

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

***INSTITUTIONAL FACTORS AFFECTING LOAN
COLLECTION PERFORMANCE OF DEVELOPMENT
BANK OF ETHIOPIA: THE CASE OF ADDIS ABABA,
HEAD OFFICE***

BY: Kidist Terefe

ADVISOR: Sewale Abate (PhD)

**A THESIS SUBMITTED TO ADDIS ABABAUNIVERSITY COLLEGE
OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING
AND FINANCE IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE ATTAINMENT OF MSC DEGREE IN
ACCOUNTING AND FINANCE.**

July, 2021

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**BY
KIDIST TEREFE**

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARATION

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

Kidist Terefe

Name

Addis Ababa University, Addis Ababa

Signature

July 2021

ENDORSEMENT

This thesis has been submitted to Addis Ababa University College of Business and Economics Department of Accounting and Finance for examination with my approval as a university advisor.

Advisor

Signature

Addis Ababa University, Addis Ababa, July 2021

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ACKNOWLEDGEMENT

I give thanks to the Almighty God for granting me peace, knowledge and sanity of mind that has enabled me to undertake this research work. It is through His abundance grace that has brought this research work this far. Also I would like to thank my advisor, Sewale Abate (Dr), for his unreserved advice, guidance, and evaluation that has support me to complete this research paper. My thesis would not have been possible without his support.

ACRONYMS

DBE - Development Bank of Ethiopia

MDGs - Millennium Development Goals

MIS- Management Information System

NBE - National Bank of Ethiopia

NPF - Number of Project Follow-up

NPL - Nonperforming loan

UNDP - United Nations Development Program

ABSTRACT

This study assesses the institutional factors affecting loan collection performance of Development Bank of Ethiopia. The institutional factors are categorized as Staff-related Factors, Policy-related factors and Management Information System-related factors. The study employs Descriptive Research Design and applies quantitative research approach to analyze and interpret the findings. In addition to reviewing the annual report of the bank as a secondary data, 50 questionnaires were completed by respondents who are staff members in different departments. As a result, Development Bank of Ethiopia's loan collection performance has been assessed to have significantly higher loan default rates. Based on the findings of the study, the major institutional factors affecting loan collection Performance of Development Bank of Ethiopia are Poor credit scoring and poor valuation of collaterals, ineffective monitoring and controlling of debtors, policy ineffectiveness in creating improved loan collection, restricting loan concentration and favoring loan diversification, , inefficiency of Management Information System in making ease of administrative tasks, improving the Bank's loan collection performance, aiding operating efficiency, aiding controlling task of problem loans and lack of supervision schemes. It is recommended that Development Bank of Ethiopia should focus on upgrading its Management Information System so as to improve its loan collection performance. It is also suggested that DBE's Management Information System should include a problem loan management system.

Key Terms: Loan, Loan Collection, Loan collection performance

CHAPTER ONE INTRODUCTION

1.1 Background of the study

Financial institutions in developing countries provide financial services to aid several large scale projects. This is an effort in line with the poverty reduction strategy of Ethiopia that is becoming the Policy Related framework to translate the global MDGs (Millennium Development Goals) targets in to national action (UNDP, 2016).

The historical emphasis on controlling the quality of managing the loan performance continues to be essential, because effective loan portfolio management that begins with oversight of the risk in individual loans requires prudent risk selection to maintain favorable loan quality, (Sundarajan, 2007).

The sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on loan collectability. High level of loan collectability allows the institutions to lower the interest rates and processing costs and consequently increase patronage of loans. High level of loan collectability reduces the subsidy- dependence of the credit institutions to help them reach a better sustainability level. Repayment performance thus serves as a positive signal for increasing the volume of credit availability to various sectors of the economy. (UNDP, 2017)

In view of growing complexity of banks' business and the dynamic operating environment, risk management related to loan collection has become very significant, especially in the financial sector and controlling non-performance of loans is very critical for both the performance of an individual bank and the economy's financial environment, (Kenneth, 2013).

Despite the voluminous related studies conducted at national and international level, to the researcher's best knowledge, there is no prior studies thoroughly focused on institutional factors affecting loan collection performance of Development Bank of Ethiopia. Hence, the study aims to fill the gap in the literature by focusing on the factors affecting loan collection performance from the perspective of the institution.

1.2 Statement of the problem

Although credit operation of Development Bank Ethiopia has shown a dramatic increase in loan approval and disbursal there are non-performing loans, which resulted from clients' default, which in turn come about from lack of follow-up, market problems, environmental problems and Policy of the Bank, (Derege 2010).

According to Greuning and Iqbal (2007), some bank factors that relate to poor loan collection performance put in place by banks were to blame for loan defaults. The researchers stated that these banks factors include procedures used in credit risk assessment, negligence in monitoring loan defaults, insider loans, lack of trained personnel and unaggressive credit collection methods.

Naol (2017), indicated that Development Bank of Ethiopia (DBE) has frequently encountered delinquent loans due to challenges in the area of undertaking proper screening, disbursing loan at the right time, conducting proper follow-up, providing sufficient amount of loan as per the feasibility study of the project, and managing issues related to loan diversion and loan size. The researcher indicated that the major factors behind the challenges are the number of contact officers responsible for follow up and progress report, and quality of conducted feasibility before allocating loan to the clients.

Another study has identified institutional factors including non-supervision of loan, inadequate repayment period, ineffective mechanism to assist in loan utilization and repayment, poor monitoring on loan use for intended purpose and incompetency of management staff, (Stella, 2013).

Similarly, a study conducted on Financial Institutions in Ghana relates loan delinquency with institutional factors including lack of monitoring, high interest rate, inadequate loan sizes, improper loan appraisal and improper client selection, (Korankye, 2014).

Abay (2015), relates poor loan collection performance of DBE with the credit follow up support using inefficient technology on the other hand ridged credit police, complicated loan process, lack closed follow up, lack of loan advisory service before and after the loan.

Amha and Narayana (2000) stated that Ethiopian Micro Financial institutions face numerous challenges related to the microfinance industry's regulatory framework, limited support for micro and small business development, NGOs' activities of providing credit as a grant, and the lack of solid linkages between MFIs and commercial banks.

Institutional factors such as borrower training is lacking, there is a lack of monitoring and support, and micro finance institutions' high interest rates, unfavorable loan repayment schedules, loan size, loan capital shortages, employee and client training, lack of use of technology and cost-effective methods, human resource issues, loan capital issues, and a weak loan collection system all have varying degrees of impact on the microfinance institutions' performance. (Muluken and Mesfin, 2014)

1.3 Rationale of the Study

Low level of loan collection performance is one the major factors behind the collapse of many banks around the world, especially in least developed countries. There are a number of factors that can potentially affect loan collection performance of a bank. Most studies such as Jemal, (2003), Abraham, (2002) and Yodit, 2017) focus on customer related factors. Other studies such as (Muluken and Mesfin, 2014, Korankye, 2014), have assessed both customer related and institutional factors resulting delinquent loans, and lack of monitoring, high interest rate, inadequate loan sizes, improper loan appraisal and improper client selection, employee and client training, lack of use of technology and cost-effective methods, human resource issues, loan capital issues, and a weak loan collection system are amongst the problems identified.

Though some studies have been conducted on the factors affecting loan collection performance of Development Bank of Ethiopia, to the best of the researcher's knowledge, no prior study has primarily focused on institutional factors. Thus, it is an important research area that needs to be worked on. Therefore, this study investigates the factors affecting loan collection performance of Development Bank of Ethiopia from the institutional perspective.

1.4 Research Questions

1. What is the level of Loan Collection performance of DBE?
2. What are the major staff related factors which affect Loan Collection performance of DBE?
3. What are the major Policy related factors which affect Loan Collection performance of DBE?
4. What are the major MIS related factors which affect Loan Collection performance of DBE?

1.5 Research Objectives

1.5.1 General Objective

The general objective of the study is to assess the major institutional factors affecting loan collection performance of Development Bank of Ethiopia, the case of Addis Ababa Head office.

1.5.2 Specific objectives

The following specific objectives are set to meet the general objective of the study.

- To show the level of Loan Collection performance of DBE
- To identify the major staff related factors which affect Loan Collection performance of DBE
- To identify the major Policy related factors which affect Loan Collection performance of DBE
- To identify the major MIS related factors which affect Loan Collection performance of DBE

1.6 Significance of the study

This research is expected to fill the existing gap in literature and to help Development Bank of Ethiopia use the outcome of the research to improve upon their operations and loan collection performance.

The outcomes of the research are expected to help practitioners and scholars to understand the institutional factors affecting loan collection performance of Development Bank of Ethiopia. Furthermore, this research is expected to be a triggering point and a reference material for academic and business researches to be conducted in the future in the study area. The study is also significant to help identify the types of assistance that needed to be provided to curb such challenges so as to take specific measures to be taken to improve loan collection performance of Development Bank of Ethiopia.

1.7 Scope of the Study

Subject matter of the study delimited to the institutional factors affecting loan collection performance of Development Bank of Ethiopia. This is because it is identified from the review made on the empirical literature that a literature gap exists particularly in the institutional perspective. Geographically, the study delimited to the head office of Development Bank of Ethiopia in Addis Ababa. In addition to its geographical proximity and accessibility for data collection, the reason for delimiting the scope of the study only to the head office is due to the representativeness of DBE's head office data for all its branches in terms of service types it deliver, type of customers it serve, type of projects it provide its loan to, demographic composition of its employees relevant to the study. Consequently, the target population of the study is delimited to employees at the head office. The study used both primary and secondary data. The secondary data used in this study covers the last five years (2016/16-2019/20) due to its availability and representativeness to demonstrate loan collection performance of DBE.

1.8 Limitations of the Study

The study focuses only on the main institutional factors affecting loan collection performance of Development Bank of Ethiopia, specifically at the head office Addis Ababa. The complexity of the subject requires further dimensions to be considered. Thus, it is important to point out the uncovered areas which have significant relationship with the factors affecting loan collection performance of Development Bank of Ethiopia. For example, the government policy, environmental factors, demographic and other attributes of borrowers.

1.9 Definition of Terms

Borrower: borrower is the one who borrows money from the lender (Bank). (Armendáriz, 1999)

Credit: is defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. (Armendáriz, 1999)

Default: default is defined as liquidation, bankruptcy filing, loan loss or charge off, nonperforming loan, or loan delayed in payment obligation are used at many bank as proxies of loan default. (Armendáriz, 1999)

Lending: Lending is the provision of resources (granting loan) by one party to another party where the second party doesn't reimburse the first party immediately there by generating a debt and instead arranges either to repay or return those resources a later date. (Armendáriz, 1999)

Nonperforming loan (NPL): NPL is a loan in which the borrower is in default due to the fact that they have not made the scheduled payments for a specified period. Although the exact elements of nonperforming status can vary depending on the specific loan's terms, "no payment" is usually defined as zero payments of either principal or interest. The specified period also varies, depending on the industry and the type of loan. (Armendáriz, 1999)

1.10 Organization of the Study

The research report will be divided in to five chapters, chapter one will present introduction of the report which includes backgrounds of the study ,statement of the problem ,basic research question ,objective of the study ,significance of the study and scope of the study. Chapter two presents discussion on literature review. Chapter three outline the research methodology that will be adopted in the study. Subsequently, chapter four discusses the results and analysis of the findings to the study. Finally chapter five comes up with the concision, recommendations, and direction for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Financial Institutions

A financial institution is defined as “an institution that provides financial services for its clients or members. Any institution that collects money and puts it into assets such as stocks, bonds, bank deposits, or loans is considered a financial institution” (Nigam, 2011:27).

Financial institutions are one of the most important components of any country's financial system. They play a vital role in determining the effectiveness and efficiency of the financial system, and come in the importance of financial institutions in that they provide the economy services. They represent the vital infrastructure through which money flows from savings to investors in various economic fields (Mishkin, 2016:21).

2.1.2 The Purpose of Development Banks

It is stated in a book of Financial Management, that “development banks are established mainly for the purpose of promotion and development of the priority sectors in a country. Development banks are also called as financial institutions or statutory financial institutions or statutory non-banking institutions” (Paramasivan and Subramanian, 2011:38).

2.1.3 Development Bank of Ethiopia

Development bank of Ethiopia is state owned and specialized financial institution with the mandate of providing long, medium and short term loans to feasible and viable projects of commercial agriculture, agro processing and manufacturing sectors following government priority area.

Agricultural and Industrial Development Bank was the company's previous name until 1994, when it was renamed Development Bank of Ethiopia. Ethiopia's Development Bank was established in 1909 and is located in Addis Ababa. Since its establishment in 1909 E.C the bank has been playing a significant role in promoting overall economic development of the region in particular & the country in general.

The bank organizational set-up comprises supervisory authority, a management board, president, process managers(regional managers), branch manager, and the necessary staff pursuant to the public enterprise proclamation No. 25/1992.

In its long years of existence, the bank has established recognition at national and international levels. Nationally, it is the sole in long-term project financing, internationally, it is reignited as an important on – lending channel for development fund programs financed by bilateral and/ or multilateral sources. The recent focus of the government in relation to the bank is to provide financial assistance to projects, which are solely engaged in priority area, projects such us agro processing, manufacturing, commercial farming & export-oriented projects. With regard to this, the economic sub-sectors for which the loan able financial resource will be availed are leather and leather products, textile and garment, manufacturing industries, cotton farming, live animal export and meat processing industries as well as production of horticultural crops including flower and high valuable vegetable crops and other projects

exclusively targeted for foreign market. In line with this, the bank takes appropriate measure by way of revising its credit delivery mechanism. This includes among others the amendment of some of its existing credit policies and operational guidelines. (DBE, 2019)

2.1.4 The Role of Loan Collection in Financial Institutions

Loan Collection is an important service that helps to both maintain Borrowers and free up money for lending again. It is a strategic process that is the key to generating good habits and a payment culture among Borrowers. It can also be seen as a business activity whose primary objective is to generate returns for the institution, converting losses into income (Wittlinger et al., 2008:p.2).

Financial Institutions should view collections as an essential piece of the credit cycle, not just the final step. During the collections process, institutions receive feedback on policies and activities within each sub-process of the lending cycle: promotion, evaluation, approval, and disbursement (Wittlinger et al., 2008:p.4).

2.1.5 The Process of Loan Collection in Financial Institutions

“The collections process is defined as the set of coordinated, appropriate, and timely activities aimed at full collection of loans from Borrowers. The process is intended to convert the financial institution’s receivables into liquid assets as quickly and efficiently as possible, while at the same time maintaining the goodwill of the Borrower in case of future transactions” (Wittlinger et al., 2008:p.4) .

The authors also asserted that “the collections process requires significant interaction with the Borrower, beginning with a careful analysis of the Borrower’s situation and continuing through timely

and frequent contact over the duration of the loan. Borrowers should be offered payment alternatives that are timely and appropriate to each situation, and all collections activities should be recorded to facilitate continuous monitoring and follow-up as well as control of Borrower compliance with negotiated agreements” (Wittlinger et al., 2008:p.4).

According to the authors the typical collections activities include analysis of the particular case, contact with the borrower, assessment, suggesting an alternative, securing payment commitments, compliance with payment commitments, recording collections activities, follow-up on the case, intensification of collections activities, and defining a loss.

2.1.6 Credit Risk Management

It is stated in NBE’s risk management guideline that the “failure to collect loans granted to customers has been the major factor behind the collapse of many banks around the world. Banks need to manage credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Additionally, banks should be aware that credit risk does not exist in isolation from other risks, but is closely intertwined with those risks. Effective credit risk management is the process of managing an institution’s activities which create credit risk exposures, in a manner that significantly reduces the likelihood that such activities will impact negatively on a bank’s earnings and capital. Credit risk is not confined to a bank’s loan portfolio, but can also exist in its other assets and activities” (NBE, 2016:2).

2.1.7 Credit Analysis and Approval Process

National Bank of Ethiopia in its Risk Management Guideline prepared for Banks operating in Ethiopia states the following factors to be considered while granting a credit to borrowers:

-
- Purpose of the credit and sources of repayment;
 - Borrower's repayment history and current capacity to repay, based on historical financial trends and future cash flow projections under various scenarios;
 - Terms and conditions of the credit including covenants designed to limit changes in the future risk profile of the borrower;
 - Adequacy and enforceability of collateral or guarantees under various scenarios;
 - Current risk profile of the counterparty (including the nature and aggregate amounts of risk), and sensitivity to economic and market developments, especially for major exposures; and
 - Borrower's business expertise and management capability. (NBE, 2016:8)

2.1.8 Reasons for Loan Delinquency

The following Factors (Staff Related Factors, Policy Related Factors and Management Information System Related Factors) presented as identified by different authors based on two Hypotheses.

The bad luck hypothesis

The bad luck hypothesis predicts that external events increase non-performing loans in banks. This leads to the bank incurring greater operating costs to deal with these problem loans, which, in turn, hampers banking efficiency. These extra operating costs can result from various sources, including monitoring of delinquent borrowers and the value of collateral, as well as the costs of seizing and

disposing of collateral in cases of default. Consequently, under this hypothesis, we expect that an increased volume of non-performing loans causes reduced cost efficiency. (Podpiera and Weill, 2008)

The bad management hypothesis

The bad management hypothesis considers low efficiency as a signal of poor managerial performance, which also affects loan granting behavior. Indeed poor managers do not adequately monitor loan portfolio management, owing to poor loan evaluation skills or to inadequate allocation of resources to loan monitoring. This results in a greater volume of non-performing loans.

Therefore, this hypothesis predicts that reduced efficiency exerts a positive influence on non-performing loans. (Podpiera and Weill, 2008)

- **Staff Related Factors**

There is strong evidence in favor of the bad management hypothesis and propose that regulatory authorities in emerging economies should focus on managerial performance in order to enhance the stability of the financial system (by reducing nonperforming loans). This suggests that bank supervision and research should consider cost efficiency along with other traditional predictors of troubled banks such as loan losses and credit risk. (Louzis, Vouldis and Metaxas, 2012)

After the loans become past due or non-accruing, the bank begins to expend additional managerial effort and expense dealing with these problem loans. These extra operating costs include, but are not limited to:

- a) The additional monitoring of the delinquent borrowers and the value of their collateral
- b) The expense of analyzing and negotiating possible workout arrangements

-
- c) The costs of seizing, maintaining, and eventually disposing of collateral if default later occurs,
 - d) The additional costs of defending the bank's safety and soundness record to bank supervisors and market participants
 - e) Any additional precautions taken to preserve the high quality of loans that are currently performing, which becomes more crucial for a bank in a perilous financial situation, and
 - f) the diversion of senior management attention away from solving other operations problems. (Berger & DeYoung, 1997)

Low measured cost efficiency is a signal of poor senior management practices, which apply to both day-to-day operations and to managing the loan portfolio. Managers do not sufficiently monitor and control their operating expense, which is reflected in low measured cost efficiency almost immediately. Managers in these banks also do not practice adequate loan underwriting, monitoring, and control. As 'bad' managers, they may:

- a) Have poor skills in credit scoring and therefore choose a relatively high proportion of loans with low or negative net present values
- b) Be less than fully competent in appraising the value of collateral pledged against the loans
- c) Have difficulty monitoring and controlling the borrowers after loans are issued to assure that covenants are obeyed. (Berger & DeYoung, 1997).

- **Policy Related Factors**

The distinctive features of the banking sector and the policy choices of each particular bank with respect to their efforts for maximum efficiency and improvements in their risk management are

expected to exert a decisive influence on the evolution of NPLs. The argument is that a bank may attempt to convince the market about the profitability of its lending by adopting liberal credit policies and thus inflating current earnings at the expense of future problem loans. A bank may also use loan loss provisions in order to boost its current earnings.¹⁶ As a consequence, past earnings may be positively linked to future NPLs. (Louzis, Vouldis and Metaxas, 2012)

There is evidence that performance and inefficiency measures may serve as leading indicators of future problem loans. This suggests that the regulatory authorities could use these measures to detect banks with potential NPLs increases. Moreover, regulators should place greater emphasis on risk management systems and procedures followed by banks in order to avert future financial instability. (Ibid)

“A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments” (Richmond, 2020:10)

The identification of the key determinant of bank failures is a fundamental issue for the authorities in charge of supervising the banking industry, as the implications for economic policy strongly differ depending on its origin. Specifically, if non-performing loans influence cost efficiency, banking supervisors should limit banks' risk exposures by restricting loan concentration and favoring diversification. In contrast, an influence of cost efficiency on risk-taking would suggest that non-performing loans are caused internally. Therefore, banking regulators and supervisors should focus on enhancing cost efficiency through better education of bank managers and through increased foreign ownership, as this latter element has been shown to favor cost efficiency, primarily through the transfer of know-how. (Podpiera and Weill, 2008)

- **Management Information System Related Factors**

Information Asymmetry Theory argues that asymmetric information occurs when one party in a transactional relationship is more informed about the transaction than the other party. In the financial decision space, asymmetric information literature looks at the impact of decisions based on the difference in the information available to both parties (Mishkin, 1992).

There is a significant relationship between Management Information System used by a Bank and its loan collection performance. The possible explanation for this relationship is that customer default on interest and principal payments affects both the balance sheet and income statement. Customer failure to repay principal amounts decreases the asset base of banks, the principal amount is written off as expenses on income statement hence reduces bank profit. Similarly, customer failure to pay interest on loans as expected reduces bank income, which also decreases the level of profits to the bank. This finding supports information asymmetry theory and bad management hypothesis which argue that increase in NPL is a result of adverse selection, and is linked to management inability to control operating efficiency which in the long run lead to decrease in profitability. (Peter, 2018)

2.2 Empirical Literature

A study conducted on factors affecting loan repayment failure in commercial Banks shows that there is a significant relationship between Institutional factors and the loan repayment among customers of commercial banks. The study has find out institutional factors including inefficient and ineffective credit risk management, poor performance of credit information management and not applying rigorous

policies on loan advances. The study shows that “there is a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya. The study also concludes that there is a significant relationship between individual borrowers’ factors and the loan repayment among customers of commercial banks in Kenya. The study further concludes that there is a significant relationship between loan factors and the loan repayment among customers of commercial banks in Kenya. The study recommends that commercial banks need to have mandatory supervision borrowers on loan utilization and repayment. The study also suggests that banks should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, no or minimal insider lending, loan defaults are projected accordingly and relevant measures taken to minimize the same. The study further recommends that commercial banks should pool together and establish a credit information bureau to which reference can be made before a loan is disbursement. The study recommends that commercial banks should also apply rigorous policies on loan advances so as loans are awarded to those with ability to repay and mitigate moral hazards such as insider lending and information asymmetry”. (Kenneth, 2013: 63)

Another study has identified institutional factors including non-supervision of loan, inadequate repayment period, ineffective mechanism to assist in loan utilization and repayment, poor monitoring on loan use for intended purpose and incompetency of management staff, (Stella, 2013). Similarly, a study conducted on Financial Institutions in Ghana relates loan delinquency with institutional factors including lack of monitoring, high interest rate, inadequate loan sizes, improper loan appraisal and improper client selection, (Korankye, 2014).

A study conducted on loan recovery performance shows that “varies types of collateral that used to serve credit applicants, the credit follow up support with technology on the other hand ridged credit

police, complicated loan process, lack closed follow up, lack of loan advisory service before and after the loan and pure loan recovery performance were among the identified factors .The researcher recommends that the bank should provide Loan advisory service before and after the loan, diversified loan types and the Bank developed strong credit assessment and follow up to reduce the amount of NPL and the Bank should have to ensure that collateral is continues to be enforceable and realizable”. (Abay, 2015:45)

Another study conducted on similar topic indicates that “sufficient loan size and flexible loan repayment period were the most statistically significant determining factors affecting Successful loan repayment performance. During inflation amount of loan default is high and if banks couldn’t adjust repayment schedule during inflation the borrowers would unable to repay their loan efficiently and effectively and there might be loan default. Thus, if there is inflation, loan default may increase and borrower couldn’t pay their loan successfully. Therefore, inflation has statistically significant and negative association with loan repayment. The study suggested that sufficient and larger amount of loan would enhance the investors’ access to basic inputs and improved business management opportunities, which would lead to higher productivity, reduced per unit cost and increased income. Thus, lending institution should disburse sufficient amount of money equivalent to loan applied by the investors”. (Walelign, 2019:65)

A study conducted in Uganda revealed that “the inadequate relationship management to clients by responsible Bank staff had a significant positive relationship with loan repayment ($r=0.477$, $p<0.01$). An improvement in effective monitoring on the performance of UDBL borrowers by the credit staff would improve loan repayment by 22.7%. One of the suggested recommendations is that the Bank should build capacity in the loans department to manage the end-to-end process of the lending value

chain. That is right from application through to termination of the borrower's relationship. This would greatly mitigate unforeseen circumstances that occur during the tenure of the loan". (Alex, 2016:85)

Another study revealed that "Gender and suitability of repayment period were negatively related with credit repayment performance, whereas loan supervision, availability of other sources of income, household size, and adequacy of the loan were positively related with credit repayment performance. This study contributes significantly to the knowledge of microfinance program at large, where it explains that repayment performance plays an important role to ensure that MFIs (Micro Financial Institutions) can continue providing microfinance to the micro entrepreneurs without depending on subsidies". (Nigussie, 2016:51)

A study conducted on Development Bank of Ethiopia revealed that "the Bank's loan portfolio is also more vulnerable to various types of risks, such as to unpredictable risk, predictable, and controllable risks. The bank's NPL ratio was above 15% for the last five years. The regression result also showed that sound credit granting process and the existence of comprehensive risk management system and standards are the significant variables that affect loan portfolio quality of the Bank. Credit risk management practice of the bank has insignificant effect on loan portfolio quality. Both in terms of Non-performing loan and concentration, DBE has poor loan portfolio quality which is due to the bank's poor credit risk management practice. Therefore, there is a need to improve and enhance credit risk management practice of the Bank, especially, by improving the credit granting process to have sound credit risk management, and by updating credit risk management system and standards so as to have strong credit management". (Kebede, 2020:48)

A study finding showed significantly that "proper management of loans given to clients will yield more profits for the firms. Also there was a significant relationship between the problem of recovery and

overdue of loans and profitability. The relationship between deficient analysis of project viability and profitability was also positive. Lastly, there was a significant relationship between the problem of recovery and overdue of loans and deficient analysis of project viability”. (Evans et.al, 2014:8)

2.2.1 Summary of Empirical Literature

Though most studies focused on customer related factors, some has identified significant institutional factors that affect loan collection performance. The identified factors in the empirical literature review include poor performance of credit information management, not applying rigorous policies on loan advances, poor monitoring on loan use for intended purpose and incompetency of management staff.

2.3 Research Gap

Based on the empirical literatures reviewed most of the studies that have been conducted on the factors affecting loan collection performance of Development Bank of Ethiopia, focused on customer related factors. Both theoretical literature and empirical evidences from other countries shows that loan collection performance could also be affected by institutional factors including staff-related, Policy-related and management information system related factors. This indicates that further studies should be conducted to fill this gap in literature.

2.4 Conceptual Framework

In order to meet the research objectives the following conceptual framework is designed based on the literatures reviewed and the objective of the study.

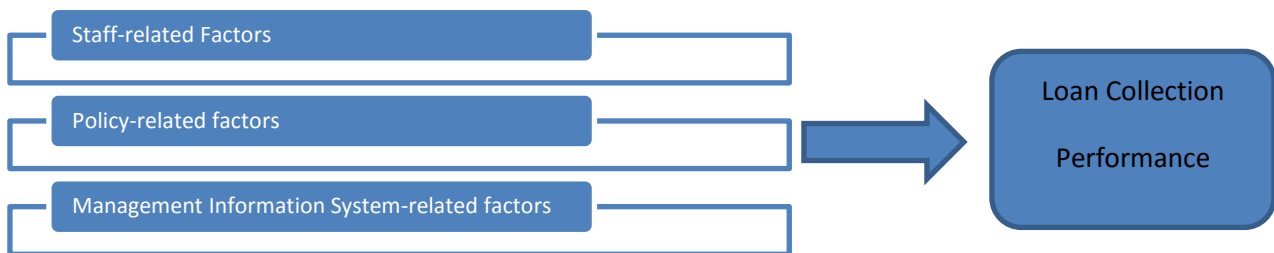


Figure1: Conceptual Framework

Variables;

- Staff-related Factors
- Policy-related factors
- Management Information System-related factors

Source: Developed by the Researcher for the Study

CHAPTER THREE

METHODOLOGY

3.1 Research Design

Research is a process of steps used to gather and evaluate information in order to increase understanding on an essential topic. It consists of three steps, namely posing a question, collecting data to answer the question, and presenting an answer to the question (Creswell, 2007).

This study has adopted descriptive research design. Descriptive research design focuses on describing the characteristics of a certain individual or group, such as their age, gender, and educational level, as well as assessing the answer on respondent agreement state on factors impacting the target variable. Furthermore, descriptive studies can yield rich data that lead to important recommendations.

Therefore, this design is selected to assess the factors affecting loan collection performance of Development Bank of Ethiopia, especially in the case of Addis Ababa Head Office.

3.2 Research Approach

The study applies quantitative research approach to analyze and interpret the findings. Quantitative research approach is described “as the explaining of an issue or phenomenon through gathering data in numerical form and analyzing with the aid of mathematical methods; in particular statistics” (Aliaga and Gunderson, 2002:3).

3.3 Population and Sample

3.3.1 Population

The population for the study is current employees of Development Bank of Ethiopia. There are a total of 105 employees in the following departments:

Table 1 population for the study

Department	Management Directorate	Project Appraisal	Project Follow up	Compliance and Risk MGT	Project Rehabilitation	Total
Number of Employees	11	17	38	20	18	105
Number of Managerial Staff	11	4	10	5	6	36

Source: DBE, 2021

3.3.2 Sampling Method

The researcher used simple random sampling formula to determine the sample size. Thus, the researcher used simple random sampling formula to determine the minimal sample size of a population

size:-
$$n = \frac{N}{1+N(e)^2}$$

Where: n = sample size,

N = population size and

e = the level of error. In this research a degree of variability (i.e. proportion) and a confidence level of 95%.

Therefore;
$$N = \frac{105}{1+105(0.05)^2} = 50$$

Thus, out of 105 staff members 50 respondents are selected using simple random sampling method. In addition, the final respondents are selected using convenience and proportional sampling method to each department.

3.4 Data Source and Type

The research is conducted using both Primary data and secondary data sources to retrieve the findings and analyze the problem at hand. The primary data for the study is collected from employees of the Bank using structured questionnaire. The secondary data used in this study is gathered from the banks different Policy Related and financial report documents.

3.5 Data Collection Procedures

The necessary data for the research is gathered by structured questionnaire. The questionnaire, developed to this study is a five point likert scale questionnaire and developed based on the literatures reviewed. The questionnaire, developed to this study has passed through pilot-testing. The researcher had received permission letter from the University before finding respondents and gather the necessary data.

3.6 Ethical Consideration

The ethical issues to be considered in the study include worthiness, consent, and confidentiality. To ensure informed consent, respondents and all those who had participated in the study have been provided with all the relevant information about the study in order to ensure that they understand the nature of the study, objectives of the research and the benefits to the researcher.

3.7 Reliability Statistics

Reliability is concerned with the question of whether or not a result is stable (Bryman and Bell, 2007). The idea of reliability is important for measuring. In order to improve the reliability of questionnaires, Cronbach's alpha were tested the reliability. It is commonly used measure of internal consistency reliability. "The Cronbach's Alpha provides a coefficient of inter-item correlations that is the correlation of each item with the sum of all the other items." (Cohen, Manion, and Morrison, 2007, p.506).

Cronbach's Alpha quantified this reliability by proposing a coefficient which theoretically ranges from 0 to 1. If alpha (α) is near 0 then the quantified answers are no reliable, and if alpha (α) is close to 1 the answers are very reliable. The general rule of thumb is that a Cronbach's alpha of .70 and above is good, 0.80 and above is better and 0.90 and above is best. Hence, the reliability of the instruments used to collect primary data is determined as indicated in table below:

Table 2: Reliability Statistics

Variables	Cronbach's Alpha	No. of Items
Staff Related Factors	0.8135	10
Policy Related Factors	0.8116	10
MIS Related Factors	0.7832	10
Overall reliability	0.802	30

3.8 Data Analysis

Completed questionnaires were repeatedly checked for completeness, accuracy, uniformity and comprehensiveness. Descriptive data analysis and interpretation is made with the help of SPSS (Version, 20). The analyzed data is presented in the form of descriptive tabulations, percentages and frequencies after a comprehensive analysis of statistics generated to determine the responses for each item under the three variables. Descriptive Statistics involves organizing, tabulating, depicting, and describing the collected data. Descriptive statistics are very important in reducing the data to manageable form. When in-depth, narrative descriptions of small numbers of cases are involved, the research uses description as a tool to organize data into patterns that emerge during analysis. (Glass & Hopkins, 1984).

The results of data analysis are discussed in line with the research objectives to help answer the research questions.

3.9 Measurement of Variables

Remises Likert's scale statement with five category response continuums of Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree was used to measure the variables under research (Staff Related factors, Policy Related factors and MIS Related factors) in the quantitative approach of data gathering. Using this method, each respondent would choose the response that best describes each statement. To score the items and form conclusions, the response categories were weighed from 1 to 5 and averaged for all of them. In addition, Development Bank of Ethiopia's loan collection performance has been assessed using delinquency rate formula which is dividing the number of loans that are delinquent by the total number of loans that an institution holds.

CHAPTER 4

RESULTS AND DISCUSSION

This chapter presents the data analysis and interpretation based the collected data. Data analysis and interpretation is made on the demographic characteristics of respondents and descriptive analysis on variables of the study based on respondents' responses to the questionnaire.

4.1 General Information of Respondents

Demographic characteristics explored in the study include the respondents' Gender, Age, Educational Background, Department, and Status in the Department and Years of Work Experience.

4.1 General Information of Respondents

Table 3: General Information of Respondents

S/N	Characteristics		Frequency	Percent
1	Gender	Male	30	60
		Female	20	40
		Total	50	100.0
2	Age	Below 25	5	10
		25-40	21	42
		41-55	18	30
		Above 55	6	6.3
		Total	50	100.0
3	Educational Background	Diploma	-	0
		Degree	36	72
		MA/MSC Degree	14	28
		PHD	-	-
		Total	50	100
4	Department	Management Directorate	8	16
		Project Appraisal Project	9	18
		Follow up	22	44
		Compliance and Risk MGT	7	14
		Project Rehabilitation	4	8
		Total	50	100.0
5	Status in the Department	Staff Member	31	62
		Managerial Staff Member	19	38
		Total	50	100.0
6	Years of Work experience	Under 5	18	36
		5-10	15	30
		11-20	10	20
		Above 20	7	14
		Total	50	100.0

Source; Questionnaire results

The above table shows that 60% of the respondents are male and 40% of the respondents are female, indicating proportional gender composition and confirmation on participation of both gender categories in this survey.

The collected data shows that 72% of the respondents have BA/BSC Degree and 28% have a MA/MSC Degree, signifying that the respondents are well educated. Besides, according to the demographic statistics of the respondents, 30% have 5-10 years of work experience, 20% have 11-20 years, and 14% have more than 20 years. The majority of the responders (64%) have more than five years of work experience. This demonstrates that the most responders have worked in this industry for a long time and so have significant credit related work experience. This also suggests that the information biases are reduced in this survey.

Based on the data obtained, 16% of respondents work in the Management Directorate, 18% in Project Appraisal, 44% in Project Follow up, 14% in Compliance and Risk MGT and 8% in Project Rehabilitation department. This is a confirmation that the survey data is collected from respondents working in all of the deferent departments directly related to the subject matter being investigated.

In addition, 62% of the respondents are staff member and 38% and managerial staff members. This shows that the personnel in both managerial and non-managerial job positions from each department are included as respondents in this survey.

In general, these demographic statistic findings imply that the study could obtain pertinent information which can lead correct conclusion.

4.2 Loan collection performance of Development Bank of Ethiopia

Table 4: Loan collection performance of Development Bank of Ethiopia

Purpose	Percentage of (Delinquent & Unrecovered) Uncollected Loans				
	2015/16	2016/17	2017/18	2018/19	2019/20
Working Capital	5.20	3.90	7.80	47.30	36.80
Construction	5.00	3.90	1.30	58.80	32.00
Machinery and equipment	1.30	6.50	5.20	70.80	16.50
Vehicles	15.00	2.60	17.50	55.60	11.30
Irrigation and Plantation	20.00	9.10	10.40	40.80	20.70

Source: DBE

The above table shows the loan collection performance of development bank of Ethiopia on the loans granted for the purposes of Working Capital, Construction, Machinery and equipment, Vehicles, Irrigation and Plantation in the last five years.

“Delinquency rate refers to the percentage of loans within a financial institution's loan portfolio whose payments are delinquent. When analyzing loans, the delinquency rate is an important metric to follow; it is easy to find comprehensive statistics on the delinquencies of all types of loans. Typically, a lender will not report a loan as being delinquent until the borrower has missed two consecutive payments. If late payments persist, then each payment term that the borrower is late; the lender may continue

reporting the delinquency. Delinquency Rate is calculated by dividing the number of loans that are delinquent by the total number of loans that an institution holds”. (Kegan, 2020: 2)

According to the data gathered 9.3% of loans in 2015/16 fiscal year, 5.2% of loans in 2016/17 fiscal year, 8.4% of loans in 2017/18 fiscal year, 54.6% of loans in 2018/19 fiscal year and 23.45% of loans in 2019/20 fiscal year have gone unpaid. The loans are currently non-performing loans. The bank did not collect 32.93 % of loans it granted in the last five years.

As a result of unpaid and unrecovered loans, the bank has suffered losses in the last five years. Thus, loan collection performance of Development Bank of Ethiopia is determined to have a much higher loan default rates.

4.3 Institutional Factors

4.3.1 Staff Related Factors

Table 5: Staff Related Factors

#	Statements	SD	D	N	A	SA
1	DBE staff's credit-scoring undertakings have positively impacted loan collection performance.	16.0	26.0	44.0	16.0	-
2	Following the occurrence of problem loans, DBE's staff always responds in ways that improve loan collection performance.	-	40	20.0	46.0	30.0
3	DBE's loan collection performance is improved as a result of expert valuation of collateral supplied by borrowers prior to loan approval.	26.0	30.0	40.0	4.0	-
4	The staff is well-versed in negotiating with delinquent borrowers to come up with the best alternatives in order to improve loan collection performance.	-	4.0	26.0	64.0	6.0
5	The effectiveness of the follow-up service for debtors after their loans were approved improved loan collection performance.	10.0	50.0	34.0	6.0	-
6	The staff is effective in monitoring debtors once loans are granted, resulted in improved loan collection performance.	32.0	28.0	38.0	2.0	-
7	Once loans are granted, the staff is capable of controlling debtors, resulting in increased loan collection performance.	22.0	28.0	22.0	20.0	8.0
8	DBE follows best management practice that enhances its Loan collection performance.	18.0	40.0	32.0	8.0	2.0
9	DBE's management puts enough effort to transfer knowledge from other banks in order to improve loan collection performance.	-	6.0	58.0	28.0	8.0
10	Staff-related factors are rarely the source of non-performing loans.	28.0	24.0	46.0	2.0	-

Source; Questionnaire results

16% of the respondents strongly disagreed and 26% disagreed that DBE's loan collection performance is positively impacted its credit-scoring activities. This indicates that credit scoring is poorly implemented in DBE. Poor credit scoring allows granting of borrowers with lower ability of repayment, which hinders loan collection process. This is one of the reasons behind low level of loan collection performance.

10% of the respondents strongly disagreed and 50% disagreed that the effectiveness of the follow-up service for debtors improved loan collection performance. This indicates that DBE provides ineffective follow-up service after loans are granted. Ineffective debtor follow-up stymies the loan collection process and lowers its performance. This is also one of the causes of poor loan collection performance.

18% of the respondents strongly disagreed and 40% disagreed that DBE follows best management practice that enhances its Loan collection performance. Loan collection performance would be ineffective unless best management practices were followed. Yet, the result demonstrates that DBE's management is not doing its best to improve its loan collection performance.

26% of the respondents strongly disagreed and 30% disagreed that DBE's loan collection performance is improved as a result of expert valuation of collateral supplied by borrowers prior to loan approval. This indicates that DBE poorly values collaterals. Poor valuation of collaterals makes it difficult for DBE to deal with problem loans as they occur. This is one of the factors bringing low level of loan collection performance.

32% of the respondents strongly disagreed and 28% disagreed that the staff is ineffective in monitoring debtors once loans are granted, resulted in improved loan collection performance. This implies borrowers are not well monitored by DBE after loans are granted. Ineffective monitoring of debtors

hinders the loan collection process and lowers its performance. This is also one of the reasons behind low level of loan collection performance.

28% of the respondents strongly disagreed and 22% disagreed that the staff is capable of controlling debtors, resulting in increased loan collection performance. Incapability of the staff in controlling debtors is also another factor of boosting the number of delinquent loans and lowering loan collection performance of DBE.

28% of the respondents strongly disagreed and 24% disagreed that Staff-related factors are rarely the source of non-performing loans. This implies that Staff-related factors are potential causes of non-performing loans in DBE.

4.3.2 Policy Related Factors

Table 6: Policy Related Factors

#	Statements	SD	D	N	A	SA
1	DBE's effective policy in managing risks enhanced loan collection performance	26.0	50.0	16.0	4.0.0	4.0
2	The policy choices of DBE is helpful to enhance loan collection performance	22.0	38.0	30.0	6.0	4.0
3	Loan collection performance is improved by loan loss provisions for reimbursement of payments linked to uncollected loans.	10.0	6.0	18.0	36.0	30.0
4	DBE's policy has taken into account the relationship between problem loans and cost efficiency, resulting in high level of loan collection performance	8.0	12.0	30.0	32.0	18.0
5	DBE's policy contributes to the bank's financial stability by improving loan collection performance.	8.0	42.0	36.0	14.0	-
6	DBE's policy makes it easier to deal with problem loans, resulting in better loan collection performance.	-	4.0	22.0	56.0	18.0
7	DBE's policy choices are helpful in lowering banks' risk exposures, which could result in poor loan collection performance.	30.0	38.0	12.0	12.0	8.0
8	Loan collection performance has improved as a result of DBE's policy restricting loan concentration.	26.0	14.0	56.0	26.0	4.0
9	Loan collection performance has improved as a result of DBE's policy favoring loan diversification	12.0	36.0	48.0	4.0	-
10	Policy-related factors are rarely the source of non-performing loans.	6.0	44.0	38.0	10.0	2.0

Source; Questionnaire results

26% of the respondents strongly disagreed and 50% disagreed that DBE's effective policy in managing risks enhanced loan collection performance. This is an assertion that DBE's policy is ineffective in managing risks. Loan collection performance could not be enhanced without effective risk management system.

The respondents indicated their inferences with 22% strong disagreement and 38% disagreement that the policy choices of DBE are not helpful to enhance loan collection performance. This is another assertion that DBE's policy is not tuned towards enhancing loan collection performance.

8% of the respondents strongly disagreed and 42% disagreed that DBE's policy contributes to the bank's financial stability by improving loan collection performance. This implies that DBE's policy is not effective in creating improved loan collection, resulting in financial instability.

The respondents indicated their inferences with 30% strong disagreement and 38% disagreement that DBE's policy choices are not helpful in lowering banks' risk exposures, which could result in poor loan collection performance. This implies that DBE's Policies have created risk exposures, and thus, negatively impacted its loan collection performance.

26% of the respondents strongly disagreed and 14% disagreed that Loan collection performance has improved as a result of DBE's policy restricting loan concentration. This shows that DBE's policy is not shaped towards restricting loan concentration. Loan concentration creates high number of delinquent loans. Thus, this is one of the factors hindering its loan collection.

36% of the respondents strongly disagreed and 12% disagreed that Loan collection performance has improved as a result of DBE's policy favoring loan diversification. This shows that DBE's policy is not

in full favor of loan diversification. Delinquent loans could occur as a result of poor implementation of Loan diversification. Thus, this is another factor hindering its loan collection.

6% of the respondents strongly disagreed and 44% disagreed that Policy-related factors are rarely the source of non-performing loans. This implies that Policy-related factors are also potential causes of non-performing loans in DBE.

4.3.3 MIS Related Factors

Table 7: MIS Related Factors

#	Statements	SD	D	N	A	SA
1	The Management Information System deployed by DBE has increased loan collection performance by keeping all clients informed about their bank transactions.	6.0	22.0	24.0	42.0	6.0
2	The Management Information System deployed by DBE has increased loan collection performance by keeping all employees informed about the Bank's transactional connection with its clients.	4.0	34.0	22.0	32.0	8.0
3	DBE's Management Information System is efficient in terms of improving the Bank's loan collection performance	26.0	34.0	34.0	6.0	-
4	DBE's Management Information System is helpful to create operating efficiency in the Bank resulting in high level of loan collection performance	42.0	30.0	26.0	2.0	-
5	DBE's Management Information System aids in the control of problem loans, resulting in high loan collection performance.	10.0	46.0	42.0	2.0	-
6	DBE's Management Information System aids in the provision of follow-up services to customers and projects, resulting in good loan collection performance.	6.0	2.0	56.0	22.0	14.0
7	DBE's Management Information System has improved the Bank's organizational structure, resulting in a high degree of loan collection performance.	6.0	34.0	18.0	30.0	12.0
8	DBE's Management Information System includes a problem loan management system that results in high loan collection performance.	18.0	32.0	26.0	24.0	-
9	DBE's Management Information System has simplified the decision-making process, resulting in increased loan collection performance.	10.0	42.0	34.0	10.0	4.0
10	Non-performing loans are rarely caused due to factors related with Management Information System	8.0	58.0	22.0	8.0	4.0

Source; Questionnaire results

26% of the respondents strongly disagreed and 34% disagreed that DBE's Management Information System is efficient in terms of improving the Bank's loan collection performance. Efficient Management Information System improves a Bank's loan collection performance. Yet, inefficient Management Information System is being applied in DBE.

42% of the respondents strongly disagreed and 30% disagreed that DBE's Management Information System is helpful to create operating efficiency in the Bank resulting in high level of loan collection performance. Management Information Systems are intended to create operating efficiency. But the results indicate DBE's Management Information System is not well tuned to bring operating efficiency in the Bank so as to grow the level of loan collection performance.

10% of the respondents strongly disagreed and 46% disagreed that DBE's Management Information System aids in the control of problem loans, resulting in high loan collection performance. This is an indication that DBE is not well served by its Management Information System in controlling of problem loans. Uncontrolled problem loans are one of the major factors behind low level of loan collection performance.

A Management Information System which comprises delinquent loan supervision scheme is helpful in improving loan collection performance. Yet, 18% of the respondents strongly disagreed and 32% disagreed that DBE's Management Information System includes a problem loan management system that results in high loan collection performance. This is also another factor hindering the bank's loan collection.

10% of the respondents strongly disagreed and 42% disagreed that DBE's Management Information System has simplified the decision-making process, resulting in increased loan collection performance. One of the major uses of Management Information Systems are simplifying decision-making process. Yet, the results indicate DBE's Management Information System is inefficient in making ease of administrative tasks.

8% of the respondents strongly disagreed and 58% disagreed that Non-performing loans are rarely caused due to factors related with Management Information System. This implies that MIS-related factors are one of the major causes of non-performing loans in DBE.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The overall research objective is to assess the institutional factors that influence the Development Bank of Ethiopia's loan collection performance, specifically in the Addis Ababa Head Office. The variables explored and considered for analysis in terms of loan collection performance are staff related factors, policy related factors, and MIS related factors. The following conclusions are drawn from the data collected and analyzed in the report.

5.1.1 Loan Collection performance of Development Bank of Ethiopia

Based on the analyzed data, DBE did not collect 32.93 % of loans it granted in the last five years. Currently, the loans are non-performing. Thus, it is contingent that the bank has sustained losses in the last five years as a result of unpaid and unrecovered loans. As a result, the Development Bank of Ethiopia's loan collection performance has been assessed to have significantly higher loan default rates.

5.1.2 The Major staff related factors affecting loan collection Performance of Development Bank of Ethiopia

Based on the findings of the study, the Major staff related factors affecting loan collection Performance of Development Bank of Ethiopia are poor management practices, Poor credit scoring and poor valuation of collaterals before granting loans and ineffective follow-up service, monitoring of debtors and inefficient controlling debtors after granting loans to borrowers.

5.1.3 The Major Policy Related Factors affecting loan collection performance of Development Bank of Ethiopia

Based on the findings, Poor risk management system, poor policy choices the policy's ineffectiveness in creating improved loan collection, restricting loan concentration and favoring loan diversification are identified as the Major Policy Related Factors affecting loan collection performance of Development Bank of Ethiopia.

5.1.4 The Major MIS Related Factors affecting loan collection Performance of Development Bank of Ethiopia

Based on the findings, inefficiency of Management Information System in making ease of administrative tasks, improving the Bank's loan collection performance, aiding operating efficiency, aiding controlling task of problem loans and lack of supervision schemes are identified as the major MIS related factors affecting loan collection performance of Development Bank of Ethiopia.

5.2 Recommendations

- Credit scoring is poorly implemented in Development Bank of Ethiopia. As poor credit scoring allows granting of borrowers with lower ability of repayment, loan collection process is being hindered. In addition, DBE poorly values collaterals. As poor valuation of collaterals makes it difficult for DBE to deal with problem loans as they occur, it is one of the factors bringing low level of loan collection performance. Thus, the management of Development bank of Ethiopia should make its staff capable of undertaking tasks related to credit scoring and poor valuation of collaterals.
- Furthermore, borrowers are not getting finest follow up, monitoring and controlling services by DBE after loans are granted. Ineffective monitoring and controlling of debtors is hindering the

loan collection process and lowering its performance. Thus, the management of Development bank of Ethiopia should make its staff capable of monitoring and controlling of debtors.

- DBE's policy choices are poor and ineffective in creating improved loan collection, resulting in high risk exposure and financial instability. In addition, it is not shaped towards restricting loan concentration, creating high number of delinquent loans. In addition, delinquent loans are occurred as a result of poor implementation of Loan diversification. Thus, the management of Development bank of Ethiopia should review its policies to be effective in creating improved loan collection, restricting loan concentration and favoring loan diversification.
- Efficient Management Information System improves a Bank's loan collection performance. Yet, ineffective Management Information System is being applied in DBE. Management Information Systems are intended to create operating efficiency. But the results indicate DBE's Management Information System is not well tuned to bring operating efficiency in the Bank so as to grow the level of loan collection performance. In addition, DBE is not well served by its Management Information System in controlling of problem loans. Uncontrolled problem loans are one of the major factors behind low level of loan collection performance. It is suggested that DBE's Management Information System should be redeveloped in a way which address these problems.
- A Management Information System which comprises delinquent loan supervision scheme is helpful in improving loan collection performance. But, DBE's Management Information System does not include a problem loan management system. Thus, it is suggested that DBE's Management Information System should include a problem loan management system.

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Questionnaire

Dear Respondent,

I am a student of Addis Ababa University. I am conducting this research in partial fulfillment of MSC Degree in Accounting and Finance. This research is being conducted on the institutional factors affecting loan collection performance of Development Bank of Ethiopia: the case of Addis Ababa, head office. I am thankful for your cooperation in filling this questionnaire. And I would like to assure you that all the responses you provide through this questionnaire will remain confidential at all times and will only be used for academic purposes.

Section 1: General Information

Guideline: (√) Thick on the box under the option you select

General Information					
Age	Under 25	25-40	41-55	Above 55	
Gender	Male		Female		
Educational Background	Diploma	Degree	MA/MSc	PHD	
Department	Management Directorate	Project Appraisal	Project Follow up	Compliance and Risk MGT	Project Rehabilitation
Status in the Department	Staff Member			Managerial Staff Member	
Years of Experience	Under 5	5-10	11-20	Above 20	

General Guideline: (√) Thick on the box under the option you select

SD- Strongly disagree **D-** Disagree **N-** Neutral **A-** Agree **SA-** Strongly Agree

Section 2: Staff-related Factors

#	Statements	SD	D	N	A	SA
1	DBE staff's credit-scoring undertakings have positively impacted loan collection performance.					
2	Following the occurrence of problem loans, DBE's staff always responds in ways that improve loan collection performance.					
3	DBE's loan collection performance is improved as a result of expert valuation of collateral supplied by borrowers prior to loan approval.					
4	The staff is well-versed in negotiating with delinquent borrowers to come up with the best alternatives in order to improve loan collection performance.					
5	The effectiveness of the follow-up service for debtors after their loans were approved improved loan collection performance.					
6	The staff is effective in monitoring debtors once loans are granted, resulted in improved loan collection performance.					
7	Once loans are granted, the staff is capable of controlling debtors, resulting in increased loan collection performance.					
8	DBE follows best management practice that enhances its Loan collection performance.					
9	DBE's management puts enough effort to transfer knowledge from other banks in order to improve loan collection performance.					
10	Staff-related factors are rarely the source of non-performing loans.					

Section 3: Policy-related factors

#	Statements	SD	D	N	A	SA
1	DBE's effective policy in managing risks enhanced loan collection performance					
2	The policy choices of DBE is helpful to enhance loan collection performance					
3	Loan collection performance is improved by loan loss provisions for reimbursement of payments linked to uncollected loans.					
4	DBE's policy has taken into account the relationship between problem loans and cost efficiency, resulting in high level of loan collection performance					
	DBE's policy contributes to the bank's financial stability by improving loan collection performance.					
5	DBE's policy makes it easier to deal with problem loans, resulting in better loan collection performance.					
6	DBE's policy choices are helpful in lowering banks' risk exposures, which could result in poor loan collection performance.					
7	Loan collection performance has improved as a result of DBE's policy restricting loan concentration.					
8	Loan collection performance has improved as a result of DBE's policy favoring loan diversification					
8	Loan collection performance has improved as a result of DBE's policy favoring loan diversification					
9	Policy-related factors are rarely the source of non-performing loans.					
10	DBE's effective policy in managing risks enhanced loan collection performance					

Section 4: Management Information System-related factors

#	Statements	SD	D	N	A	SA
1	The Management Information System deployed by DBE has increased loan collection performance by keeping all clients informed about their bank transactions.					
2	The Management Information System deployed by DBE has increased loan collection performance by keeping all employees informed about the Bank's transactional connection with its clients.					
3	DBE's Management Information System is efficient in terms of improving the Bank's loan collection performance					
4	DBE's Management Information System is helpful to create operating efficiency in the Bank resulting in high level of loan collection performance					
5	DBE's Management Information System aids in the control of problem loans, resulting in high loan collection performance.					
6	DBE's Management Information System aids in the provision of follow-up services to customers and projects, resulting in good loan collection performance.					
7	DBE's Management Information System has improved the Bank's organizational structure, resulting in a high degree of loan collection performance.					
8	DBE's Management Information System includes a problem loan management system that results in high loan collection performance.					
9	DBE's Management Information System has simplified the decision-making process, resulting in increased loan collection performance.					
10	Non-performing loans are rarely caused due to factors related with Management Information System					

