After making decision on the contract and creating a contract we can take the decision to disburse the contract. This allows us to assign one user related to release of the contract. We can either do full disbursement or the assigned user can take the decision. Basically interest is calculated as per the disbursement amount. If we are partially paying the amount then interest is calculated on that amount only.

Based on the payment type full or partial disbursement set a status we can engage the disbursement data manually only authorized users, can do this kind of activity some conditions are set for charge in disbursement- when we are charging contract data we have to release

disbursement again. I can specify the payment data, payment method, currently bank details disbursement percentage etc. (Frederick s.mishkin, 1996)

The following are other additional function in disbursement serene:-

- i. Incidental cost: one time charge such as interest, processing fees, administration charges.
- ii. Drawing: allows third party to with draw the disbursement
- iii. Over view of drawing: shows the cash flow lists of drawing for the loan.
- iv. Overdue timers it with this function we can identify the opera items of that customer/ borrower for contract.
- v. Post: after entering all the corresponding FI entry will automatically post

2.5.1 Disbursement and repayment procedures

Disbursement refers to the release of funds by the creditors expenditure occurs when funds are utilized for purchase of good and or services. Disbursement may or may not precede expenditure (it all depends on the method of disbursement).

2.5.2 Loan disbursement Methods

Timely data loan disbursement is needed for several reasons: firstly the bank office must keep track of available loan balance, secondly amount of disbursed debt are also need to estimate interest due to lenders, lastly all records of external financing must be consistent with records maintained elsewhere of public sector borrowing.

There are three method of disbursement.

- I. Direct disbursement: refers the release of foods by the creditors to the beneficiary
- II. Reimbursement methods: in this ease the government under takes expenditure from whatever source and then submits evidence of such expenditure to the creditor for reimbursement.
- III. Replenishment method: Advance or special account disbursement method.

2.5.3. Confirmation disbursement

The back office should receive information on disbursement from any t of the following stake holders.

- ✓ Reserve/Central bank c(which manage foreign account)
- ✓ The creditors disbursement advice (creditors note)
- ✓ Suppliers
- ✓ By down loading disbursement details from creditors web site.

2.5.4. Disbursement performance standards and indicators

There should be performance indicators to assist in the monitoring and evaluation of disbursement processes which should at least cover the following aspects.

- ✓ The promptness of information delivered to the back office.
- ✓ Accuracy and timelines of disbursement and managements reports.
- ✓ Identification reporting and follow up non-disbursing loan
- ✓ The rejection rate of application for disbursement due to in accuracy of information from the barrower

2.6. Principles and method of loan collection

Good business requires that collection of invoices be made promptly and without any damage resulting to the customer relationship.

Point to Consider

In evaluating delinquent customer (or the portfolio of delinquent's customers)

Several factors should betake in to considerations

- ✓ Amount of owed
- ✓ How long has the item been up paid
- ✓ Pattern of payment
- ✓ Customer relationship
- ✓ Previous dealing with customers.

2.6.2. Principles of Collection

Certain principle of collection may be ground in to the following areas

- Collect the money
- Maintain systematic follow up
- Get the customer to discuss the account and Preserve good will
-

2.7 Empirical Literature Review

Roslan and Zaini (2009) investigates the effect of borrowers' characteristics, project

Characteristics and loan characteristics on loan repayment of agro bank micro credit scheme

The result of the study shows the variable gender is positive and significant. This implies that the Probability to default is higher for male than for female borrowers.

The coefficient for the variable type of the project is negative and significant. This implies that the probability to default is lower for borrowers that involve in service/support activities as Compared to those in production activities.

The coefficient for the variable training is also negative and significant. This result suggests that borrowers that did not have any training in relation to their business/project activity has a higher probability to default compared to those borrowers who had some training. The coefficient for amount variable is also negative and significant which suggests in terms of amount of loan the higher the loan amount the lower the probability for default. The coefficient for the variable period of repayment is positive and significant this gives an indication that the probability to default is higher the longer the repayment period.

In general the estimated result of the research from both probit and logit models suggests that the probability to default is not influenced by race, education, age previous occupation, number of dependency, experience, membership in business society, the distance of the business/project to the nearest agro bank office and revenue from the business or project.

Several African studies of loan repayment performance have estimated the determinants of loan performance with a binary loan outcome – defining borrowers as either current on their loan repayments or in default. Loan repayment was positively related to factors such as timeliness of

loan disbursement, enterprise profitability, the number of supervisory visits by credit officers, having additional sources of income, established previous loan history, and lower client debt asset

Rose, (2007) Define successful loan repayment as the ability to repay the loan as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect to service the loan. On her study on the causes of default in government micro credit programs in Kenya, she found a strong relationship between major sources of income, diversion of funds, domestic problems and loan defaulting.

Reza and Mansoori, (2008) investigated the factors influencing on repayment behavior of farmers

who received loan from agricultural bank in Khorasan-Razavi province, Iran In 2008.

In their research methodology, they use a logit model to find the factors influencing on loan repayment performance. Dependent variable is defined as whether farmers had delayed repayment of loan installments to bank. Hence, If farmer had not any delayed repayment, value of dependent variable will be one and otherwise zero.

The Results showed that farmer's experience, income, received loan size and collateral value have positive effect while loan interest rate, total application costs and number of installment have a negative effect on repayment performance of recipients. Comparing the elasticity of the significant variables, it is indicated that loan interest rate is the most important factor in their model, farming experience and total application costs are the next factors respectively.

Abraham, (2002) make a research on factors behind loan defaulters which was a case study of private borrowers financed by Development Bank of Ethiopia Zway Branch.

The above Empirical researches on loan repayment performance in Ethiopia mainly focuses on micro and small enterprises as well as on micro finance institutions in Oromia region, in which most of the borrowers are engaged in the industrial and agricultural sector. The research by Abraham 2003 is conducted in Development Bank of Ethiopia, however it is limited to small scale enterprises in Zway in which again most of the borrowers are in the agricultural sector, besides, two of them are conducted based on data before ten years.

Now a day there are many changes regarding the bank as well as the general macroeconomic condition of the country, for instance, Development Bank of Ethiopia stops providing loans to micro and small-scale enterprises.

Hence, this research will fill the gap by focusing on analyzing the determinants of successful loan repayment performance on the case of private borrowers whose capital is above five hundred thousand, (500,000) mean large-scale enterprises in Development Bank of Ethiopia

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 study area

This study was conducted in Addis Ababa city particularly Wegagen Bank in Bole branch.

3.2 research design

In this study the researcher was used descriptive types of research design. This is because the main objective of this study is to assess loan collection and disbursement management practice. Then this method of research design helps the researcher to describe, assess, and interpret the replied answers and then present them in order to achieve the objectives of the study.

3.3 Source of data

In this study both primary and secondary data source were used. The primary data was collected from manager, loan officer, and customer of Wegagen Bank in Bole branch. The secondary data was obtained from website, monthly and quarterly progress report and audit report Wegagen Bank in Bole Branch.

3.4 Target population

For the purpose of the study on assessment of loan collection and disbursement management practice in Wegagen Bank of Bole branch; the target populations of this study were employees who are working in Wegagen bank Bole Branch and the customers.

3.5 method of data collection

Both primary and secondary data were collected systematically to get realistic information from the respondents. Primary data was collected from questionnaires and unsaturated interview. The questioner has both open ended and close ended type of questions. The open ended questions require the respondents to answer the question in their own words and express their idea in an unlimited way. The close ended question will provide actualized question to the respondent and they choose from a list of response. The researcher prepared interview question for manager. Secondary data was also collected from report, journal and website.

3.6 sampling technique

The researcher was conduct the study with the contact of employees, customers and manger of the bank by using sampling and to choose the number of customers using non probability sampling techniques will be used, from the non-probability sampling techniques judgmental sampling was used. The reason why, the researcher used judgmental sampling techniques is that it has low cost in terms of money and save time as well as its convenience to use effectively and select target respondent that provide relevant information.

3.7 sample size

An appropriate sample size was taken from the total population to distribute questionnaires. The target groups for this research are 2 loan officer, manager and 520 loan customers. The researcher used judgmental sampling technique for loan customer and selects 8% respondents from loan customer. This indicates that, 520 of total population the researcher take 41 respondents as sample size.

Total number of loan officer in wegegen Bank Bole branch is 2. The researcher was take 2 (100%) of loan officer of the bank these enable the researcher to deeply understand about loan collection and disbursement management practice.

3.8 methods of data analysis and presentation

After the relevant data was collected descriptive method of data analysis was used because the main purpose of such research is description of the state of nature and affairs as it exists at present. The analysis indicates transformation of raw data in a form that will be easy to understand and interpret. For interpretation the researcher used tabulation and percentage.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

After relevant data collected, the analysis must be made in the form of meaningful manner. So in this chapter the researcher analysis data which are collected by using questionnaire and interview are analyzed using tabulation and percentage.

4.1. Analysis of Data Obtained From Employed of the Bank

Demographic Characteristics of loan officer

General information of the employees was presented according to their sequence.

Table 4.1.1 Demographic Characteristics of the Respondents

No	Item	Respondents in	
		Number	Percentage
1	Sex : Male	2	100%
	Female	-	-
	Total	2	100%
2	Age : 18- 25 years	1	50%
	26-30 years	1	50%
	31-45 years	-	-
	Above 45 years	-	-
	Total	2	100%
	Marital status: married	1	50%
	Single	1	50%
	Widowed	-	-
	Divorced	-	-
	Total	2	100%
3	Educational Level: Certificate	-	-
	Diploma	-	-
	Degree	2	100%
	Master and above	-	-
	Total	2	100%

Source: Primary data, 2016

Table 4.1.1 is concerned with Sex, Age and Educational level of the respondents.

Regarding sex composition of the respondents, 2(100%) are male and no female respondents. This shows majority of employees in the bank are male.

Regarding age, 1(50%) of the employees are within the age group of between 18-25 years, and 1(50%) of the employees/respondents are within the age group of 26-35 years. The study revealed out that, the bank has number of productive force that will result in higher performance of worker.

Regarding marital status 1 (50%) is married and 1(100%) is single.

In addition to this, the educational level of the respondents is displayed in the table. Accordingly, both of the employees are Degree 2(100%) holders. From this we can inferred that, both of the respondents are degree holders in terms of their educational status.

Table 4.1.2 Work Position of the response in the bank

Item	Number of respondent	Percentage
Manager	1	33.3%
Assistant Manager	-	-
Accountant	-	-
Loan clerk	-	-
Loan officers	2	66.67%
Other employees	-	-
Total	3	100%

Source: Primary data, 2016

Table 4.1.2 depicts that the entire employees of the bank of th33.3% respondent is manager and 66.67 are loan officer.

Table 4.1.3 studying the character of the customer to give loan

Do you study the character of customers while giving a loan?	Response	No Respondents	Percentage
	Yes	2	100%
	No	-	
	Total	2	100%

Source: Primary data, 2016

Table.4.1.3 show that 100% of the responded that the bank study the character of the customer while providing loan to them and the customer is rank by the time they wait as a customers, by their financial statement and by the number of transaction they made .Thus, the researcher concludes that the bank assesses the behavior of their prospective and potential customers in order to ensure the repayment capacity of the borrower at the time of distributing loan.

Table 4.1.4major type of collateral used to lend up.

What are the major types of collateral used in lend up?		
Response	No of respondent	Percentage
Land	-	-
Building	1	50%
Vehicle		-
Other	1	50%
Total	2	100%

Source: Primary data, 2016

Tables 4.1.4 indicate that 1(50%) of respondent response land was the major collateral and 1(50%) of respondent response other collateral those has high value was the major collateral the bank use to lend up. From this the researcher concludes that the bank uses assets for collateral in extending loans so as to ensure its repayment.

Table 4.1.5 assessing the business environment

How do you assess the business environment of the client operation in extending loan?	Response	No Respondents	Percentage
	Studying the business environment	2	100%
	Ask clients no of years in business	-	-
	Both	-	-
	Other	-	-
	Total	2	100%

Source: Primary data, 2016

Table 4.1.5 depicts that 2(100%) of the respondent replied that the bank study the business environment in assessing the business environment to know the treats in the business environments which may cause non repayment of loan.

Table 4.1.6 Customer selection criteria

Is there any customer selection or screening criteria of the bank?	Response	No Respondents	Percentage
	Yes	2	100%
	No	-	-
	Total	2	100%

Source: Primary data, 2016

The above table indicates that 100% of the respondents respond that the bank has customer selection and screening criteria. This can be through financial position, their relation to the bank or how long they have been customer and liquidity status. Thus, the researcher concludes that the bank can reduce risk of default since it has its own customer selection and screening criteria.

Table 4.1.7 Method of loan evaluation on borrowed fund

Does the bank have method of loan evaluation on borrowed funds?	Response	No of respondent	Percentage
	Yes	2	100%
	No	-	-
	Total	100	100%

Source: Primary data, 2016

As the above table show 2(100%)respondent response as the bank has loan evaluation method. this method is through evaluating source of income, renewed trade license for the current fiscal year, commercial registration certificate, investment license, collateral they borrower have and kind of business borrower doing.

Table 4.1.8 Loan rescheduling

Do you apply loan rescheduling and work out on a historically good by accurate delinquent customer?	Response	No respondent	Percentage
	Yes	2	100%
	No	-	-
	Total	2	100%

Source: Primary data, 2016

Table 4.1.8 show that 2(100%) of the respondents replied that the bank apply loon rescheduling at the time of the borrower businesses activities decline and seasonally the bank intended the borrower promising to the future.

From this the researcher concludes that applying loan rescheduling makes convenience for the borrower to build to build their capacity in different investments activity to repay the loan.

Table 4.1.9 Kinds of rescheduling

We kind of rescheduling and loan workout option you offer to clients?	Response	No of Respondent	percentage
	Extending the credit period	2	100%
	Reducing additional loan	-	-
	Rejection of additional loan	-	-
	Other	-	-
	Total	2	100%

Source: Primary data, 2016

Table 4.1.9 shows the respondent's replied their responses 2(100%)of the respondents replied that extending that reducing additional loan used as a kind of loan rescheduling.

The researcher concludes that both of the respondents replied that the bank mainly uses extending the credit period as method of loan rescheduling.

Table 4.1.10 Methods for managing delinquent loan.

Which one do you mostly use to manage delinquent loan?	Response	No of respondent	Percentage
	Strict initial screening	-	-
	Incentive for early payment	-	-
	Penalties for late payment	-	-
	Strict physical follow up	1	50%
	Providing technical support	1	50%
	Total	2	100

Source: - Primary data, Questionnaire,2016

Table 4.10 reflects that 50% of respondents respond strictly to initial screening, physical follow-up, and 50% of respondents respond by providing technical support. Thus, the researcher concludes that among other methods, strict physical follow-up and providing technical support are appropriate for managing delinquent loans.

4.2 Analysis of data obtained from customers

The sample survey covered respondents which were selected conveniently from the customer of the bank and were used census sampling for loan customers of the bank. Out of 520 loan customers, the researcher got only 41. Thus, the study tried to analyze and interpret the data gathered from 38 customers; the rest 3 customers do not return back the questionnaires distributed to them.

Description on the respondent background, the age, sex, education, level, type of occupation, and marital status are some of the characteristics of sample respondents.

Table 4.2.1 demographic characteristics of respondent (customers)

No	Item	Number of respondents	
		No	%
1	Age		
	18-25year	4	10.52
	26-35year	14	36.84
	36 -45year	16	42.1
	46 -55 year	4	10.52
	Above 55year	-	-
	Total	38	100
2	Sex		
	Male	31	81.57
	Female	7	18.42
	Total	38	100
3	Marital status		
	Married	28	73.68
	Unmarried	10	26.31
	Total	38	100
4	Level of education		

	Illiterate	5	13.15
	Primary education (1_8)	18	47.36
	Secondary education (9_10)	7	18.42
	preparatory education(11-12)	2	5.26
	Technical & vocational	4	10.52
	Degree and above	2	5.26
	Total	38	100
5	Occupation		
	Tailor	4	10.52
	Construction work	7	18.42
	Retailer	9	23.68
	Other	18	47.36
	Total	38	100

Source primary data, 2016

Table 4.2.1 items 1 shows 4(10.52%) customers are between the age of 18 -25, 14(36.84%) of customers are in the age of 26-35,16(42.1%) customers are between the age of 36-45,there are 4(10.52%) customers that whose age are between 46-55 and no customer whose age are above 55 from the sample taken. In item 2 31(81.57%) of the customers are male and 7(18.42%) are female. Item 3 shows us that 28(73.66%) of customers are married while 10(26.31) are unmarried. Item 4 tells us the level of education, accordingly 5(13.15%) are illiterate, 18(47.68%) are primary education level, 7(18.42%) of them reached secondary education, 2(5.26%) customers reached for preparatory education 4(10.52) customers are Technical & vocational and 2(5.26%) of them are degree and above. item 5 show about occupation of the customers 4(10.52) are tailor,7(18.52) customer are construction work,9(23.67) are retailer and 18(47.36) customer are engage in other occupation.

Generally the above table indicates us the bank customer are able to know about the loan they are borrow from the bank and the bank not able to lend money for those their age are below 18 years old.

Table 4.2.2 the time bank collect credit from customer.

Does the bank collect its credit given to customers within the specified period?	Response	No of response	Percentage
	Yes	35	92.1
	No	3	7.9
	Total	38	100%

Source: - Primary data, Questionnaire,2016

Table 4.2.2 shows that 35(92.1%) respondents stated that the bank collects its credits on the specified time, were as 3(7.95%) said the reverse. From this we can understand that the constitution give priority for collecting than borrowing.

Table 4.2.3 training to use loan.

Do you set any training to use the loan?	Response	No of response	Percentage
	Yes	26	68.42%
	No	12	31.57%
	Total	38	100%

Sources: primary data, questionnaire 2007

The above table depicts that 26(68.42%) respondents agreed the presence of training but the minority 12(31.57%) said that there is no training. The researcher conclude that the bank

provide training for majority of the customer on how to use the money they borrow from the bank, this enable the customer to gain profit on the business they engage in.

Table 4.2.4 time the customer get training

When did you get training?	Response	No of response	Percentage
	Before you get the loan	20	76.9%
	After you get the loan	6	23.1%
	Total	26	100%

Sources: primary data, questionnaire 2016

Table 4.2.4 shows that 20(76.9%) of the respondents witnessed that the bank give training before the customer get loan, were as 6(23.1%) said they gain training after they get the loan. From this the researcher infer that the majority of the customers get training how to use loan before the borrow from the bank.

Table 4.2.3 interval the bank provide about loan

By what interval did the bank provide training about loan?	Response	No of response	Percentage
	Once in month	-	-
	Twice in month	-	-
	Once in a year	6	23.1%
	Once 6 month	20	76.9%
	Total	26	100%

Source: - Primary data, Questionnaire,2016

Table 4.2.3 shows that 20(76.9%) of the respondents said that the bank give training once in 6 month, were as 6(23.1%) said they gain training once in a year. From this the researcher conclude that the majority of the customers get training once in 6 month, and the bank don't provide training in a short period of time like once in the month and twice in a month.

Table 4.2.5 Loan repayment period

Is the loan repayment period enough for paying the credit?	Response	No of response	Percentage
	Yes	12	31.57
	No	26	68.42
	Total	38	100%

Source: - Primary data, Questionnaire,2016

The above table depicts that 12(31.57%) respondents agreed the loan repayment period enough for paying the credit but the majority 26(68.42%) said that the loan repayment period not enough for paying the credit. The researcher conclude that the borrower are not satisfied with the period for paying the credit.

The customer raised that the problem related to loan are the amount of money they borrow from the bank are not sufficient to do business you interested with, loan repayment period is not enough for paying the credit and the type of loan the bank provide for the customer is not match with the condition of the customer.

Table 4.2.6.Satisfaction of the customer with over all loan of the bank

Are satisfied with the overall loan of the bank?	Response	No of response	Percentage
	Yes	31	81.57
	No	7	18.42
	Total	38	100%

Source: - Primary data, Questionnaire, 2016

The above table depicts that 31(81.57%) majority of the borrower were satisfied with the overall loan of the bank .but the minority 7(18.42%) said that they are dissatisfied with the overall loan of the bank.Among the factor which make customer un satisfied borrowers are; delay to provide loan and the time period to payback loan is not sufficient.

Table 4.2.7 Encouraging of customer to be loan customer.

Is the bank encouraging you to extend as loan customer of the bank?	Response	No of response	Percentage
	Yes	35	92.1
	No	3	7.9
	Total	38	100%

Source: - Primary data, Questionnaire,2016

Table 4.4.7 shows that 35(92.1%) respondents stated that the bank encourage the loan customers to continue as a loan customer through providing miscellaneous service, such as advice on how do they run their business and the money usage which borrower from the bank.

4.3 Analysis of the data collected from the interview of the manager

The analysis of the data collected from the interview of the manager was organized as follow

Type of loan given by bank

The manager of the bank said that our bank give term loan, over draft and resolving facilities(product wise) export loan, import loan, mortgage loan(sector wise)

Term of loan

As the manager said the there are three term of loan those are short term loan(less than one year),medium term loan (one year-three year)and loan term loan (thee year –five year)

Distribution of loan by type

The manager said that our bank distribute 60% term loan, 20%over draft and 20% other.

Procedure in evaluating collateral while distributing of loan

As the manager response the bank has independent evaluation for both building and vehicles. This enables the bank to collect loan on time.

The ground bank set loan term

As the manager said the bank set loan term based on the cash inflow and outflow of the project and by considering the overall cash of the bank have at a current time.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 CONCLUSIONS

As the finding the study is intended to assess the loan collection and disbursement management practice of Wegagen Bank Bole branch. A problem that has seen in the valuation of collateral asset in loan sanction and disbursement, the requirements that has to be fulfilled by prospective customers, the criteria of the bank to evaluate the loan. To reach these objectives, the necessary data are obtained through questionnaire for both loan customer and selected staff member and unstructured interview for the manager. So the following conclusion is made based on the findings.

Concerning the study character of customer while giving loan the bank assesses the behavior of their prospective and potential customers in order to ensure the repayment capacity of the borrower at the time of distributing loan.

Regarding major type of collateral bank used are land and building bank uses assets for collateral in extending loans so as to ensure its repayment.

Bank study the business environment in assessing the business environment to know the treats in the business environments which may cause non repayment of loan.

The bank can reduce risk of default since it has its own customer selection and screening criteria. Based on evaluation method the bank has loan evaluation method, this method is through evaluating source of income, renewed trade license for the current fiscal year, commercial registration certificate, investment license, collateral they borrower have and kind of business borrower doing.

Applying loan rescheduling makes convenience for the borrower to build to build their capacity in different investments activity to repay the loan.

Among other methods strict physical follow up and providing technical support are appropriate managing delinquent loans.

The bank provide training for majority of the customer on how to use the money they borrow from the bank, this enable the customer to gain profit on the business they engage in.

Regarding training, majority of the customers get training how to use loan before they borrow from the bank.

Among the factor which make customer un satisfied borrowers are; delay to provide loan and the time period to payback loan is not sufficient.

While extending loan for the perspective customers, the bank considers factors like. Amount of principal, interest rate and frequency of payment by borrowers.

Beside holding accountable loan officer, the bank exercise some measures to manage delinquent loans like, Delinquency fees pay to the no days late ,limiting access to repeat loans ,visiting the clients, sanction ,write off ,legal action and others.

5.2 Recommendation

In this study the researcher has attempted to come up with evidences which may serve as a tool to analyze the loan collection and disbursement management practice of Wegaen bank Bole branch .Based on evidence for weakness and other problems related to the bank, some recommendation need to be brought to the bank and its customer .So the researcher forwarded the following recommendation.

- The bank has to train its staff members to be more effective in its operation.
- The bank has to study the character if the borrower before the disbursement and sanction of loans.
- While using minimum capital requirement investment as criteria for extending loan, it better the bank should use effective mechanism to know the real amount of capital because the borrowers may not tell the correct amount of capital for tax purpose.
- To avoid problem in the valuation of collateral asset the bank it better should apply modern methods of collateral asset valuation and hires a competent independent and well qualified personnel.

- As the researcher identifies in the finding section, the first reason for non-performance of loan is poor credit appraisal system so the bank should do this hire experienced and skill full appraisal to reduce nonperformance of loan.
- The practice of physical follow up for managing delinquent loans is ranked last. So it better the bank should use strict physical follow up as the best methods to manage delinquent loans as it is reliable than others due to its physical contract.
- Lastly the bank has to finance all the sectors equally to be prominent in all sectors and in turn to increase its market share.

APPENDIX 1
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BANKING AND FINANCE

Dear responder,

The purpose of this questionnaire is design to collect data on loan collection and disbursement management practice in Wegagen bank Bole branch. All the information you provide will be kept confidential and will not be used for any other purpose except for the intended academic research.

Questionnaires for Employee

Part I: Personnel information

- 1) Age 18-25 25- 30 30- 45 45 – 50 above 50
- 2) Sex male Female
- 3) Marital status Married un married Widowed
- 4) Level of education
Certificate Diploma Degree
Masters Masters and above
5. What is your position in the organization?
Manager assistant manager Accountant Loan clerk
Loan officers other

Part II: General question

- 6) Do you study the character of the customers while giving a loan?
Yes No
- 7) If you choicer “yes to question # 7 how do you rank them?
- 8) What are the major types of collateral used in lend up?
Land Building Vehicle other
specify.....

9) How do you assess the business environment in which the customer operated in business extending loans?

Studying business environment Ask clients the no of year in business

10) Is there any customer selection or screening criteria of the credit policy of the bank?
Yes No

11) If your answer is "Yes" for question no 11 what are the criteria fulfilled by the prospective customer?

12) Does the bank have method of loan evaluation on borrowed funds?
Yes No don't know

13) If yes, for Questions#13 specify, if No, why not? Reason out.

—

14) Do you apply loan scheduling and work out historically good but current delinquent customer?

Yes No

15) What kind of rescheduling and loan work out option you officer to clients?

Extending the credit period Reddening additional loan clerical

Rejection of additional loan clerical If any other please specify.....

16) From the options which are you mostly use to manage delinquent loan?

Strict initial screaming Incentive for early payment

Penalties for late payments strict physical following

Providing technical support

APPENDEX 2
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BANKING AND FINANCE

The purpose of this questionnaire is design to collect data on loan collection and disbursement management practice in Wegagen bank Bole branch. All the information you provide will be kept confidential and will not be used for any other purpose except for the intended academic research.

Questioner for customer

Part I: Personnel information

1) Age 18-25 25- 30 30- 45 45 – 55 above 55

2) Sex male Female

3) Marital status Married un married

4) Level of education

Literate Primary education

Secondary education (9-10) Preparatory (11-12)

Technique and vocational Degree and above

5. Occupation

Tailor Construction Work Retailer other specify

Part two: General question

6. Does the bank collect its credit given to customers within the specified period?

Yes No

7. Do you set any training to use the loan?

Yes No

8. If yes, (Q) 7 when?

Before you get the loan

After you get the loan

9. If yes, (Q, 7) by what interval?

Once in month twice in month

Once in a year Once 6 month

10. Is the loan repayment period enough for paying the credit?

Yes No

11. Specify some problem of the bank you think are serious related to loan?

12. Are satisfied with the overall loan of the bank?

Yes No

13. If no why? _____

14. Is the bank encouraging you to extend as a loan customer?

Yes No

Interview for manager

The interview is designed to collect relevant information from manager for fulfillment of the requirement for bachelor degree in banking and finance.

1) What type of loans given by the bank?

2) What are the terms of loan?

3) What are the distributions of loan by type?

4) Does the bank follow specific procedure in evaluating collateral while distributing loan?

5) On what ground does the bank set a loan term?
