



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

AN ASSESSMENT ON CREDIT MANAGEMENT PRACTICES OF
COMMERCIAL BANKS IN ETHIOPIA:

/THE CASE OF SIX SELECTED PRIVATE COMMERCIAL BANKS/

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTER IN ACCOUNTING AND
FINANCE.

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DEDICATION

This thesis work is dedicated to my mother, Azmera Girmay, who laid down a great foundation in my life that has kept me to be strong and focused to date.

DECLARATION

I hereby declare that the work reported on this thesis entitled as “*Assessment Credit Management Practices of Private Commercial banks*” (In the case of six private commercial banks) submitted to the College of Business and Economics, Addis Ababa University, is my original work done in the form of a partial fulfillment of the requirement for the Master of Science in Accounting and Finance under the supervision of Dr. Abebaw Kassie (Assistant Professor) in AAU, CBE campus.


.....
Kahsu Hluf


.....
Date

ENDORSEMENT

This is to certify that this research paper prepared by Kahsu Hluf entitled as “*Credit Management Practices in Private Commercial Banks of Ethiopia*” which is submitted as a partial fulfillment of the requirement of Master of Science (MSc) in Accounting and Finance is done under the rules and regulations of the University which meets the accepted standards in terms of originality and quality.

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ABBREVIATIONS AND ACRONMYS

AAU—Addis Ababa University

CBE—College of Business and Economics

CRB---Credit Reference Bureau

FI_s--- Financial Institutions

NIB--- Nib International Bank

SPSS---Statistical Package for Social Science Students

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ABSTRACT

Now days, the need to take credit to do a business is getting increased. This is so because entrepreneurs and business men have good business ideas but do not have initial capital to make their business in to practice. Whenever lenders (banks) decide to grant a credit, they need to have credit management and method of collecting it. This research work, therefore, dealt with the `Credit Management practices` of selected commercial banks. The general objective is, then, to assess the banks` credit management practices and method of collections by taking 2023 as a reference year. The research design of this paper work is descriptive. The sampling technique that the researcher used is that of non-probability using convenience and purposive sampling. Both qualitative and quantitative approaches were used. The data gathered from the field and document analysis were tabulated, organized and systematically demonstrated in the form of tables and graphs. The major research findings of this research work revealed that the overall mean score value of credit appraisal variable was very satisfactory that is most respondents strongly agree to the existing credit appraisal. Besides, the overall mean score value related to the variable collection policy and its strategy was satisfactory that is most respondents agree to the existing credit collection policy. Further, the overall mean score value of the variable credit lending policy and related strategies showed average level of satisfaction. The criteria to get a credit need to have either buildings or vehicles, with which the lower society could not afford. Thus, the researcher recommends original educational documents to be considered as collateral to get a loan. This piece of work could also open a way for further research works treating the topic in a very wide way by considering the views of credit customers.

Key words/phrases: Advance, Credit, Client Appraisal Policy, Credit Management Practice and Debt Collection Policy.

CHAPTER ONE

INTRODUCTION

1.1 BACK GROUND OF THE STUDY TOPIC

Credit is a sum of money borrowed by persons or organizations from different financial sources like bank and credit institutions on a condition that is repaid, generally, for a specified time often at agreed rate of interest. Credit is 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(investopedia.com).

Commercial banks constitute a major component of the financial institutions in any particular country. Thus, changes in the performance of this sector have adverse implications to the country`s economy (Bohnstedt, 2000). Commercial banks collect money as deposits which are then lent to borrowers in the form of loans. Actual or perceived failure of a bank to pay a depositor's money on request may cause bank panic and therefore insolvency (Saunders and Cornett, 2005).

Loan is an arrangement in which a lender (Bank) gives money, and the borrower agreed to return or repay the money, usually along with interest, at some future points in time. Usually, there is a pre-determined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan (Thomson`s Dictionary of Banking).

Loan management is, then, simply management of loan and advances. Success of banking business depends on the efficient and effective management of loan. Poor loan management has proved to be one of the major causes of bank failure throughout the world. Thus, loan management is always a challenging task in banking since it involves risk linked with credit operations (IIBF, 2005).

Credit and collections policies refer to guide lines that govern how organizations manage credit and collections department functions. These guide lines are based on organizational goals and demands regarding risk and financial obligation. Credit approval is the process a business or an

individual must go through to become eligible for a loan or to pay for goods and services over an extended period.

Debt collection is defined as a process of pursuing loans which have not been repaid. Few customers have been established to complete their payments while others do not pay at all (Kariuki, 2010). This has resulted in the formulation of policies that an organization should adhere for effective credit policies which may include debt collection policies to avoid non-performing loans. The debt collection policies aim to stimulate the non-payers to pay so as to avoid non-performing loans (Auren, 2003). This is because lack of stringent debt collection policy leads to overdue collection amounts (Gakure et.al, 2012).

The credit management practice in the banking industry at global level is well organized in that: it has established appropriate credit risk, operates under a sound credit granting process, and maintains an appropriate credit administration, measurement and monitoring processes.

On the other hand, in developing countries, credit management practice and policy faces some unique challenges and opportunities. Some of the challenges are: lack of reliable and comprehensive credit information system, high level of informality and fragmentation, the vulnerability to external shocks, and the need to balance the social development objectives of credit provision. As remedial measure, the developing countries need to align the credit management policy with the broader economic and social goals, such as: poverty reduction, financial inclusion, and environmental sustainability so as to foster the positive impact of credit on development outcome.

1.2 STATEMENT OF THE PROBLEM

Bank plays an important role in the economic development of all countries through its financial intermediation functions linking borrowers and lenders in bringing for the time being available resources from business and individual customers as well as providing loans for those in require of financial support. This intermediation role catalyzes economic growth. Also, banks provide capital to investors who by this can exploit desired profitable ventures. The importance of banks in an economy cannot be abolished because they are an institution that provides liquidity to both the lender and borrower. Because of this significance banks have to evaluate the risk that it faces daily while lending (Mohammad, 2014). Banks constantly participate in corporate management for monitoring, scanning, and loan repayment for better loan performance.

One of the primary roles of commercial banks is to advance credit to their customers. However, not all borrowers honor the agreement between them and the banks in regards to loan repayment. Some end up defaulting on loan repayment and the banks concerned suffer from bad debts. It is asserted that bad debts destroy loans which are the bank's earning assets and as such negatively compromise the bank's profitability. The higher the volume of bad debts written off from the profit of the bank the lower the net profit is. Thus, the amount available for distribution as dividends to shareholders, this also limits the amount ploughed back in to the business (Basil, 2013).

The performance of loans remains a detrimental factor on the overall returns of the commercial banks sector (World bank, 2016). This is attributed to the fact that high levels of nonperforming loans imply that there is reduced ability of the commercial banks to lend subsequently affecting the overall operations of the firms (Doriana, 2005)

Sound credit management is a prerequisite for the stability and continued profitability of financial institutions, but poor credit quality is the most common causes of poor financial performance and health. Intelligent and effective credit management of credit lines is a key requirement for effective credit management (Ross et al., and Moti et al., 2012). Delays in collecting cash from debtors are causing serious financial problems, increasing bad debts, and impacting customer relationships. The main causes of liquidation are poor management of their finances and credits.

Poor credit management practices harm banks, which are resulted from the reduced profitability and liquidity problems due to compressed profit margins from the rising NPLs hence bringing about the most challenging environment for banks (Saunders and Allen, 2010)

In the current economic and business environment liquidity, account receivable and solvency of a business has emerged as a topic of concern. Effectively managing account receivable is about ensuring consistency in credit and collection processes. Credit management is a big part of running a successful business. Sound policies for credit collection can solve many problems before they occur.

Present scenarios have disclosed an increasing trend of loan volumes and loan defaults for commercial banks. One of the best ways to prevent it is, to have proper credit management

system. Besides, credit management is a very dynamic and sensitive activity that needs periodical and continuous research studies. Further, what is becoming a challenge is not only lack of research studies but also lack of understanding among customers, investors, lenders and the communities. Keeping this in mind, then, the researcher has selected the topic *Credit Management practices of Selected Private Commercial Banks in Ethiopia* as his research study.

To make it short, as to the level of the researcher knowledge, there are only few researches (mentioned in the empirical literature review part of this paper) are being conducted on the topic “credit management of commercial banks in Ethiopia”. Besides, the rapid changes in banking services, the presence of high level of competitions and increasing loans of commercial banks make it important to understand credit management practices and it is, therefore, a very current topic.

1.3 RESEARCH QUESTIONS

In order to achieve the above study objectives, there are sets of research questions which are essential in the investigation of the research study:

1. What are the profiles of the respondents in terms of age, sex, level of education, and the income that they earn per month?
2. What are the extent of existing credit policy management and strategies in terms of credit appraisal?
3. What are the extents of existing credit collection policies that the commercial bank follows?
4. What are the extent of credit policy management and strategies in terms of lending credit?
5. What are the possible challenges that the bank faces in the credit management practices?

1.4 OBJECTIVES OF THE STUDY

1.4.1 General Objective of the Study

The general objective of the study was to assess Credit Management Practices of the six selected private commercial banks in Ethiopia in a cross-sectional way.

1.4.2 Specific Objectives of the Study

The specific objectives of the study were stated as follow:

- I. To determine the profile of the respondents in terms of age, gender, educational level, and monthly incomes that they earn.
- II. To identify the extent of credit management in terms of credit appraisal and approval procedures, debt collection strategy in the selected commercial banks.
- III. To investigate the possible credit terms that the selected commercial banks are considering in to account.
- IV. To examine the major credit management tools that are used by the commercial banks
- V. To describe the extent of the existing credit lending policies of the commercial banks

1.5 SIGNIFICANCE OF THE STUDY

The findings of this study may be helpful to the following bodies:

To managers of commercial banks—helps them in identifying potential risk rising out of the banks on credit practices so as to strengthen its internal control system.

To employees—it may help employees to be in a better position to adhere to credit portfolio management policies and procedures to avoid fraud, defaults job negligence that results in to incurring losses in the bank.

To customers—it may help customers of commercial banks to be more responsible and comply with the agreements of borrowing by providing the authentic documents as agreed to help the bank reduce loses that result from loan defaulter.

To academicians—it may also help other free researchers for conducting further research as it serves as a review of literature.

1.6 SCOPE OF THE STUDY

These days, there are over 30 commercial banks in Ethiopia. The researcher, however, focus his scope to be only on six selected private commercial banks. Accordingly, this research work focused on three variables of credit management practices namely; debt collection policy, client appraisal and lending policy. Geographically, the study was carried out in Addis Ababa city,

Ethiopia; specifically in the head office of the following six selected commercial banks: NIB bank, Anbesa bank, Zemen bank, Wegagen bank, Hibretbank and Enat Bank. Though commercial Banks have counted decades of years since their establishments, the time scope (reference time) of this work is delimited to only 2023 to assess the credit management practices and method of collection.

1.7 LIMITATION OF THE STUDY

While conducting any research, challenges are there. This research work has also been faced some kinds of limitations. During questionnaire distribution and collection, few respondents did not dare to provide the information that they knew and reluctance of answering the questionnaires. Shortage of time to collect data was also another limitation. Besides, lack of financial capacity, which slightly affects this research study to be limited only on six head offices of Ethiopia's private commercial banks.

OPERATIONAL DEFINITIONS OF TERMS

Commercial Bank—refers, in this study, as to a financial institution which accepts deposits from the public and return advance loan. A Commercial bank is a type of financial intermediary between the public and individuals in giving out loans and follow policies and procedures for better loan management (Mburu, 2021)

Loan—refers, in the case of this paper, to the highest yielding asset a bank can add to its portfolio and they provide the largest proportion of most banks' operating revenues (Mburu, 2021).

Credit Management Practices—these are, according to this paper work, the debt collection practices, client appraisal practices and lending practices adopted by commercial banks to minimize the risk exposure emanating from non-timely and default in repayment of loans advanced to customers (nbe.gov.et)

Client Appraisal practices—these are, in this study, the processes of determining the credit worthiness of the borrower. Here, on this paper work, it implies to the ability of the borrower to pay debt, character assessment of the borrower, collateral characteristics, Credit Reference Bureau (CRB), credit score and use of the funds (Mburu, 2021)

Debt Collection Policy—this is, based on this study, the process of recovering loans by commercial banks which have not been paid. In this study paper, it refers to the collection enforcement, guarantor payments and continuous monitoring & control (nbe.gov.et)

Lending Policy—this is, according to this paper work, the commercial banks` set of rules and regulations that must be adhered to during the processing of loans. In this study, lending policy was proxy by credit terms and documentations (Mburu, 2021).

1.8 ORGANIZATION OF THE PAPER

This research paper contains five chapters. The first chapter introduces the introduction issues having different topics inside it such as statement of the problem, objective of the study, significance of the study, scope of the study and the like. Chapter two focuses on the review of related literature dealing with the topics like theoretical literature review, empirical literature review, research gap and conceptual framework literature review. Chapter three presents the research methodologies specifically addressing the topics: research philosophy, research design, research approach, sources of data, sampling method and limitation of the study are some of the most important issues. Data analysis and data interpretation are presented in chapter four. Finally, chapter five holds summary findings, conclusions, and recommendation sections.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

The main purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done (Wolf and Pant, 2003). Accordingly, this chapter will discuss the available literature pertaining to the study which includes the theoretical literature, the empirical literature, the research gap as well as the conceptual framework. The researcher made every possible effort to review the literature from the available resources like internet, books, journal articles, and research works. Therefore, in this thesis work, the writer described the credit management system and its practices in the selected commercial banks of Ethiopia in a better way.

2.2 THEORETICAL LITERATURE REVIEW

2.2.1 The 5Cs Model for Credit

According to Baiden (2011), the 5Cs Model for credit has been introduced as a framework through which financial institutions build the policy for their credit transactions. The 5Cs details the five important factors that commercial banks will use in administration of credit which are expected to lead to improve performance of loan (Mac Donald et al, 2006). These include:

Character—this entails the level of commitment portrayed by the borrower in fulfilling the loan obligation.

Capacity—entails the ability of the borrower to make regular payments and settle the loan obligation fully without any major constraints.

Capital—describes the wealth position of the borrower measured by the capital adequacy and market standing (Danis, 2010).

Collateral—this acts as a security to loan issued in case of any defaults.

Condition--- focuses on the outside environmental condition which the lenders have no control over but influence the loan recovery (Mac Donald, 2006).

The importance of this theory to the study is, therefore, through providing a guideline through which client appraisal is undertaken by the banks to reduce the non-performing loans. Thus,

client appraisal is theorized to be a crucial risk management practice which enables the banks to only lend to credit worthy customers who have the ability to easily repay the loans.

2.2.2 ASYMMETRIC INFORMATION THEORY

This theory holds that in accessing lending application, there is existence of information asymmetry (Binks, &Ennew, 1997). The theory describes conditions in which all the necessary information may not be availed to all the parties undertaking a particular transaction. The information asymmetry is perceived to pose problems and difficulties for the financial institution in terms of monitoring entrepreneurial behavior, moral hazard and errors attributed to poor lending decisions (Denis, 2010).

Asymmetric information theory relates to this study in that there exist information gap between the commercial banks and the loan borrowers. There is information that the loan borrowers may have that commercial banks do not have. This calls for credit management practice on administration of loans to reduce credit risk effects. With credit sharing among commercial banks, banks may determine the credit worthiness of the applicants for careful lending to customers (Eppy, 2005). Through reducing information asymmetry between the borrowers and lenders, good lending practices will be enhanced (Binks, &Ennew, 1997).

The proposition of the theory is that through information symmetry in credit transaction, the loan performance of the banks will be significantly improved due to the ability of the commercial banks to accurately make informed credit decisions. The credit manager will have better determination of the borrowers` credit worthiness and either charge higher interest that corresponds to the risk or decline the credit request (Mburu, M. I., 2021).

2.2.3 TYPES OF CREDIT

Credit is a kind of product which can be developed on the basis of terms and conditions demanded by the credit agreement between banks and the borrowers (Thapa and Rawal, 2010). According to them, credit can be classified as:

- I. Funded Loan—this refers to the loan which is disbursed in the form of cash or any other payment. Whenever bank gives loan and cash goes out of the bank immediately, then, it is called funded loan. Some of the examples of funded loans are overdraft loan, trust receipt loan, importer/exporter loan, demand loan, Home/Auto loan etc.

- II. Non-Funded Loan— here, non-funded loan bank do not have to pay cash but need to commit a conditional payment. Some examples of non-funded loan are letter of credit, guarantee, and acceptance.
- III. Working Capital—the loan which are given for the purchase long term assets for more than one year and repaid in fixed installment are called working capital loan. Some examples of working capital loan are project loan, home loan, hire purchase loan.
- IV. Consumer/ corporate loan—these loans are the loans which are granted for the consumption purpose and these loans are based on security and future cash flow. Some examples are vehicle loan and personal loan. However, corporate loans are the loans which are granted for big business houses (Thapa and Rawal, 2010).

2.2.4 Components of Credit Policy

According to Pandey IM (2010), there are three components of credit policy. These are credit standard, credit terms and collection policy.

Credit Standard—is the guidelines issued by a company that are used to determine whether or not the potential borrower is credit worthy. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower no making credit payments or defaulting on loaned money (Pandey IM, 2010).

Credit Term— specifies the length of credit period and the discount given early payment. The common credit term for firms to offer are of “net 30” or “2/10 net 30”. Net 30 means the customer must pay its bill within 30 days of the invoice date. Term 2/10 net 30 means the customer is offered a 2% discount if payment is made within 10 days of the invoice date. Otherwise, the full amount of the receivable is due in 30 days. The stated terms of credit extension will have a strong impact on the eventual size of the accounts receivable balance (Pandey IM, 2010).

Collection Policy—refers to the procedures that firms follow to obtain payment or past due account. As a general rule, the more quick account receivable is converted in to cash, the greater will be the profit. Collection policy is the final element in credit policy. It involves to spot trouble in obtaining payment of past due account (Pandey IM, 2010).

2.2.5 THE CREDIT SYSTEM

According to Puri and Poli (2013), an effective credit system provides the right frame work for such decisions to be made. For any provision of credit line with in the retail sector for instance, a borrower must have a pre-existing facility to repay the loan either from their salary or income from self-employed business. But, a borrower is not always required to have a pre-existing capacity to repay a term loan that they ask from the bank so that the assessment of incremental cash flows which helps the lender to determine the repayment capacity of the borrower to meet loan obligation in a timely manner. Bank lending is the assertion that the debtor has the willingness and capability to requite the loan at all stages in their business transactions with bank. However, the capacity to pay back depends on future income streams and the disposition to repay has to be based on the pre-existent commitment that has been undoubtedly demonstrated by the borrower.

According to Poli and Puri (2013), there are three conditions which should be in existence at the time of borrower seek a loan from the bank which strengthens their business; these are: Intention or willingness on the part of the borrower to repay the loan as per agreement. The purpose for which the loan is requested or sought for by the borrower. The conditions which can set the trend for the future.

2.3 CREDIT PROCEDURE

To accomplish the good objectives of credit administration strategy, Franklin (2010) instructed the endorsement and utilization of credit strategies. As credit methods are particular direction in which top administration enforce expectations on the credit division to achieve the credit administration policies. The credit systems integrate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration`s notice. Such credit assembly incorporates the utilization of reminders, adoptions of insurance, the application of legal procedures, the factoring of debtors, and final write-offs are mentioned as under:

Reminder: this involves dispatching a request note informing the debtor of the payment owed, and if there is no reply, processes are gradually intensified through more stringent mechanisms (Pandy, 2008). The other mechanisms include posting a letter of appeal to the client and if he/she fails to respond, then, the customer is contacted by telephone or actually paying a visit to him or

her as a way of creating awareness for the person and if it fails the last resort will be gearing towards legal measures.

Insurance Policy: this involves an entity seeking to provide coverage for every one of the obligation that are evaluated as non-performing. The firm ought to verify that every facility that has started to show signs of deterioration are completely guaranteed (BPP, 2002). Insurance agencies guarantee to repay the loan firm in the situation that the indebted person defaults on installment and as being what is indicated as the safety net, the provider will consent to such a course of action only when the financial organization has viable credit administration framework established (Kakuru, 2001).

Factoring of Debtors, this is comprised of selling obligations to special financial organizations. Factoring of indebted individuals is a safety oriented measurement for defending the organization's cash against losses. This is the credit firm does by obtaining a head of time monies locked up with the debtors from the factors through an agreement that is reached. This result in the firm incurring lesser expenses included with the disbursement of loans (Flouck, 2001). Along these, the lesser is relived off the recovery and other managerial expenses incurred in non-performing assets and different exposures included in handling such advances.

The Use of Litigation: this includes the commencement of legal activity against the client who defaults in his installments. This emerges when the loan facility is established as an uncollectible obligation after a significant disruption in the reimbursement plan is noted bringing about undue postponement in collection efforts. Thus, giving the idea that lawful measures may be obliged to enforce recovery (Kasozi, 1998). This is turned to as the last measure and all the more so where firm's association with client has been mutually beneficial.

Final Write off: this is the place in the books of the organization where the organization is confirmed as irretrievable and thus it is cancelled off as bad debt. If loan obligations are classified to be non-performing to the point that they can be collected, it is then better to erase them from the accounting books to give them a genuine and reasonable representation of the organization's money related positions (BPP, 2000).

2.4 LOAN PROCESS:

The objective of loan management is to control loan approval process and achieve loan quality. However, every loan approval process should introduce adequate control mechanisms to achieve quality in credit at the time of origin. The process should be in line with bank`s credit guidelines, its risk profiles, and the capabilities of its lenders. According to Johnson and Johnson (1985), Koch & Macdonald (2000) and Hempel& Simonson (1999); the loan approval decisions are made by credit committee of a bank. They pointed out that activities in the process of commercial and industrial loans follow 8 (Eight) steps. These are:

First step—is the application, which is conducted by a loan officer. Initially, the loan officer obtains as much information as possible about the situation of the borrower, for example, his or her previous credit history, current outstanding loans, and current financial statement and income sources.

Second step—deals with the credit analysis conducted by the credit department. Loan officer conduct a comparative and historic analysis of the company`s financial data and internal analyst prepares a recommendation report for the loan officer about whether the loan should be granted or rejected.

Third step—the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower.

Fourth step—focuses on the loan operation. Here, it is necessary to prepare primary notes, agreements, collateral or non-collateral agreements.

Fifth step—the loan officer obtains the borrower`s signatures and receives collateral; then, the loan operation is closed and the loan proceeds.

Sixth step—here in this step what happens is the recording of the loan conducted by the loan operation & credit department staff and check whether it is with in the loan policy or not.

Seventh step—this step focuses on loan servicing and administration conducted by a loan operation operator, a loan officer, a credit department staff member, and a financial analyst. The loan operation staff person prepares the loan payment notices to notify the borrower and is responsible for receiving periodic payments.

Eighth step—the loan officer may receive periodic delinquency information and need to follow up on his with borrowers. The loan officer also needs to adjust loan terms and conditions as deemed necessary, and to take legal action if non collectible procedures and foreclosures on the loan are followed. When the entire lending process has come to an end, the output comes with the profit earning status of the loan which is also used to measure lending performance.

Sound lending decisions are based on the 6C principles. The 6 Cs are character, capacity, capital, collateral, conditions and control which are also important reference points for banks when making a credit analysis to decide whether or not a borrower is worthy of a loan. In short, while approving loan, bank follows the following activities: loan appraisal, loan approval, documentation, disbursement, loan monitoring and credit recovery.

Thus, a loan officer should consider purpose of loan, sources of repayment, length of maturity, financial strength and character of borrowers, adequacy of capital, and quality of financial statements and accounting procedures, ability to meet current obligation, quality of management, and completeness of documentation, references and past credit history, quality of collateral, if any, relationship with bank in lending process.

Muthoni, M. I. and et`al (2020)in their article under the title ” *credit management practice and loan performance*” stated in detail about the 5 C’s as in the following: The 5 C’s details the five important factors that commercial banks will use in administration of credit which are expected to lead to improved performance of loans. This includes; character of the applicant, capacity of repayment, collateral as form of security, capital and the prevailing economic condition. The 5 C’s Model for Credit thus provides an assessment upon which lenders use for both current and future borrowers. Character entails the level of commitment portrayed by the borrower in fulfilling the loan obligations. Capacity entails the ability of the borrower to make regular payments and settle the loan obligation fully without any major constraints. Capital on the other hand describes the wealth position of the borrower measured by the capital adequacy and market standing. Collateral acts as a security to loan issued in case of any defaults. While economic condition focuses on the outside environment which the lenders have no control over but influence the loan recovery. The importance of the theory to the study is through providing a guideline through which client appraisal is undertaken by the banks to reduce the non-performing loans. Through taking into consideration all these 5 C’s Model for Credit, cases of

default loan repayment will be minimized and hence resulting in improvement of bank loan performance.

2.6. COLLECTION TECHNIQUES

Referring to Accounting Association of Ethiopia (AAE) and Abegaz (2005) study`s, a number of collection techniques are employed and as an account become more and more overdue; the collection effort becomes more personal and strict. Here under are the basic techniques:

Letters: After credit becomes overdue over a certain days, the firm normally sends a polite letter to remind to customer for the obligation. This is the first step in the collection process for overdue account.

Telephone calls: As long as the letter insures to be inadequacy and unsuccessful, telephone calls may be made to the customer to personally request immediate payments.

Personal visit: Sending a local state person or collection person to comfort to customer can be effective collection procedure.

Using collection agencies: A firm can turn uncollectible accounts overdue to collection agency or attorney for the firm`s collection and then the fee for this service is typically high; the firm may receive 50% of on account collected.

Legal action: In here, the last and the most stringent step in collection process is under taking but it is an alternative use of collection agency: not only is direct legal action, an expensive but also it may force the debtor to be bankruptcy and thereby eliminating from future business.

2.7 COLLECTION POLICY

As per Brigham (1985) study, credit policy refers to rules that delineate how to choose which clients are sold on open record, the precise installment terms, the points of confinement set on extraordinary offsets and how to manage reprobate records. And credit policy is characterized by the credit period, credit principles, and the company`s accumulation strategy and any markdown given for right on time installments in association. Omolumo (2003) clarified acknowledge approach as the choice variable that impacts the measure of exchange credit that is put resources in to receivables which a firm may attempt at any given time. The policy variables include the quality of the trade accounts accepted; the length of the credit period, the cash discount, any

special terms such as seasonal dating and the collection program of the firm. Together, these elements largely determine the average collection period and the proportion of bad debt losses (Horne, 1995). The creditworthiness assessment should take in to consideration numerous pieces of information helpful in assessing the probability of customer`s default. The company should review the prior experience with the particular customer. However, it may refer to periods when the customer was not experiencing financial difficulties. Therefore, the assessment procedure should include an analysis of the customer`s current financial statements and credit report, and bank references, trade references or credit bureau reports (Pike and Neale, 2000).

Table (2.1): Implementation of credit policy:

Credit Period	How long the credit period should be with regard to the trade credit costs and the industry?
Discount	How high should the discount be with regard to trade credit costs and the risk of customers default?
Credit Standards	How to define credit terms (including credit limit) with regard to customer`s class of risk?
Collection policy	How to specify the collection procedure?

Source: Pike and Neale, 2000.

2.8 EMPIRICAL LITERATURE REVIEW

2.8.1 Empirical Studies Conducted in the Rest of the World

Mutanni, I. (2021) made a thesis work in Kenya entitled as “Credit Management Practice and Loan Performance of Kenya`s commercial banks. The objective of the work was to examine the effect of credit management practice on loan performance of commercial banks of Kenya. To achieve his objectives, he used explanatory research design as part of his methodology. He used both primary and secondary sources of data. Irene Muthani came out with research findings that showed debt collection policy and lending policy had significant effect on loan performance while client appraisal had no significant on the loan performance.

Thupa, P.(2011) conducted a thesis work under the title “Loan Management of Commercial Banks “ with the objective of analyzing loan management practices of commercial banks and come out with solid recommendations to enhance loan management. He followed descriptive and analytical research method. Finally, came out with a finding that showed a significant relation between bank performance and loan management.

2.8.2 EMPIRICAL STUDIES CONDUCTED IN ETHIOPIA

Etsehiwot (2021) conducted a thesis work under the title “Assessment of credit management in development bank of Ethiopia” with the objective of assessing the credit management practice of development banks of Ethiopia. She followed descriptive research design and quantitative as her research approach. Stratified and simple random were her sampling techniques. Her study result was analyzed by using four basic indicators: due diligence, project appraisal, approval and credit risk management.

Amare (2016) worked a thesis paper entitled “The assessment of credit management practice in commercial banks of Ethiopia. His objective was to assess credit management practice of commercial bank of Ethiopia. Case study approach and survey method were his methodologies. The sources of data that he used were both primary and secondary. His study result revealed that commercial bank of Ethiopia has adequate credit policy with a good content as per the examining statement provided

Tilahun (2018) produced a thesis work focusing on a title “Assessment of credit management practice of MFI in Ethiopia, in case of Addis Ababa Credit and Saving Institution” with the objectives of assessing the practice of credit management of MFIs in the case of Addis Ababa. He used both primary and secondary data as his sources. He came out with a finding that showed the selected MFI have major weakness in managing their credit treatments.

Hagos (2010) also worked on credit management practice of Wegagen bank in the regional state of Tigray. his main objective was to investigate National Bank`s requirements compared to its credit policy and procedures using both primary and secondary data. He found that the bank was managing its credit well in many aspects in the region mentioned. However, the researcher has indicated that very long loan process and in adequate credit policy discouraged credit customers highly.

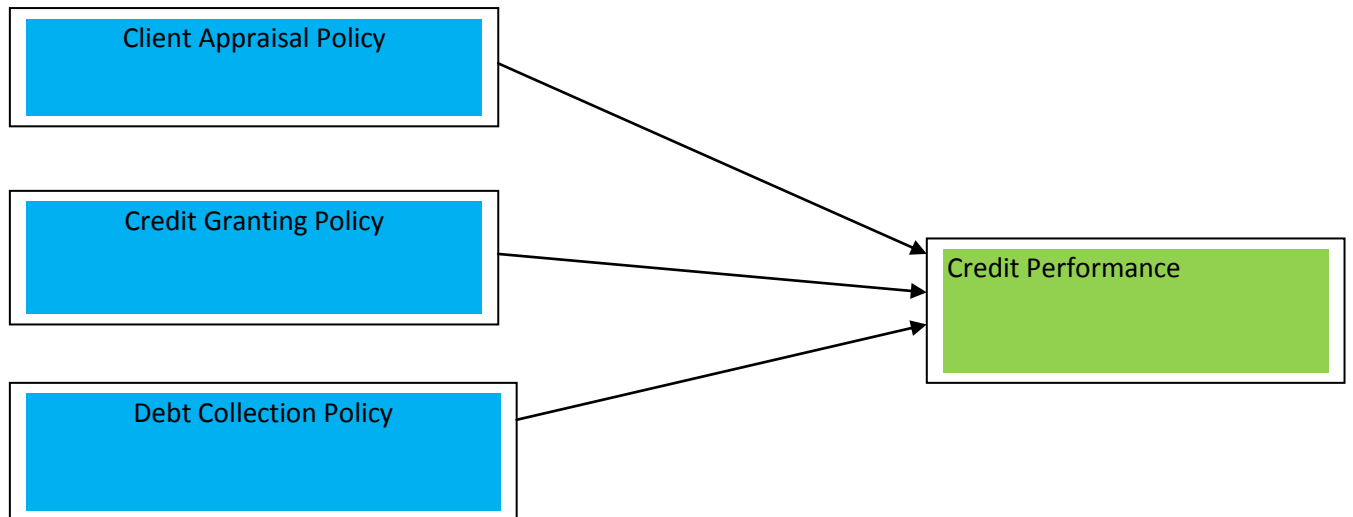
Andualem (2019) studied entitled credit management practice in case of Development Bank of Ethiopia. Descriptive research design was being used. The sources of data he used were both primary and secondary data; his targeted population being at head office. He found out that impending loan quality due to absence of adequate controlling and monitoring, inadequate appraisal & approval, poor collection culture, absence of effective risk mitigation strategy were some are some of the factors raised as a challenge.

2.9 CONCEPTUAL FRAME WORK REVIEW LITRATURE

A conceptual frame work is a crucial component that provides a theoretical structure for understanding a specific phenomenon or problem. It also refers to analytical tool that includes various concepts and their associations, used to develop a clear understanding of a phenomenon. It typically drawn from relevant theories and is employed to logically link the variables in the research process. A conceptual frame work serves as a guide, helping researchers intestinally bring all aspects of a study together. It clarifies connections, overlaps, and contexts shaping the research setting.

The conceptual frame work of this study was, therefore, developed based on the previous study of Sufi Faisan, et al (2015) which that credit management practices have a significant positive influence on the loan performance commercial banks. According to the conceptual framework, the credit management practices like collection policy, client appraisal and credit granting policy are performed as independent variable. This study examines the credit management practice on the mentioned six private commercial banks in Ethiopia.

INDEPENDENT VARIABLES DEPENDENT VARIABLE



Figure/2.1 /: Conceptual Framework Model

2.10 SUMMERY OF LITERATURE AND RESEARCH GAP

From the above empirical literature review, the researcher has realized that under the title “Credit management practices of commercial banks in Ethiopia” multiple of research studies were done. Yet, credit management in commercial banks is still a challenge with its potential opportunities. As it has been revealed above, most of the mentioned thesis works focused on single commercial bank to study the credit management practices. On the other hand, credit management is very dynamic and sensitive activities that need periodical and continuous research studies. Further, these days, what is becoming a challenge is not only lack of research studies but also lack of understanding among customers, investors and communities. Realizing all these, then, the researcher conducted a research on credit management practices of six selected private commercial banks in Ethiopia (Zemen Bank S.C., Enat Bank S.C., Wegagen Bank S.C., Anbesa BankS.C., NIB Bank S.C., and Hibret Bank S.C.) with the hope and commitment of filling the study gaps and to add its own value to the existing reality.

The study gave due consideration to ethical issues such as confidentiality and anonymity. Therefore, the participants were first informed as to the purpose and significance of the study and their responses would be used only for academic purpose and kept confidential. They had also been assured that there were not any questions asking them to tell their names and identities.

CHAPTER THREE

RESEARCH METHODOLOGY:

3.1. INTRODUCTION

This chapter briefly describes and answers the questions of where the study focuses on. It also deals with what the targeted populations are and how the samples are being drawn. Besides, it expresses what techniques of the data collections will use and what methods follow to analyze & interpret the data. Further, it considers the professional ethical issues to be followed in order to keep the moral value of individuals who could participate here and the quality standard of the paper work.

3.2. RESEARCH PHILOSOPHY

Research philosophy includes the logic and reasoning which is used in the process of interpreting collected information. There are four types of research philosophy. These are positivism, pragmatism, realism and interpretivism. Positivism refers to the collection of information which can be scientifically verified by the researcher using statistical calculations (Meyer&Morin, 2016). Accordingly, the researcher follows positivism research philosophy.

3.3. RESEARCH DESIGN

As per the views of O`Brientel al (2016) research design is the presentation of information in a specific way that makes it more presentable and understandable. There are four types of research design that includes descriptive research design, conclusive research design, exploratory research design and explanatory research design. Descriptive research design describes collected information in a detailed manner along with charts and graphs.

This study, therefore, used descriptive research design. Descriptive research involves gathering data that describe, analyze and interpret the events and then organizes, tabulates, and describes the data being collected. With regards, this study decided what is to be found out, identify the study population, select a sample and contact the respondents to find out the required information. It also adopted a cross-sectional study. This is simply means a type of study that analyses data collected from a population at a specific point in time. Moreover, the researcher used structured and self- administered questionnaire as data collection tool. This was the one exactly used to collect useful primary information for assessment of credit process in the selected commercial banks under discussion. The departments which were mainly responsible for provision of loans and advances to individuals and projects were found at the head offices of the respected banks. Therefore, the study was conducted with the staffs who involved in credit operations at the head offices of the six selected private commercial banks.

3.4. RESEARCH APPROACH

A research approach is the procedure selected by the researcher to collect, analyze, and interpret data. Generally, there are three approaches to research: quantitative, qualitative and mixed approach.

This paper work`s research approach is dominantly qualitative one. Practically, there is no straight and linear qualitative method of conducting a business research from the beginning upto the end. Accordingly, the researcher slightly used quantitative methods when topics were found important to express using simple statistical tools. Thus, this thesis work was conducted using a mixed research approach dominated by qualitative method.

3.5. SAMPLING TECHINQUE AND SAMPLE SIZE

From a total population under study (employees of credit and credit related departments of the mentioned six private commercial banks of Ethiopia), I selected 92 of them to be considered as a sample size based on the statistical formula of Belcourt and Saks,2000; this was so because my targeted population was relatively small in number and easily manageable. To be specific, my sampling technique being used was that of non-probability method of sampling, either convenience sampling or purposive sampling as was found necessary.

The choice of employee respondents from the given banks were focused only on employees related to credit appraisal and analysis, credit management, and credit relationship employees.

This study targeted only at the head office of selected private commercial banks. Accordingly, there were about 120 total credit related staff employee. It was using this total employees that the sample size had been computed based up on the sampling technique of Belcourt and Saks (2000). The method of formula for the calculation of the sample size is given below:

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

Where, n= sample size

N=total no. of population

e= standard error (0.05), confidence interval (0.95)

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

$$n = \frac{120}{1 + 120(0.05)^2}$$

$$n = \frac{120}{1.3}$$

n=92

Table (3.1): Sample size distribution:

Bank`s name	Total number of credit related employees	Sample size taken	No. of items being collected
NIB INT. BANK	20	15	15
LION INT. BANK	8	8	8
ENAT BANK	25	17	17
WEGAGEN BANK	25	20	20
ZEMEN BANK	20	15	15
HIBRET BANK	22	17	17
Total sample size		<u>92</u>	<u>92</u>

Source: Directorates of each credit department, 2023.

3.6. TYPE AND SOURCE OF DATA

The study adopted survey questionnaire data collection or only primary data type. The study, therefore, used survey method of data collection. The researcher preferred to use survey method because it is so good for gathering descriptive data, relatively easy to administer, cost effective, time saving and more reliable. Survey method was used to collect data on credit management system mostly using structured questionnaires and slightly interviews.

3.7. DATA COLLECTION INSTRUMENTS/TOOLS

This study paper used questionnaires as its main research instrument. The researcher used both open ended and close ended type of questions in his questionnaires to collect data about credit management practices. The researcher preferred to use questionnaires because large amounts of information can be collected from large number of people in a short period of time and in a relatively cost effective way. A five Likert scale was used together with other varieties of objective questions to assess the extent to which a respondent agrees or disagrees with a statement of attitudes, beliefs, judgments or views. It required the researcher to first identify all sub-areas of the topic being measured to prepare questions so as to ask the respondents.

3.8. METHOD OF DATA ANALYSIS

The data being gathered from the field was tabulated, organized and systematically demonstrated using SPSS version 20. Thus, depending on the nature of questions of the data being collected, different statistical tools was applied. In order to analyze the various demographic characteristics of the respondents and questions related to credit management; percentage, graphs, and tables were applied.

3.9 VALIDITY AND RELIABILITY TESTS

3.9.1. Validity Tests

Validity tests entails the degree to which the research instrument measures what it is intended for (Galafshani, 2023). Accordingly, in this study, validity was assessed through content validity which was improved by expert judgments. Adjustments to questionnaire such as removal of bias and inappropriate questions were done. This was through reconstruction to be in accordance of the study objectives which these in turn assures its validity.

3.9.2 Reliability Tests

Before treating other statistical analysis, the data should be checked its reliability for each of the mean variables. Here in this study, Cronbach`s alpha value is used as a measure of the internal consistency of the scales used in the questionnaires. Most of the times, the ranges of Cronbach Alpha value are stated below:

0.91—1.00-----excellent internal consistency

0.81—0.90-----very good internal consistency

0.71—0.80-----good

0.61—0.70-----acceptable internal consistency

0.51—0.60-----questionable

0.01—0.50-----unacceptable

The mean Likert scaled variables are also computed. A five scale Likert scales of five variables have been tested. Accordingly, the results of reliability tests of each scaled mean variable that were used in this study are listed under:

Table |3.2|: Reliability Test for each Constructed mean Likert scale Variable

Sr. no.	Description/s	Number of Items	Cronbach`s Alpha value	Remark
1	Client appraisal	5	0.875	Reliable
2	Lending policy	2	0.760	Reliable
3	Credit management	5	0.840	Reliable
4	Challenges of credit management	4	0.781	Reliable
5	Credit reports	2	0.720	Reliable

Source: Survey data result/s, 2023.

According to Table (4.3) above, all the mean scaled variables have Cronbach alpha value above 0.7, suggest very good internal consistency and reliability for the scale sample being used in this study.

3.10. ETHICAL CONSIDERATIONS

The study gave due consideration to ethical issues such as confidentiality and anonymity. Therefore, the participants were first informed as to the purpose and significance of the study and their responses would be used only for academic purpose and kept confidential. They had also been assured that there were not any questions asking them to tell their names and identities.

CHAPTER FOUR

DATA PRESENTATIONS, ANALYSIS, INTERPRETATION AND IMPLICATION

4.1. INTRODUCTION

This chapter describes the findings obtained from the study. It is quite known that data collected from primary sources are in row form. In order to make it meaningful, the data have been organized and analyzed using SPSSVersion20 so that it can be interpreted and understood to the researcher and readers of this thesis easily. There are a number of methods which can be used to present and interpret data. However, the simple and easy way that the researcher of this paper widely used is presenting it in the form of charts, graphs and tables. Further, because this study paper is a cross-sectional research study, the data were analyzed mainly in the form of frequencies, descriptive and cross-tabulations.

4.2. RESPONSE RATE:

As was mentioned in chapter three the sample size of this paper is totaled as 92. However, during questionnaires distribution and collection processes, three questionnaires were lost. To replace the lost questionnaires, the researcher redistributed three other questionnaires to credit employees who did not receive it at first round. It was in this way that the total numbers of questionnaires were kept as it has been intended. Thus, throughout this chapter, analysis and discussions are based on 92 total respondents. Quantitatively, it is shown in the form of table here under:

Table |4.1|: Response Rate

Status	Frequency	Percent
Responded	89	96.74
Lost	3	3.26
Replaced responses	3	3.26
Total	92	100.00

Source: survey data, 2023.

4.3. DEMOGRAPHIC PROFILE OF THE RESPONDENTS

This section presents the profiles of the respondents who participated in this study. It covers respondents` gender, age, educational level and incomes earned per month. All the data obtained from the questionnaires collected are interpreted and summarized in frequency distribution and percentage distribution using SPSS version 20. The frequency analysis of selected respondents` demographic profile is stated under

Table/4.2/: Demographic Profile of the Respondents

Description	Frequency	Percent	
Gender	Female	34	37.0
	Male	58	63.0
	Total	92	100.0
Age group	18—25	10	10.9
	26—35	58	63.0
	36—45	23	25.0
	46—65	1	1.1
	Total	92	100.0
Educational level	Diploma level	3	3.3
	Degree level	52	56.5
	Masters level	37	40.2
	Total	92	100.0
Monthly income	5000—10000	3	3.3
	10001—15000	9	9.8
	15001—20000	10	10.9

	20001—25000	24	26.1
	25001—30000	14	15.2
	Above 30000	32	34.8
	Total	92	100.0

Source: surveydataresult, 2023.

As is shown in the above table (4.2), 34 (37%) of the respondents are females and 58(63%) of them are males. Thus, the majority of the respondents are males by making a deviation of about 26% from the female respondents’ percentage level.

With regard to age condition, the distribution frequency and percentage shows that 10(10.9%) of them are aged between 18—25 age group; about 58(63%) of the respondents belong the age group of 26—35; about 23(25%) of the repliers are within the age group of 36—45; only 1(1.1%) respondent is aged within 46—65 age group. Therefore, the age distribution of the respondents is dominated by adult aged group (26—35) giving to the commercial banks active aged and well experienced employees.

With regard to educational levels of the respondents, majority of them accounting about 52(56.5%) are first degree holders. Besides, about 37(40.2%) are master degree holders. Only 3(3.3%) from the total respondents have diploma level educational level back ground. Here, even if there is a very good employee`s educational back ground, there is still a need to have specialized credit employees both in terms of knowledge and skill so as to compute the global financial competition in a successful way. Credit and credit related activities are very sensitive and risky in nature that demands experienced and well educated professionals.

Table 4.2 also shows the monthly income group of credit employees that were considered in this study. Accordingly, those who earn 30000 and above Eth Birr account about 32(34.8%); about 24(26.1%) of the total have monthly income ranging within 20001 to 25,000 Eth Birr. Those who have monthly income that ranges within 25001 to 30000 Eth Birr number about 14(15.2%). The number of respondents having monthly income within 15,001 to 20000 Eth Birr account 10(10.9%); about 9(9.8%) respondents replied their monthly income ranges within 10,001 to 15,000 Eth Birr. Only 3(3.3%) of the respondents have monthly income ranging within 5001 to 10, 000 Eth Birr. Thus, relatively, credit employees are well paid in the private commercial banks being covered in this study. This in turn energizes the employees for much more

performance that enhances the profitability and wealth level of their respective private commercial banks.

In a nutshell, understanding and quantifying the respondents` profile using different questions helped the researcher to build a confidence to gain reliable and dependable information. Dominantly, the participants are matured, well paid and highly experienced; they are dependable enough in providing real data which in turn helped the research maker achieve his specific objective being stated in chapter one.

4.4 CREDIT MANAGEMENT

4.4.1 Respondents view on the common type of credit terms

From among the different types of credit terms, study participants asked to respond on the most commonly used types of credit terms. Accordingly, the detailed views are presents in the following table as in

Table /4.3/ Respondents view on the type of credit terms

Description of terms	Frequency	Percent
Short term credit	13	14.1
Medium term credit	60	65.2
Long term credit	16	17.4
Other term credit	3	3.3
Total	92	100.0

Source: survey data result,2023.

As is seen in the above table (4.3), majority of the respondents 60(65.2%) agree that medium term loan is the most common, about 16(17.4%) of them reply that it is the long term loan, about 13 (14.1%) of them say short term loan, about 3 respondents in count choose ‘other term loan’ without mentioning what that other is.

The researcher tried to see this by triangulating it with theoretical literatures, according to multiple of literatures, there is no single best credit term in the banking and finance industry because different types of credits have different advantages and may suit different purposes and situations.

Thus, table 4.3's implication could be that medium credit term, the present most common credit term is due to a number of reasons like availability of the credit, cost of credit or amount of credit. It can also imply that private commercial banks of Ethiopia do not dare to give long term credit because of its risky nature and the reason why short credit term is not dominant be due to its less return.

4.4.2 Respondents' View on Debt Collection Mechanisms

The method of contacts in order to collect the credit amount being granted by the commercial banks has different mechanisms. Respondents were asked which contact mechanism is widely used in their respective banks. The detail is presented in the table below:

Table|4.4| Participants' view on the debt collection mechanisms

Description of terms	Frequency	Percent
Legal action	3	3.3
Letter	11	12.0
Telephone	73	79.3
Others	5	5.4
Total	92	100.0

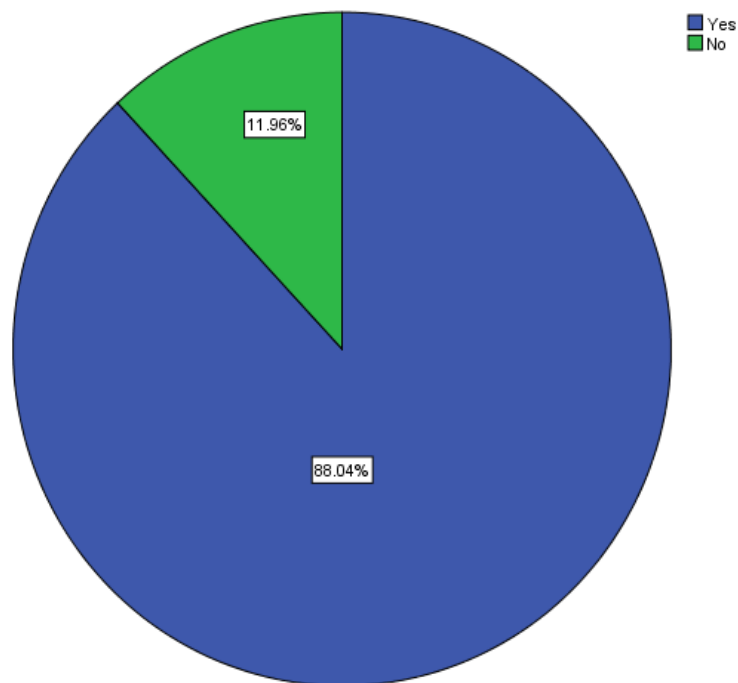
Source: Survey data result, 2023.

According to Table (4.4) above, majority of the study participants (79.3%) responded telephone being the most commonly used as credit collection mechanism, about 12.0% of them reply the letter, about 5.4 of them choose 'other methods' without mentioning what those are, about 3.3% respond legal action. Thus, telephone and letter are the most common method of debt collection mechanism holding about 91.3% of the study participants.

Its implication could, therefore be; most of the credit customers of the commercial private banks respond to their lenders (banks) telephone call and fulfill what is expected from them. Accordingly, the banks may save time, energy and other expenses. It can also be implied from table (4.4) that most of the credit customers of the private commercial banks under study are so active that they fulfill their contractual duty by communicating through phones and letters with their respective lenders.

4.4.3 Credit Consultation Service

Credit is one of the most essential sources of income for commercial banks. To make the credit amount being granted effective, credit customers need to have at least the basics of knowledge and skills so that they can payback the full amount of credit together with its interests. Lenders have, therefore, to arrange consultation services to help credit customers get successful. The pie-chart on figure (4.1) illustrates whether or not credit consultation service is provided.



Does the bank give consultation services to its customers regarding cash management and ways of loan repayment?

Figure |4.1|: Respondents view on giving consultation service to credit customers

Source: Survey data result, 2023.

According to figure (4.1) above, the respondents were asked whether or not pre and post credit consultation services are provided by their respective commercial banks to their credit customer. Accordingly, most of the respondents that is about 88.04% agreed with the question being asked and said "Yes". On the other hand, about 11.96% of the respondents said "No" to the question asked. Thus, majority of the respondents witnessed that there is professional credit consultation services being delivered to the banks' credit customers.

It can be implied from the above statistical result, then, that commercial banks deliverance of either pre or post credit consultation service has multiple of advantages like; credit customers try their best to pay their debt on time if they are being updated, there would be positive and good customer-lender relationship, and both parties would easily achieve their objectives. On the other hand, about 12% of the participants said there is no consultation service being given to credit customers which this may have long term impact on the amount of debt collection activities.

4.4.4 Employments' Response on Working Hours Per-Day

It is vivid that the normal working hour per-day is 8 hours. But, institutions may let their employees work through extra-payment intending to perform much more. The detail is presented in figure (4.2) using the chart below:

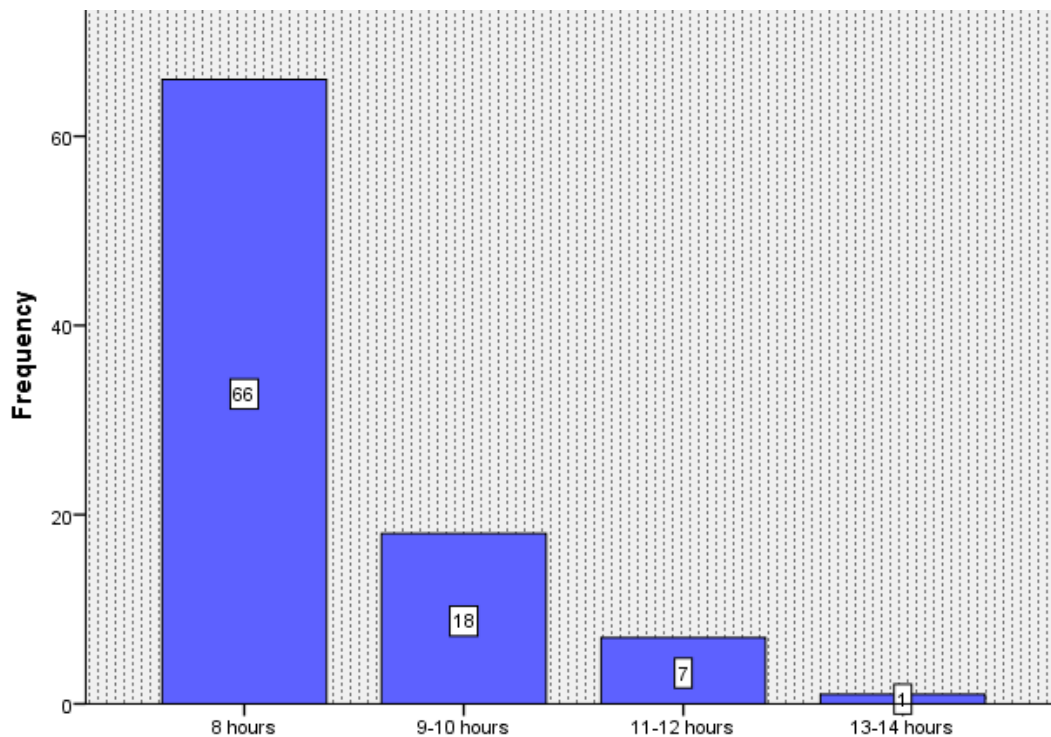


Figure /4.2/: Employees` Response on Working hours per day

Source: Survey data result, 2023.

As is seen in the figure (4.2) above, most of the respondents that is about 66(in count) of them replied that they work 8 hours in every working day. About 18 of the respondents replied that

they work 9-10 hours per every working day. Other 7 respondents agreed that their working hours per day is 11-12 hours. Only 1(one) respondent replied that he/she is working about 13-14 hours per every working day. Thus, most of the employees(71.74%) work 8 hours per day while about 28.26% of the respondents replied that their working hours per day is 9 hours and greater, this may be due to the position level and specialized skills that they have.

The above statistical result implies that most of the respondents` potentials (71.74%) are under-utilized, that is to say the commercial banks are using the skill and knowledge of their employees only for 8 hours. These banks have labor and skill potential which is not yet fully used. If the private commercial banks want to maximize their wealth, the researcher believes, that they need to follow a new approach on how to utilize their employees` extra time.

4.6 RESPONDENTS` PERCEPTION ON CREDIT MANAGEMENT PRACTICES

This section presents respondents` perception on their respective bank regarding credit management practices which include lending policy, collection policy, client appraisal and credit report. Measurement of perception level has been conducted by mean and standard deviation. The 92 employees from selected private commercial banks were asked to describe their rating up on the perception on their respective bank`s credit management practices. A 5-points Likert scale is interpreted in accordance with the following criteria

Table |4.5|: Interpretation of mean values of Likert scale related items

Rating value	Mean score value extent	Response mode	Interpretation
5	4.21--5.00	Strongly agree	Very satisfactory
4	3.41--4.20	Agree	Satisfactory
3	2.61--3.40	Neutral/ undecided	Fairly satisfactory
2	1.81--2.60	Disagree	Unsatisfactory
1	1.00--1.80	Strongly disagree	Very unsatisfactory

Source: Questionnaire`s structure, 2023.

4.6.1 Client Appraisal

The descriptive status like mean and standard deviation for client appraisal on credit management practices are presented in the Table (4.6) below. Five statements are used in order to know the employees` response-rating on client appraisal.

Table |4.6|: Employees’ perception on client appraisal of commercial banks

Sr. no.	Description	N	Mean	Standard deviation
1	The bank considers the condition of the loan including logical need for the fund, business sense and proven business idea.	92	4.16	1.019
2	Nature, value marketability and quality of collateral in advance and loan.	92	4.22	0.959
3	The bank determines the credit score of the borrowers using information from credit referencing bureau among other sources	92	4.27	0.891
4	The bank gathers information to assess the character of the borrowers during credit appraisal.	92	4.17	0.968
5	The bank assesses borrower`s ability to pay the debt and makes a decision strictly based on the set criteria.	92	4.21	0.932
	Overall mean		<u>4.21</u>	

Source: survey data result, 2023.

N----sample size.

Table (4.6) showed respondents` response rate on client appraisal of commercial banks` credit management practice. According to the result, the bank considers the condition of the loan including logical need for the fund, business sense and proven business idea has a mean score of 4.16 in which respondents agree to this statement. Similarly, for the statements:Nature, value marketability and quality of collateral in advance and loan, the bank determines the credit score of the borrowers using information from credit referencing bureau among other sources,the bank gathers information to assess the character of the borrowers during credit appraisal,the bank assesses borrower`s ability to pay the debt and makes a decision strictly based on the set criteria have score mean values of 4.22, 4.27, 4.17, 4.21 respectively. Three of the statements have mean

scores that match to ‘strongly agree’ except the statement that has mean score of 4.17 that matches with ‘agree’ category.

The overall mean of credit appraisal is 4.21 which indicate that the respondents agree with which commercial banks are practicing credit appraisal effectively for they strongly agree in this regard.

4.6.2 Employees Perception on Credit Lending Policy

Employee perceptions on credit lending policies are tested with 2 statements and the overall mean value is explored. The mean value for each statement of work place diversity and the overall mean value are presented in Table (4.7) as is stated under:

Table (4.7): Employee`s perception on the credit lending policy of commercial banks

Sr. no.	Description	N	Mean	Standard deviation
1	The bank employs an elaborate lending policy that fits in to the borrowers` profile to improve loan performance.	92	4.10	0.984
2	The lending policy clearly specifies credit limits which are strictly adhered to the existing credit policy.	92	4.14	0.979
	Overall mean		<u>4.12</u>	

Source: survey data result, 2023.

N--represents the sample size.

According to Table (4.7) above, the respondents agree on the statement; the bank employs an elaborate lending policy that fits in to the borrowers` profile to improve loan performance with mean score value of 4.10. As is indicated in table (4.6) that is, how to interpret the mean values of Likert scale, 4.21—5.00 represents ‘strongly agree’ while values ranging 3.41-4.20 represents ‘Agree’. Accordingly, the mean value the above mentioned variable is 4.10 telling us that majority of the respondents responded the `Agreed` values of Likert scale.

Moreover, respondents also agree on the credit lending policy statement of: “the lending policy clearly specifies credit limits which are strictly adhered to the existing credit policy” scored a mean value of 4.14 which in turn falls within the Likert scale mean value of 3.41-4.20 in which

`Agree` is being represented. Here, even in this second variable, majority of the respondents replied by saying “agree” to the existing credit granting policy.

The overall mean score value of credit lending policy is scored as 4.12 which means the respondent employees agree on the existing credit granting policy.

The implication of the above statistical figure could be like, majority of the study participants replied on the “agree “level of satisfaction. There was in fact a choice ‘strongly agree’, but, respondents did not choose this, probably they might have some kind of dissatisfactions.

According to the view of the researcher, any credit policy needs regular updates because at this 21st century, finance related issues are becoming highly volatile. Besides, the globalization era needs to be flexible and competent enough to survive.

4.6.3 Employees Perception on Credit Collection Policy

The descriptive status mainly the mean and standard deviation for credit collection policy on credit management practices are displayed in Table (4.8). Credit collection policy is divided in to 5 statements in order to significant the employee rate of response.

Table |4.8|: Employees` Perception on credit collection policy of commercial banks

Sr. no.	Description	N	Mean	Standard deviation
1	There exists an operational credit collection policy at the bank.	92	4.07	0.992
2	Late payments are allowed with prior approval and charges.	92	3.26	1.358
3	Collection enforcements are done in-discriminatory according to the policy.	92	3.52	1.279
4	Guarantor payments are sought when borrowers are in default as per policy.	92	4.11	1.043
5	There is continuous monitoring and control of loans and advances.	92	4.18	0.925
	Overall mean		<u>3.83</u>	

Source: survey data result, 2023.

The above Table (4.8) shows that the respondents agree with the collection policy. This indicates that the majority of the respondents agree with which there exists an operational credit collection policy at the bank, guarantor payments are sought when borrowers are in default as per policy, there is continuous monitoring and control of loans and advances having mean score of 4.07, 4.11, 4.18 respectively. On the other hand, respondents have a neutral stand on the statement: late payments are allowed with prior approval and charges mean score of 3.26 and collection enforcements are done in-discriminatory according to the policy with a mean score value of 3.52. This implies that the banks have moderate level of collection policy. The overall mean of collection policy is 3.83 which indicate that the respondents agree with which the banks` credit collection practice are fairly effective.

4.6.4 Employees Perception on the General Credit Management Practice

Employees` perceptions on the general credit management practice are tested with 4 statements and the overall mean value for each statement and the overall mean value are stated in Table (4.9) below:

Table [4.9]: Employees Perception on General Credit Management practice of commercial banks

Sr. no.	Description	N	Mean	Standard deviation
1	Preparing clear and trustworthy information.	92	4.13	0.892
2	Developing understanding between management team and employees.	92	4.11	0.943
3	Fast and sharp communication between management team and stoke holders.	92	3.99	0.871
4	Regularly communicating among management and staff	92	4.02	0.983
5	Creating and maintaining a clear communication between bank employees and customers.	92	4.04	0.824
	Overall mean		<u>4.06</u>	

Source: survey data result, 2023.

Table (4.9) above showed, respondents view on the general credit management practices in the commercial banks under studying. According to the result, respondents agree for the statement that there is fast and sharp communication between management team and stoke holders which

scored a mean value of 3.99. The remaining statement like preparing clear and trustworthy information, developing understanding between management team and employees, regularly communicating among management and staff, creating and maintaining a clear communication between bank employees and customers have scored mean value of 4.13, 4.11, 4.02, and 4.04 respectively. The overall mean value for credit collection related policy is about 4.06 implying that majority of the respondents agree on the banks` credit collection performance.

4.6.5 Employee Perceptions on the Challenges Faced in Credit Management Practices

The descriptive status that is the mean and standard deviation for the challenges faced on credit management practices are presented in Table (4.8). Challenges of credit management are divided in to 4 statements so as to make the employees` response rating significant.

Table |4.10|: Employees` Perception on the Challenges Faced in Credit Management Practice of Commercial Banks

Sr. no.	Description	N	Mean	Standard deviation
1	Lack of follow-up	92	2.62	0.900
2	Lack of training	92	2.50	0.883
3	Inadequate information about credit worthiness	92	2.50	1.032
4	Loan diversion	92	2.93	1.014
	Overall mean		<u>2.64</u>	

Source: survey data result 2023.

The above table (4.8) shows the challenges that could be faced in credit management practices. The result indicate that majority of the respondents remain neutral for the statements that say there is lack of follow-up and there is loan diversion of the banks with 2.62 and 2.93 mean score values respectively, which is moderate. Accordingly, for the statements that say there is lack of training and there is inadequate information about credit worthiness have mean score values of 2.50 and 2.50 respectively that imply respondents disagree for the presence of such challenges. From the result of overall mean score values which is 2.64, employees reply neutral to the challenges being faced in credit management activities. This in turn implies that the banks have moderate credit management in coping-upping challenges whenever it encounters in the credit management activities.

4.6.6 Employees` Perceptions on the Credit Reporting System

Employee perceptions regarding the credit reports on credit management practices are tested with 2 statements. The overall mean value is also computed. The mean value for each statement and the overall mean value of credit reports are presented in Table (4.11) below

Table |4.11|: Employees` Perception on the system of credit report on commercial banks

Sr. no.	Description	N	Mean	Standard deviation
1	The bank has adopted a standard reporting system about credit management practice.	92	4.26	0.810
2	The bank regularly prepares periodic report of credit	92	4.43	0.760
	Overall mean		<u>4.35</u>	

Source: survey data result 2023.

As is indicated on the above table (4.9), it statistically illustrates employees` view on the nature of credit reporting system in their respective banks. The study respondents forward their views for each of the questions asked. Accordingly, most of the respondents strongly agree for the statement that says: the bank has adopted a standard reporting system about credit management practices scoring a mean value of 4.26. Besides, employees respond as strongly agree for the statement that says the bank regularly prepares periodic report on credit related performances. Thus, the overall mean of the study respondents strongly agree regarding the regular credit reporting system scoring a mean value of 4.35 that indicates the banks` performance in preparing regular credit report is very effective.

4.6.7 SUMMARY OF MEAN SCORES OF RESPONDENTS VIEW

Here, the summary mean-scores values of the different variables are treated and comparisons are also made in a tabular form bellow:

Table |4.12|: Summary of mean scores in credit management practice of commercial banks

Serial no.	Statements	Overall mean
1	Client appraisal	4.21
2	Lending policy	4.12
3	Credit collection policy	3.83
4	Nature of credit management	4.06
5	Regular credit report	4.35
Average of overall mean		<u>4.114</u>

Source: survey data result 2023.

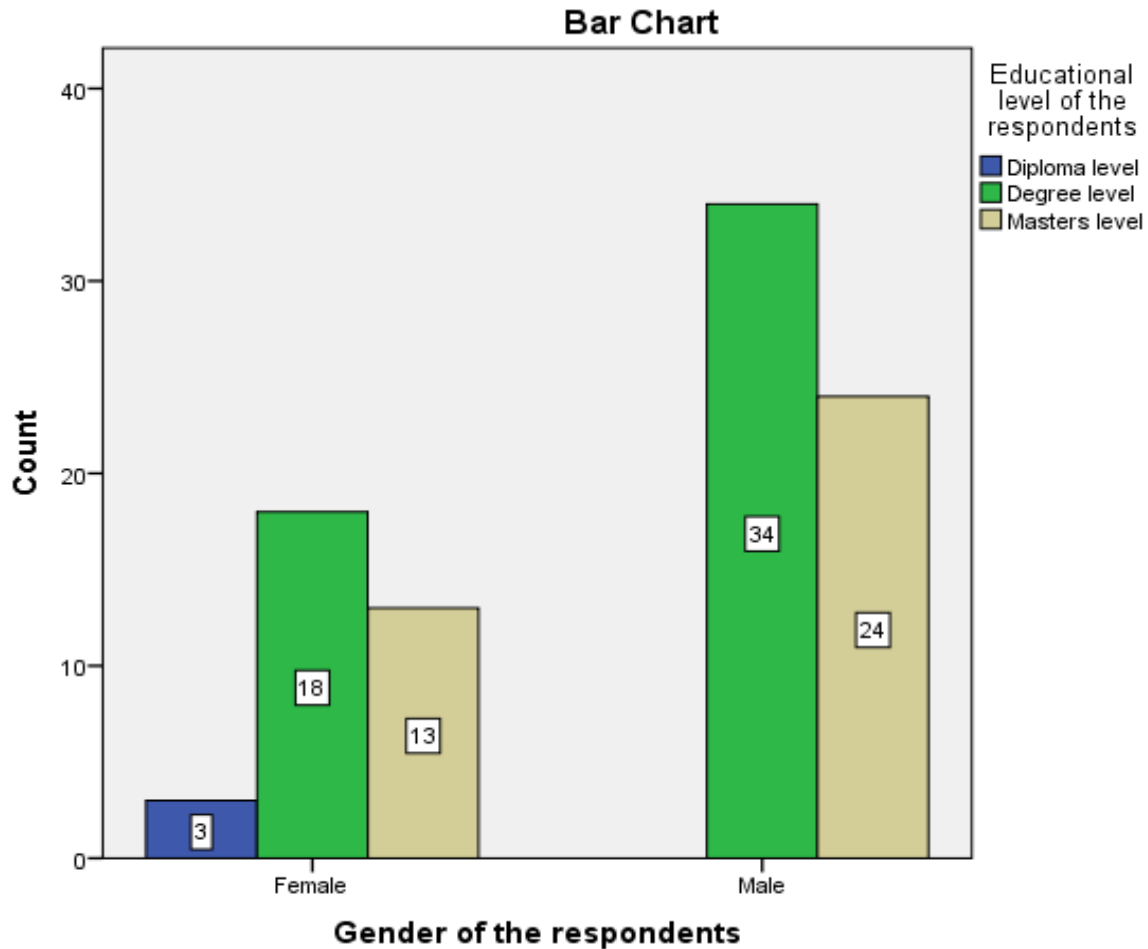
From the findings of Table (4.12) above, the overall mean of each variable has been taken so as to have summery high-light results. As is seen in the above table, therefore, respondents have agreed on the overall mean variables like credit lending policy, credit collection policy, nature of credit management and regular credit report with an overall mean score values of 4.12, 3.83 and 4.06 respectively. Thus, the bank’s performance regarding credit related activities is fairly effective for most of the respondents respond that they agree. Moreover, for the variables credit appraisal and concerning the regular credit report, the overall mean score values is about 4.21 and 4.35 indicating that the banks` performance regarding the mentioned variables is very` much effective for the study respondents reply strongly agree in this regard.

4.7 ANALYSIS OF TWO VARIABLES IN CROSS TABULATION

To understand the relation that exists between two items taken from the questionnaires and cross tabbed and interpreted in a simple way. The details will be presented in the form of bar chart as in the following:

4.7.1 GENDER * EDUCATIONAL LEVEL OF THE RESPONDENTS IN CROSS TABULATION

A cross tabulation had been made to analyze educational level across gender of the respondents. The intention is to relate education with the gender of the respondents. Its detail is figured in the form of chart below:



Source: survey data result, 2023.

Figure [4.3] above, cross tabs gender with educational back ground of the respondents; accordingly,

Considering the female respondents: there are 18 female respondents who have first degree educational back ground; about 13 female respondents are master degree holders; and only 3 female respondents are diploma holders.

Considering the male respondents; there are about 34 male respondents who hold first degree educational level and the numbers of male respondents who are master degree holders are 24 in count.

To express the above figure in an overall percentage: the number of females who hold first degree accounts about 19.57%; the number of females who have master degree is about 14.13 percent. On the other hand, the number of males who have first degree and master degree of educational levels is about 36.96% and 26.08 respectively.

In order to maximize performance, what comes first, just among others, is educational level of employees. Thus, the researcher tries to look this by analyzing the collected data in different ways like in terms of age and gender. Accordingly, even if there is a slight gender proportional gap, the existing professional employees have better educational back-ground and this in turn increases the returns and profitability of the commercial banks. One of the specific objective of the researcher is to examine the employees profile back ground and this statistical figure displayed how the profiles are looking like.

4.7.2 AGE GROUPS OF RESPONDENTS CROSS TAB WITH EDUCATIONAL LEVEL OF RESPONDENTS

The study relates the age group of the respondents with their educational levels. This is so helpful to understand which age group is highly educated and its implication that it will have to the commercial banks future insight. The detail analysis is given below in the form of Bar chart:

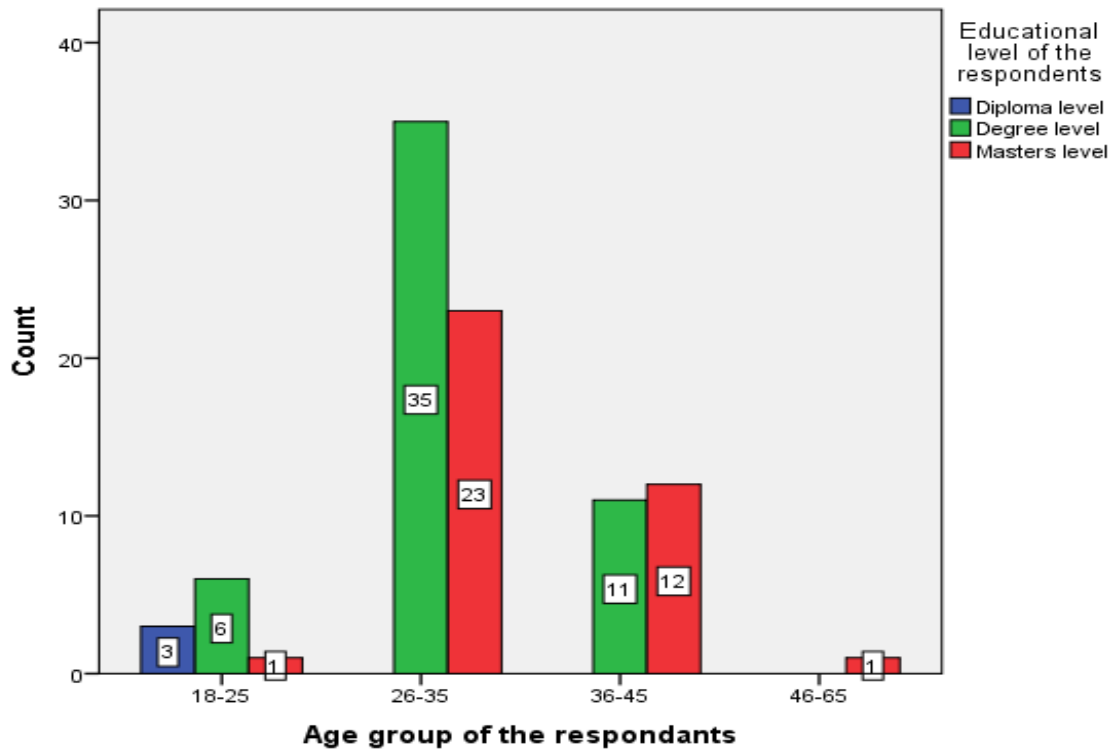


Figure (4.4): Age group of the respondents * Educational level of the respondents Cross tabulation

Source: Survey data result, 2023.

The above figure |4.4| cross tabs age group with the educational levels of the respondents and is detailed as in:

Taking the age group 18-25; there are about 3 respondents who are diploma holders; the number of first degree holders are about 6 in count; and only one respondent is master degree holder with in this age group.

Considering the age group 26-35; about 35 respondents are first degree holders and the numbers of respondents who have master degree are 23 in count.

Taking the age group 36-45; about 11 respondents of this age group are first degree holders and about 12 respondents have master degree in their educational level.

Considering the age group 46-65; there is only one respondent in this age group and his/her educational level is master degree.

Thus, the dominant age group having first degree is 26-35 accounting about 38% from the total respondents. It is also this age group which holds high number of respondents who hold master degrees that is about 25 percent.

There is, therefore, a positive impact to the commercial banks for the age group ranging from 26—35 are highly educated with dominant first degree and master`s degree holder employees. Moreover, this age group is very active age and most energized and thus the commercial bankshave excellent skilled labor force that in turn maximizes the performance of their respective banks easily.

4.7.3 GENDER CROSS TABS WITH THE NUMBER OF DAYS TO PROCESS A GIVEN LOAN APPLICATION:

The study also cross tabbed gender of the respondents with the number of days that it could take to process a given loan application. The detailed analysis is presented in the bar chart given below:

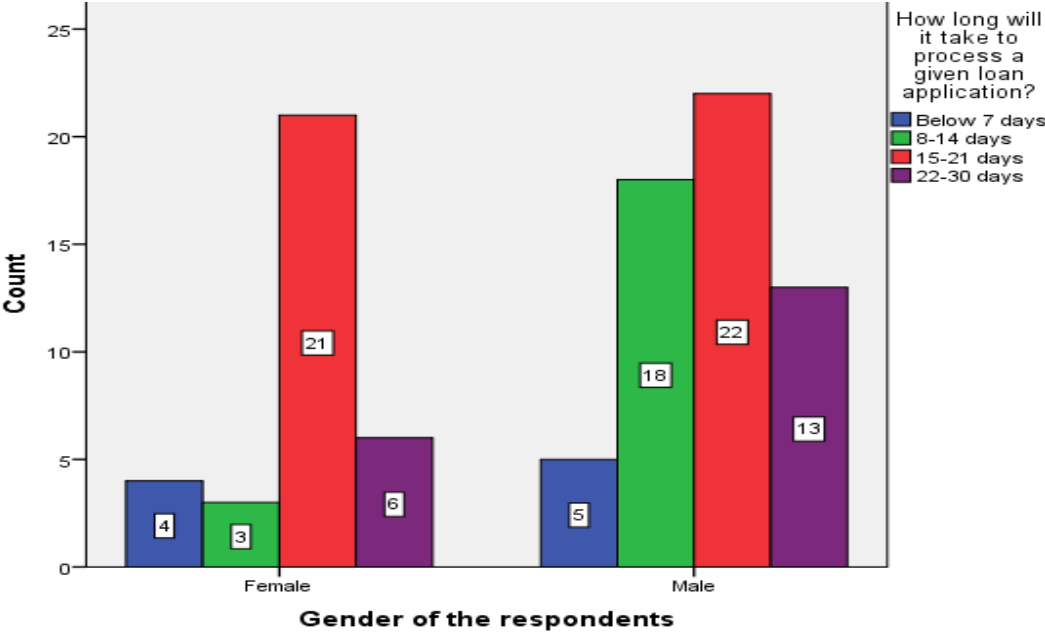


Figure |4.5|: Gender of the Respondents * number of days that a given Loan Application can take, cross tab in chart

Source: survey data result, 2023.

Based on the information taken from figure (4.5) above, a single loan application process time taken in days is cross tabbed with gender respondents as in the following:

Considering the female respondents: most of the females (21 respondents) agree by saying it takes about 15-21 days; about 6 of them agreed 22-30 days is enough to process a given loan application; about 4 females said it takes less than 7 days and about 3 respondents replied it takes 8-14 days.

Considering male respondents: most of them (22) respond that to process a given loan, it takes about 15-21 days; the number of male respondents who said within 8-14 are about 18 in count; about 13 male respondents replied that it takes 22-30 days and 5 males respond for a loan to process it takes less than 7 days.

The implication of fig (4.5) above is that since most respondents replied the numbers of days that it could take to process a given credit application is 15—21 days. But, in this highly competitive and digitalized world, 15—21 days are relatively long. Hence, according to the researcher, it would be good to shorten the days of credit approval process with great precision so as to attract more credit customers like making it less than 7 days.

The researcher tried to link this idea (fig 4.5) with theoretical literatures. Accordingly, even if most respondents agreed that the number average days taken for a given credit application is between 15-21 days; but, according to literatures, there is no fixed number of days for processing credit application for it depends on the complexity of the application, internal processes and policies, documentation & verification, and credit committee or decision making body.

However, it is common for the process to take anywhere from a few days to several weeks depending on different factors. Banks continuously strive to improve efficiency while maintaining thoroughness in their credit granting process.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the conclusions of the study on analysis of credit management practices of the selected private commercial banks. It consists of summary of findings from the analysis, conclusions, recommendations based on the results and suggestions for further research.

This study was conducted at the head offices of six private commercial banks in Addis Ababa, Ethiopia. The respondents were credit employees of the selected commercial banks. The study respondents were selected using purposive and convenience on-probability sampling method. It employed dominantly qualitative and slightly quantitative research method. Pertinent data were obtained totally from primary sources using questionnaires and interviews. The statistical tools used were tables, percentages, means, standard deviations and charts. The data inquiries were conducted during the academic year of 2023 in the months of July and August.

5.2 SUMMARY OF FINDINGS

This paper work is done based on a cross-sectional study; due to this fact, then, all variables are analyzed using descriptive approach in the form of descriptive statistics and cross-tabulations

Thus, in view of the study being conducted on credit management practices of commercial banks in Ethiopia, the researcher draws the following salient findings according to the research questions stated in chapter one:

Considering the respondents` gender in to account, about 63% of them are males and 37% of them are females.

With regard to age condition, the dominant age group is 26-35 holding 63% of the total respondents followed by the age group 36-45 holding about 25% of the study respondents. The remaining age groups combined hold about 12 percent.

Taking the educational level of the respondents: majority of them are first degree holders accounting about 56.5%; about 40.2% of the study respondents have master degrees and only 3.3% of the respondents have diploma educational back ground.

With regard to monthly income: about 34.8% of the respondents earn 30,001 and above Eth Birr per month; about 15.2% of them monthly income that ranges within 25,001- 30,000 Eth Birr. The number of respondents who get monthly income within 20,001- 25,000 Eth Birr account about 26.1% and 10.9% of them replied that their monthly income is within 15,000-20,000 Eth Birr. Other 9.8% respond that their monthly income ranges within 10,001to 15,000 Eth Birr. Only 3.3% of the study respondents replied that their monthly income fall within 5,001- 10,000 Eth Birr.

Most of the respondents, about 88.04%, agree and reply 'yes' while about 11.96% of them disagree by replying 'no' to the question being raised.

Majority of the respondents, about 71.74%, reply that they work 8 hours per every working day. The number of respondents who reply that they work 9-14 hours per working day account about 28.26 percent.

Five statements were given to the study respondents so as to see the mean score of each statement. Accordingly, four of the statements were scored as "strongly agree" and only one statement's mean score was responded as "agree". Moreover, the overall mean of credit appraisal related statements was scored about 4.21 by the study respondents.

Regarding collection policies and strategies, five statements were dispatched to the respondents and majority of them responded as 'agree' when computed the mean score of each statements except the mean score of one statement with which the respondents replied as 'neutral' to it. Besides, the overall mean of the statements given to credit collection policy and strategies is about 3.83 by the study participants.

With regard to the credit lending policy and strategies, two statements were presented to the participants. Accordingly, the mean score value of each statement came as 4.10 and 4.14 statistically. Moreover the overall mean value of the variable credit lending policy and related strategies is scored about 4.12 by the participants.

Respondents were also asked to rate their view for the questions like: is there any lack of follow-up, lack of training, inadequate information about credit worthiness and loan diversion in your commercial bank; the mean score value of each statement scored as 2.26, 2.50, 2.50 & 2.93 respectively. The above values being as they are, the overall mean value of the credit related challenges is scored about 2.64 by study respondents.

As to the debt collection contact mechanism is concerned; majority of respondents who account about 79.3% reply telephone, about 12.0% of them respond letter, about 5.4% choose 'other' but no one mentions what the 'other' is exactly, the number of respondents who say legal action are only about 3.3 percent.

With regard to the common type of credit types; majority of the respondents (65.2%) from the total agree on the medium term credit loan, about 17.4% of them respond to long term loan, and about 14.1% others reply to short term loan.

As to the regular credit report is concerned, two statements were presented to the respondents intending to observe their views. The first being: the bank has adopted standard reporting systems which score a mean value of 4.26 and the second: the bank regularly prepares periodic report on credit related performances with a mean value of 4.43. Moreover, the overall mean value has been scored about 4.35 by the participants.

From the study participants, 34 of them are females of which 13 are master degree holders, about 18 of them are first degree holders and the number of female respondents who have diploma educational back ground account 3 in count.

In this study paper, there are 58 total male respondents of which 24 of them are master degree holders and the number of males with first degree educational back ground account about 34 in count. There is no male respondent with diploma educational level.

Taking female respondents, the analysis result revealed that from the total 34 female respondents, 21 of them reply it takes 15-21 days, 6 of them respond 22-30 days, 4 of them say less than 7 days and 3 of them agree that it takes 8-14 days.

With regard to male respondents, from among 58 total male respondents; 22 of them reply 15-21 days, about 18 of them agree with 8-14 days, 13 of them respond 22-30 days and 5 of them say it takes less than 7 days.

5.3 CONCLUSIONS

All the data analysis and detailed discussions that have been made in the preceding chapter of this study direct the researcher to lead to the study conclusions and possible recommendations. Based on the study findings; here are some of the major conclusions drawn:

Considering the results of respondents` profiles, most of them are found in their active age group 26-35 years holding about 63% from the total participants. In terms of educational level, majority of them are first degree holders and master degree holders taking share of 56.5% and 40.2% respectively. Thus, all these imply that the commercial banks have active adult age employees with high potential of productivity if the banks utilize their human resources properly.

With regard to post-credit consultation services delivered by the banks to their credit customers, 88.04% of the participants agree that their respective banks are conducting post credit consultation activities to their credit customers; while 11.96% of the respondents respond saying there is no any post credit consultation services being held in their respective banks. Hence, even if there is a very good level in providing consultation services by the banks, further effort is needed to scale up to an excellence performance.

As to the employee`s working hours per day is concerned; about 71.74% reply that they work 8hours per every working day while about 28.26% of the participants respond that they work 9-14hours per-working day. Here, it can be concluded that the banks are not maximally utilizing their employee`s potential for more productivity simply by paying them extra payments, the banks can earn and maximize their wealth.

With regard to the study respondents` view regarding the variable credit appraisal; according to the result findings, the overall mean value is scored about 4.21 with which this number borders `agree` and `strongly agree` level of satisfaction. Thus, it can be said that even if the performance regarding credit appraisal in the banks is fairly effective, much is left to increase the satisfaction of the employees to highest level of excellence.

As to the credit collection policy is concerned; based on the result findings, the overall mean value of the statements of this credit variable is scored about 3.83 by the respondents. Majority of the participants choose the `agree` level of satisfaction which indicates that most of them are moderately satisfied for 3.83 is the lower level of the `agree` range.

The study respondents were also asked regarding some of the challenges that could possibly occur during credit granting and collection processes. Accordingly, they were asked whether or not there is lack of follow-up, lack of training, information inadequacy & loan diversion and the mean value for each statement was scored as 2.62, 2.50, 2.50 & 2.93 respectively. Moreover, the overall mean value has been scored as 2.64 telling us that the level of satisfaction of the respondents is 'neutral' which this in turn imply there might be problems in handling the challenges.

With regard to regular credit reports, based on the result findings, statements like the bank has adopted a standard reporting system about credit management practices, and the bank regularly prepares periodic report on credit issues were asked & came out with a mean value of 4.26, and 4.43 respectively. Besides, the overall mean value is scored as 4.35 with which respondents strongly agree that the banks performance in preparing regular credit reports is very effective.

As to the distribution of educational back ground to gender of the respondents is concerned, the statistical result reveals that the number of females who hold first degree and the number of females who hold master degrees account 19.57% and 14.13% respectively. On the other hand, the number of males who have first degree and master degree account about 36.96% and 26.08% respectively. Thus, the percentage deviation of the number of males who have first degrees from the number of females who have first degrees is about 17.39 percent. Similarly, the percentage deviations of males who hold master degrees from the number of females who hold master degrees are about 11.95 percent. Hence, even if the above figures are good in general, in terms of gender equity, female employees who work in credit and credit related sections of the commercial banks are relatively less in number.

With regard to age group and educational level, a cross-tabulation was made and the result findings revealed that the dominant age group that is 26-35 years in holding first degrees which account about 38% from the total respondents. Similarly, it is also this age group which holds high number of respondents who hold master degrees that is about 25 percent. Therefore, the above result findings indicate that most of the respondents are in their active and productive age group and hence, this is a good potential opportunity in the present, near and long future of the commercial banks` credit and credit related performances.

Statistical cross-tabulation was also made considering respondents' gender and the number of days for a single credit application to process it fully. Accordingly, considering females, most of them (21 in count) respond 15-21 days, followed by 22-30 days with which 6 female respondents reply to it. On the other hand, the male participants dominantly (22 in count) respond to 15-21 days, followed by 8-14 days with which 18 males respond to it. Thus, 14-21 days is dominantly responded by female and male respondents, indicating that there is high probability of getting loans within 15-21 days after the formal application day.

5.4 RECOMMENDATIONS

By considering the research findings and based on the conclusions being drawn from the discussion and analysis sections, the researcher has made some recommendations which could improve the credit management practices of the private commercial banks in Ethiopia.

Regarding the post-credit consultation services delivered by the banks, the study reveals that majority of the respondents agree that the banks deliver post credit consultation services regarding on how to use the credit proper and to pay it back on time. This being as it is, about 11.96% of the respondents say 'no' to this case. Thus, the commercial banks should modify or up-date activities related to pre & post consultation services and train their credit customers well so as to maximize the interests to be earned from credits, loans and advances.

The overall mean value regarding to the challenges being faced and method of handling is being responded as satisfactory scoring about 2.64 which falls in the neutral or un-decided range value. Hence, revising the existing policies and strategies regarding the credit management activities for better performances is expected from the commercial banks.

From the data analysis, the researcher discovered that to get credit or advance, the prerequisite that are mostly accepted are to have either buildings or vehicles as a collateral; but, in reality, this is too restrictive for many individuals who have the knowhow of a business but don't have buildings and vehicles. Thus, the banks shall allow other collateral methods like original educational documents so that new entrepreneurs would get enough initial capital for their initial investment.

Majority of the study respondents are found in their active adulthood age and they are highly educated. But, about 71.74% of them work only 8 hours per working day. The commercial banks

are not fully utilizing the educated human resources to the maximum level. Therefore, to cop-up with the highly competitive global financial activities, the commercial banks should utilize the active and more productive human power that they have and by giving them the opportunity to work more hours voluntarily with fair additional payments.

The result findings with regard to the variable credit appraisal, the overall mean value reflects that participants agree to the existing policies and strategies, but considering the volatile nature of customers demand and other external factors, the commercial banks should revise and up-date the existing appraisal related criteria, so as to attract more credit customers and in turn maximize the performance of credit management related practices.

The researcher also recommend to the commercial banks to include the lower income society in their opportunity of granting credit. In the course of working this research paper, the researcher realized that most credit opportunities are opened for the higher income society because of the simple reason that the lower income society couldn't afford the required collaterals. But, in the lower income society, despite the initial capital that they lack, there are so many talent full individuals who can bring a difference and join to the medium or even higher income society in a short span of time.

Finally, further studies would be recommended to conduct using either only secondary data or both primary and secondary data collection methods with large sample size and more variables to generate more accurate findings on credit management practices of the commercial banks in Ethiopia.

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APPENDIX A QUESTIONNAIRE

DEAR RESPONDENT/S:

Greetings!!

In fulfillment of the university requirements as a student at *Addis Ababa University*, pursuing a *Master of Science in Accounting and Finance*, I am required to carry out a thesis work. Accordingly, this questionnaire is designed to collect data to investigate *the Credit Management Practice of Commercial Banks in Ethiopia*. For this to be achieved, the data will be obtained from you, through this questionnaire which it plays a great role to my research work. Therefore, I hope that you will provide the necessary data in a faith full manner.

Thank you in advance.

PART ONE: Choose the appropriate option and put a tick mark in the parentheses being given in front of it.

1. Your age group?

- 18—25 []
- 26—35 []
- 36—45 []
- 46—65 []

2. Your gender?

- Female []
- Male []

3. Your educational level?

- Diploma level []
- Degree level []
- Masters level []
- Ph.D. level []
- Any level _____

4. Your monthly income range in Eth Birr?

- 5000—10000 []
- 10001—15000 []
- 15001—20000 []
- 20000—25000 []
- 25001—30000 []
- Above 30000 []

5. How long do you work per day?
- 8 hours []
 - 9—10 hours []
 - 11—12 hours []
 - 13—14 hours []
6. Which type of collection mechanisms are the most used in your bank?
- Legal action []
 - Letter []
 - Telephone []
 - Others _____
7. Most of the time, which type of collateral does the bank receives from its borrowers?
- Vehicle []
 - Building []
 - Bonds []
 - All
8. Does the bank give consultation services to its customers regarding cash management and ways of loan repayment?
- Yes []
 - No []
9. With who should a borrower first made a contact before applying for a loan?
- Branch manager []
 - Loan officer []
 - Loan clerk []
 - Any bank employee []
10. What type of credit is mostly granted by your bank?
- Short term loan []
 - Long term loan []
 - Midterm loan []
 - Any other loan []
11. Which of the following is the most users of your bank`s credit service?
- Government []
 - Cooperative []
 - Private []
 - Others _____
12. What are the possible reasons for rejecting loan requests
- Lack of adequate collateral []
 - Repayment capacity []
 - Lack of dependable trust []
 - All can be considered
13. How long will it take to process a given loan application?
- Below 7 days []
 - 8—14 days []
 - 15—21 days []
 - 22—30 days []
 - Above one month []

PART TWO: Please indicate the extent to which the following practices are applicable to your commercial banks. Use the following scales to fill the tables below:-

: Very large extent5

: Large extent..... 4

: Moderate extent..... 3

: Small extent 2

: Very small extent1

I, Debt collection policy of commercial banks in Ethiopia:

No	Debt collection policy	1	2	3	4	5
14	There exist an operational credit collection policy at the bank					
15	Late payments are allowed with prior approval and charges					
16	Collection enforcements are done in-discriminatory according to the policy					
17	Guarantor payments are sought when borrowers are in default as per policy					
18	There is continuous monitoring and control of loans advanced					

I, Client Appraisal of Commercial banks in Ethiopia

No	Client appraisal	1	2	3	4	5
19	The bank considers the condition of the loan including logical need for the funds, business sense and proven business idea.					
20	Nature, value marketability and quality of collateral in advancing loans.					
21	The bank determines the credit score of the borrowers using information from credit referencing bureau among other sources.					
22	The bank gathers information to assess the character of the borrowers during credit appraisal.					
23	The bank assesses borrower`s ability to pay the debt and makes a decision strictly based on the set criteria.					

II, Lending policy of commercial banks in Ethiopia:

No	Lending policy	1	2	3	4	5
24	The bank employs an elaborate lending policy that fits in to the borrowers profile to improve loan performance.					
25	The lender policy clearly specifies credit limits which are strictly adhered to the existing credit policy.					

III, Credit follow-up related questions

No	Credit follow-up	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
26	The bank has an excellent credit analysis procedure followed by the bank in extending credit					
27	The credit collection technique used by the bank is effective.					

IV, how does the Bank effectively practice Credit Management?

No	Characteristics	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
28	Preparing clear and trustworthy information					
29	Developing understanding between management team and employee					
30	Fast and sharp communication between management team and stoke holders					

31	Regularly communicating among management and staff					
32	Creating and maintaining a clear communication with customers.					

V, The major challenges faced by the bank on credit management practice

No	Characteristics	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
33	Lack of follow-up					
34	Lack of training					
35	Inadequate information about credit worthiness					
36	Loan diversion					

VI, Credit Reports of Commercial Banks

No	Character	Strongly disagree	disagree	Neutral	agree	Strongly agree
37	The bank has adopted a standard reporting system about credit management practice.					
38	The bank regularly prepares periodic report of credit					

I thank,

KahsuHluf

kahsuhluf@gmail.com

PART THREE:

Please put your idea in short and precise way for the following questions:

14. As being a professional worker of commercial bank, do you have access of getting credit? If your response is "Yes" then, express it in short?

15. Do you think that the credit accessibility is advantageous for both the borrowers and lenders (commercial banks)? Express your opinion.

16. What is your idea on the pre-requisite (like collateral or others) that your bank puts before granting a credit?

17. What measure shall the bank take to make its credit more accessible especially to lower level society who could not afford collateral?

Any idea you have on the credit management and collection policy of your bank that you think is important to my research work?

APPENDIX B

INTERVIEW SCHEDULE FORMAT

This interview schedule is designed to collect information on credit management and collection policy of commercial banks in Ethiopia. My structured interview questions are put as in the following:

1. How does your bank understand the importance of credit granting to customers?
2. How better is the relationship between your employees and customers?
3. Does your bank have a good image to its customers?
4. What are the account receivables and collection techniques commonly used by your bank?
5. What are the possible measures to be taken by your bank if debtors are unable to repay the credit on time?
6. Why is the bank unable to collect the amount it lends in full and on time?
7. What are the types of credit collection policies used in your bank?

I thank you.

KahsuHluf

kahsuhluf@gmail.com

ANNEX1: Authorized Letter Confirming to Collect Data from Addis Ababa University

አዲስ አበባ ዩኒቨርሲቲ
የቢዝነስና ኢኮኖሚክስ ኮሌጅ
አካውንቲንግና ፋይናንስ ት/ክፍል



Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 03/08/2023

To: _____

Students: Kahsu Hiyuf _____ undertaking

project entitled "Credit Management Practice" for partial fulfillment of the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,



Ato Dereje Urgipha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University

ANNEX 2: Confirmation Letter from Enat Bank



Ref: EB/CMD/LET/218/2023

Date: August 12, 2023

To: Addis Ababa University
Department of Accounting and Finance
Addis Ababa

Subject: Giving confirmation

I am writing to confirm that Ato Kassu Hluf has distributed and collected questionnaires for his Master of Science in Accounting and Finance Thesis under the title of "Credit Management Practice of Commercial Banks in Ethiopia".

I am the Credit Management Department Director at Enat Bank SC. I have authorized Ato Kassu to distribute questionnaires to our employees. I have also confirmed that he has collected all of the questionnaires that were distributed.

I believe that Ato Kassu's research will be of great benefit to the banking industry in Ethiopia. I am confident that his findings will help to improve the practice of commercial banks in our country.

Sincerely,

Lelise Temesgen

Director-Credit Management Department



ANNEX3:ConfirmationLetterfromHibretBank



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Hibret Bank

HB/HCCE/0572/23
August 16, 2023

Addis Ababa University
Addis Ababa

Subject: Confirmation of Data Collection for Research

Reference is made to your letter dated July 28,2023, where your University requested us to cooperate in providing information to student Kahsu Hluf for his research entitled "Credit Management Practice".

Hence, we would like to confirm that the Bank has assisted him in getting the necessary information which could serve as an input for the research.

Regards,



Hiwot Kebede
Director, Human Capital Center of Excellence Department

Customer Service:995 Tel: + 251 114 655 222 Fax: + 251 114 655 243

E-Mail: info@hibretbank.com P.O.Box: 19963, Addis Ababa, Ethiopia

SWIFT: UNTDETAA Ras Abebe Aregay Street, Hibir Tower

ጠቅላይ ልምድ!
United, We Prosper.

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