

**Addis Ababa University**  
**School of Business and Economics**  
**Department of Management**

**Challenges of Pre-Shipment Export Credit Financing In the  
Commercial Bank of Ethiopia**

**A Project Paper Submitted In Partial Fulfilment of the Requirements  
for the Degree of Executive Master of Business Administration  
(EMBA)**

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**Addis Ababa University**  
**School of Business and Economics**  
**EMBA Program**

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## C E R T I F I C A T E

This is to certify that this project work, “**Challenges of Pre-Shipment Export Credit Financing in the Commercial Bank of Ethiopia**”, undertaken by Mengistu Shimeles for the partial fulfillment of Executive Masters of Business Administration [EMBA] at Addis Ababa University, is an original work and not submitted earlier for any degree either at this University or any other University.

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**Research Advisor**

**STATEMENT OF DECLARATION**

I, Mengistu Shimeles, declare that, this study, "Challenges of Pre-shipment Export Credit Financing in the Commercial bank of Ethiopia (CBE)" is my own work. I have undertaken the research work independently with the guidance and support of the research advisor.

This study has not been submitted for any degree or diploma program in this or any other institution.

Mengistu Shimeles  
Signature.....

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## **Acronyms and Abbreviations**

|      |  |
|------|--|
| CATS | Customer Accounts Transaction Service    |
| CBE  | Commercial Bank of Ethiopia              |
| CPP  | Credit Process Procedure                 |
| CRM  | Customer Relationship Manager/Management |
| DBE  | Development Bank of Ethiopia             |
| ECX  | Ethiopian Commodity Exchange             |
| GDP  | Gross Domestic Product                   |
| L/C  | Letter of Credit                         |
| MIS  | Management Information Services          |
| NBE  | National Bank of Ethiopia                |
| NPL  | Non Performing Loans                     |
| SSA  | Sub Saharan Africa                       |

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## Abstract

*This study was carried out to establish challenges of pre-shipment export credit financing in the Commercial Bank of Ethiopia. It specifically focused on pre sanction appraisal and post sanction control of pre-shipment export credit financing. The study looked at the trend of non performing pre-shipment loans during the period 2009-2013 and identified factors that account for bad loans. Primary and secondary data were used in the study. Poor quality of information obtained from the bank's Management Information Services (MIS), sub-standard credit information obtained from the National Bank of Ethiopia, lack of procedural guidelines or memo that demand the communication between the designated CATS (Customer Accounts Transaction Services) Process Team, the Trade Service Process Team and Credit Management Team of the Bank as well as insufficient logistics facilities for executing proper loan follow up are challenges faced by the credit performers. Since pre-shipment credit facility is one among a number of credit products, it is difficult to generalize the findings of the study to other credit products of the bank. The findings showed that the bank recorded quite substantial amount of non performing pre-shipment loans during the period under consideration. The study identified volatility in international market, ineffective credit monitoring and loan diversion as major factors accounting for bad pre-shipment loans. To improve on the quality of the bank's pre-shipment loans, ensuring proper integration of the various processes involved in the pre-shipment financing process; availing the necessary resources required for effective monitoring; improving the quality of information used for credit appraisal and decision and requesting adequate collateral for inexperienced and highly leveraged exporters are recommended.*

**Key words:** *Pre-shipment Financing, Non-performing Loans, Pre-sanction Appraisal, Post-sanction Control.*

# CHAPTER ONE

## 1.1 Background

The issue of accelerated economic growth has been the main agenda in economic policy formulation for most of the Sub-Saharan Africa (SSA) and other developing countries of the world since the 1980's. One area that has been given much focus in order to promote the economic performance of these countries is external trade. Following the traditional trade argument, trade is viewed as an "engine" if not as a "handmaiden" of growth playing a supportive role in the economic growth of the least developed countries (LDCs) (Mekbebe, 2008).

International trade has also played a crucial role in the historical development of the third world. In the second half of the 20th century, the tremendous economic performance of the "four tigers"- South Korea, Taiwan, Hong Kong and Singapore has been largely attributed to the performance of the external sector where the export sector was given a greater emphasis. Strong political commitment towards export promotion and the application of appropriate policies together with efficient institutional mechanisms helped these countries attain a higher growth rate of exports and hence of the overall economy (Gemechu, 2002).

Ethiopia has experienced strong economic growth in recent years. With real GDP growth at or near double digit levels since 2003/04, the country has consistently outperformed most other countries in Africa and expanded much faster than the continent-wide average, 6%. Real GDP growth averaged 10.4% per annum during the

2003/04 and 2010/11 period, placing Ethiopia among the top performing economies in Sub-Saharan Africa. Different sectors contribute for this tremendous growth rate; among others export sector is the one. Total merchandise exports is continuously increasing from Birr 3.8 billion in 2000/01 to Birr 545 billion in 2011/12 besides its contribution to the total GDP reaches to 9.5% in 2011/12. This impressive export performance is partly attributed to the Policy formulation and implementation of export promotion measures taken by the government which as a result increases in export earnings from coffee, gold, chat, flower, live animals, fruit & vegetables, meat products and oil (NBE Annual Report, 2011/12).

Among the policy formulation and implementation of the export promotion, monetary policy is the one which deals with policies and management of credits besides the other nitty-gritty's of it. Consequently, Banks in Ethiopia provide credit facilities such as revolving export credit facility and pre-shipment export credit facility to give momentum to the export sector of the country. More specifically, CBE gives due emphasis for promoting the export sector by considering this sector a priority area for loan advancement along with the manufacturing and agricultural sector in its strategic goal. According to the credit procedure of CBE, Pre shipment export credit facility is defined as a loan extended for purchase of raw materials, processing and converting them into finished goods, warehousing, packing and transporting the goods until the time of shipment. This credit facility is given by the commercial banks during the previous period against the NBE Export Credit Guarantee Scheme. Later on in 2007 NBE transfers its responsibility related to Establishment and Operation of Export

Credit Guarantee Scheme to DBE (Development Bank of Ethiopia) (NBE, Directive No.SBB/41/2007.

However, CBE has been providing this service on clean basis(only against sales contract) starting from August, 2009 because of the ineffectiveness of the guarantee to provide protection for defaulted loans. On top of this the bank's exposure on pre-shipment export credit facility is increasing on average by 31%during the period 2009 to2013.Inaddition the non performing portion of the outstanding pre-shipment advances reached 7.4% as of June 30,2013.

As this facility is expected to get increased since the country's strategic goal is towards import substitution and export oriented, it would be imperative to assess the reasons that contributed for higher proportion of default and propose remedial measures.

The Commercial Bank of Ethiopia (CBE) is the biggest and oldest financial institution in the country. As of June 30th 2013 its deposit stood at birr 154.5billon; while total asset and capital of the bank reached birr 198.3 billon and 9 billion, respectively. The bank also had 695 branches across the country and 15639 employees. (CBE March Bulletin, 2014)

Today, more than ever before, CBE aggressively expanded its presence in all directions of the country. Despite the flourishing of private commercial banks in the country, CBE has remained potent and is in the lead in terms of assets, deposits, capital, and customer base [<http://www.combanketh.com> retrieved date March 25, 2014].

The bank has been playing a great role advancing economic development of the country for 70 years now. This role can be maintained only when it is able to keep-up its good image by providing service that are most demanded by customers in the way they like it. To attain this, it has to continue improving the way it does business i.e. the way it provides service to its customers and the image it creates in the eyes of stakeholders have to go on improving. This is possible only when the bank is proactive and is able to perfect its strategies when surrounding dynamics change. To this effect, continuous assessment and monitoring of both external invasive macroeconomic/non-economic/factors and internal positions becomes imperative. Consequently, less than four years back, the bank scanned its environment, assessed its strength and weakness, concretized its values and capabilities based on agreeable approaches. Thereafter, convincingly, it polished-up its vision, mission, objectives and strategies (Commercial Bank of Ethiopia customer satisfaction survey April 2012).

Accordingly, Commercial Bank of Ethiopia envisions „becoming world class commercial bank by the year 2025“. In its strategic document too, it is clearly stated that the bank values both its customers and employees as not only important but also essential actors in all its endeavors of fulfilling public expectations. (CBE Strategic document, 2008)

## **1.2 Statement of the Problem**

One of the major problems in which banks are facing is the non- performing loans that arise from inherent credit risks. The reasons behind this may vary for different financial institutions as it depends upon the respective nature of the loans. The default rate is

especially high for the type of the loans which are not backed by collaterals and for those which are open for diversion (www.mcbanks.com accessed on June 18, 2012 @10:30 pm). In order to deal with the credit risk, Pandey [2011], described that there are two-pronged approach for safety of loans. These are Pre-Sanction appraisal (To determine the „bankability“ of each loan proposal) and Post-Sanction control (To ensure proper documentation, follow-up and supervision). In the preliminary mini assessment conducted by this research, it was understood that currently the proportion of non-performing pre-shipment loans (some 20 defaulted pre-shipment loan cases) is increasing and is becoming a threat for the bank“s asset quality. Thus, it is worth analyzing the credit process (both the pre and the post) to identify the reason behind the scene and device the mechanism to curb the challenge.

### **1.3 Research Questions**

Accordingly, this study examines the issues through the following research question:

1. What is the trend of non performing pre-shipment loans over the last five years?
2. How does the bank“s pre sanction appraisal and post sanction control level with regard to pre shipment credit facility looks like?
3. What are the challenges faced by credit performers in enhancing the asset quality of pre-shipment loans?
4. What are the risks associated with the pre-shipment loans?
5. What factors account for non-performing pre-shipment loans?
6. Which of the pre-shipment loans have higher probability of turning to non-performing loans?

## **1.4 Objective of the Research**

The general objective of this research is to assess the challenges regarding pre-shipment export credit facility of CBE. More specifically, the aim of this study is to:

- ✚ Establish the trend of non-performing pre-shipment loans of the bank during the past five years;
- ✚ Assess the pre sanction appraisal and post sanction control level of the pre shipment export credit facility practice of the bank;
- ✚ Identify the challenges faced by credit performers in enhancing quality of pre-shipment loans
- ✚ Identify the risks associated with pre-shipment loans;
- ✚ Identify the factors that account for non performing pre-shipment loans;
- ✚ Determine which of the pre-shipment loans have higher probability of turning to non performing loans;

## **1.5 Significance of the Study**

The study provides an insight as to how to alleviate the challenges in the pre shipment export credit facility practices of CBE and is believed to contribute to its competitive capability in the industry. It also provides an opportunity for the bank to reduce its internal and external costs that could result from mal function of this credit facility. Furthermore, the study will also serves as a basis for future studies in this area.

## **1.6 Scope/Delimitations of the Study**

This study focused only on those cases that are lodged to the central credit CPC (to the head office); it does not include pre-shipment cases which are found in the outlying district CPC as there are few cases lodged at the outlying districts. Furthermore, the case will deal with those customers that are engaged in the export sector as well as producers exporters of CBE.

## **1.7 Limitation of the Study**

Since pre shipment credit facility is one among the number of credit products that the bank renders to its customers, it is difficult to generalize the findings of the study to the other credit facility products like merchandise loan facility, import letter of credit facility, overdraft facility etc.

## **1.8 Organization of the Study**

The study is organized in five chapters. The first chapter deals with background of the study, statement of the problem, objective of the study, significance, limitation and delimitation of the study. Chapter two presents the review of the literature. Chapter three dwells with the methodology of the research. Chapter Four presents analysis and interpretation of the collected data and chapter five poses the summary, conclusions and recommendations of the study.

# **CHAPTER TWO: LITREATURE REVIEW**

## **2.1 Introduction**

This chapter covers the review of literature on definitions and concepts of credit, types of credit, pre sanction appraisal, post sanction control, performing and non performing loans and the factors accounting for non performing loans.

## **2.2. Conceptual Framework**

### **2.2.1. Definitions, Types and Functions of Credit**

Credit, in commerce and finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The transferor thereby becomes a creditor, and the transferee, a debtor; hence credit and debt are simply terms describing the same operation viewed from opposite standpoints (Donald L. 2008). Conforming to the above notions Onyeagocha (2010) explains that, the term credit is used specifically to refer to the faith placed by a creditor (lender) in a debtor (borrower) by extending a loan usually in the form of money, goods or securities to debtor. Essentially, when a loan is made, the lender is said to have extended credit to the borrower and he automatically accepts the credit of the borrower. Credit can therefore be defined as a transaction between two parties in which the creditor or lender supplies money, goods and services or securities in return for promised future payments by the debtor or borrower.

There are three major types of credit. These are commercial credit, consumer credit and investment credit.

- Commercial credit can be bank credit such as overdraft, loans and advances such as merchandise loan, pre-shipment export credit facility etc; trade credit from suppliers; commercial papers (or note); invoice discounting; bill finance; hire purchase; factoring, etc.
- Consumer credit is a kind of permission granted an individual or a household to purchase goods like refrigerator, television, car, electronic sets, which could not be paid for immediately but for which installment payments are made over a period of time.
- Investment credit allows a business concern such as corporate body, sole proprietorship or partnership to obtain credit for capital goods for expansion of factory or procurement of machinery.

The tenor of a loan varies from short to medium to long term depending on the institutions, nature and functions. The importance of credit (and consequently the role of banks) in the economic growth and development of a country cannot be over-emphasized.

The functions of credit are primarily two: it facilitates the transfer of capital or money to where it will be most effectively and efficiently used; and secondly, credit economizes the use of currency or coin money as granting of credit has a multiplier effect on the volume of currency or coin in circulation. Furthermore, the cost of credit

(notably interest and discount rates) is one of the essential tools used to control and regulate money by the Central Bank. (Ademu, 2011)

### **2.2.2. Export Finance**

Increasing globalization has created intense competition for export markets. Importers and exporters are looking for any competitive advantage that would help them to increase their sales. Flexible payment terms have become a fundamental part of any sales package.

All sellers want to get paid as quickly as possible, while buyers usually prefer to delay payment, at least until they have received and resold the goods. This is true in domestic as well as international markets.

Export trade finance provides alternative solutions that balance risk and payment (Mekbeb, 2008). However, the following factors are important to consider in making decisions about financing:

- ✓ The length of time the product is being financed: This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.
- ✓ The risks associated with financing the transaction: The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale,

the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance or guarantee.

- ✓ The need for pre-shipment finance and for post-shipment working capital: Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains on the exporter's working capital. Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources.

Export trade finance is a specific topic within the financial services industry. It's much different, for example, than commercial lending, mortgage lending or insurance. A product is sold and shipped overseas; therefore, it takes longer to get paid. Extra time and energy is required to make sure that buyers are reliable and creditworthy. In addition, foreign buyers - just like domestic buyers - prefer to delay payment until they receive and resell the goods. Due diligence and careful financial management can mean the difference between profit and loss on each transaction.

Generally, there are different types of export financing mechanisms like Counter trade, Documentary credit, Supplier's credit, Pre-shipping financing, revolving export credit, Factoring, Buyer's credit, and Post-shipping financing. However, this study accentuate the utilization of one of these financing means in CBE, Pre-shipment export credit facility financing.

### **2.2.3 Pre-Shipment Export Credit Facility**

Access to working capital is one of the most important components of the export transaction, providing a means for companies to process and acquire goods and services to fill purchase orders and to ship and extend credit to their buyers.

To cover their working capital need, exporters mainly use working capital loan programs. According to the credit policy and procedure of CBE (2009 & 2012), Pre-Shipment Export Credit Facility is a loan extended for purchase of raw materials, processing and converting them into finished goods, warehousing, packing and transporting the goods until the time of shipment. This facility can be availed against DBE guarantee, sales contract or without sales contract.

### **2.3 Assessment of Borrowers Credit Worthiness/Pre-Sanction Appraisal**

The assessment of the credit worthiness involves the gathering, processing and analyzing of information on the loan applicant. There is risk in the provision of credit to borrowers. This risk exists because an expected payment may not occur. Credit risk is defined as potential losses arising from the inability of credit customers to pay what is owed in full and on time. Bank lending involves a bank, providing a loan in return for the promise of interest and principal repayment in the future (Aballey, 2009)

Available literature on lending indicates the lender's role in ensuring good decisions relating to provision of loans in order to minimize credit risk. Rouse (1989) explained that a lender „lends“ money and does not give it away. There is therefore a judgment

that on a particular future date repayment will take place. The lender needs to look into the future and ask whether the customer will repay by the agreed date. He indicated that there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment.

The lender should aim at assessing the extent of the risk and try to reduce the amount of uncertainty that will exist over the prospect of repayment. The lender must therefore gather all the relevant information and then apply his or her skills in making judgment. Though there might be pressures from customers and elsewhere which may sway away the lender's judgment, the lender must seek to arrive at an objective decision.

In view of these credit risks that might lead to bad loans, banks have some loan request procedures and requirements contained in their credit policy documents to guide loan officers in the processing of loans for customers. The following are some of the factors considered in granting loans:

- Applicant's background.
- The purpose of the request.
- The amount of credit required.
- The amount and source of borrower's contribution.
- Repayment terms of the borrower.
- Security proposed by the borrower.
- Location of the business or project.
- Technical and financial soundness of the credit proposal(Francis B. Aballey, 2008)

Among the criteria outlined above, credit vetting or appraisal is one of the crucial stages in the loan processing procedures. This is because this stage analyses information about the financial strength and creditworthiness of the customer.

According to Rose (1999) the question that must be dealt with before any other is whether or not the customer can service the loan – that is, pay out the credit when due, with a comfortable margin of interest. The factors underlying the assessment of pre-lending safeguards, in the opinion of Rose (1999) are; character, capacity, cash, collateral, conditions and control (i.e. the 6Cs). In another context, Rouse (1989) referred to mnemonics used as common checklist to review loan application as: CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The variation in the mnemonics relates to the basic principle of assessing the potential of having loans repaid. The dimension of each of the factors outlined by Rose (ibid) is as follows:

**Character:** Customer's past payment records; experience of other lenders with the customer; purpose of loan; customer's track record in forecasting business or personal income and credit rating.

**Capacity:** identity of customer and guarantors, description of history, legal structure owners, nature of operations, products and principal customers, suppliers for a business borrower and management quality.

**Cash:** take-home pay for an individual, the past earnings, dividends, and a less record for a business firm, adequacy of past and projected cash flow; availability of liquid reserves, turnover of payables, accounts receivable, and inventory; capital structure and leverage and expense controls.

**Collateral:** ownership of assets; vulnerability of assets to obsolescence and liquidation value of assets.

**Conditions:** Customer's current position in industry and expected market share; competitive climate for customer's products; sensitivity of customer and industry to business cycles and changes in technology.

**Control:** applicable banking laws and regulations regarding the character and quality of acceptable loans; adequate documentation for examiners who may review the loan.

**Security:** Securities for loans and overdrafts are to ensure recovery of the funds lent to the borrower in the event that the borrower becomes unwilling or incapable of meeting his commitments.

Dunkman (1996) outlined reasons for security as: safeguarding against some doubts about borrowers repayment ability, basis for increasing amount of loans over and above existing facilities, and as a last resort to recover loan in the face of default. Agyeman (1987) expressed the view that even though security is necessary, its requirement by bankers must be adopted cautiously otherwise it is capable of being counterproductive. According to him, this can come about when bankable projects are funded solely because of availability of security. Stiglitz (1996) buttressed Agyeman's (1987) view

that security has the unintended tendency for causing skewness of loans in favor of property owners. The researcher shares the view that if security becomes dominant factor in credit decision, bankable projects, which lack securities as support, may be starved of credit while those with adequate security support but not financially viable may rather have access to credit. This then serves as draw back in using financial intermediation as focus for meaningful economic development and growth. Banks are often confronted by instituting legal action against loan defaulters to take possession of assets pledged as collateral for foreclosure.

Akakpo (1994) suggested that the view that security should always be the last consideration in any loan proposition and one should not lend purely because security is offered. Any loan proposition should stand on its own with the security only providing a cushion should things go wrong.

Rouse (1989) however, held the view that no advances should be made until security procedures have been completed or at least at a stage where completion can take place without the need to involve the borrower any further. This suggests that the provision of adequate perfected security should be paramount in taking a credit decision. The rigidity in total secured collateral before disbursement of credit facilities needs to be relaxed in order not to delay the financing, which invariably impedes the success of projects.

It should be also noted that the provision of security just provides secondary source of repayment and therefore to ensure sustained relations with customers in their business endeavours, it is pertinent to consider the viability of the project being financed to

generate sufficient cash flows to liquidate the credit facility. Furthermore the foreclosure of immovable property pledged as security goes through a long legal tussle, which could not easily bring prompt liquidity relief to a bank. It is therefore very essential for banks to lay much premium on the viability of a project as a paramount consideration for lending financial support.

## **2.4 Challenges of Credit Appraisal and Credit Decision**

Decisions regarding credit risk assessment concern the evaluation of the firms' financial and non-financial characteristics in order to make „optimal“ decisions which incorporate a tradeoff between the potential risk of loss and the probability of profits from granting credit (Srinivasan and Kim, 1987; Srinivasan and Ruparel, 1990). Actually, credit-granting decisions are usually realized by credit and financial analysts as sorting (classifying) the firms seeking financing from banks or credit institutions into categories according to their creditworthiness (i.e., creditworthy and insolvent firms).

During the credit evaluation process there are two major problems which are usually encountered (Berger et al, 1996). The first one concerns a plethora of factors which should be examined. Factors which affect the assessment of credit risk include the financial characteristics of firms, strategic variables of qualitative nature which affect the general operation of the firm and its relation with the market, and even macroeconomic factors (i.e., inflation, interest rates, etc.). The credit analysts have to identify the most relevant factors for credit risk evaluation, and focus their further analysis on the examination of these factors.

The second major problem concerns the aggregation of the factors which have been selected in the previous phase, in order to make a final decision. Usually, factors affecting credit risk assessment lead to conflicting results and decisions. The credit/financial analysts, when performing credit risk analysis, implicitly consider the tradeoffs between the conflicting criteria, according to their global preference system. In this way, they conclude on an appropriate aggregation of the partial evaluations of firms on each one of the evaluation criteria, and derive the optimal decision.

***Incomplete Financial Information:*** the safe extension of credit depends on complete and accurate information regarding every detail of the borrower's credit standing. A possible exception to this rule is the case in which the loan was originally approved with readily marketable collateral to be used as the source of repayment. A lending policy should define the financial statement requirements for business and individuals at various borrowing limits and should include appropriate guidelines for audited, non-audited, interim, cash flow and other statements. It should include external credit checks required at the time of periodic updates (Ljubljana, 2004).

***Incomplete Credit Information:*** complete credit information is the only reasonable accurate method of determining borrower's financial capacity. The existence of such information as a basis for extending credit should be made clear in the bank's credit files and should include adequate financial statements. The purpose of borrowing, the intended plan and source of repayment, progress and supervision reports, inspections and minutes of loan conferences should also be specified (Ljubljana, 2004).

Besides this (Ljubljana, 2004), advised that there should be written policies in place regarding the information and documentation needed to approve new credits renew existing credits and/or change the terms and conditions of previously approved credits. The information received will be the basis for any internal evaluation or rating assigned to the credit and its accuracy and adequacy is critical to management making appropriate judgments about the acceptability of the credit. The banking institution should verify the accuracy of such information.

***Technical Incompetence:*** this includes a lack of technical ability among credit officers to analyze financial statements and obtain and evaluate pertinent credit information (Ljubljana, 2004). Personnel involved in credit appraisal, credit approval and credit review (audit) are required to undergo a common training program and pass a common test, attain a minimum level of experience and receive accreditation from bodies or individuals acknowledged by the Board before they are eligible to sign off or approve a credit proposal (Tuan, 2011).

## **2.5 Post-Sanction Appraisal**

According to Rouse (1989) this is an area which many lenders pay little attention but, if it is properly carried out, the occurrence of bad debts can be reduced considerably. He identified internal records, visits and interviews, audited accounts and management accounts as some of the things that help in the follow-up and control process.

As indicated by Francis (2009), follow-up can minimize the occurrence of bad loans through the following major purposes that it serves:

- Ensure the utilization of the loan for the agreed purpose.
- Identify early warning signals of any problem relating the operations of the customer's business that are likely to affect the performance of the facility.
- Ensure compliance with the credit terms and conditions.
- It enables the lender discusses the prospects and problems of the borrower's business.

Banking institutions need to develop and implement comprehensive procedures and information systems to monitor the condition of individual credits and related single borrowers across the banking institutions' various portfolios. Credit officers can be responsible for ongoing credit analysis and the prompt identification of emerging problems. Their contact with borrowers will usually permit identification of potential problems before they become apparent to others. (Tuan, 2011)

After credit is granted, lenders need information to control the actions taken by the borrowers until the debt is completely repaid. The borrowers may relax their efforts which could lead to default or may hide the proceeds of their business to avoid repaying their debts or may go to other lenders for more credit without the knowledge of the first lender (Copeland et al, 1998).

## **2.6. The Need for Regular Loan Follow-up**

Lending decisions are made on sound credit risk analysis/appraisal and assessment of credit worthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee for future, though they serve as a useful guide to project the

trend in performance. A loan granted on the basis of sound analysis/appraisal might go bad because the borrower may not meet his/her/its obligations per the terms and conditions of the loan contract. It is for this reason that proper follow-up and monitoring is essential (CBE, CPP, 2009&2013).

To safeguard financial institutions against potential losses, problem facilities need to be identified early. A proper credit monitoring/follow-up system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest and deterioration in the borrower's operating environment. Financial institutions must have a system in place to formally review the status of the credit and the financial health of the borrower at least once a year. More frequent reviews (e.g. at least quarterly) should be carried out of large credits, problem credits or when the operating environment of the customer is undergoing significant changes (Bank of Mauritius, 2004).

## **2.7. Activities/Functions of Regular Loan-Follow-Up**

Bank of Mauritius (2004) and CBE, CPP (2009&2012) in broad terms, the monitoring activity of institutions/banks will ensure that: funds advanced are used only for the purpose stated in the customer's credit application; financial condition of a borrower is regularly tracked and management advised in a timely fashion; borrowers are complying with contractual covenants; collateral coverage is regularly assessed and related to the borrower's financial health; the institution's internal risk ratings reflect the current condition of the customer; contractual payment delinquencies are identified

and emerging problem credits are classified on a timely basis; and problem credits are promptly directed to management for remedial actions, end use of funds, detect deviations from terms of decisions, Identify early warning signals, if any, and initiate remedial measures thereby averting loss from possible default. Moreover, the borrower should be asked to explain any major variances in projections provided in support of his credit application and the actual performance, in particular variances respecting projected cash flows and sales turnover.

## **2.8. Challenges on Regular Loan Follow-Up**

Monitoring of loans entails keeping track of the loan customers' activities in relation to the loan on regular basis to ensure that the terms and conditions of the facility are complied with as contained in the loan agreement. This includes on-sight and off-sight monitoring. It came up that mostly credit officers ignore on-sight monitoring which has to do with field visits to determine how customers are faring in their activities and their ability to repay loans promptly. A study conducted by Francis (2009) in Ghana identified inadequate resources such as under-staffing and logistics that aid effective monitoring, ineffective supervision by management and lack of access roads to customers' projects sites as the major challenges for most credit officer faces in their endeavor of making regular loan follow-up.

## **2.9 Performing and Non-Performing Loans**

### **2.9.1. Performing Loans**

Legally, a loan or credit facility refers to a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who promises to return the said amount to the creditor either in one lump sum or in installments over a specified period of time. The agreement may include provision of additional payments of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor. (<http://en.wikipedia.org/wiki/loan>).

The additional payments that are in the form of interest charges, processing fees, commissions, monitoring fees among others, are usually paid in addition to the principal amount lent. Indeed these additional payments when made in accordance with the loan contract constitute income to the lender or the creditor. A loan may therefore be considered as performing if payments of both principal and interest charges are up to date as agreed between the creditor and debtor.

The foregoing reveals that loans that are up to date in terms of principal and interest payments are described as performing loans/advances. These types of loans constitute quality asset portfolio for banks in view of the interest income generated by such assets.

### **2.9.2. Non Performing Loans**

The term bad loans described by Basu (1998), is used interchangeably with non performing and impaired loans as identified in Fofack (2005). Berger and De Young,

(1997) also considers these types of loans as “problem loans”. Thus these descriptions are used interchangeably throughout the study.

Generally, loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans. This is because going by the description of performing loans above, it follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is nonperforming.

Available literature gives different descriptions of bad loans. Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer’s financial status and management judgment about future payments (Bloem and Gorter, 2001).

Alton and Hazen (2001) described non-performing loans as loans that are ninety days or more past due or no longer accruing interest. Caprio and Klingebiel (1990), cited in Fofack (2005), consider non-performing loans as loans which for a relatively long period of time do not generate income, that is the principal and or interest on these loans have been left unpaid for at least ninety days.

A non-performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer anticipated, principal or interest is ninety days or more delinquent or the maturity date has passed and payment in full has not been made (Teach Me Finance, 2009).

According to NBE directive no SBB/43/2007, non performing means loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in question. Loans or advances with pre-established repayment programs are non performing when principal and/or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity, i.e. the debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity; interest is due and uncollected for 90 (ninety) consecutive days or more.

## **2.10 Factors Accounting for Bad Loans**

Research findings and publications show that bad loans occur as a result of some factors. Berger and De Young (1997) identified poor management as one of the major causes of problem loans. They argue that managers in most banks with problem loans do not practice adequate loan underwriting, monitoring and control. Moreover, Bloem and Gorter (2001) indicated that non-performing loans may rise considerably due to less predictable incidents such as the cost of petroleum products, prices of key export products, foreign exchange rates or interest rates change abruptly, delayed loan approval, poor weather conditions, diversion of loans etc. They also stated that deficient bank management, poor supervision, overoptimistic assessments of creditworthiness during economic booms, and moral hazard that result from generous government guarantees are some of the factors that lead to bad loans.

It is worth noting that though the literature obtained from foreign sources indicate some causes of bad loans, some of these may not apply to Commercial bank of Ethiopia (CBE). It is because of these reasons that it has become necessary to identify the causes of these bad loans associated with pre- shipment export credit facility in our bank. This would form the basis for cogent recommendations to be made towards solving the problem.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

An Exploratory and Descriptive research design was adopted by this research. Exploratory research is used to help the research to find out more about the as is of the pre sanction appraisal and post sanction control level, problem of bad loans as well as factors that lead to bad loans. Robson (2002), cited in Saunders et al (2007), described exploratory study as a valuable means of finding out what is happening in order to seek new insights, to ask questions and assess phenomenon in a new situation. The descriptive research on the other hand, aims to present a complete description of a subject within its context. Descriptive researches are often used when an amount of knowledge about the subject already exists, this knowledge can then be used to categorize into models and frameworks.

Consequently, the approach with in-depth interviews, document review and the use of questionnaire as data collection techniques will be very useful in the study of the major constructs. By and large the research approach adopted by this research was a blend of both qualitative and quantitative.

### **3.2. Population and Sampling**

In the Commercial Bank of Ethiopia large volumes of pre-shipment loans are processed in the Head Office Credit Processing Center. In the Head Office the credit Process is organized in 4 different Departments namely: Credit Appraisal Department (Responsible for appraising borrower's credit worthiness), Credit Portfolio Department

(Responsible for analyzing the loan concentration and the loan delivery time etc), Credit Management Department (Responsible for recruitment of customers, disbursement of loans and monitoring and follow up of the disbursed loans), Loan Recovery Department (Responsible to deal with loans when they are categorized as non performing either amicably or by acquiring and foreclosing collaterals; scrutinizing the reason why the loans are categorized as non performing).

### **3.3 Sample Size Determination**

The Tamo Yamane's (1967) simplified formula corrected to proportions was used and it is defined as:

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

Where: N is population;  
n sample size; and  
e = precision term

**Table 3.1 Departments with their Population and Selected Samples in the Study Area**

| <b>Serial no</b> | <b>Department</b>  | <b>Total number of credit performers (Population)</b> | <b>Selected Sample Size</b> |
|------------------|--|---|-----------------------------|
| 1                | Credit Management<br>(Business and Corporate and Commercial Customers Relationship Managers) | 50  | 44                          |
| 2                | Credit Appraisal<br>(Credit Analysts and Credit Appraisal Experts)                           | 27  | 25                          |
| 3                | Loan Recovery<br>(Loan Recovery Officers)  | 12  | 12                          |
| 4                | Credit portfolio Management<br>(Credit Portfolio Management Officers)                        | 10  | 10                          |
| <b>Total</b>     |  | <b>99</b>   | <b>91</b>                   |

91 credit performers were randomly drawn from the entire population of the 99 credit performers of the bank at the Head office. These are people who have had the expertise in pre shipment loan issues. A comprehensive interview guide was prepared and employed while conducting the interview session with the under listed officials of the Bank were interviewed to capture qualitative responses about the pre shipment credit facility:

- Vice-President –Credit Management
- Vice President Credit Appraisal and Portfolio Management

- Chief Legal and Loan Recovery Officer
- Director Business and corporate Customers relationship management
- Director – Credit Appraisal Department
- Manager- Loan Recovery Department
- Manager-Credit Portfolio Management

### **3.4. Data Collection**

The data collected for the study comprised of primary and secondary data. The type of data, their sources and the instruments used in gathering them are discussed as follows:

#### **3.4.1. Primary Data**

In addition to loan file review of the defaulted 20 pre-shipment cases, structured questionnaires and interview guides were used to collect the data from the above listed credit performers. The structured questionnaires were used to reduce the subjectivity nature of opinion of respondents. The interviews were used for clarifications of some unexplained issues such as the pre sanction appraisal and post sanction level of the bank, challenges faced by the respective credit officers, factors that account for non performing loans in pre shipment, among others.

#### **3.4.2. Secondary Data**

The secondary data were sourced from MIS (Management Information System) of the bank; various internal reports and annual and quarterly publications of NBE (National Bank of Ethiopia). The information will cover a period of five years from 2009 to

2013. Access to the data had not been a problem as this research is conducted by an employee of the CBE.

### **3.5. Data Analysis**

The responses obtained from the interview and the results of the document review were analyzed and presented through narration. The primary data from the questionnaires were analyzed using spread sheet and simple excel. The presentation was made using tables and percentages. The statistical tools used helped in conveying the meaning of the figures captured and as such made the analysis straight forward.

In addition, the responses obtained from the interview and the results of the document review were thematically categorized and analyzed using the fish bone diagram (cause and effect). Those themes that were used to categorize the interview questions that is, Challenges, Problems and Causes of the problems (both internal and external) were applied to analyze and interpret the findings of the study.

### **3.6. Ethical Issues**

All human organizations have some ethical issues to observe. Divulging of information by employees that can affect the institution is among several ethical issues relating to the staff of any bank. These were addressed by first explaining the essence of the study to the respondents of CBE.

The confidentiality of the information collected from interviewees was considered by ensuring that their names and other information that could bring out their identities were not disclosed in the data collected. They were also made to understand their role

in the data collection activity to find answers to the research questions. The reliability and validity test has been conducted for the questionnaire items for the research and it is found to be 0.85 cronbach alpha for the former one. Moreover the item of the questionnaire were found to be valid.

## **CHAPTER FOUR: RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter covers the presentation and analysis of the data used in the study. It shows the findings of the study which seek to answer the research questions in relation to the study objectives. The core issues of the research which are establishing the trend of non-performing pre-shipment loans of the bank during the past five years (i.e 2009-2013); exploring the as is of the pre sanction appraisal and post sanction control level, how it looks like and its challenges; identifying the factors that account for non performing pre-shipment loans and types of pre shipment loans which are highly susceptible to default are analyzed in this chapter. The chapter plays an essential role in the entire study as it relates empirical data to secondary data reviewed in this specific part.

### **4.2 Trends of non performing pre-shipment loans**

This analysis is done to establish the trend of non-performing pre-shipment loans during the period 2009-2013. Table 4.1 depicts the trend of non-performing pre-shipment loans of the bank over the past five years.

**Table 4.1 Trends of Total Non-Performing Loans and Pre-Shipment Loans as of  
June 30th(in Millions of Birr)**

|      | Total<br>outstanding<br>loans and<br>advances<br>A | Total<br>outstanding<br>pre-<br>shipment<br>loans<br>B | Total<br>nonperforming<br>loans<br>C | Total non<br>performing<br>pre-<br>shipment<br>loans<br>D | Total NPL<br>ratio=(C/A*100) | NPL ratio<br>of pre-<br>shipment<br>loans<br>=(D/B*100) |
|------|--|--|--------------------------------------|---|------------------------------|---|
| 2009 | 19,376   | 510  | 708                                  | 32  | 3.65%                        | 6.3%  |
| 2010 | 22,859   | 1,096  | 397                                  | 31  | 1.74%                        | 2.8%  |
| 2011 | 34,218   | 2,788  | 293                                  | 46  | 0.86%                        | 1.7%  |
| 2012 | 58,327   | 4,812  | 430                                  | 40  | 0.73%                        | 0.8%  |
| 2013 | 70,432   | 3,655  | 1,567                                | 270   | 2.25%                        | 7.4%  |

Source: CBE MIS, 2014

Following the banks focus to boost foreign currency receipt, its total credit exposure on pre-shipment credit facility expanded from 510 million birr in 2009 to birr. 3.6 billion in 2013. Consequently the banks credit risk measured in terms of nonperforming loans increased from 32 million birr in 2009 to 270 million birr in 2013. Non-performing pre-shipment loans ratio refers to the total amount of bad pre-shipment loans expressed as a percentage of the total outstanding pre-shipment loans during the period. The ratios of non-performing pre-shipment loans for 2009, 2010, 2011, 2012 and 2013 were 6.3%, 2.8%, 1.7%, 0.8% and 7.4% respectively. The table further reveals that 2013 recorded the highest proportion of non-performing loans followed by 2009, 2010 and 2011,

while 2012 recorded the lowest. Furthermore, it can be noted that the NPL ratio of pre-shipment loans, i.e. 7.4% which is over and above the bank wide average NPL ratio, 2.25% of the advanced loan amount, during the reference period.

### **4.3. The Pre- sanction Appraisal and Post Sanction Control (Monitoring and Follow up Level) with regards to Pre Shipment Export Credit Facility**

#### **4.3.1 The Pre- sanction Appraisal and Analysis Level with Regard to Pre Shipment Export Credit Facility**

Available literature on lending indicates that the lender should aim at assessing the extent of the risk and try to reduce the amount of uncertainty that will exist over the prospect of repayment at the pre sanction appraisal level. The expert/analyst must therefore gather all the relevant information and then apply his or her skills in making judgments. To this end the appraisal and analysis level of this credit facility is conducted based on the information and documents obtained from the Credit Customers Relationship Management Team, internal information, research output from the database of the bank and external data to be collected as deemed necessary.

In the case of existing customer the credit analyst /expert conducts customers' credit risk rating/grading by considering the applicants' financial, business, management, account performance (its turnover), relationship with CBE. For the new customer as it is clearly indicated in the credit procedure, the expert/analyst automatically assign risk grade 3, as this risk grade is among those of bankable risk grades, to entertain the new

customers" request (According to the CBE credit procedure there are eight risk grades ranging from 1, highly bankable to 8, least bankable).

Issues like market (the demand and supply gap, customers and suppliers of the applicant), establishment of the business and management, credit exposure with other bank, the applicants" loan account performance, financial statements (like current asset, current liability, margin liquidity, gearing) presented on the business plan of the applicant will be analyzed thoroughly. After analyzing the aforementioned points the analyst / expert will determine the working capital need of the applicant. By and large the credit expert/analysts conduct their pre appraisal duty taking into account the CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance/Security).

According to the credit policy and procedure of CBE pre-shipment is granted to the applicant, with the exception of few cases, only against sales contract. Consequently, the expert/analyst for the specific credit facility shall not carry or undergo calculation of the current loan request to collateral ratio. In other word this facility does not need any collateral if the customer has already generated USD 300,000 or equivalent or has been engaged in viable business at least for two years.

From the interview conducted with the credit analyst /experts and from the document reviewed it is evident that the credit performers give priority or more weight for the eligibility criteria stipulated in the credit procedure volume I which stated that "the applicant must have earned at least USD 300,000 or equivalent of other currency during the last 12 months preceding the application date or should have been engaged in any

other viable business at least for two years". It is seen that less weight is given to the other part of the analysis part, especially for the financial analysis (like the gearing position) and the experience of the applicant which is the crucial part of the analysis for this type of credit facility.

This notion is substantiated by the fact that almost all case that are categorized as NPL (Non Performing Loan) and sent to Loan Recovery had been granted with this facility while their gearing or leverage was high. Besides complying with the aforementioned criteria has exerted some pressure on credit performers to compromise the experience that should have been given more weight for analyzing such kind of facility as the export market by its very nature deemed experienced and highly savvy/canny participant which have the capacity to anticipate the market.

#### **4.3.2 The Post Sanction Control (Monitoring and Follow up Level) with regards to Pre Shipment Export Credit Facility**

Lending decisions are made on sound credit risk analysis/appraisal and assessment of credit worthiness of borrowers; but past records of satisfactory performance and integrity are no guarantee for future, though they serve as a useful guide to project the trend in performance. A loan granted on the basis of sound analysis/appraisal might go bad because the borrower may not meet his/her/its obligation as per the terms and conditions of the loan contract. It is for this reason that proper post sanction control/follow up and monitoring is essential.

Before starting discussing about the as is of this level with respect to pre shipment credit facility, it is worth noting that the policy and procedure manual of CBE classified customers into two groups, Trading and Non Trading, to ensure flexible and tailor made service delivery. Moreover, trading customers are further classified into business, corporate and commercial to address their needs and preference accordingly on the basis of sales turnover, volume of service, corporate responsibility, income generating from the customer, customer relationship with the bank and management capability of the business.

Meaning customers with high sales turnover, high income generating capacity to the bank, a long established relationship with the bank etc are categorized as business. Furthermore these classifications are watched and administered by the Vice President of Credit Management and handled at the Directors level (i.e. Director–Business and corporate Customers Relationship Management and Director- Commercial Customers Relationship Management. They are responsible to handle the duties of the follow up and monitoring among others.

According to the credit policy and procedure of the Bank, the Customer Relationship Managers (CRMs) are responsible to communicate the credit decision to their respective customers. Here if the customer's are not happy with the decision made by the Credit Approving Committee, they do have the right for an appeal with their convincing justification. Furthermore, as it is clearly indicated in the credit policy and procedure of the bank appeal is always seen by the committee higher than the previous committee which previously decided on the case.

Disbursement for the pre shipment export credit facility is effected by the CRM together with the Director of the respective wing when either a bona-fide sales contract or L/C (Letter of Credit) is presented by the customers. Nevertheless the introduction of ECX (Ethiopian Commodity Exchange) to the market fundamentally changes the way how the relationship managers of the two wings handled cases with respect to pre shipment export credit facility.

According to the agreement entered between the bank and the Ethiopian commodity exchange, the bank is required to open a number of different bank accounts to facilitate the transaction process namely ECX pay in and ECX pay out accounts. ECX pay in account is a deposit only account that is made mandatory (by ECX) for each member to open in one of the branches of CBE in order that each member can participate in the exchange trading floor in his/her/its account. No withdrawal by the member is allowed from this account; it is only the ECX performer that can send electronic debt instruction or balance inquires to this account. To this effect, ECX pay out account is an account that the member/client maintained to withdraw his/her/its money if they fail to win the auction.

According to document reviewed and the interview conducted with the Customers Relationship Management Team, The CRMs credit the ECX pay in account of the customer with the proportion margin after the customer brought either a bona- fide sales contract or irrevocable L/C. This would help either the member or client of ECX to participate as a buying party in the ECX's trading floor. This in turn would ensure the availability of sufficient funds in this account before allowing the designated member to participate in the bids. If the member/client wins the bid (agreed to buy the

items from a member selling party) in the floor, the auction price there in shall be transferred to the ECX pay out account of the selling party through electronic instruction made by ECX to the designated team at the CATS (Customer Account and Transaction Systems) process and then transfers the amount to the beneficiary there in. Here the ECX only communicates about the amount to be credited to the selling party's pay out account. It does not convey message about the type of product the selling party traded at the floor. However, if the member fails to win or even participate to the bid, the member may then prefer to either reserve the funds for participation in subsequent trading session (in which case no electric instruction), or may request the exchange to transfer the funds back to the respective pay out account (from which the money could be withdraw at will). The ECX then will communicate the lists of the applicant whom wants to transfer their balance in the ECX pay in account to their pay out account to the designated team at the CATS process. However, most of the time the designated team at the CATS process will transfer the balance of the borrowers to their payout account without even consulting the CRM (Customer Relationship Manager). As a result of loose integration between CATS and credit management performers some reviewed loans become non performing since the borrowers withdraw and use the fund for the purpose other than intended.

Nevertheless, if the exportable items are not traded in the ECX floor the relationship managers of the two wings would credit the current account of the borrowers with the approved margin against the presentation of bona- fide sales contract or irrevocable L/C.

### **4.3.3 Follow up Mechanism of Business and Corporate Relationship Management Team**

From the interview conducted with the Director of Customers Relationship Managers (CRM) of this wing, it is evident that the CRM only collects the outstanding balance of their customers' pre-shipment export credit facility and present to their director on weekly basis. However there is not any report compiled to this effect about the status of their previous disbursement if there is any, the L/C opened regarding the disbursement, the settlement of the disbursed amount, the sales contract value, the L/C value etc. Furthermore, only some of the interviewees responded that they device their own follow up mechanism like holding the original sales contract until the customer opened and brought them irrevocable L/C as this would help them to counter check

- The L/C value and sales contract value
- Whether the customer opened L/C through CBE or not among other things

### **4.3.4 Follow up Mechanism of Commercial Relationship Management Team**

According to the interview conducted with the Customer Relationship Managers (CRM) of this wing, their follow up mechanism is substantiated by the comprehensive standard format that constitutes the commodity type, shipment date, contract number, contract value, L/C value, L/C settlement date, outstanding balance etc. Moreover, each CRMs have to compile and produce report the cases every 15 days to their Director. This practice would help them to know exactly about the disbursement they extend, the

settlement or the total collection i.e. whether the dollar amount is balanced with the total birr amount, the status of their respective case etc.

#### **4.3.5 Challenges Faced by Customer Relationship Managers of both Wings**

From the interviews conducted with customer relationship managers of the two wings, the following are the main challenges they face while performing their day to day activities:

- The quality of information obtained from MIS is poor and also it is not up-to-date. As a matter of fact it is difficult to exactly know the export performance of the customer.
- Number of Cases assigned to the customer relationship managers are too many, sometimes more than 30 credit cases are assigned to them.
- Due to remoteness of customers' warehouse which are located in Metema and Humera sometimes it is not convenient or very difficult for the relationship managers to verify the stock balance of some exportable items.
- Lack of a written procedure that demands the communication between the designated CATS team, which is responsible to process the ECX pay out account, and the Credit Management wing the borrower would have the chance to divert the fund by accessing from its payout account without the knowledge of the CRM. Consequently these pose difficulties to their follow up mechanism.

- In addition, borrowers of pre-shipment export credit facility can access the proceeds of their export prior to settlement of the advance due to lack of proper coordination between the Trade Service Process and the Credit process.

#### **4.4 Challenges Faced by the Credit Analysts/Credit Appraisal Experts with regard to pre-shipment Export Credit Facility**

According to the interview conducted with vice president Credit Appraisal and Portfolio Management; Director -Credit Appraisal and Manager-Credit Portfolio Managements/ the following major challenges are identified:

- The quality of information that they are provided from MIS (Management information system) team of the bank is not an up-to-date one most of the time. Moreover, the credit information they obtained from National Bank of Ethiopia does not show the exact status of the loan that the applicants have with other banks. Even sometimes the data showed an active status for an already expired credit facilities.
- The financial data submitted by the customers are not complete and most of the time does not show the actual picture of the company. It is not conclusive for example the customer declared that it has loan with a financial institution but this loan is not shown in the financial statements. Consequently it has got its own impact on the working capital determination. Most of the time the presented financial statement is not audited it is provisional which is not as strong as the audited one to show the standing of the borrower.

## **4.5 Risks Associated with the Pre Shipment Credit Facility**

There is risk in the provision of credit to borrowers. This risk exists because an expected payment may not occur. Credit risk is defined as potential losses arising from the inability of credit customers to pay what is owed in full and on time. Bank lending involves a bank, providing a loan in return for the promise of interest and principal repayment in the future (Aballey, 2009).

According to NBE directive no SBB/43/2007, non performing means loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances is in question. Loans or advances with pre-established repayment programs are non performing when principal and/or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity. From the reviewed documents of the five years out of 167 pre-shipment loans 20 of them turned out to be bad loans which constituted the major challenges of the pre shipment credit facility.

## **4.6 Factors Accounting for Non-Performing Pre-Shipment Loans**

Several reasons were advanced both by the interviewees and the document reviewed regarding the causes of nonperforming loans with regard to pre-shipment export credit facility in CBE. Consequently, most of the responses given by the loan recovery officers and the facts obtained from the document review indicated that the causes of bad loans are similar and in some cases the same factors were attributed.

The main causes as identified by the interviewees, responses from the questionnaires and document reviewed include ineffective monitoring ,diversion of loans, volatility in international markets, poor credit appraisal, lack of ample experience, lack of business management experience business experience, poor integrity of exporters, lack of commitment (Moral hazard) and decision or approval problem etc. These points are further elaborated with the reviewed documents as follows. For the sake of confidentiality the name of the borrowers are not mentioned here under, however the coded cases are all sent to the recovery unit of the Bank after categorized as NPL

**Table 4.2 Factors Accounting for Non-Performing Pre Shipment Export Loans**

| <b>Causes of Non-performing loans</b>  | <b>Frequency</b> | <b>Rank</b>     |
|--|------------------|-----------------|
| Delayed Loan Approval  | 20               | 3 <sup>rd</sup> |
| Volatility in International Market   | 65               | 1 <sup>st</sup> |
| Poor Credit Appraisal and Credit Decision  | 54               | 2 <sup>nd</sup> |
| Lack of ample experience in international Trade                                  | 54               | 2 <sup>nd</sup> |
| Diversion of loans   | 65               | 1 <sup>st</sup> |
| Lack of Business Management Knowledge on the part of exporter                    | 54               | 2 <sup>nd</sup> |
| Under Financing  | 20               | 3 <sup>rd</sup> |
| Ineffective Monitoring   | 65               | 1 <sup>st</sup> |
| Buyer's Risk( Cancellation of Contract and/or refusal of payment after delivery) | 54               | 2 <sup>nd</sup> |
| Third Party Risk(Risks of logistic Service Providers)                            | 20               | 3 <sup>rd</sup> |
| Others   | 20               | 3 <sup>rd</sup> |
| Total  | 491              |                 |

Source: Own Survey, 2014

From the above table 4.2 it is evident that, respondents ranked ineffective monitoring, diversion of loans and volatility in international market are as the most important factors contributing for the pre shipment loans to be categorized as non-performing. Poor credit appraisal and credit decision, lack of ample experience in international trade, lack of business management knowledge on the part of exporter and buyer's risk (cancellation of contract and/or refusal of payment after delivery) were cited as the second ranked causes of pre shipment bad loans. Delayed loan approval, under financing, third party risk (risks of logistics service providers) is the third ranked cause of bad loans of the pre shipment loans. Other causes of non-performing pre-shipment is non-compliance with the bank's credit policy.

➤ **Ineffective Monitoring, Diversion of Loans and Volatility in International Market**

Table 4.2 above reveals that ineffective monitoring, diversion of loans and volatility in international market are ranked the most important factors with a score of 65 responses for each of these three factors. The respondents indicated that ineffective monitoring of loans is a major cause of bad loans as indicated by a score of 65 as shown above. The respondents explained that monitoring of loans entails keeping track of the loan customers' activities in relation to the loan on regular basis to ensure that the terms and conditions of the facility are complied with as contained in the loan agreement. This includes on-sight and off-sight monitoring. It came up that mostly credit officers ignore on-sight monitoring which has to do with field visits to determine how customers are faring in their activities and their ability to repay loans promptly.

It also came up that 90% (Table 4.3) of the respondents scores indicate that the problem of ineffective monitoring is due to under-staffing and lack of supervision. According to the respondents, diversion of loans into activities other than the agreed purpose also accounted for bad loans. As shown below, it was found that 62% of the respondents scores point to the fact that loan diversion is caused by ineffective monitoring, while 38% show that customers anticipation of higher gains in other activities result in the problem of loan diversion.

Moreover the respondents responded that the volatility of the international market for major exportable items of the country especially in 2011, 2012 and 2013 was the major reason for the cases to be categorized as NPL.

**Table 4.3 Factors Hindering Effective Monitoring and Causes for Loan Diversion**

| <b>Factors Hindering effective Monitoring</b>         | Frequency  | Percent    |
|---|------------|------------|
| Lack of Logistics                                     | 15         | 14.2       |
| Under staffing  | 40         | 38         |
| Ineffective Supervision                               | 50         | 47.6       |
| <b>Total</b>  | <b>105</b> | <b>100</b> |
| <b>Reasons for Loan Diversion</b>                     |            |            |
| Lack of Proper Monitoring                             | 65         | 62         |
| Anticipation of High Gains in other Business Ventures | 40         | 38         |
| Total   | 105        | 100        |

Source: Own Survey, 2014

➤ **Poor Credit Appraisal, Lack of Ample Experience, Lack of Business Management Knowledge and Buyer's Risk**

As show in table 4.2, the respondents believed that poor credit appraisal of credit requests by credit officers result in wrong credit approval decision that lead to loan repayment problem. The reason is that ineffective analyses of financial ratios, cash flow statements, credit risks analyses among others, usually give misleading information to the approving authority on the customer's financial position and ability to repay the loan. According to the respondents poor credit vetting also result in delayed loan approval which results in loan problems. Sometimes even the respondents also indicated that lack of ample experience in the international market arena and inadequate business management knowledge on the part of the exporters as another major cause of bad loans. The majority defaulters in the reviewed documents have a maximum of two years" of experience in the export market. As it is known participating in the international market for a very long period of time equips the participants with an in depth and a profound knowledge about the nitty-gritty of the international market. It was also found out that lack of adequate business management knowledge resulted in loss of sales income through poor records keeping on stocks and sales, and other activities of customers businesses. Buyer's Risk (Cancellation of Contract and/or refusal of payment after delivery) is another cause that makes borrowers of pre shipment loans to default.

➤ **Delayed Loan Approval, Under Financing and Third Party Risk(Risks of logistic Service Providers)**

The respondents believed that delayed loan approval (see table 4.2 above) is one of the third major factors that accounts for non performing pre- shipment loans. The data in table 4.3 shows that, 48% of respondents' scores indicate that customers' inability to meet loan requirements caused delayed approvals while 32% is due to poor credit Appraisal.

Table 4.2 also shows that inadequate financing is another third cause of bad loans. The data in table 4.3 shows that,52% of the respondents scores show that Low Account Turnover result in inadequate financing while poor credit appraisal and liquidity problems respectively, account for 28% and 20% for inadequate financing of customers financing requests. Respondents explained that this compels customers to source for additional credit from other private banks to make up for the short-fall, which affects loan repayment. Risks from logistic service providers such as transporters' from the ECX warehouse's and shipping line to the major export destiny areas of the world also accounts for the non performance of this facilities.

**Table 4.4 Causes for Delayed Loan Approval and Under Financing**

| <b>The causes of delayed loan approval</b>      | Frequency  | Percent    |
|---|------------|------------|
| Rigid Approval Procedure                        | 25         | 20         |
| Customer Inability to meet Approval Requirement | 60         | 48         |
| Poor Credit Appraisal                           | 40         | 32         |
| <b>Total</b>                                    | <b>125</b> | <b>100</b> |
| <b>Reasons for Under Financing</b>              |            |            |
| Poor Credit Appraisal                           | 35         | 28         |
| Liquidity Problems                              | 25         | 20         |
| Low Account Turnover                            | 65         | 52         |
| <b>Total</b>                                    | <b>125</b> | <b>100</b> |

Source: Own Survey, 2014

- **Which types of pre-shipment loans have higher probability of turning to non-performing loans?**

**Table 4.5: Pre-shipment loans with a higher chance of turning to non-performing loans**

| <b>Types of commodities</b> | <b>Frequency</b> | <b>Percentage</b> |
|-----------------------------|------------------|-------------------|
| Coffee                      | 8                | 6.5               |
| Sesame                      | 17               | 13.8              |
| Pulses                      | 40               | 32.5              |
| Meat and live animals       | 45               | 36.6              |
| Manufacture exports         | 13               | 10.6              |
| <b>Total</b>                | <b>123</b>       | <b>100</b>        |

Source: Own Survey, 2014

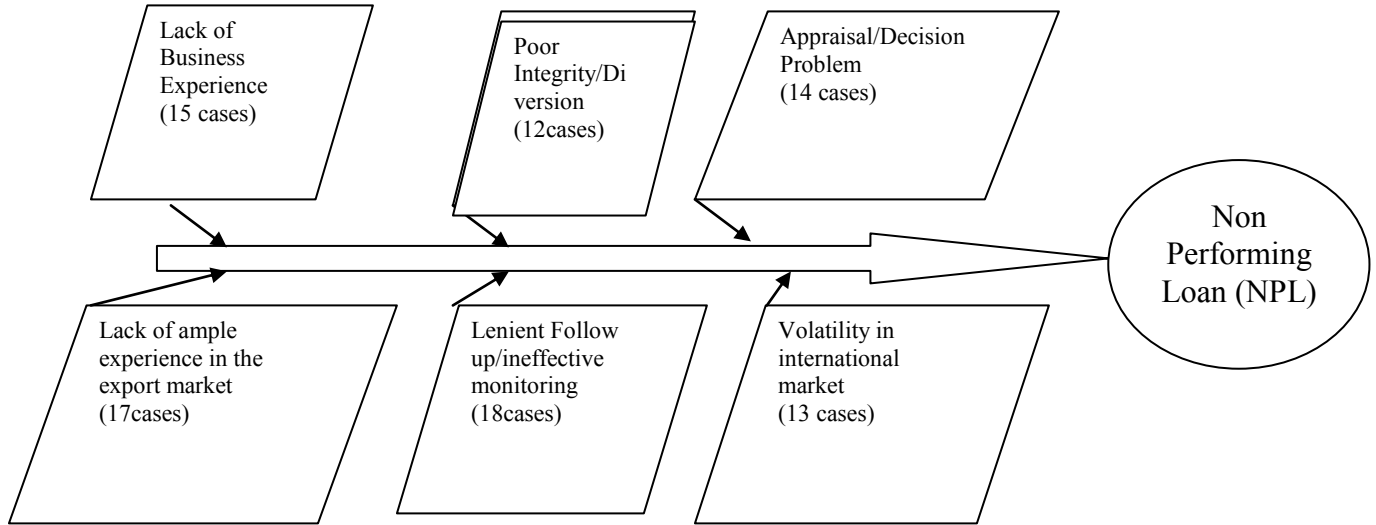
According to the respondents pre-shipment loans extended for meat and live animals and pulses have a higher probability of turning to NPLs i.e. 36.6% and 32.5% respectively. On the other hand, pre-shipment loans extend for purchase of coffee is presumed to have the lowest chance of turning to NPLs.

This is attributable to the fact that live animals and pulses are not currently traded on the ECX floor and disbursement for purchase of these items is made directly to exporter current account which makes it susceptible for diversion and misuse. To the contrary, the export contract of coffee is being registered by NBE (National Bank of Ethiopia) which reduced risk of contract cancelation significantly. Moreover, as coffee is traded at ECX floor disbursement for its purchase is credited directly to pay in account which reduced the risk of fund diversion.

Review of the NPL loan cases also revealed that the majority of the defaulted pre-shipment loans were advanced for non-ECX traded items. Out of the total 20 cases 12 were advanced for purchase of non-ECX traded items.

To substantiate the above findings the researcher tries to summarize the 20 reviewed documents and present in the following fish bone diagram (refer to APPENDIX C)

**Figure 1: Fish bone (Cause and Effect Diagram) diagram for the Pre shipment  
NPL Cases**



Source: Own Survey, 2014

# **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

## **5.1 Summary**

This chapter entails a recap of the research findings .It provides conclusions and recommendations relating to the study objectives. This is very essential as it gives the implications of the findings and the possible measures that could help reduce the problem of bad loans with regard to pre- shipment export credit facility. By and large this part of the study tries to give an answer for the following research questions:

1. What is the trend of non performing pre-shipment loans over the last five years?
2. How does the bank's pre sanction appraisal and post sanction control level looks like with regard to pre shipment credit facility?
3. What are the challenges faced by credit performers in enhancing the asset quality of pre-shipment loans?
4. What are the risks associated with pre-shipment loans?
5. What factors account for non-performing pre-shipment loans?
6. Which of the pre-shipment loans have higher probability of turning to non-performing loans?

## 5.2 Conclusions

- ✚ Non performing pre-shipment loans increased from 32 million birr in 2009 to 270million birr in 2013. This implies the need for putting in place effective credit risk management system.
- ✚ It is evident from the findings that the credit experts/analysts give priority or more weight for the eligibility criteria which stated that applicant must have earned at least USD 300,000 or equivalent of other currency during the last 12 months preceding the application date or should have been engaged in any other viable business at least for two years. Less weight is given for the financial analysis and the experience of applicant while appraising pre-shipment cases.
- ✚ Although the introduction of the ECX platform has changed the way the disbursement of pre-shipment export credit facility handled, sometimes borrowers access the amount of the advance extend to their payout account when they fail to win the auction. Meaning, the designated CATS performer will credit the borrowers pay out account which supposed to be reversed to the borrower loan account when they received a list of applicants from the ECX without communicating to the Credit Management wing. Likewise, there were instances where by the Trade Service Process channeled the export proceeds directly to the customers current account instead of the pre-shipment loan account and hampered the smooth settlement of the advance. These problems happened due to loose integration between the designated CATS Team, Trade Service team and the Credit Management team. The poor coordination amongst

the various Units of the bank paved the way for loan diversion by borrowers and caused default of the pre-shipment loans.

- ✚ The Relationship Managers of Business and Corporate wings only collect the outstanding balance of their customers' pre-shipment export credit facility and present to their Director on weekly basis. However this does not help them to know exactly status of their previous disbursements, if there is any, the L/C opened regarding the disbursement, the settlement of the disbursed amount both in birr and in dollar, the sales contract value, the L/C value etc.

The use of comprehensive standard follow up format and the report compiled every 15 days to that effect helps the customer relationship managers of the Commercial Customer Relationship Management wing to know exactly status of their previous disbursements, if there is any, the L/C opened regarding the disbursement, the settlement of the disbursed amount both in birr and in dollar, the sales contract value, the L/C value etc. Moreover the Director shall not authorize any disbursement to the CRM without complying with the standard follow up format. This would help the director to have a clear picture of each case. These disparity between the two relationship management units needs to be addressed through bench marking of best practices.

- ✚ Poor quality of information obtained from MIS and NBE, lack of procedural guidelines or memo that demand the communication between the designated Customer Account and Transaction Services(CATS) Process, Trade Service Process and Credit Management Process as well as insufficient logistics

facilities have exerted much pressure on CRMs not to discharge their responsibilities“ to the maximum possible. These indicated the need for establishing proper integration across the various units involved in pre-shipment loans cases and availing the require logistics to facilitate effective monitoring.

- ✚ Almost all of the cases that are categorized as NPL and sent to the recovery are new for both the export sector (not having an established relationship with their customers) and for the bank and also their financial condition in terms of gearing was poor ( highly indebted). This highlights the need for revisiting the eligibility criteria for pre-shipment credit financing.

### **5.3 Recommendation**

Based on the above drawn conclusions, the following recommendations are forwarded for the management of the Bank.

- ✚ One of the most important ways of minimizing non performing loan is through regular monitoring and supervision of loan facilities. This would prevent diversion of funds into business ventures other than the agreed purposes and help the Customer Relationship Managers (RM)to assist customers who are facing some business management problems. To ensure effective monitoring, the Business and Corporate Credit Management wing should at least adopt a comprehensive standard follow up format of the commercial wing that constitutes the commodity type, shipment date, contract number, contract value, L/C value, L/C settlement date, outstanding balance etc. This practice would help the CRM“s to know exactly about the disbursement they extend, the

settlement or the total collection i.e. whether the dollar amount is balanced with the total birr amount, the status of their respective case etc. Furthermore the Director of the Business and Corporate wing should also ensure regular supervision of the pre shipment cases with the standard follow up format through the report compiled at least every 15 days.

- ✚ The credit management wing should be adequately resourced in terms of vehicles and other logistics, to support monitoring activities. It is worth emphasizing that effective monitoring of pre shipment export credit facilities through reviewing of customers loan accounts on regular basis, as there is not any fixed repayment period like other credit products, enables the Customer Relationship Managers to assesses borrowers' current financial conditions, ensure that loans are in compliance with the terms and conditions of the facility, and identify potential problem loans for action to be taken early.
  
- ✚ To be successful in the realm of the export sector it is very much demanding that a participant should have an ample experience. However, the risk appetite of the Bank towards the export sector made the analysis and appraisal to give more weight for the eligibility criteria's than for the experience and financial strength of the applicant. Therefore the analysis and appraisal should give equal weight for the aforementioned parameters. Moreover, for the new customers if the experience is below three years it should be advisable either for the request to be backed by collaterals or the interest rate should be a little bit higher than the existing one.

- ✚ The integration between the designated CATs team, the Credit Management should be strengthened through a guideline or memo that demands the communication between these parties before crediting the applicants ECX pay out account whenever the ECX performers sent the list of applicants to the CATs team. Similarly there should be close integration between the Trade Service CPC and the Credit Process to ensure proper channeling of the export proceeds in to the pre-shipment loans and control re-direction of letter credits pre-shipment borrower to other banks which comes via CBE as an advising bank.
  
- ✚ As it is observed from the analysis almost all of the diversion occurred on the exportable items other than coffee. This is because in coffee export there is a dual protection by the Bank and NBE (i.e. National Bank of Ethiopia has registered each sales contract and follows up for its settlement). Therefore it would be advisable for other major exportable items to be dually protected by the concerned body such as Ministry of Trade, National Bank of Ethiopia, Ministry of Agriculture etc. to minimize/avoid the diversion.

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## APPENDICES

### APPENDIX A

#### Questionnaire

This questionnaire is meant to collect data for academic study entitled “Challenges of pre-shipment export credit financing in Commercial Bank of Ethiopia”. As credit performers of CBE, you are kindly requested to respond to the following questions in order to bring a valuable study results.

I thank you in advance for your time devotion and genuine response.

#### Part I: General information

1. Work experience in CBE  
 < 1 year       2-5 years       6-10 years       > 10 years
2. Work experience in credit area  
 < 1 year       2-5 years       6-10 years       > 10 years
3. Educational qualification  
 Diploma       First degree       Second degree       Others
4. Current position  
 CRM       Credit analyst       Loan recovery officer  
 Portfolio officer

#### Part II: Factors account for pre-shipment loans to be non-performing

5. In your opinion, which of the following factors account for non performing pre-shipment loans? (You can select more than one answer by giving number chronologically according to its importance).  
 Delayed loan approval  
 Volatility in international and domestic market  
 Poor credit appraisal and credit decision  
 Lack of ample experience in international trade  
 Diversion of loans  
 Lack of business management knowledge on the part of exporters

- Under financing
  - Ineffective monitoring
  - Buyers risk (cancelation of contracts and refusal of Payment after delivery)
  - Third party Risk (risk of logistic Providers like transporters and others)
  - Others, please specify.....
6. Do you think non compliance with credit procedure accounts for non performing pre-shipment loans?

Yes  No

7. If yes, which of the following account for that?
- (a) Customer pressure
  - (b) Management pressure
  - (c) All the above
  - (d) Others please specify.....
8. Which of the following factors hinder effective monitoring of pre-shipment export loans? (You can select more than one answer by giving number chronologically according to its importance).

- Lack of logistics
- Under staffing
- Ineffective supervision by management
- Poor accessibility of customers business

9. What are the causes of delayed loan approval and/or disbursement? (you can select more than one answer).

- Rigid approval procedures
- Customers inability to produce required documents timely and at once
- Liquidity problems
- Poor credit appraisal
- Others, please specify\_\_\_\_\_

10. Which of the following reasons account for loan diversion by customers? (you can select more than one answer).

- (a) Lack of proper monitoring
  - (b) Anticipation of high gains in other business ventures
  - (c) Ignorance of terms and conditions attached
  - (d) Inadequate financing
  - (e) Over financing
11. What account for the problem of under financing of pre-shipment financing requests?(You can select more than one answer).
- (a) Poor credit appraisal
  - (b) Inadequate collateral
  - (c) Liquidity problems
  - (d) Low account turnover
12. Do you think pre-shipment loans account for higher proportion of the Bank's non-performing loans.
- (a) Yes                      (b) No
13. If yes which of the pre-shipment loans contribute significantly for bad loans?
- (a) Coffee
  - (b) Sesame
  - (c) Pulses
  - (d) Meat and live animals
  - (e) Manufactured exports
  - f) (Others) specify .....
14. Are there any particular reasons for your answer above?  
Please specify.....
15. What measures should management put in place to reduce non performing pre-shipment loans? (if the space provided is insufficient, you can use additional sheet)
- a) .....
  - b) .....

## **APPENDIX B**

### **Interview Guide**

#### **Research Questions**

- Q1. What factors account for pre-shipment loans to be non performing loans?
- a. Why do pre-shipment loans go bad?
  - b. Do you think that the bank's credit procedures are effective in preventing non performing pre-shipment loans? Why?
  - c. Do credit performers observe loan-making procedures in appraising pre-shipment credit request?
  - d. What account for the failure to observe loan making procedures?
- Q2. Which types of pre-shipment loans( pre-shipment loans approved for purchase of agricultural products at the Ethiopian Commodity Exchange (ECX) floor or the others) turns to Non performing loans most? Why?
- Q3. Do you believe that the existing interdepartmental coordination between the Customers Account and Transaction Services process, Trade service process and credit Process effective in preventing the injection of pre-shipment loans to non performing status? Provide justifications?
- Q4. How can the incidence of non performing pre-shipment loans will be minimized?

## APPENDIX C: Summary of the 20 NPL Pre-Shipment Cases

| Case | Business Experience | Experience in Exporting business | Poor integrity                       | Lenient follow up    | Poor credit appraisal/decision   | Volatility in International market                 |
|------|---------------------|----------------------------------|--------------------------------------|----------------------|--|--|
| 01   | 8 months            | 8 months                         |                                      | observed             | No audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, poor profitability, limited experience in the business   | Volatility in International market price of sesame |
| 02   | 60 months           | 24 months                        | Diverted from Ex Pay in A/c          | observed             | Highly leveraged business, weak financial position in terms of fixed assets, poor financial performance in terms of profitability' limited experience in the export business, credit relationship with other banks |  |
| 03   | 120 months          | 60 months                        | Diverted from Ex Pay in A/c          | observed             | Highly leveraged business, weak financial performance in terms of profitability, credit relationship with other banks(sufficiently financed by other banks)  | Volatility in International market price of sesame |
| 04   | 14 months           | 6 months                         |                                      | observed             | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business   |  |
| 05   | 360 months          | 120 months                       | diverted wrongly channelled proceeds | observed             | highly leveraged business, weak financial position in terms of fixed assets, poor credit track record, credit relationship with other banks  | Volatility in International market price of coffee |
| 06   | 26 months           | 24 months                        | Diverted from Ex Pay in A/c          | observed             | highly leveraged business, weak financial position in terms of fixed assets, limited business experience credit relationship with other banks  |  |
| 07   | 6 months            | 4 months                         |                                      | reasonable follow up | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business   | Volatility in International market price of coffee |
| 08   | 9 months            | 3 months                         | Diverted from Ex Pay in A/c          | observed             | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business   |  |
| 09   | 12 months           | 5 months                         |                                      | reasonable follow up | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business   | Volatility in International market price of cattle |
| 010  | 15 months           | 10 months                        | Diverted to other business           | observed             | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business   | Volatility in International market price of pulses |

| Case | Business Experience | Experience in Exporting business | Poor integrity                       | Lenient follow up | poor credit appraisal/decision   | Volatility in International market                 |
|------|---------------------|----------------------------------|--------------------------------------|-------------------|--|--|
| 011  | 19 months           | 6 months                         | diverted wrongly channelled proceeds | observed          |  | Volatility in International market price of cattle |
| 012  | 10 months           | 3 months                         |                                      | observed          | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business | Volatility in International market price of spices |
| 013  | 18 months           | 7 months                         | Diverted to other business           | observed          | highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business                                  | Volatility in International market price of coffee |
| 014  | 5 months            | 2 months                         |                                      | observed          | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business |  |
| 015  | 20 months           | 7 months                         | Diverted to purchase of fixed assets | observed          |  |  |
| 016  | 32 months           | 14 months                        |                                      | observed          |  | Volatility in International market price of sesame |
| 017  | 24 months           | 12 months                        | Diverted to other business           | observed          |  | Volatility in International market price of sesame |
| 018  | 4 months            | 3 months                         |                                      | observed          | no audited financial statements, highly leveraged business, weak financial position in terms of fixed assets, limited experience in the business |  |
| 019  | 37 months           | 24 months                        | Diverted from Ecx Pay in A/c         | observed          |  | Volatility in International market price of sesame |
| 020  | 360 months          | 120 months                       | diverted wrongly channelled proceeds | observed          |  | Volatility in International market price of coffee |