

*Piotr Feliks Borowski*

Warsaw University of Life Sciences  
Faculty of Engineering Production, Poland

*Sufa Gemechu Balcha*

United Bank S.C., Etegue Taitu, Addis Ababa

*Mahteme Girma*

Abay Bank S.C., Addis Ababa

## **Issues Related to the Loans Action in the Opinions of the Customers and the Employees of a Commercial Bank – United Bank S.C. in Ethiopia**

---

### ABSTRACT

---

The development of the economy in general and the firm's development in particular depend on easy and unlimited access to financial support. The aim of this research is to investigate the cooperation between United Bank and firms in the loans field. Moreover, research indicates that the strengths and weaknesses of the loan process come from the staff as well as from customers' point of view. The value of the research is due to the information gained from direct access to real cases from bank activities and from conducted interviews with both sides involved in the loan process. Individual in-depth interviews and questionnaire are the formal mechanisms for gathering sensitive information.

**Keywords:** Financial Institution, Commercial Banks, Borrowing, Savings and Loan, Management, Investments

---

---

## 1. Introduction

The fast growing youth population in Africa, the urbanization expected to drive over 50% of Africans to cities by 2050, and Africa's formalizing economy are all well known. Financial investors look for opportunities to earn superior returns in a specific time frame while minimizing their risks. Similar situation exists in Ethiopia. The Ethiopian economy is characterized by utilization of land-agriculture capital (40.2% of GDP), as well as development of its mineral resources, industry (14% of GDP), fast growing population (95.5 million) and a still high level of unemployment – according to official data – (16.8%). The government has launched its second growth and transformation plan to change this situation by restructuring the economy from agricultural-based to an industry-based one. Its successful implementation is dependent on the unlimited access to financial support<sup>1</sup>.

Economic activities such as the production process, marketing, agricultural activities, business transactions and services have played a significant role in the development of the country including the impact on the banking system. As the importance of money increased as an intermediary of exchange for almost all transactions between individuals, businesses, countries and regions, the need for bank lending services has become a crucial factor to facilitate the exchange of goods and services. According to Abebe, new management techniques are required in order to increase the level of resources' efficiency<sup>2</sup>. The role of a manager is to monitor and shape the internal and external environments and to anticipate changes and react quickly to them. Managers can access information through a variety of sources: customer and supplier feedback; professional, trade, and government publications; industry associations; and personal contacts<sup>3</sup>. In many countries financial institutions like banks are not only major creditors but are often the largest stockholders as well<sup>4</sup>. The strong and transparent financial performance of banks is important not only

---

<sup>1</sup> [www.africaneconomicoutlook.org](http://www.africaneconomicoutlook.org) and [www.tradingeconomics.com/ethiopia](http://www.tradingeconomics.com/ethiopia)

<sup>2</sup> M. Abebe, *Policy and Institutional Reforms in Africa: A Succinct Review of the Challenges and Pockets of Achievements*, "Journal of Business and Administration Studies" 2010, vol. 2, no. 2, SMU, Addis Ababa.

<sup>3</sup> E.M. Benowitz, *Principles of Management*, Hungry Minds Inc., 2001.

<sup>4</sup> D. Kieso, J. Weygandt, T. Warfield, *Intermediate Accounting*, John Wiley & Sons, 2010.

from their shareholders' point of view but is also crucial for the whole economy as it helps the banks to perform their basic role as a financial intermediary effectively and to support country's economic growth, especially in countries where financial and capital markets are underdeveloped<sup>5</sup>. The main goal of the research was to analyze the loan activity potential in Ethiopian financial system on the example of the selected bank as well as to indicate the role of the bank staff and borrowers involved in credit procedures.

## 2. The Banking System in Ethiopia

The modern banking system in Ethiopia was established in 1905, as a result of an agreement made between the Ethiopian Emperor Menelik II and a representative of the British National Bank of Egypt. Consequently, the Bank of Abyssinia was inaugurated in 1906 by the Emperor. In the 30s the bank was bought by the Ethiopian government and the State Bank of Ethiopia was established by a proclamation in 1942. This bank was reorganized in 1963 into two different banks: the National Bank of Ethiopia and the Commercial Bank of Ethiopia<sup>6</sup>.

This period was characterized by the emergence of specialized banks like the Agricultural Bank of Ethiopia, the Investment Bank of Ethiopia and private banks like Banco De Roma, Addis Ababa Bank and Banco De Napoli<sup>7</sup>.

During the rule of the socialist Military Regime (1974–1991) all private banks were nationalized and amalgamated with the Commercial Bank of Ethiopia. It was the period when capitalism was abolished and the socialist economic system was imposed.

When the current political system came to power in 1991, the Ethiopian financial system was restructured according to the capitalist system and private banks were reestablished. As a result of this reform many private banks began operating in the country. Currently the number of private banks amounts to over fifteen. The National Bank of Ethiopia is the main regulator and supervisor of all financial institutions; it sets the rules and regulations in order to regulate the operations of private banks

---

<sup>5</sup> A. Haile, T. Getacher, H. Tesfay, *Financial Performance Analysis of Selected Commercial Banks in Ethiopia*, "EJBE" 2014, vol. 4, no. 2, AAU, Addis Ababa.

<sup>6</sup> G. Mergu, R. Rao, *The Penetration of Online Banking Service in Ethiopia – an Anaysis of Public and Private Sector Banks*, International Journal of Marketing, Financial Services and Management Research, 2014, vol. 3(6), p. 184–189.

<sup>7</sup> B. Gidey, *Banking and Insurance in Ethiopia*, Birhanina Selam Publishing Co., Addis Ababa 1994.

and other financial institutions. The Ethiopian financial system, listed in the Table 1, consists 19 commercial banks, from which 3 are state-owned and 16 are private.

**Table 1. Ethiopian Banking System**

No.	Name of the bank	Ownership	Established year	Number of branches
1	Commercial Bank of Ethiopia	State-owned	1963	644
2	Development Bank of Ethiopia	State-owned	1901	32
3	Construction and Business Bank	State-owned	1975	32
4	Awash International Bank	Private	1994	180
5	Dashen Bank	Private	1995	55
6	Wegagen Bank	Private	1997	50
7	Bank of Abyssinia	Private	1996	47
8	United Bank	Private	1998	145
9	Nib International Bank	Private	1999	45
10	Cooperative Bank of Oromia	Private	2004	38
11	Lion International Bank	Private	2006	20
12	Zemen Bank	Private	2008	1
13	Oromia International Bank	Private	2008	25
14	Bunna International Bank	Private	2009	8
15	Berhan International Bank	Private	2009	18
16	Abay Bank	Private	2010	127
17	Addis International Bank	Private	2011	31
18	Debut Global Bank	Private	2012	23
19	Enat Bank	Private	2012	12

Sources: National Bank of Ethiopia 2016, annual reports of selected banks.

One of the private banks in Ethiopia is United Bank, which will be used in a case study for this research. United Bank is one of the top seven banks controlling 90.4% of the total industry assets in Ethiopia, so it can provide reliable data for the research. United Bank was formed under the current regime. It was incorporated as a joint-stock company<sup>8</sup> in 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994 (United Bank S.C. annual report 2015). The bank's total number of staff listed in December 2015 has reached 2,722 including managerial, supervisory and support staff (United Bank S.C. annual report 2015). Nowadays United Bank is a full service bank that offers its customers a wide range of commercial banking services in a network of

<sup>8</sup> In Ethiopia a joint-stock company is known as a share company (S.C.).

145 branches, with a number of additional outlets in the pipeline. United Bank currently has 81 branches located in Addis Ababa, and 64 spread across major cities of the country (United Bank S.C. annual report 2016).

Organizations in the twenty-first century exist in the common market, where the distance between countries is shorter and effects of globalization are very easy to observe<sup>9</sup>. In the world of competition, the survival of any organization from any sector of the economy is directly dependent on the strategy of how the firm maximizes profit and minimizes cost. Porter in his well-known *Porter on Competition* outlined cost strategy<sup>10</sup>. Most firms try to hold down costs. A cost leadership competitive strategy goes beyond this. A business that pursues this strategy aims to be the low-cost leader in an industry (sector). It usually does this by minimizing costs across the board. Managers increasingly use information technology (IT) to drive their cost leadership strategies. For example information technology helps Westdeutsche Bank pursue its low-cost competitive strategy. The German bank's mortgage subsidiary's strategic goal is to become the lowest-cost provider of real-estate loans for private customers through its branches in London and Germany. In order to accomplish this goal, management knew it had to streamline its entire loan-approval process<sup>11</sup>. Effective and efficient use of resources in general and of financial means in particular is of paramount importance for the improvement of productivity of any organization and for the country's economic growth and development. For a sustained positive banking performance in the country, it is recommended that the banks invest more in interest bearing assets, mainly loans, to fully utilize their revenue generating capacity<sup>12</sup>. The effects of good loans and advances have contributed a lot to the growth of a bank extending into the economy at large. Hence a bank should be concerned about the quality of its credit procedures and techniques (United Bank Credit Training Material, 2001).

Banks are the most important intermediaries in the financial world. In the current competitive environment, more and more lines of business, which need huge investment, are being opened. They are primarily financed through banks. They play the indispensable role of mobilizing resources from the public and lending them for investment in different businesses. In this regard the United Bank Etegue Taitu Branch carries out its share.

---

<sup>9</sup> P. Borowski, *Functioning of Companies on Regulated and Changeable Market*, "International Conference on Technology and Business Management" 2014, Dubai.

<sup>10</sup> M. Porter, *Porter on Competition*, Harvard Business Review Press, 2008.

<sup>11</sup> G. Dessler, J. Phillips, *Managing Now*, Houghton Mifflin Company, 2008.

<sup>12</sup> A. Haile, T. Getacher, H. Tesfay, *Financial Performance...*, op.cit.

Banks are mainly interested in accepting deposits for the purpose of lending them and thereby earning their own income<sup>13</sup>. In any national economy there will be people and institutions with surplus funds which they do not require for their immediate use, and wish to deposit them in banks for security reasons and to get income from interest. The bank would then lend the money to borrowers at an interest rate higher than what they pay to their depositors<sup>14</sup>.

Loans are the most important assets held by banks, and the loans they provide and the interest earned on them constitute the bulk of their incomes. But bank loans are also risky<sup>15</sup>. Among other things, bank interest rates on loans fluctuate and are influenced by the changes in economic development and government policy. The bank should be able to accommodate a decision made to reallocate capital, people, and technology to satisfy the surging demand for their products. Having a flexible design, like a tree bending in the wind, the bank should be able to deal with an unexpected jolt from the environment<sup>16</sup>.

The problem of default on loans is a reality. With this in mind banks formulate their loan policies in order to minimize the risk associated with loans. Moreover, sound and realistic loan policies provide further benefits to banks. It helps the officials to handle loan issues uniformly, avoid confusion and misunderstanding and simplify management work. Transparency in lending practices emanates from sound loan policy<sup>17</sup>.

For any organization which is provided with a loan for the establishment of a business or expansion of an existing one, it is a must that the borrower gets a return on the investment so as to be able to pay back the debt. Normally a bank expects a borrower to provide collateral it can resort to if there is a default. In practice, loans can be fully secured to indicate that the net realizable value of the collateral exceeds the amount of the obligation<sup>18</sup>.

Loans are essential to both parties, lenders and borrowers. The lender benefits from providing the loan to generate income in the form of interest; the borrower benefits from getting a loan in order to expand or establish any business, e.g. enterprise to provide him with income he can use to pay back his debt and to cover all his operational expenses.

---

<sup>13</sup> L. Teferi, *Banking and Risk Management*, degree paper, Addis Ababa 2002.

<sup>14</sup> G. Mengistu, *Training Material on Credit Information & Follow up*, Addis Ababa 2007.

<sup>15</sup> M. Ehrhard, E. Brigham, *Financial Management*, South Western Cengage Learning, 2011.

<sup>16</sup> L. Gomez-Mejia, D. Balkin, *Management – People, Performance, Change*, Prentice Hall, 2012.

<sup>17</sup> T. Zeleke, *Loan Advance Procedure*, degree paper, SMU, Addis Ababa 2014.

<sup>18</sup> J. Hoyle, T. Schaefer, T. Douppnik, *Advanced Accounting*, McGraw-Hill, 2011.

### 3. Materials and Methods

In order to analyze the situation of loans in the United Bank, the researchers have used the descriptive research method – secondary and primary research and also the observation method. The descriptive method helps to outline the research setting as it is and also allows the use of both quantitative and qualitative approaches in order to obtain the desired result from the bank and to get detailed evidence about the problems. According to Malhotra<sup>19</sup>, descriptive research primarily aims at gathering knowledge about descriptions and explanations of the objectives of the study. At the beginning the researcher describes the things, events, and data which will be collected through questionnaires and interviews.

The primary data were gathered through structured questionnaires from the staff members of the bank engaged in the credit department as well as from clients involved in the credit process. The primary data were obtained from the employees and customers by distributing questionnaires, and conducting interviews. Moreover, document reviews were also used as the one of the main tools. A semi-structured interview with relevant officials (bank managers, credit analysts, loan officers and loan clerk) were carried out. Both open and close-ended questionnaires were distributed to some selected creditors of the bank and the loan officers. The reasons the questionnaire was used, were to protect the privacy of respondents, to gather a large amount of data from current customers who taken out loans, to gather a large amount of data within a specific period of time and due to its lesser cost than the other methods.

The secondary data were collected from different bank documents, from reviews which were used to gather information about similar problems investigated by other researchers as a base line. Researchers analyzed various credit manuals, policies, articles, scientific journals, magazines, bank annual reports, financial records, internet and other documents relevant to the study. Moreover, they have used their personal observations to examine how the United Bank Etegue Taitu Branch was performing in the area of the study. Direct observations were made in the credit department involved and in the loan advancing procedure and practice activities. This method benefited the research by providing accurate and representative data and results. By completing this study researchers were able to get a clear picture of the loan action in the Bank for the last five years.

---

<sup>19</sup> D. Malhotra, F. Bricks, *Marketing Research: An Applied Approach*, Prentice Hall/Financial Times, 2007.



## 4. Discussion and Results

This study attempts to consider the problem from the managerial and loan seekers' point of view. It seeks to ascertain the reasons why only a few customers apply for loans from among the 3,680 of depositors (Customer Care from United Bank, 2016) at the branch under our evaluation. The Etegue Taitu Branch of the United Bank has 3,680 depositors but only 47 creditors have taken a loan (Loan officer from United Bank, 2016). Considering the importance of loans as a source of income for the bank, the researchers decided to analyze the branch's lending department in order to determine why it has not managed to get more clients to take out a loan. The weaknesses in the procedures and the banks' credit policies were examined in order to find the reason for the insufficient number of borrowers.

Questionnaires were distributed to the bank's staff as well as to the bank's customers. Staff's education background and work experience are shown in Table 2, while borrowers' education background is shown in Table 3.

**Table 2. Education Background and Work Experience of the Bank's Staff**

		Education Background of staff	
		Degree	Postgraduate studies
Work Experience	Under 5 year	4	0
	5–10 years	3	2
	10–15 years	1	0
	Over 15 years	0	0

Source: own research.

Most of the staff (9 out of 10) who work in the credit department in the Etegue Taitu Branch indicated work experience of less than ten years. In education range eight members of staff indicated degree level and two achieved more than a primary degree in their education background.

A conclusion from this information is that new, young staff may easily adapt to the new requirements, as well as create or postulate new solutions for the bank. They have potential for self-development and for continuing their progress in education.

In the group of clients, most of them (20 out of 24) achieved diploma level or more (degree, above 1<sup>st</sup> degree) although there are clients with minimum level of education (under 8, TVET or under 12<sup>th</sup> grade).



**Table 3. Educational Background and Years Stayed as Borrowers**

No.		Category*	No.	Percentage (in %)
1	Education Background	Under 8	1	4
		TVET	1	4
		9–12 <sup>th</sup> Grade	2	10
		Diploma	9	37
		1 <sup>st</sup> Degree	10	41
		Above 1 <sup>st</sup> Degree	1	4
		Total	24	100
2	Years stayed as a borrower	Under 2 years	8	33
		2–5years	7	29
		Above 5 years	9	38
Total			24	100

\* Under 8 – primary education

TVET – Technical and Vocational Education and Training

9–12<sup>th</sup> Degree – secondary education

Diploma – High School Diploma, Maturity Diploma, Ethiopian School Leaving Certificate

1<sup>st</sup> Degree – bachelor (undergraduate degree from a university or college)

Source: own research.

From the information included in Table 3 it can be concluded that the borrowers of Etegue Taitu branch represent different levels of education and after conducting direct interviews with the bank staff, it is obvious that some of the clients have no ability to write their own signature and have no knowledge about banking procedures and products.

Sometimes the answers for the same question were different depending on the group of respondents. It is interesting from a researcher's point of view and it can be “input” material for further, more deep analysis. For example different answers were noticed for the following question: *How long did it take to process a loan for applicants?* The answers from bank staff and borrowers are shown in Table 4 and Table 5.

**Table 4. Time Required to Process Loan for Customer According to Bank Staff**

No.	How long does it take to process a loan for applicants?	Respondents' work experience			Percentage (in %)
		under 5 years	5–10 years	10–15 years	
1	Under 7 days	0	0	0	0
2	8–14 days	0	0	0	0
3	15–30 days	2	4	0	60
4	Above 30 days	2	1	1	40
Total		10			100

Source: own research.

**Table 5. Time Required to Receive Loan from the Bank According to Customers**

No.	How long did it take to receive the loan from the bank?	Respondents	
		No.	Percentage (in %)
1	Under 7 days	5	21
2	8–14 days	2	8
3	15–30 days	5	21
4	Above 30 days	12	50
Total		24	100

Source: own research.

After examining answers presented in Table 4 and Table 5, it is noticeable that bank staff are more conservative in their answers than customers. Customers indicated that it is possible to receive a loan from the bank even within one week, while the staff responded that loan procedures take more than two weeks. The overall interpretation of those answers shows that about 30% of clients haven't noticed that a loan procedure took more than two weeks.

The next important information which can be drawn from Table 4 is the link between work experience and the answer about time required to process a loan application. It is interesting to make additional analysis in order to identify if there is any correlation between staff's experience and their answer concerning time required to process an application. Pearson Correlation Ratio between work experience of bank staff and indicated time of loan procedure is 0.06. It is significant that there is no correlation between mentioned elements.

**Table 6. Bank Staff Opinion About Problems with the Implementation Policy Manual**

No.	Do you agree that there are problems associated with implementing the lending policy manual of the bank?	No.	Percentages (in %)
1	Strongly Agree	1	10
2	Agree	5	50
3	Neutral	0	0
4	Disagree	4	40
5	Strongly disagree	0	0
Total		10	100

Source: own research.

According to data in Table 6, 1 (10%) respondent replied that he/she strongly agrees that the bank has problems in implementing the policy manual. 5 (50%) respondents also replied that they agree that the bank has problems in implementing

the lending policy manual. 4 (40%) respondents disagreed that there are problems in implementing lending policy manual of the bank. It can be observed that those who agree and strongly agree are dominant (60%) in number of respondents. The fact that 60% of the respondents are admitting that there is a problem of normal implementation of the policy manual reflects the weakness of the bank in adequately and fairly assessing loan applicants. In addition, from direct observation, it can be concluded that the fact that the policy manual has a set of the rules and regulations created by the controller Bank of Ethiopia, i.e. National Bank of Ethiopia (NBE) is the reason behind it. So the bank cannot implement the policy as desired.

The same questions concerning the clients' satisfaction and problems with receiving loans were asked directly to the Bank's customers.

**Table 7. Customers' Opinion About Satisfaction with Bank's Loan Procedure**

No.	Are you satisfied with the existing loan advancing procedure and practice at the United Bank of Etegue Branch?	Respondents	
		No.	Percentage (in %)
1	Strongly satisfied	2	8
2	Satisfied	5	21
3	Neutral	2	8
4	Not satisfied	10	42
5	Strongly not satisfied	5	21
Total		24	100

Source: own research.

As indicated in the Table 7, 5 (21%) respondents replied that they are strongly not satisfied with the existing loan advance procedure of the bank. 10 (42%) respondents were not satisfied with the existing loan advance procedure of the bank, 5 (21%) respondents answered that they are satisfied with existing loan advance procedure of the bank and 2 (8%) respondents replied that they are strongly satisfied with existing loan advance procedure of the bank. 2 (8%) respondents were neutral to the existing loan advance procedure of the bank. From the above table it can be observed that 15 (63%) borrowers are not satisfied with the existing loan advance procedure. The number of customers who indicated problems with existing procedures is similar to the bank's staff number who mentioned problems with implementing procedures.

As indicated in Table 8, 10 (42%) respondents agreed that there is a problem in the process of loan granting, 6 (25%) respondents replied that they are neutral in answering the question, 7 (29%) respondents replied that they did not face any problems in the process of loan granting, 1 (4%) respondent replied that he strongly disagrees that there might be any problems in process of loan granting. From the

table 8, it is possible to understand that more than 2/5<sup>ths</sup> of the branch borrowers believe that there is a problem in processing loans while one third do not see any problems.

**Table 8. Customers' Opinion About Problems with Receiving Loan**

No.	Do you agree that there are some problems in the process of obtaining a loan?	Respondents	
		No.	Percentage (in %)
1	Strongly Agree	0	0
2	Agree	10	42
3	Neutral	6	25
4	Disagree	7	29
5	Strongly disagree	1	4
Total		24	100

Source: own research.

**Table 9. Problems with Applicants from Staff Point of View**

No.	Do you agree that there are problems that applicants face during the lending procedure resulting in their failure to secure the funds?	No.	Percentage (in %)
1	Strongly Agree	3	30
2	Agree	6	60
3	Neutral	1	10
4	Disagree	0	0
5	Strongly disagree	0	0
Total		10	100

Source: own research.

Table 9 shows that 60% of the respondents replied that there are problems which applicants face during the lending procedure resulting in their failure to secure the funds and 30% of the respondents indicated that they strongly agree that the applicants face a problem during the lending procedures resulting in their failure to secure the funds and 1 (10%) respondent replied that he is neutral to the question.

As it can be observed from the above analysis of Table 9, even if there is a designated policy to follow up with the borrower, after granting a loan some of the loan officers and bank managers fail to meet the objectives, which exposes the bank to financial loss. It is amazing that 90% of the respondents, aware of the problem faced by loan applicants, have done nothing to solve them. The first move by the lending department should have been to investigate and to take action to solve the problems.

**Table 10. Credit Policy of the Bank**

No.	Did you get the credit policy as you expected? (In credit period, interest and discount?)	Respondents	
		No.	Percentage (in %)
1	Strongly definitely	2	8
2	Definitely	3	13
3	Neutral	2	8
4	Not definitely	10	42
5	Strongly not definitely	7	29
Total		24	100

Source: own research.

Data in Table 10 indicate that 10 (42%) respondents didn't get the credit policy as they expected in terms of credit period, interest and discount, 7 (29%) respondents replied that they strongly did not get the credit policy as they expected in the credit period, interest and discount, 3 (13%) respondents replied that they did receive the credit policy as they expected in the credit period, interest discount, 2 (8%) respondents chose the answer "neutral" to that question and 2 (8%) respondents replied that they strongly definitely received the credit policy as they expected in terms of credit period, interest and discount.

After analyzing data in Table 10 it is possible to summarize that 71% of the respondents did not find the credit policy as they expected. Their expectations must have been based on the poor explanation given by loan officers.

**Table 11. Lending Requirement**

No.	Do you agree that the lending requirements are difficult for you?	Respondents	
		No.	Percentage (in %)
1	Strongly Agree	3	13
2	Agree	12	50
3	Neutral	4	16
4	Disagree	2	8
5	Strongly disagree	3	13
Total		24	100

Source: own research.

Answers gathered in Table 11 indicate that 12 (50%) respondents agree that the lending requirements are difficult, 4 (16%) respondents replied "neutral" to that question, 3 (13%) respondents replied that they strongly agree that the lending requirements are difficult, 2 (8%) respondents replied that lending requirements

are not difficult for them, 3 (13%) respondents replied that they strongly disagree that the lending requirements are difficult. This indicates that for the most clients the bank's requirements are difficult to fulfill. The bank needs to investigate the issue and re-address the borrowers' complaints.

With this brief description of the problems one can notice that some difficulties exist, which should be defined more precisely in order to change and improve the lending procedure. These topics were discussed as the interview questions with the Head of Credit Department of Etegue Taitu Bank Branch of United Bank. The results of the interview are summarized below:

- Inability to provide collateral,
- Inability to meet the policy requirements,
- Difficulty in understanding the loan policy from both borrowers and loan officers,
- The unlimited time the process consumes,
- Difficulties with provision of collateral and presenting a satisfactory business plan.

**Table 12. Loan Service from Other Banks**

No.	Have you ever got loan service from another bank before?	Respondents	
		No.	Percentage (in %)
1	Yes	3	13
2	No	21	87
Total		24	100

Source: own research.

For the above question from the Table 12, 21 (87%) respondents replied that they did not get a loan from other banks before and 3 (13%) of the respondents got a loan service from other banks, other than the United Bank Etegue Taitu Branch. It signifies that most of the customers of United Bank have no experience in cooperation with other banks. Next, clients were asked how they compare service in Etegue Taitu branch with other banks. Concerning the experience with other banks, only five clients gave an answer for this question.

As indicated in Table 13, 2 (8%) respondents replied that it takes a shorter period as compared to other banks when granting a loan, 1 (4%) respondent replied that it takes a similar period of time as compared to other banks when granting a loan, 1 (4%) respondent replied that it takes a longer period as compared to other banks when granting a loan and 1 (4%) respondent replied that it takes a very long period as compared to other banks when granting a loan. From these answers it can be seen that other banks operate in a similar way and Etegue Taitu branch takes no more or no less time in granting loans.

**Table 13. Loan Advance Procedure and Practice Time Taken**

No.	How did you evaluate the United Bank Etegue Taitu loan advancing procedure and practice as compared to the other bank you borrowed from?	Respondents	
		No.	Percentage (in %)
1	Takes very long period	1	4
2	Takes longer period	1	4
3	Takes similar time	1	4
4	Takes shorter period	2	8
5	No answer from respondent	19	80
Total		24*	100

\* From the group of 24 respondents only 5 customers gave an answer because the others have had no experience with credits from other banks.

Source: own research.

**Table 14. Loans by Sector of Economy**

Sector of economy	No.	Percentage (in %)
Agricultural Sector	0	0
Manufacturing	6	60
Domestic Trade & Service	1	10
Export	2	20
Import	1	10
Building & Const.	0	0
Transport Loan	0	0
Total	10	100

Source: own research.

The staff of Etegue Taitu branch reported that 60% of the loans are dedicated to manufacturing. Moreover, Table 14 shows that 30% of loans are granted in the international trade sector – Export and Import –. For the bank, as well as for the borrowers, the export and import transactions are affected by fluctuation in foreign exchange value. Borrowers involved in international trade should remember that currency exchange rate can change due to adverse foreign exchange rate movements that affect the home currency value.

From the above observation we can conclude that the bank emphasized manufacturing due to business viability and high demand in the sector. Commercial banks are guided by the need of the loan applicants rather than the policy of the government.



**Table 15. Problems Indicated by Staff and Customers**

Staff	Customers
There are problems with implementing the credit policy manual	The lending requirements are difficult
It takes too long to investigate borrowers' financial history, credit worthiness and to perform detailed analysis before extending the loan	There are problems in the process of loan granting
Lack of communication with defaulters	Did not find the credit policy as they expected
Mistakes on collateral estimation	
Problems associated with eligibility criteria	
Loan applicants fail because of problems they face during the lending procedure	Not satisfied with the United Bank's loan advancing procedure
The major cause for non-performing loan from borrower is the use of the borrowed fund for another purpose	The short time for return of loan
Many loan applicants fail to get a loan because of their inability to provide collateral and to meet the policy requirements. However many creditors may have already obtained some measure of security for themselves	Difficulties with provision of collateral, the value of the collateral sometimes dropped dramatically. A creditor is considered fully secured

Source: own study based on survey results.

## 5. Conclusion

This study will allow the organization to streamline its system of lending to make the activity more profitable, to make necessary adjustments on how to raise its performance effectiveness and efficiency and to analyze the problems relating to the loan granting procedure. It suggests how the bank can increase the satisfaction of its customers, and consider other ways of protecting the bank from failure in its operations and enable the managers to be aware of what is expected from them as professionals from loan seeking applicants.

The study can contribute ideas to improve the bank's relation with businesses and the public in order to create more opportunities to provide more loan advances. The bank's structure is not flexible enough to accommodate changes in the strategy or the environment. A well-designed structure should allow the organization to be innovative and adapt to changing circumstances.

The customers indicated that procedures are very complicated (63% of the respondents) and there are problems associated with implementing the lending policy manual of the bank (60% of the respondents). A large proportion of customers (63%) is also not satisfied with the existing loan advancing procedure and practice.

As a result of this study the bank can be more concerned about the quality of its loan and advance processes and will enrich the knowledge and experience of the loan operating officers and enable them to see how the process they develop in the long run is used as a measure of their success.

Since short-term business borrowing involves the use of accounts receivable and inventories as collateral, the scale of investments is insufficient.

The study also provides the basis for planning and using efficient and effective loan advance process management in the organization.

The results of the conducted study may also be used as a basis for other researchers who want to study loans advances and procedures.

As an overall conclusion, we can advise that the banking system in Ethiopia should allow borrowers to take out loans for longer periods of time. Access to financial support in order to make long-term investments should be easier for investors. The current system of only offering short-term loans curtails investment in large-scale projects. Ethiopian banks should strive towards gaining a reputation of the ones who bring innovative services to neighboring countries in East Africa, and Ethiopian banks should be the leading banks which have an extensive presence throughout the region.

## 6. Recommendations

The following recommendations are put forward in the belief that it will help in improving the bank's performance in its loan advancing procedure and practice, with proper risk management in action:

- The bank lending policy needs to be revised and to be easily understandable depending on the situation and economic condition of the country.
- Emphasis needs to be made on the importance of simplifying the credit process, credit customer handling and credit follow-up activities after credit disbursed.
- Customer handling and credit follow-up activities after credit disbursed.
- The bank does not appear to fully utilize its assets to generate income. The low level of loan clients to deposit clients shows a potential to increase more loans to generate more revenue. The bank is recommended mainly to invest in loans, to fully utilize its revenue generating capacity.
- The bank should prudently analyze the loan approval process and procedures in order to have a better approach that will meet the objectives of the bank.
- The bank should be more concerned about meeting individual investment needs rather than public ones.

- Since firms often find that they can borrow only if they put up some type of collateral to protect the bank, banks may write more flexible policies.
- Finally, one of the most important recommendations is to forward the bank into globalization and adaptation track. Globalization refers to extending a company's sales, ownership, and/or manufacturing to new markets abroad. Free trade areas—agreements that reduce tariffs and barriers among trading partners—further encourage international trade. More globalization means more competition, and more competition means more pressure to improve—to lower costs; to make employees more productive; and to do things better, faster, and less expensively. Adaptation means being willing to change parts of the organization when change is required. Adapting to the environment and adjusting to the situation are necessary to keep the bank on the top. The bank should be organized so that it can adapt to cultural and environmental differences.

## 7. Limitation of the Research

The research was conducted as a case study in Eteguu Taitu Branch so the number of respondents from the staff group directly involved in credit processing was only ten. The number of clients of this branch who cooperated as borrowers was only 24. The main limitation to the validity of the study is the fact that it could not include all banks. These numbers allow for a description of the credit problems of this branch but we can predict that there are similar situations in other branches of Ethiopian banks (based on own observation and informal discussion). In order to confirm this hypothesis a wider piece of research should be done in the future. Further studies are recommended that address those limitations.

## References

1. Abebe M., *Policy and Institutional Reforms in Africa: A Succinct Review of the Challenges and Pockets of Achievements*, "Journal of Business and Administration Studies" 2010, vol. 2, no. 2, SMU, Addis Ababa.
2. Benowitz E.M., *Principles of Management*, Hungry Minds Inc., 2001.
3. Borowski P., *Functioning of Companies on Regulated and Changeable Market*, "International Conference on Technology and Business Management" 2014, Dubai.
4. Dessler G., Phillips J., *Managing Now*, Houghton Mifflin Company, 2008.

5. Ehrhard M., Brigham E., *Financial Management*, South Western Cengage Learning, 2011.
6. Gidey B., *Banking and Insurance in Ethiopia*, Birhanina Selam Publishing Co., Addis Ababa 1994.
7. Gomez-Mejia L., Balkin D., *Management – People, Performance, Change*, Prentice Hall, 2012.
8. Haile A., Getacher T., Tesfay H., *Financial Performance Analysis of Selected Commercial Banks in Ethiopia*, “EJBE” 2014, vol. 4, no. 2, AAU, Addis Ababa.
9. Hoyle J., Schaefer T., Douppnik T., *Advanced Accounting*, McGraw-Hill, 2011.
10. Kieso D., Weygandt J., Warfield T., *Intermediate Accounting*, John Wiley & Sons, 2010.
11. Malhotra D., Bricks F., *Marketing Research: An Applied Approach*, Prentice Hall/Financial Times, 2007.
12. Mengistu G., *Training Material on Credit Information & Follow up*, Addis Ababa 2007.
13. Mergu G., Rao R., *The Penetration of Online Banking Service in Ethiopia – an Anaysis of Public and Private Sector Banks*, International Journal of Marketing, Financial Services and Management Research, 2014, vol. 3(6).
14. Porter M., *Porter on Competition*, Harvard Business Review Press, 2008.
15. Teferi L., *Banking and Risk Management*, degree paper, Addis Ababa 2002.
16. Zeleke T., *Loan Advance Procedure*, degree paper, SMU, Addis Ababa 2014.

### **Banks' Documents**

1. United Bank S.C. annual report 2015.
2. United Bank S.C. annual report, 2016.
3. United Bank Credit Training Material, 2001.

### **Websites**

1. [www.africaneconomicoutlook.org](http://www.africaneconomicoutlook.org)
2. [www.tradingeconomics.com/ethiopia](http://www.tradingeconomics.com/ethiopia)