

Causes of Nonperforming Loans & It's Provision in the Case of Development Bank of Ethiopia- Dessie Branch

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Abstract

Development Bank of Ethiopia is one of the financial institutions that provide a loan for small and large projects on the basis of customer focused lending to viable projects in line with government priority areas. to put into operation the government's five-year draft Growth and Transformation Plan (GTP) the development bank of Ethiopia to reduce the nonperforming loan, its vial needs on recognizing causes for nonperforming loan and their provision system according to the policy on the regional level. The sample size was 60 from both performing and nonperforming clients' bank and 14 employees. The sample sizes of the clients were determined by formula that provided by Glenn D. Israel (2009, April) in his equation five to determine the required sample size at 95% confidence level, degree of variability 5%: level of precision 9%. Questionnaire and Unstructured interview were the instruments used to collect primary data. The results of the study revealed that the demographic characteristics of the clients and employees are significantly effects on the repayment of loans. At the time of approval loan to the project and extending the existing project the bank facing some challenges, For instance on does not fulfill the requirement documents on time. And the continuous rising price, the approved loan may be unable to complete on time to finance the projects. On the disbursing the loan to the projects and currently market conditions are different, due to the economy fluctuations in the country to finance the project. Therefore, this situation can be pains to start well the project, to manage the project and to repay the loan as well. The projects that are more faces to repay the loan are in service and Hotel investment project. Some of the reasons are due to high computation in the market, problems on managing the business, low level of recording the book keeping as well as improper preparation of financial statement. The causes of the nonperforming loan by the client and employee side also from client the loan diverting to the other business, marketing problems for their products, inflation condition, lack experts on the business, due to shortage supplies to their business and asymmetric information between the bank and employee.

Keywords: Follow up system, Causes of nonperforming loans, and Provision.

1. INTRODUCTION

1.1 Back Ground of the Study

Financial system is a complex and encompasses many different types of financial institutions. Such as, Banks, insurance companies, mutual fund, finance companies, and investment banks which are heavily regulated by the government. Banks are financial institution that accept deposit and make a loan. Include under the term banks are firms such as commercial banks, saving and loan associations, mutual saving, development banks and credit unions (Frederic, S.M., 1997).

According to Malcolm, T. (2010), the nonperforming loan stated that the Nonperforming loans are loans that are soon to be declared in default, or have already been declared in default. Loans of this type are considered nonperforming because the lender is no longer receiving a return on his or her investment, since the borrower is no longer paying on the principle or the interest that applies to the loan. While the criteria used to determine if a loan is nonperforming varies slightly, there are a few basic guidelines that are used by most banks and other types of lenders.

Curtis, R. (2010, August 4). also stated that the types of non-performing loans: loans that are 90 days or more past due and still accruing interest; other real estate owned that taken by foreclosure or a deed in lieu of foreclosure; and loans which have been placed on nonaccrual (i.e., loans for which interest is no longer accrued and posted to the income statement).

Tyler, L. (2010, November 13). Identify that the most nonperforming loans are caused by borrower decisions. Sometimes borrowers decide to qualify for loans without thinking enough about the future and what else they need to buy with their income. When this occurs, a credit culture can develop where borrowers take out large loans not because it is financially wise but because they see others doing it. That can easily result in defaulted loans.

The Development Bank of Ethiopia (DBE) revealed its five-year strategic plan in which it will give out an unprecedented amount of loans to the manufacturing and agricultural sectors, reaching 21.9 billion Br and 16 billion Br, respectively, by the end of the five years because the sectors is expected to take the leading role in the economy after 15 years. Nonperforming loan which stood at 2.1 billion Br in the 2013/14 fiscal year, 22.8% of its total loan portfolio, it aims to have decreased its NPLs to 9.8pc in Ethiopia. Should it succeed in doing so, it will meet the minimum quota set by the African Development Bank (AfDB) for all development

banks on the continent, which is less than 15 %. Bahre, E. (2010, July 23). And cited by Haddush, Z.

1.2. Statement of the problems

Accordingly, there are many research studies carry out concerning the causes for non-performing loan and its management system within the banking sectors and micro finance institutions in different countries. For instance: James, L. (2006 Monday, February 6). in the Bank for Agriculture and Agricultural Cooperatives in India his studies shows that debt suspension program has negative impact on the non-performing loan ratio of Bank for Agriculture and Agricultural Cooperatives branches in all areas while and average loan has positive impact on the non-performing loan ratio of Bank for Agriculture and Agricultural Cooperatives branches in the area with highest income only. He used a regression analysis to determine how the non-performing loan ratio of Bank for Agriculture and Agricultural Cooperatives branches can be explained by the debt suspension program implementation and the average loan of customers.

Bishnu, K. (2006), in Bangladesh his study shows that Although Bangladesh has to a large degree adopted international standards of loan classification and provisioning, the management of NPLs is found ineffective, as the system has failed to arrest fresh NPLs significantly. It needs to be mentioned that management of NPLs must be multi-pronged, with different strategies pursued at the different stages through which a credit facility passes.

As a result, in our country Ethiopia the causes of nonperforming loan and its provision on the banking sectors have been conducted research by few researchers. Though, there were no recently research works that studied the cause of non-performing loan and its provision on Development Bank of Ethiopia in the Dessie branch in Amahra regional state therefore, this study were looked at the closely causes and its challenges and prospects on the appropriate basis. Hence this study intended to give a clear picture on the problems that encounters from client and Bank point of view. As a result, to put into operation the government's five-year draft Growth and Transformation Plan (GTP) the development bank of Ethiopia needs more exertion on recognizing causes for nonperforming loan and their provision system on providing loan through the regional main branches. The following question outlined to be answered by different source of data.

1. How the Development bank of Ethiopia in Dessie branch does identifies the causes for the nonperforming loans?
2. What are the challenges at the time of financing new and existing projects to the client?
3. What does it seem the follow up system after providing the loan to the customer in Dessie branch?
4. In which type of project that financed by the Development Bank of Ethiopia are faces for failure to repay the loan and why?

1.4. Objective of the Study

1.4.1. General Objective the Study

The overall objective the study is to identify the cause of nonperforming loan and provision on loan of Development Bank of Ethiopia in the case of Dessie branch from client and Bank point of view.

1.4.2. Specific Objectives

1. To identify the causes that may enhance the inactive clients from the bank point of view and client point of view.
2. To identify the challenges that can take place in financing the project to the customer.
3. To assess the follow up system of development bank of Ethiopia in Dessie branch after financing the loan.
4. To describe which type of project/ business that financed by the bank are faces for failure to repay the loan.

1.5. Scope and Limitations of the Study

The study was conducted on the cause of nonperforming loan and provision of loan in Development Bank of Ethiopia Dessie branch that financed projects in Kemisa, combelcha, Dessie, Haiky, Shwa Robit, Wichalle and Woldia towns. The study were concentrated on the clients and employees of the bank and the reason for Choosing Development Bank of Ethiopia in the Dessie branch was due to the fact that it is the largest financing bank with a number of customers as well as convenient to researcher. The study focuses on identifying the cause for nonperforming loan and the provision of loan by studying the bank's existing system and coming up with a design of a more efficient and reliable system.

Researcher faces some limitations during conducted the study: a documented research work paper in Ethiopia cases, time and fund constraint limits the area coverage of the study to only one branch and it make difficult to generalize whole Development Bank of Ethiopia in Ethiopia.

2. Methodology of the study

2.1. Sampling Technique

In this research study the researcher was used a probability sampling design. The ways of selecting were without replacement. From the probability sampling design the researcher was used a stratified random sampling design through a disproportionate sampling design of the performing and nonperforming clients. Because it provides the more efficient sample especially to the clients of these banks and it reflects an accurate population of the basis of criterion use for stratification of the clients.

This study were applied the formal calculation of the sample size of those clients of two branch banks. Therefore, the formula that provided by Glenn D. Israel (2009, April) in his equation five to determine the required sample size at 95% confidence level, degree of variability 5%: level of precision 9 %.

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

Where: n = refers to sample size

N= refers to population study

e = refers to level of precision

$$n = \frac{119}{1 + 119(0.09)^2} = 60$$

According to the data, there were 119 clients of the bank out of those 54 were performing clients and 65 were Non-performing clients. Following the selection of these clients, 27 of performing clients and 33 of non-performing clients were randomly selected. In total, by applying the formula shown below, 60 of clients were the sample size of the study. And all employees who involved in loan process were considered as other target group of the study. They were 14 in number. Thus, all were taken in to the sample size.

2.2. Data Types and sources

To have enough information as much as possible and address all the research questions, qualitative data types were employed. Qualitative data are designed to understand the feelings of customers and to create space for researchers to analyze complex and often non quantifiable cause and effect relationships and the meaning that customers impute to these relationships. Qualitative data were collected unstructured interview to the DBE Dessie branch and open and close ended questions to clients and employees of the Bank.

2.3. Data Collection Procedures

Among the various data collecting tools, the researcher used interview and questionnaire as to collect primary data. Unstructured interview was prepared and administered to the branch manager of the Bank. From the primary source of data the researcher used the unstructured interview and structured questionnaires. The unstructured interviews were conducted to the branch managers of the bank from 30 minutes to 60 (one hour) minutes during the weekend. The structured questionnaires that contain both the open and closed ended questions also distributed to client as well as to all employees of the bank which involves in loan processing on the banks.

Questionnaires were distributed and collected by enumerators under the supervision of the researcher so as to facilitate the study and interview was undertaken by researcher himself in order to effectively gather pertinent information to the study.

2.4. Data Analysis Method

Here in this study the researcher was used more qualitative method of analysis induction beside to the quantitative method so as to assess the causes of nonperforming loan and its provision of the Development bank of Ethiopia in Dessie branch. The data that were collected from the unstructured interview and structured questionnaires presented on the table, charts and graph with help of statistical program of SPSS 2005, version 16. The data collected were more of qualitative in nature; thus, they were presented by using descriptive analysis. Hence, the nature of the study is descriptive.

3. Data Analysis and Discussion

3.1. Responses from the Bank Clients

3.1.1. Demographic Characteristics of Respondents

The demographic characteristics of respondents refer to age, sex, educational status and experiences on the occupation. These demographic characteristics of respondents help to analyses on what conditions that the loan performance of DBE Dessie branch and its way of loan are affected.

Table 3.1 Gender of the Respondents

Gender of the respondents	Performing Clients		Nonperforming Clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Male	12	22.2	19	35.2	31	57.4
Female	13	24.1	10	18.5	23	42.6
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

The above table 3.1 shows that sex of clients from both performing and non-performing loan. On the performing loan clients, 22.2% of them are males and 24.1% are females'. From the non-performing loan clients are 35.2% of them are male and 18.5% are female. Out of 54 respondents 57.4% of them are male and 42.6% are female.

Of the bank clients in the performing loan, female are greater than male while case of in the nonperforming loan male are greater than female. Most of the repayment are made by the female in the performing loan clients, because most females are worthy than males in managing the work, utilizing the loan and in handling their customers. This shows that they are able to utilize their loan and comply in performing their loan. And most of the male on the nonperforming loan clients are unable to comply with their duty of repaying the loan.

Table 3.2 Educational statuses of the respondents

Educational statuses of the respondents	Performing Clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
1-10 Grade	5	9.3	17	31.5	22	40.7
10-12 Grade	15	27.8	10	18.5	25	46.3
Diploma	5	9.3	2	3.7	7	13.0
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

Knowing the educational statuses of the clients at the time of provision loan is important on the utilization loan, plan, preparation of proposal and awareness on loan.

Therefore, the above table 3.2 9.3% Performing client out of 54 respondents are from 1 up to 10 grades, 27.8% of them from graded 10 up to 12, and 9.3% are Diploma holder. The non-performing clients 31.5% are form grade 1 up to 10, 18.5% are from grade 10 up to 12 grade and 3.7% are diploma holders. Both the performing and non-performing clients their educational status are 40.7% from 1 up to 10 grade, 46.3% from to 10 up to 12 grade, and 13% are diploma holders. The above result shows that most of the nonperforming loan client's educational statuses are within 1 up to 10 grades. And most the performing loan client's educational statuses are 10 up to 12 grades. The educational statuses of the nonperforming clients are below 10 grades; this can be influenced for the nonperforming loans of the bank.

Table 3.3 Types of the project involved

Types of the project involved	Performing Clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Agriculture	6	11.1	2	3.7	8	14.8
Services	2	3.7	5	9.3	7	13.0
Hotel	14	25.9	9	16.7	23	42.6
Industry	0	0	6	11.1	6	11.1
Other	3	5.6	7	12.9	10	18.5
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

The Development Bank of Ethiopia provides a loan for different types of investment projects such as Agriculture, Service, Hotel, and Industrial and so on. Therefore, the result in the table 3.3 shows that on the performing clients 11.1% involves in Agriculture, 12.9% are involves in services. 18.5% in Hotel and 3.7% are in others such as cafe and restaurants.

On the nonperforming client 3.7% of them involves in Agriculture, 11.1% are involves in services, 16.7% are involves in Hotel, 9.3% are involves in industries, and 12.9% are involves in others such as cafe and restaurants. The overall the performing and non-performing 14.8% are involving in Agriculture, 24% of the

respondents are in services, 35.2% of the respondents are in Hotel, 9.3% % respondents are in industries, 16.7% respondents are involve in other such as cafe and restaurants.

Identifying the types of projects that can be more faces for nonpayment is significant on solving the problems and to take some measurements on it. Beside this the DBE Dessie branch most of the nonperforming loan clients are engaging in Hotel and service investments. The reason unable to repay the loan those involving in Hotel investment is due to the existing of high computation on the market and unable to manage the business.

Table 3.4. Experiences on the bank loan

Experiences on the bank loan by the clients of the bank	Performing Clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
One times	7	12.9	3	5.6	10	18.5
Two times	1	1.9	4	7.4	5	9.3
Three times	5	9.3	0	0	5	9.3
Have not taking a loan from banks	8	14.8	19	35.2	27	50.0
Above three times	4	7.4	3	5.6	7	13
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

A person who have an experience on the bank loan have awareness on loan, ability to manage their business and to gain more return from the bank loan by working hard on the existing market condition. Alongside this the above table 3.4 on the performing clients 12.9% of the respondents out of 54 have an experience on the bank one times, 1.9% are taking a bank two times, 14.8% are do not have an experiences on the bank loans, and 7.4% of them are have an experiences on the bank loan above three times.

On the non-performing clients 5.6% of them replied that have an experience on taking a bank loan one times, 7.4% of them are have experience a bank loan two times, 35.5% of the respondents are does have not any experiences on bank loans and 5.6% of them are have an experiences on bank loan above three times. Generally the performing and non-performing clients 18.5% of them replied that of the respondents have an experience on taking a bank loan one times, 9.3% of them are have experience a loan from bank two times and three times, 50% of the respondents are does not have any experience on bank loans, and 13% of the respondents have an experience on bank loan above three times.

The above result revealed that most of the nonperforming clients do not have an experience on the bank loan. Therefore, this indicated that the nonperforming clients do not have an awareness on how to utilization of loan and how a sensitivity is money.

3.1.2. Providing Training to the Clients

Providing Training to the clients helps in creating the healthy working environment, to build good entrepreneurship within the country, succeeding the individual goals and to attain the DBE long-term objectives.

Table 3.5 Providing training to the clients

Training	Performing Clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	7	12.9	4	7.4	11	20.4
No	18	33.4	25	46.3	43	79.6
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

The above table 3.5 shows that 12.9%, of the performing clients and 18.5% nonperforming clients replied that yes the DBE Dessie branch provided training to the clients.33.4% of the performing clients and 46.3% nonperforming clients revealed that no the bank does not provide training to clients. From both of the performing and non-performing clients out of 54 respondents, 20.4% are yes the DBE Dessie branch provides training. 79.6% responses that no the DBE Dessie branch does not provide a training.

As it can observe from the above responses the bank does not provide training to the clients. This might the police of the bank that cannot provide training, because when they submit the proposal the client must include an expert for the project by recruiting.

Even though the DBE assume the clients to do their business by recruiting an expert, it is better the bank to provide a training to clients on book keeping, technical advices in the business and on the problems which faces.

Those who responses yes form above table 3.5 most of them replied that the training are given when they come to visit the project on how to record cash out flow and cash inflow (Book keeping, how to attract customer, and some technical advices on their business). Due to such advising during visiting the projects the client those who get chance, they get some encouraging on their business activities.

3.1.3 Sufficiency of loan for the project

Problems with the sufficiency of money can be a huge threat to a business. Many businesses have been forced to shut down operations due to the lack of sufficiency financing. In addition, people who find themselves unable to repay a loan will often anxiety and feel intense pressure and stress. They can, however, take steps to get the situation under control. Borrowers can then make informed decisions about the best permanent solutions to repaying their debts.

Table 3.6 Sufficiency of loan for the project

Sufficiency of loan for the project	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	9	16.7	6	11.1	15	27.8
No	16	29.6	23	42.6	39	72.2
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

According to the table 3.6 16.7% of the performing clients respondents are reflected their response Yes it is enough for project and 29.6% clients no the loan provided by the bank is not enough for project.

On the non performing clients 11.1% of them response that Yes the loan provided is enough for the intended project and 42.6% of the clients response that no it does not enough the loan for the intended project. On the both performing and non performing clients 27.8% are responses that Yes the loan provided by the DBE is enough for the intended project, 72.2% of the clients responses that no the loan provided by the DBE is not enough for the intended project.

Most of the nonperforming client's as well as performing clients replied that the loan provided by the DBE is not enough for the intended project. This denotes that there is unbalanced on the expected to finance the project and now due to the economy fluctuations in the country to finance the project. Therefore, this situation can be pains to start project, to manage the project properly and to repay the loan.

3.1.4. Follow up of the Projects

The role of follow up on the project by the bank is essential for ensuring compliance of specifying the laid down, knowing the clients on what condition they are and making result action on a continuous basis.

Table 3.7 Follow up of the projects

Follow up of the projects	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	20	37	25	46.3	45	83.3
No	5	9.3	4	7.4	9	16.7
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

As the above table 3.7 shows that 37% of the performing client and 46.3% nonperforming clients replied that yes the DBE Dessie branch make a follow up for the financed projects. 9.3% of the performing client and 7.4% nonperforming clients response that no the DBE Dessie branch does not make a follow up on the financed projects.

On the non-performing client 46.3% responses that yes the DBE Dessie branch makes a follow up for the project. on the both side the performing and non performing clients respondents replied that 83.3% of them yes the DBE Dessie branch makes follow up on the financed projects, 16.7% of them No, the DBE Dessie branch does not make a follow up on the project.

As the above outcome indicated that most of the respondents replied yes the bank makes visiting to the projects, so this can be an important and must the bank making visiting on disbursed loans and it is advisable to continue.

Table 3.8 Program on follow up the financed projects

Follow-up	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Per three month	3	6.7	0	0	3	6.7
Per four month	7	15.6	6	13.3	13	28.9
Per semi-annually	9	20	12	26.7	21	46.7
Other	1	2.2	7	15.6	8	17.8
Total	20	44.4	25	55.6	45	100.0

Sources: Survey and researcher own computation (2015)

According to the above table 3.8 shows that the time when the DBE Dessie branch makes follow-up to the financed projects. Therefore, from the perform clients side 6.7% of them replied that the bank makes a follow up per three months, 15.6% responses that bank makes a follow up per four months, 15.6% of them answered that the bank makes a follow up per semi annuals, 2.2% response that other (as they want & suddenly).

On the side non-performing client 13.3 % response that the bank makes a follow up per four months, 26.7% response that the bank makes follow up per semi – annually, 15.6% replied that other (suddenly, and when it near to repay does). Generally, the performing and non performing clients out of 45 responses 6.7% response that the bank follow up the three months, 28.9% response that the follow up per four months, 46.7% responses that the follow up is semiannually, 17.8% also response that the follow up other (such as suddenly, when they want and at the time to pay the term loan).

Even though the above responses shows that the bank makes follow-up semiannually and per four months, but the bank have its own program on the time to visit that is twice per year. Therefore, visiting the projects are an important to know the clients in what occasion they are then the bank can be easily understand and solve the problems that can create a defaults.

Based on the above response some respondents replied on the importance being visited by the bank. Most of the respondent they responded that the importance of follow up by the bank is crucial for the day to day activities for the business, gives encouragement to do well, and how to manage the loan.

Table 3.9 Terms of repayment the loan by the clients

Terms to repay the loan that you take from bank	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Every three months	1	1.8	0	0	1	1.8
Every four months	11	20.4	16	29.6	27	50.0
Semi-annually	10	18.5	13	24.1	23	42.6
Other	3	5.6	0	0	3	5.5
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

The above table 3.9 shows that the term of repayment by the clients to the DBE Dessie branch. Accordingly the performing clients 1.8% of them are paying every three months, 20.4% of the respondents are paying every four months, 18.5% of the respondents are paying semi- annually and 5.6% of them are responses others (when they get more return). On the non performing clients 29.6% of the respondents are paying every months, 24.6% of them are paying semi- annually.

In general the performing and non performing clients 1.8% of them they repay every month, 50.0% of the respondents are paying every four months, and 42.6% of the respondents are paying every semi- annually and 5.5% of them are responses other.

As it can be notice from the above end result most of the non-performing loan clients their repayment period is short interval, this can be results unable to repaying their loan on time.

Table 3.10 Maturity of the loan that you take from bank

Maturity of the loan that you take from bank	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Up to five years	8	14.8	12	22.2	20	37.0
Up to ten years	12	22.2	17	31.5	29	53.7
Up to twenty years	5	9.3	0	0	5	9.3
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

Referring to the above table 3.10 14.8% of the performing clients and 22.2% of the nonperforming clients maturity of their loan are up to five years. 22.2% of the performing clients and 31.5% of the nonperforming clients their maturities are up to ten years. 9.3% of the performing clients and 0 % of the nonperforming clients are maturity of their loans up to twenty years.

The overall responses of the maturity of the loan by both performing and non performing clients are 37% complete with in the five years, 53.7% complete with in ten years and 27.8% completes up to twenty years.

Table 3.11 Sufficiency of return from the project to repay the loan

Sufficiency of return from the project to repay the loan	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	5	9.3	7	12.9	12	22.2
No	20	37	22	40.8	42	77.8
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

According to the above table 3.11 the return from the financed projects it enough for repay the loan. Beside this on the performing clients 9.3% of them revealed that yes it is enough the return to repay the loan, and 37% respondent are replied that no it does not enough the return to repay the loan. From the non-performing clients side 12.9% of them responses that yes it is enough the return to repay the loan, and 40.8% no, it does not enough the return to repay the loan. Generally the return from the financed projects from both clients 22.2% they response yes, it is enough to repay the loan, and 77.8% of them replied no, it does not enough to cover the loan.

From this the researcher can conclude that most of the performing and nonperforming loan clients the return from the project not sufficient to pay the loan. Those paying clients are by involving in other business privately and some of them are by diverting the business. Therefore, the reason for nonperforming loan is insufficient return from the projects they involve in.

3.1.5. Accesses of Infrastructures

Infrastructure as one of the main pillars for one country to develop, considers widespread and efficient infrastructure as critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kind of activities or sectors that can develop in a particular economy. Well-developed infrastructure reduces the effect of distance between to the market. Therefore, a project that does not fully accessed the infrastructure is the result of any project may enthusiasm as of the expected.

Table 3.12 Accesses of infrastructures around the financed projects

Accesses of infrastructures around the financed projects	Performing clients		Nonperforming clients		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	15	27.8	12	22.2	27	50.0
No	10	18.5	17	31.5	27	50.0
Total	25	46.3	29	53.7	54	100.0

Sources: Survey and researcher own computation (2015)

As the table 3.12 27.8 percent and 22.2 percent responses that yes the infrastructure is fulfill by the performing and nonperforming loan clients respectively, 18.5% and 31.5% replied that no the infrastructure is not fulfill. Out of the 54 respondents the performing and non performing clients 50% of them responded that yes it is fulfilled, 50% of the respondents responses that it does not fulfilled.

To perform well/ good for one project it may fulfill the basic needs such as water, electricity, road and telephone's. Therefore, the infrastructures not completely fulfill for instance water and electricity is the main problem on their business, due to fluctuating.

But as it can see the above result in the nonperforming client the does not fully accessed an infrastructure, therefore due to this factors the clients day to a day activity their business slowly decreasing then after become unable to repay the bank loan.

Table 3.13 Causes of for the non-performing loan

Causes of for the non-performing loan	Nonperforming loan clients		Total	
	Frequency	Percent	Frequency	Percent
Market condition	28	51.9%	50	92.5%
with inflation situation	18	33.3%	38	70.3%
Health condition	9	16.7%	12	22.3%
Bank problems on management	26	48.2%	42	77.8%
Due to lack know how in the business	16	29.6%	29	53.7%
Local Administration problem	13	24.1%	28	51.9%
Shortage of input (supply)	16	29.6%	34	62.9%

Sources: Survey and researcher own computation (2015)

The above table 3.13 shows that the main reason for non-performing loan the respondents replied that 51.9% of them argue that due to marketing problems, 33.3% replied that with inflation situation, 16.7% of the clients are related to health conditions, 48.25 of them stated that a problem related to bank management, 29.6% of the respondents argue with ability of the business, 24.1% of the respondent are replied a problem related with local administration and 29.6% of them replied that due to shortage supplies to their business.

According the above result the main reason for causes of the non-performing loan are marketing problems for their products, inflation condition, health conditions, a problem related to the bank management, lack experts on the business, due to shortage supplies to their business, and a problem related with local administration.

According to the respondents stated that on the action taken by the bank on delaying a payment by the clients. Out of 25 performing clients 22 of them replied that there is no action taken by the bank. And out of 29 non-performing clients 3 of them responded that there is no action taken by the bank, it only oral warning and 26 of them are written warning to perform their loan. In general both the performing and non-performing clients 29 of them are written warning, 3 of them are oral warning and 22 of the clients no action taken by the bank.

3.1.6. Provision of Loan by the Bank

On the provision of loan in every banks, they follows/ providing loan according to their police, procedures and administration system. In the case of DBE Dessie branch also provides loan according to its policy by considering the infrastructure and environment condition. Therefore, the clients responses on what does it seem the provision of loan, is that; it is good, the provision of loan in the DBE policy is too rigged, it's better to be a slightly flexible and provision of loan also take a time to start a business, since we submitted the proposal because experts comes from main region of the Amhara to see the projects feasibility on the area. This may good, if it is finish within Dessie town and the loan now a day provides to priority areas the Agricultures and industries sector. It is good, if the bank considers also to those who want on other sectors. From this the researcher can concludes that the provision of the DBE branch takes time to finance the project and there is rigidity on the policy.

Within the DBE Dessie branch the relationship between the bank and clients, the respondents replied that the relationship is very good in cordiality, as well as by the clients, at the time when the bank needs information from us and when we need something from them. On the other hand the respondents replied that the bank should understand the business type and the market condition with the environments.

In general the provision of loan and the period on repayment of loan the clients replied that the provision of loan of the bank is too strict, it's better to be little beat flexible and provision of loan also take a time to start a business ,since we submitted the proposal because experts comes from main region of the Amhara. And the period on repayment of loan it's good if the bank consider the term according the types of business.

3.2. Response from Bank employee's

3.2.1. Demographic Characteristics of the Bank Employees

Table 3. 14 Rate by the respondents on the proposal projects

Rate by the respondents on the proposal projects	Frequency	Percent
Very good	1	9.1
Good	2	18.2
Moderate/fair	4	36.4
poor	4	36.4
Very poor	0	0
Total	11	100.0

Sources: Survey and researcher own computation (2015)

The new clients when they submit they a proposal projects to get loan, the bank can evaluate the overall the proposed projects. Therefore the bank can know the clients on preparation of proposal and on their planning skill. Accordingly, with reference of the above table 3.14, 9.1% of them are revealed that very good written proposal project, 18.2% of them reply that good written project, 36.4% of the respondents replied that moderate written proposal and poor written proposal prepared by the clients. Beside the above results the preparation of proposals projects by the clients can categorize in moderate and poor. This indicated that the client of the bank seems the need of loan only out of the planned, they do not know on utilization based on the project. Lastly they become unable to repay the loans.

Table 3.15 Visit the financed projects after providing the loan

Have the bank ever visit the financed projects after providing the loan	Frequency	Percent
Yes	11	100.0
No	0	0
Total	11	100.0

Sources: Survey and researcher own computation (2015)

Banking sectors one of the financial institutions that provide loans to the customers, in doing so the bank can get an interest on it. Consequently, the banks have a duty to follow/visit based on the bank plan on the clients' activities. Therefore, according to the above table 3.15 after providing the loan does the bank make a visiting on the financed projects. Beside this all the respondents 100% reply that yes the bank visit the financed project. All the above respondents' replied that the bank follows according to the policy for every project that should be visited twice per year and preparing a follow- up report for those visited projects and for those not visited.

Table 3.16 Ability on utilize the loan and types of business / project submitted

Ability on how to utilize the loan and their types of business / project submitted	Frequency	Percent
yes	4	36.4
No	7	63.6
Total	11	100.0

Sources: Survey and researcher own computation (2015)

Banks when they providing loan to customer there may have their own criteria to possess. But, According the DBE Dessie branch employee's as stated on the above table 3.16 the ability of clients on how to utilize/ handle the loan and the types of business. Beside this the respondents 36.4% of them reply that yes our clients have an ability on how to utilize the loan and their business type, 63.6% of them reply that no our client have not ability on how to utilize the loan and their business type.

The above result shows most of the respondents replied no, the clients does not have ability on utilization of loan and their types of business, this can be due to the lack of expertise on the projects..

Accordingly those who response no on the above table 3.16 which is 63.6% of them, they specify the reasons of the client on the ability their business and utilization of loans. Therefore, most of the bank clients divert their business to get more return by leaving the first planned project. The diverted business may give them a more return for specific period of time then after become declining their return and finally fall their business then after facing on managing the loan to repay on time to the bank.

Table 3.17 The financed projects on the cash flow

The financed projects on the cash flow	Frequency	Percent
Below expected	2	18.2
Above expected	2	18.2
Other	7	63.6
Total	11	100.0

Sources: Survey and researcher own computation (2015)

As it can be seen from the above table 3.17 on the cash flow of the clients from the financed projects on this 18.2% of them are replied the cash flow of the financed projects are below expected and above expected, and 63.6% of the respondents reply that other which is most of them reply that the promoter/ clients lack to prepare and possess a well prepared financial statements.

Even those some respondents replied the cash flow of the clients are below and above expected, the majority of respondents revealed that other such as, at the time of visiting the bank asked them, but the clients unwillingness to give for such question and clients they do not have skill on the book keeping then how the bank do not know, it is around the plan.

This result implies that the projects are not going according to the planned. Therefore, the nonperforming loan clients take place due to improper managing the project and preparing of financial statement according to the first plan.

Table 3.18 Types of training to the clients

Does your bank ever provide any types of training to the clients	Frequency	Percent
Yes	1	9.1
No	10	90.9
Total	11	100.0

Sources: Survey and researcher own computation (2015)

According to the above table 3.18 respondent result on whether the bank provide a training to clients, 9.1% respondents reply that yes the bank provides a training to clients, and 72.7% of them response that no the bank does not provide any training to the clients. Once a loan provides to the clients, the bank and clients should supports each other. By providing training for them, making follow up and technical advices on their business, there may create good condition to changes the client's business and the bank performance.

The principal types of credit that extended by the bank is on the proposed of projects by the clients. A business that borrows often and has a good credit record may able to get trainings on their business such as book keeping, technical advices on their business and the managements of overall the business.

Although the DBE take up the clients to do their business by recruiting an expert, it is healthier the bank loan if the bank providing a training to clients on book keeping, technical advices in the business and on the problems which faces.

Table 3.19 The book keeping of the client on their business

How do you rate, the book keeping of the client on their business	Frequency	Percent
Very Good	0	0
Good	0	0
Moderate	2	18.2
Poor	4	36.4
Very Poor	5	45.5
No response	0	0
Total	11	100.0

Sources: Survey and researcher own computation (2015)

As it can be observed from the above table 3.19 rating the book keeping system of the clients on their business, beside this 18.2% are rating moderate their book keeping, 36.4% are rating the book keeping are poor 45.5% are rating the base keeping are very poor. As the result almost revealed that there is a poor way of recording their cash flow on their business activities. This may go up from the problems on recruiting an expert on their business or absence of short training by the bank.

Table 3.20 Repayment periods for Loan

When does the client of the bank will repay/ term their Loan	Frequency	Percent
Every quarter	10	90.9
Semi annually	9	81.8
Annually	0	0
Based on their return of the project	7	63.6

Sources: Survey and researcher own computation (2015)

DBE Dessie branch provides loan for different types of sectors/business such as Agriculture, industries, manufacturing and services. Thus types of business have the term/to repay its loan. Therefore, with a reference of the above table 3.20 the respondents result on the terms repayment of the loan by the clients, terms are every quarterly, semiannually and some clients or based on their return from the project. Accordingly the respondents 90.9% responded there is every quarters, 81.5% also reply there is semi- annual and 63.6% of them reply the terms is based on their return of the projects.

Table 3.21 Effectiveness of period to repay and collection technique

Effectiveness of period to repay and collection technique	Frequency	Percent
Yes	6	54.5
No	5	45.5
Total	11	100.0

Sources: Survey and researcher own computation (2015)

As it can be seen from the table 3.21 on effectiveness of the terms of loan to repay and collection technique beside that the respondents are 54.5% reply yes the terms of loan to copy and collection technique are effective and 45.5% respondents reply that no it does not effective.

On the above table 3.21 those who response the term of loan to reply and the collection technique are not effective use by the bank.

The reason is that due to the clients on willingness on timely to pay on time and some of them the project/ business takes time to get return, this can be influence the effectiveness of the term of loan to repay and the collection technique.

Table 3.22 Types project that are more faces to repay the loan

Types project that are more faces to repay the loan	Frequency	Percent
Agriculture	1	9.1
Services	2	18.2
Hotel	6	54.5
Other	2	18.2
Total	11	100.0

Sources: Survey and researcher own computation (2015)

Banks can however estimate variance and select against companies that are taking too much risk for the expected return. And bankers can also determine the firm's leverage and refuse to lend to firms that have too much debt outstanding. With reference to table 3.22 on the types of financed project are provides that has more difficult to repay by the clients. Therefore, the respondents replied that 9.1% of them replied that in agriculture sector, 18.2% of them in services providers, 54.5% of them replied Hotel and 18.2% of term reply in others (café and restaurant).

According to the respondents those who responses the finance project which is faces to repay the loan, they specifies some reason such as due to high computation, late of management to the business, low level of book keeping and lack of experts on their business.

Table 3.23 Reasons account for loan diversion by the customers

In which of the following reasons account for loan diversion by the customers?	Frequency	Percent
Lack of proper monitoring their business	11	100.0
Inadequate financing	8	72.7
Market conditions for their products	6	54.5
Other (Specify)	7	63.6

Sources: Survey and researcher own computation (2015)

As it can be seen from the above table 3.23 the reason for loan diversion by the clients of the bank., therefore, the respondents responds that 100% or all of them replied due to lack of propose monitoring their business, 54.5% of them replied due to a low level of demand for their product and 72.7% replied that due to inadequate financing on their business and 62.6% replied that due to other such as management problem unwillingness to pay timely.

Table 3.24 The major reason the nonperforming loans

The major reason the nonperforming loans	Frequency	Percent
Lack of follow up	2	9.1
Loan diversion	10	90.9
Fail to generate sufficient incomes due to improper technical advices	5	45.4
Absence of supporting services	2	18.2
Lack of Market for client's product	8	72.7
Asymmetric information b/n the bank and employee	10	90.9
Improper book keeping	11	100.0
Lack of training	10	90.9
Miscellaneous reason such as illness & death	9	81.8
Inadequate credit analysis (such as estimation of probability of default)	6	54.5
Variability in incomes caused by fortuitous, seasonal or unforeseen factor	7	63.7
Other (Specify)	6	54.5

Sources: Survey and researcher own computation (2015)

On the DBE Dessie branch the major reason for the non-performing loan existing in are responded on the above table 3.24 Therefore, 90.9% of the respondent replied that due to loan diversion. Symmetric information between the bank and employee and lack of training 81.8% also replied that due to the miscellaneous reason such as illness and; 100% of the respondent replied improper book keeping 54.5% of them replies inadequate credit analysis and other reasons; 9.1% of them replied due to lack of follow up 45.4% of them replied duet to failing to generate sufficient incomes due to improper technical advices; 18.2% of them replied due to absence of supporting service; 72.7% also replied that lack of market for clients products; 63.6%

replied by variability incomes caused by fortuitous seasonal or unforeseen factors.

As it can be observed from the above result the foremost of cause for causes of the non-performing loan are Lack of follow up, loan diversion, fail to generate sufficient incomes due to improper technical advices ,absence of supporting services, lack of Market for client’s product, asymmetric information b/n the bank and employee , improper book keeping , lack of train, miscellaneous reason such as illness & death , Inadequate credit analysis (such as estimation of probability of default) , and variability in incomes caused by fortuitous, seasonal or unforeseen factor.

Table 3.25 Measurement taken for repayment loan

What measurement are took to repayment loan	Frequency	Percent
Spot visit	10	90.9
Recovery comp	9	81.8
Regular training program	0	0
Loan rescheduling	9	81.8
Legal action	10	90.9
If any other specify	1	9.1

Sources: Survey and researcher own computation (2015)

According to the above table 3.25 types of measurement which is taken by the bank to the non-performing loans to repay loan, in view of that out of 11 respondents, they replied 90.9% the bank takes a measurement by spot visiting, and legal action, 81.8% replied that by Recovery Company low rescheduling; 9.1% replied other measurements.

On the credit policy and procedure of the Development Bank of Ethiopia line with the environment/area the respondents replied that, the credit policy of the bank has given due to attention to the environment. This means that every loan application is required to be looked by a letter for concerned government body which states the proposed project is environmentally friendly (environmental impact assessment certificate).

Table 3.26 Access in infrastructures

Access in infrastructures (such as water, electricity road and telephone) around that financed project by your bank	Frequency	Percent
Yes	6	54.5
No	5	45.5
Total	11	100.0

Sources: Survey and researcher own computation (2015)

As it can be seen from the above table 3.26 on the infrastructures fulfillment on the area of financed projects, in view of that 54.5% of the respondent replied that yes the infrastructure are fulfilled, 45.5% of the respondents are no, the infrastructure are not fulfill and in the area.

Beside the above table 3.26 the respondents that replied no, not fully accessed infrastructure to the clients. They specifies that the bank that gives/ provides loan for the priority projects such as agriculture and industries these are not fully accessed due to shortage of electricity, water problem (temporarily), and the road due to environmental condition of the area. These projects may not go as the planned due to such problems.

On the challenges when providing loan in approving a project and extending the existing project, the respondents replied that the clients unable to contributor to give their equity (30%) when the bank asked, does not fulfilled the requirement documents on time and their written proposal project are poor.

The effectiveness use of bank loan by the clients, the respondents revealed that the clients on utilization of the loan are going on according to the planned and the bank attentively follows the loan and on avoiding miss-utilizations. On the other side the respondents replied that due to continue rising price, the approved loan may be unable to complete on time to finance the projects and the clients also diverts the loan to other business.

3.4. Unstructured Interviews for the Manager of the Bank

The foremost expectation of the unstructured Interviews was to elicit the responses about the causes of nonperforming loan and its provision in the DBE Dessie branch. Therefore, the interview was conducted with the manager of the bank on Saturday march 7, 2015 and the interview was taken 60 minutes.

Q₁ What do you think on the time or process that take loan to approve since the new applicant’s requesting loan?

Obviously to disburse the loan takes time especially for those long term loan’s needs. This happens due to the need to look in detail the document of the clients starting from project promoter profile till the project impact assessment on the surrounding environment based on the project types. In addition to this some of the

documents of the clients processed in Dessie and the other part of the document processed by the main branch in Bahr Dar.

Q₂ If the equity/capital to contribute as collateral by the clients is below the bank needed, is there other option to permit a loan to them?

No, this can out of the bank policies and procedures. Instead the bank accepts the client's in cash if the equity value shortage to meet with a cash contribution. This might give to those in the expansion of their projects.

Q₃ How do you see the bank policy and procedures in providing loan with the need of clients? The DBE policy and procedures follows based on the national level stated, on the basis of customer focused lending to viable projects in line with government priority areas now a day on Agricultures and industry sectors. Therefore, the DBE policy and procedure is well designed at national level to serve the customer need.

Q₄ Are there any diverted loan by the clients?

Yes there are some diverted loans by the clients after starting their business for specific months then after divers to the other business.

Q₅ What do you think the reason for diverting the loan?

Well, these diverted projects when their market become fail. Instead of assessing the problem and make an adjustment on it, they diver the business by believing that the business can give them more return.

Q₆ What do you think the causes for becoming the nonperforming loan in the bank? There are different reasons for the causes of nonperforming loan some of them are: diverting of the project by the clients, marketing problems for their products, inflation condition, lack experts on the business, due to shortage supplies to their business, fail to generate sufficient incomes due to, absence of supporting services, lack of Market for client's product, asymmetric information between the bank and employee, improper book keeping, absence of training, miscellaneous reason and variability in incomes caused by seasonal or unanticipated factor.

4. Conclusion

Accordingly, on the DBE Dessie branch clients and employees demographic characteristics indicated that a significantly affects for the non-performing loan. For instance males on the Nonperforming loan clients have result on the unable to repayment of the loans than female; the age of the clients of the bank within the age of 21-35 years therefore, there is a less awareness of these nonperforming loan clients on the bank loan; The educational statuses of the clients most the non-performing loan client's educational statuses are 1-10 grades, this specifies that educational statuses of the nonperforming client's influences for the NPL; And the marital status of the clients for nonperforming loan clients and bank employees are single this can have less on the expected to have obligation, culpability and belongingness on the project. The nonperforming clients do not have an experience on the bank loan. Therefore, this indicated that the nonperforming clients do not have an awareness on how to utilization of loan and how a sensitivity is money.

The challenges at the time of providing loan to the project and extending the existing project the bank facing a problem. For instance on, clients unable to contributor to give their equity (30%) when the bank requested, does not fulfilled the requirement documents on time and their written proposal project are poor. And the continuous rising price, the approved loan may be unable to complete on time to finance the projects. And the DBE policy is too rigid, it's better to be a slightly flexible and approval of the loan also take a time to start a business, since clients submitted their proposal because experts are comes from main region of the Amhara to see the projects feasibility on the area. The bank that expecting to disbursing the loan to the projects and currently market conditions are different, due to the economy fluctuations in the country to finance the project the last four years. Therefore, this situation can be pains to start well the project, to manage the project and to repay the loan as well.

The causes of the nonperforming loan by the client and employee side are: from bank client side by diverting of the project, marketing problems for their products, inflation condition, lack experts on the business, due to shortage supplies to their business, fail to generate sufficient incomes due to improper technical advices, absence of supporting services, lack of market for client's product, improper book keeping, lack of train, miscellaneous reason such as illness & death, and variability in incomes caused by fortuitous, seasonal or unforeseen factor. From bank employees' side there is inadequate credit analysis, problems on management the loan, training on the utilization loan to the clients, access of infrastructures to the projects and asymmetric information between the bank and employee.

The collection techniques and utilization of loan in the bank are not effectively going on. The factors are the clients on unwillingness on timely to repay the loan and some of the project/ business are time taking to get return. The repayment periods and maturity of the loans of the non-performing clients 'are very short time interval, this can be result in to unable to repaying their loan on time.

The projects that are more faces to repay the loan are in service and Hotel investment project. Some of the reasons are due to high computation in the market, problems on managing the business, low level of

recording the book keeping as well as improper preparation of financial statement.

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