

**AN INVESTIGATION INTO THE CAUSES OF NONPERFORMING LOANS IN
FINANCIAL COOPERATIVES IN SWAZILAND**

BY

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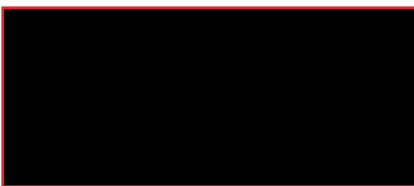
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ABSTRACT

Several financial cooperatives in Swaziland are experiencing serious financial distress that is threatening their long-term sustainability. Recent reports indicated that about 59% of financial cooperatives either have negative reserves or under-capitalisation. Levels of nonperforming loans are estimated to be more than the international benchmark of 5%. The main purpose of the study, therefore, was to investigate the causes of nonperforming loans in financial cooperatives in Swaziland. Specific objectives were; to analyse the general trend and impact of nonperforming loans over the last six years; and to investigate the effect of loan product design, credit assessment, delinquency monitoring, debt recovery and credit governance practices on nonperforming loans.

The study adopted an explanatory, quantitative, cross-sectional and correlational survey research design which embraced the positivism philosophical paradigm. The target population was 108 managers and credit supervisors from 54 licenced financial cooperatives in Swaziland. A census survey of the entire target population was carried. Primary data was collected through self-administered questionnaire from 85 respondents. Secondary data was collected from the Department of Cooperatives Development and the Financial Services Regulatory Authority. Descriptive and inferential statistics were used to analyse data the collected.

The findings revealed that poor credit screening of borrowing members, poor monitoring of delinquent loans, poor credit collection processes and insufficient credit governance are the main drivers of nonperforming loans in financial cooperatives in Swaziland. The study also found that financial cooperatives do not use basic recovery strategies such as sending reminders, blacklisting, external debt collectors and litigation to recover delinquent loans. The study recommends that financial cooperatives should strengthen their credit appraisal, underwriting, monitoring and debt collection and recovery practices. In addition, financial cooperatives and regulators should develop a fitness and propriety system to ensure election of suitably qualified members into board of directors of financial cooperatives. Finally, the study recommends that further research should be conducted to assess the impact of nonperforming loans on the performance of financial cooperatives in Swaziland.

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LIST OF ACRONYMS

FSRA	Financial Services Regulatory Authority
CCD	Commissioner of Cooperative Development
WOCCU	World Council of Credit Unions
IMF	International Monetary Fund
CGAP	Consultative Group to Assist the Poor
SPSS	Statistical Package for Social Science
MFI	Microfinance Institutions
SACCO	Savings and Credit Cooperative
PAR	Portfolio at Risk
SAQ	Self-Administered Questionnaire
NPL	Nonperforming Loans
IAC	International Alliance of Cooperatives

CHAPTER ONE : INTRODUCTION

1.1 INTRODUCTION

The financial cooperatives' sector in Swaziland has grown remarkably in recent years compared to other forms of cooperatives such as the agricultural and multipurpose cooperatives. However, recent reports from the World Bank and Swaziland Financial Services Regulatory Authority (FSRA) indicate that several financial cooperatives in Swaziland are in financial distress partly due to high levels of nonperforming loans and other governance related deficiencies. This poses significant risks to the sustainability of these financial cooperatives which are considered to be the backbone of financial inclusion and socio-economic development in Swaziland. The aim of this study, therefore, was to investigate the causes of nonperforming loans in order to provide remedial measures that can be implemented to reduce the level of nonperforming loans in financial cooperatives in Swaziland. The study begins by providing a comprehensive background and literature review around causes of nonperforming loans in financial cooperatives and other lending institutions. The study concludes by proposing a set of remedial actions and reforms that the regulators and management of financial cooperatives should adopt and implement to mitigate the occurrence of loan delinquency and improve the financial sustainability of financial cooperatives in Swaziland. The following sections present the background of the study, problem statement, purpose of the study, research objectives, research questions, significance of the study, scope of the study, limitations and delimitation, methodology and organisation of the study.

1.2 BACKGROUND OF THE STUDY

Swaziland is a landlocked country surrounded by the Republic South of Africa and the Republic of Mozambique with a population of just more than 1.2 million. The rate of unemployment is around at 28%. Its economy is heavily depended on South Africa Africa's economy as about 60% of its exports products go to South Africa and it imports about 90% of supplies from South Africa. Swaziland is part of the southern common monetary area and its currency is pegged to the South African Rand (World Bank, 2015).

The Government of Swaziland considers financial cooperatives as important vehicles for poverty alleviation, financial inclusion and economic development. About 7% of national savings come from financial cooperatives and they serve more than 74 000 members which translate to a population penetration rate of over 6% (Hlongwane, 2010; World Bank, 2015).

Financial cooperatives in Swaziland started in the 1970s by farmers' cooperatives to provide financial assistance to their agricultural activities. However their operational existence was short-lived as many collapsed due to their inability to manage credit risk which led to unsustainable levels of nonperforming loans. There were no systems, policies and managerial capacity to deal with a sudden surge in the demand of credit. This led to financial cooperatives heavily indebted to farm suppliers, (Mavimbela, Masuku & Betele, 2010).

This period provided the financial sector and the Government of Swaziland with important lessons, and it led to the emergence of public sector financial cooperatives supported by the Government of Swaziland through regulatory reforms and payroll deductions for loan repayments and savings. As at 31 March 2016, there were 54 licenced financial cooperatives with over E1 billion assets. The top five accounted for more than two-third of all assets of financial cooperatives and they are owned by public sector and civil servants employees.

Notwithstanding the notable improvements, the sector continues to encounter challenges. In recent years the World Bank and IMF have raised concerns about the governance and financial soundness of several financial cooperatives. This led to the transfer of the regulatory supervision of financial cooperatives from the Department of Cooperatives to the Financial Services Regulatory Authority (FSRA) in 2012. In 2015 the World Bank, in its Swaziland Financial Sector Development Plan (FSDP), reported that 17% of the 54 licenced financial cooperatives were experiencing solvency problems (negative reserves). Recent reports from the FSRA indicate that about 29% of financial cooperatives are experiencing solvency problems and 51% are undercapitalised.

The proximate causes of the deterioration financial position of financial cooperatives have not yet been scientifically established by the relevant stakeholders. Due to poor accounting practices, lack of critical business administration skills and weak regulatory regime, the exact level of nonperforming loans was not always fully disclosed by financial cooperatives in Swaziland before 2013. However, emerging anecdotal reports from the FSRA, World Bank and IMF indicate that the level of nonperforming loans in financial cooperatives in Swaziland is much higher than originally thought and it is the main contributing factor to the worsening financial position of financial cooperatives in Swaziland. In 2015, nonperforming loans in financial cooperatives in Swaziland were estimated to be above 9% of gross loans by the World Bank. According to the World Council of Credit Unions (WOCCU) standards,

nonperforming loans beyond 3-5% are considered unacceptable; unsustainable and it indicates fundamental weaknesses.

Several scholars (Arko, 2012; Asante, 2015) have stated that financial cooperatives, especially in Africa and other parts of East Asia, are always vulnerable to nonperforming loans, because most of their members are poor and lack loan securities. They further states that nonperforming loans can spread quickly from a few loans to a significant portion of the loan book because in most cases financial cooperatives are employer-based and are exposed to the same economic conditions such as retrenchment or lay-offs. Therefore it becomes important for financial institutions operating in this area to put in place effective credit management systems to maximise value on loans given out and reduce incidents of nonperforming loans.

1.3 PROBLEM STATEMENT

Financial cooperatives depend largely on their ability and capacity to collect their loans efficiently and effectively. Incidents of high nonperforming loans have led to many failures of financial institutions (Aduda & Gitonga, 2011). Financial cooperatives play a significant role in economic and social development in Swaziland. However, several financial cooperatives in Swaziland are experiencing solvency problems due to significant amounts of bad loans written-off in previous years. The level of nonperforming loans is significantly above internationally accepted minimum standards. Despite the risk posed by nonperforming loans in the sector, to the researcher's knowledge, no studies have been done to provide financial cooperatives and policy makers in Swaziland with credible solutions to this challenge. Several studies (Gezu, 2014; Maina & Kalui, 2014), have shown that nonperforming loans are largely caused by factors within the control of management such as poor product design, weak credit policy, poor credit appraisals, ineffective debt recovery practises and poor credit governance practices. Therefore, the main objective of this study was to investigate the causes of nonperforming loans in order to provide remedial measures that can be implemented to reduce the level of nonperforming loans in financial cooperatives in Swaziland.

1.4 PURPOSE OF THE STUDY

The purpose of the study was to investigate causal factors of delinquent loans in financial cooperatives in Swaziland. The study analysed credit management practises of financial cooperatives such as product development practises, credit appraisal practises, monitoring and

collection practises. Finally the study recommends measures of controlling nonperforming loans in financial cooperatives in Swaziland.

1.5 OBJECTIVES OF THE STUDY

The main objective of the study was to investigate causal factors of nonperforming loans in financial cooperatives in Swaziland. Specific objectives were as follows:

- 1.5.1 To analyse the general trend and impact of nonperforming loans on financial cooperatives over the last six years;
- 1.5.2 To investigate the effect of loan product design, credit screening, credit monitoring, credit collection and credit governance practices on nonperforming loans;
- 1.5.3 To evaluate nonperforming loans recovery strategies employed by financial cooperatives; and
- 1.5.4 To recommend measures of mitigating the occurrence of nonperforming loans in financial cooperatives.

1.6 RESEARCH QUESTIONS

Research questions were constructed in accordance with the three specific objectives of the study and were as follows.

- 1.6.1 What has been the trend and impact of nonperforming loans in financial cooperative over the last six years?
- 1.6.2 Do poor loan product design, poor credit appraisal practices, and poor credit monitoring practices, poor credit recovery practices and insufficient board oversight account for nonperforming loans in financial cooperatives?
- 1.6.3 What are the main strategies employed by financial cooperatives to recover nonperforming loans?

1.7 SIGNIFICANCE OF THE STUDY

This study provides valuable insight into the causes of nonperforming loans in financial cooperatives in Swaziland. It provides practical remedial measures that can assist the management and regulators of financial cooperatives to manage the deteriorating financial position of many cooperatives which are essential in the fight against poverty, financial inclusion and economic development in Swaziland. Finally the study contributes to the body

of knowledge regarding causes of nonperforming loans in Swaziland and serve as a basis for future research for future research.

1.8 SCOPE OF THE STUDY

The study was limited to causal factors of nonperforming loans within the control of financial cooperatives; external factors were not considered in the study. Secondly the study was limited only to financial cooperatives licenced by the FSRA in Swaziland, inactive financial cooperatives were not considered in this study.

1.9 LIMITATION AND DELIMITATION OF THE STUDY

There were two main limitations the researcher had to manage in this study. The first limitation was the lack of a standard measurement scale for some of the constructs used in the study. This limitation was mitigated by conducting thorough review of relevant literature before developing the questionnaire. Secondly some of the respondents were reluctant to disclose information for fear of breach of internal oaths of secrecy policies. This limitation was delimited by assuring the respondents that any information and data provided would be used for academic purposes only and it would remain confidential. Respondents were also given assurances that their personal identities would not be disclosed under any circumstances.

1.10 METHODOLOGY OF THE STUDY

This study adopted an explanatory and quantitative research design. It is a cross-sectional and correlational survey research that embraces a positivism philosophical paradigm. The targeted population was 108 managers and credit supervisors working for 54 licenced financial cooperatives in Swaziland. A census survey of the entire population was carried. Primary data was collected through self-administered five-point likert scale questionnaires from 85 respondents (managers and credit supervisors) working in financial cooperatives. Descriptive and inferential statistics such as bar charts, pie charts, percentage frequency distribution and Pearson correlation matrix were used to analyse the data collected.

1.11 ORGANISATION OF THE STUDY

The study is organised around five chapters which are briefly outlined below:

Chapter One: Introduction. This chapter contains eleven sub-sections, namely: introduction to the study, background of the study, research problem statement, purpose of the study, research objectives, research questions, significance of the study, scope of the study, limitation of the study, methodology of the study, organisation of the study and chapter summary.

Chapter Two: Literature Review. This chapter provides a review of literature on causes of nonperforming loans and it is organised into the following sub-sections: introduction, cooperatives theory, nonperforming loans, causes of nonperforming loans, empirical review, conceptual framework and conclusion.

Chapter Three: Research Methodology. This chapter covers the design and methodology of the study. It is organised around the following subsections; introduction, research design, research philosophy, research approach, research method, research strategy, population and sampling strategy, research instrument, questionnaire construction, validity and reliability of research instrument, data collection technique, data analysis, ethical consideration and conclusion.

Chapter Four: Presentation, Analysis and Discussion of Findings. This chapter presents the results and findings of the study, using tables and graphs to illustrate the results. It is organised around the following subsections: chapter introduction, response rate, respondents' profile, presentation of findings on the level of nonperforming loans, presentation of findings on causes of nonperforming loans, presentation of findings on nonperforming loans recovery strategies and conclusion.

Chapter Five: Conclusions and Recommendations. This is the final chapter of the study that summaries major the findings obtained in chapter four. Later on conclusions and recommendations are made based on the findings of the study. The Chapter is organised around the following subsections: chapter introduction, summary of major findings, recommendations and conclusion.

1.12 CONCLUSION

This chapter provided a background and purpose of this study, discussed the research problem statement, and outlined the research questions and objectives. In addition, delimitations and significance of the study were also discussed. The next chapter provides a literature review on the causes of nonperforming loans.

CHAPTER 2 : LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter introduced the study. This chapter provides an insight into the various studies conducted by scholars with regards to causes of nonperforming loans in financial cooperatives. The chapter also provides an explanation of key terminologies and concepts used in the study. Section 2.2 reviews literature on financial cooperatives and the cooperative theory, Section 2.3 reviews literature on nonperforming loans and its impact on financial cooperatives. Section 2.4 reviews literature on the various causes of nonperforming loans in financial cooperatives. Section 2.5 provides a review of past empirical studies on nonperforming loans. Lastly, section 2.6 concludes with a conceptual framework depicting the causes of nonperforming loans derived from the preceding literature review.

2.2 THE COOPERATIVE THEORY

The International Cooperative Alliance (ICA), an international apex body for cooperatives, defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”. They are often started informally when a group of people with a common bond (employment, community, profession etc.) decide to pool or save their excess funds together for commonly agreed mutual objectives. Cooperatives are members owned and members controlled for the benefit of the members (CGAP, 2005). The final authority is vested on the entire membership irrespective of one’s share capital contribution, which means the members have the right to manage it in a manner they deem fit (Micheni, 2014).

Kunhu (2011), states that cooperatives were derived from the term, “Co-operation” which was also derived from the Latin word “Co-operari”, ‘Co’ means “with” and ‘operari’ means “to work”. Hence co-operation means Working Together with others for a common purpose. It is a “weapon for the development of socialist thought and the realization of firms or households for business purpose and economic institution through which economic activity is conducted in the pursuit of economic objectives”.

The cooperative concept began in the 18th and 19th century as a response by workers, farmers and artisans to labour exploitations by capitalist in early industrial times. These workers and

farmers saved together and extended to each other farming tools and embarked in joint marketing of produce (Genesis Analytics, 2013). The Primitive concept of Co-operation was related more to cultural, religious and social aspects. Co-operation was a way of life and it was inherent in the Society itself Kunhu (2011). The cooperative concept of cooperatives has stood the test of time and has spread across the world as a viable vehicle for poverty alleviation, financial inclusion and uplifting the living standard of the population at the bottom of the economic pyramid (Mashwama, 2014).

The main philosophy driving the cooperative movement is that the collective efforts of people with common and mutual interest can achieve what is not possible if done by one person (Zeuli and Cropp, 1988 cited in Mashwama, 2014). Azimi (2011) cited in Mashwama (2014) argues that the cooperative model limits self-interest behaviour at the expense of others. Cooperatives, unlike other traditional firms, are not driven by profits but by the desire to improve the economic welfare of its members by balancing the interest of saving members against those of borrowing members.

McLegan Committee, cited in Kunhu (2011), states that the theory of cooperation enables “the isolated and powerless man can, by association with others and by moral development and mutual support obtain, in his own degree, the material advantage available to wealthy or powerful persons and whereby develop himself to the fullest extent of his natural abilities. By the union of forces, material advancement is secured and by united action self-reliance is fostered and it is from the inter-action of the influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as “better business”, “better farming” and “better living”.

Cooperatives are guided by a set of principles originally developed by the Rochdale Pioneers Movement in 1830s and were subsequently adopted by the ICA. These are: voluntary and open membership; democratic member control; members’ economic participation; autonomy and independence; education training and information; cooperation among cooperatives, and concern for community autonomy and independence (ICA, 2016).

The main objectives of co-operatives of co-operatives are: elimination of the middlemen so that financial benefits can accrue directly to rightful beneficiaries; raising the economic status of the poor; removal of the ills of capitalism which leads to exploitation, class struggle, economic inequality and unfair competition; raising moral standards of its members;

increasing the prosperity of the whole community; abolition of social inequalities; political and religious neutrality and development of corporate life to the weaker sections of the community (Kunhu , 2011).

There are a variety of cooperatives specialising in different business activities. However the most common ones are the farmers' cooperatives and financial cooperatives (Genesis Analytics, 2013). The World Council of Credit Cooperative Union, which is an international apex body for financial cooperative defines a financial cooperative or credit union or savings and credit cooperative society, as a cooperative that predominantly provides savings and loans to its members. Members pool their savings deposits and shares to finance their own loan portfolio. This means a financial cooperative plays an intermediation role where members with surplus financial resources are connected with members with deficit financial resources (Mashwama, 2014).

Cooperatives are governed by board of directors who are elected by and from the membership during annual general meetings (CGAP, 2005). In Swaziland, a properly constituted board of directors comprises of 13 board members. Common board subcommittees are the supervisory, executive, credit committee and education committees. The supervisory committee provides total oversight over the operations of the subcommittees and ensures compliance to the cooperative's bylaws. The executive committee is responsible for the supervision of daily operations of the cooperative; credit committees supervise and approve loans applications and repayments of same, whilst education committees train and educate members about the products offered by the cooperatives and the general functions of the cooperatives (Swaziland Cooperatives Act, 2003).

Some scholars have criticised the foregoing cooperatives governance structure. Odera (2012) states that one of the fundamental challenges facing cooperatives is that of establishing a proper governance system and that the current governance system is considered to be one of the weakest links in operations of cooperatives.

Branch and Baker (2000) cited in Odera (2012) outlines four potential problematic areas of the current governance model of financial cooperatives. The first conflict arises from savers and borrowers, otherwise called the saver and borrower dominated theory. This theory posits that the governance system for cooperatives creates opportunity for moral hazard conflict between net savers and net borrowers. It argues that if net borrowers dominate the board, these board

members might develop a lenient credit policy that allows easy granting and disbursement of loans which might affect the cooperative's viability. Similarly if the board is dominated by net savers, they would advocate for strict credit policies thus making access to credit very restrictive. The second potential conflict of the system arises from the fact that the owners of financial cooperative also serve as customers of the cooperative. Therefore a net-borrower dominated board would advocate for low interest rates on loans, whilst the savers anticipate high interest return on their savings deposit and strong prudential disciplines. Thirdly, democratically elected board members may remain loyal and feel obliged to advance the interest of certain individuals who campaigned and voted them into office instead of adhering to their oversight and fiduciary responsibilities. The conflict fourth, arise between full-time management staff and volunteer board members who may want to engage in operational decision making instead of focusing on strategic decision making and oversight.

There is an interesting relationship between the cooperative theory and information asymmetry theory. Information asymmetry problems arise when borrowers have information about their projects which lenders do not have. This makes lenders unable to differentiate between good and bad borrowers. This leads to adverse selection problems where an increase in lending interest rates leaves the lender with a pool of more risky borrowers which in turn increases the probability that loans will be made to uncreditworthy borrowers. Information asymmetry also results in moral hazard problems, where a borrower engages in activities that reduce the likelihood of the loan being paid because they would not bear the cost of their actions. As a result of these information asymmetry problems, lenders may decide to engage in credit rationing resulting in some loan applicants receiving lesser loan amounts than they had applied for or some applicants not receiving a loan at all (Claus and Grimes, 2003).

Fama and Jensen (1983), cited in Gonzalez and Brito (n.d) stated that mutualistic financial institutions (Institutions where owners are also customers such as a financial cooperatives) provide a solution to the problems of information asymmetry which often leads to loan delinquency. This is because they are founded on a common bond or social ties where members generally know each other and thus it is easy to know the financial conduct and profile of the various members. However the information advantage dissipates as the financial grow big and expand its membership base or opens up its bond. This growth compels financial cooperatives to behave like commercial banks in terms of credit management processes to successfully deal with information asymmetry problems (Odera, 2011).

2.3 NONPERFORMING LOANS AND ITS IMPACT ON FINANCIAL COOPERATIVE

Broadly defined, a nonperforming loan (delinquent loan, problem loan or impaired loan) is one that is not being serviced according to the terms of the underlying contract, that is, either the borrower is lagging behind in terms of the contractual repayment schedule or is not paying at all (WOCCU, 2016).

The classification of non-performing loans varies across countries and sectors owing to differences in accounting standards and regulations. In some cases a loan is classified as nonperforming as soon as one instalment is missed or the loan is 30 days behind, whilst in other cases, a loan is classified as nonperforming after two or three instalments (60-90 days) of missed instalment. For instance, Kwakwa (2009), states that a loan is classified as nonperforming as soon as part of whole loan instalment is due and has not been paid according to the loan agreement. Irum, Rehana and Muhammad (2012) states that a nonperforming loan is a loan that is behind by at least 90 days. Locally, the FSRA, regulator of financial cooperatives in Swaziland, defines nonperforming loan as a loan that has fallen behind by 60 days.

Asfaw, Bogale and Teame (2016) states that when a loan is classified as nonperforming, it means the borrower is struggling to repay the loan in full or sufficient enough for the financial institution to make a profit. In such cases, the financial institution can restructure a new payment plan, foreclose on the collateral the borrower has provided or write off the loan as a bad loan. All these options are costly to the financial institution and that is why lending institutions avoid non-performing loans whenever possible

According to CGAP (2008), there are three main indicators (or measurements) of nonperforming loans. These are the portfolio at risk (PAR), arrear and collection rates. Collection rates measure the amount recovered against total overdue amounts; arrear rates measure the overdue portion of the total loan book; and portfolio at risk rates measure the value of nonperforming loans against the total loan book. The value of nonperforming loan is often used as a measure of credit risk or risk of default by third parties. The measurement of nonperforming loans is essential because it indicates the level of risk of loss, providing a warning to the financial institution of loan delinquency problems and thus helping it to predict the amount of funds that may eventually be lost due to non-repayment (Korankye, 2014). Credit risk is a major problem in financial institution and it is probably the largest single

downfall of financial institution. Therefore the risk of loan delinquency must be continuously assessed and addressed (Dhakal, n.d). A PAR ratio of 5% plus is considered unacceptable and reflects poor assets quality or high credit risk (WOCCU, 2016).

Dhakal (n.d) states that nonperforming loans have a negative effect on the profitability of a financial cooperative in that additional effort to collect same usually means additional expenses. The more time and resources that are expended into reducing delinquency, the less there are available to fund core operational activities. When loan is not repaid and a loan loss provision must be created against the loan balance, then the entire balance must be expensed through the loan loss provision account, and this impact negatively on the profitability of the financial institution and consequently its capital adequacy or reserves. If a loss is recorded, equity is reduced, resulting in fewer funds available to finance additional loans. If operations are to continue, the equity will have to be increased at least to its level before the loss was recorded (Dhakal, n.d). CGAP (2008) asserts that delinquency affects a microfinance institution by slowing down rotation of the loan portfolio, delaying revenue income and cash inflow, increasing cost of loan collection and threatening the long term viability of the institution. Thiboutot and Chavez (2008) contend that high delinquency affects the capital, liquidity, services and image of a cooperative.

Wangai *et al* (2014) studied the effect of nonperforming loans on the financial performance of microfinance banks in Kenya. The study found that an increase in nonperforming is associated with reduced financial performance. Dube and Matanda (2015) investigated the causes of micro lending institution failures in Zimbabwe. The study revealed that, amongst others, high level of delinquent loans and poor institutional capital were some of the major causes of micro lending institutions' collapse in Zimbabwe. These findings are consistent with many studies (Muasya, 2009; Manyauanda, 2014) that have been done on this area. It is generally accepted that nonperforming loans reduces the bottom line of a company.

2.4 FACTORS INFLUENCING NONPERFORMING LOANS

There are several causes of nonperforming loans in financial institutions. (Warue, 2012) states that nonperforming loans are caused by internal and external factors. External causes relates to economic, social and political factors while internal factors are those within the control of the management of the lending institution. The internal factors relates to the financial cooperatives' credit culture, ineffective credit screening and underwriting methods, poor

information management and credit monitoring systems, ineffective debt collection and of follow-up processes, lack of staff capacity and incentives and loan products that do not satisfy unique client needs (Dhakal, n.d.).

CGAP (2008) states that, whilst there may be external and internal factors causing nonperforming loans, it is the cooperative itself that is ultimately responsible for bad loans (even when the proximate cause seems external) because it sets out its own lending principles and promotes its own repayment culture. Therefore it ought to instil credit discipline in staff and borrowers, and must plan for events beyond its controls. Korankye (2014) shares the same sentiment and states that, in most cases bad loans are caused by microfinance institutions' inability to competently manage specific factors which are considered to be under their direct control.

The foregoing literature review demonstrates that, in most cases delinquency is not caused by bad borrowers but by lending institutions that have not implemented effective lending methodologies of limiting delinquency. There is a body of empirical literature that supports these assertions. Kariuku (2014) investigated factors influencing nonperforming loans of microfinance institutions in Kenya. The factors were categorised into institutional characteristics (factors within the control of the microfinance institution), customer characteristics and macroeconomic characteristics. Institutional factors were found to have contributed significantly to nonperforming loans than the other factors as a result, the study concluded that Microfinance Institutions in Kenya should put vibrant credit processes that would support effective credit analysis and customer selection, effective enforcement and sanctioning process, proactive monitoring and follow-up systems and clear recovery strategies for bad loans. These findings were consistent with the findings of Warue (2012) in Kenya, who after investigating factors affecting nonperforming loans in Kenya reported that most cases of delinquency are caused by management's inability to manage specific factors which are considered to be under the direct control of management.

These findings are not only unique to the microfinance industry, but were also obtained in the banking industry. Viswanadham (2015) obtained similar findings after investigating determinants of non-performing loans at the National Bank of Commerce in Tanzania. Kwakwa (2009) investigated the determinants of nonperforming loans of Bosomtwe Rural Bank Limited in Ghana. The study found that cases of loan delinquency are generally caused by factors under the control of the bank and to lesser degree external factors. Louzis, *et al*

(2010) obtained similar findings after investigating the macroeconomic and bank-specific determinants on nonperforming loans in Greece.

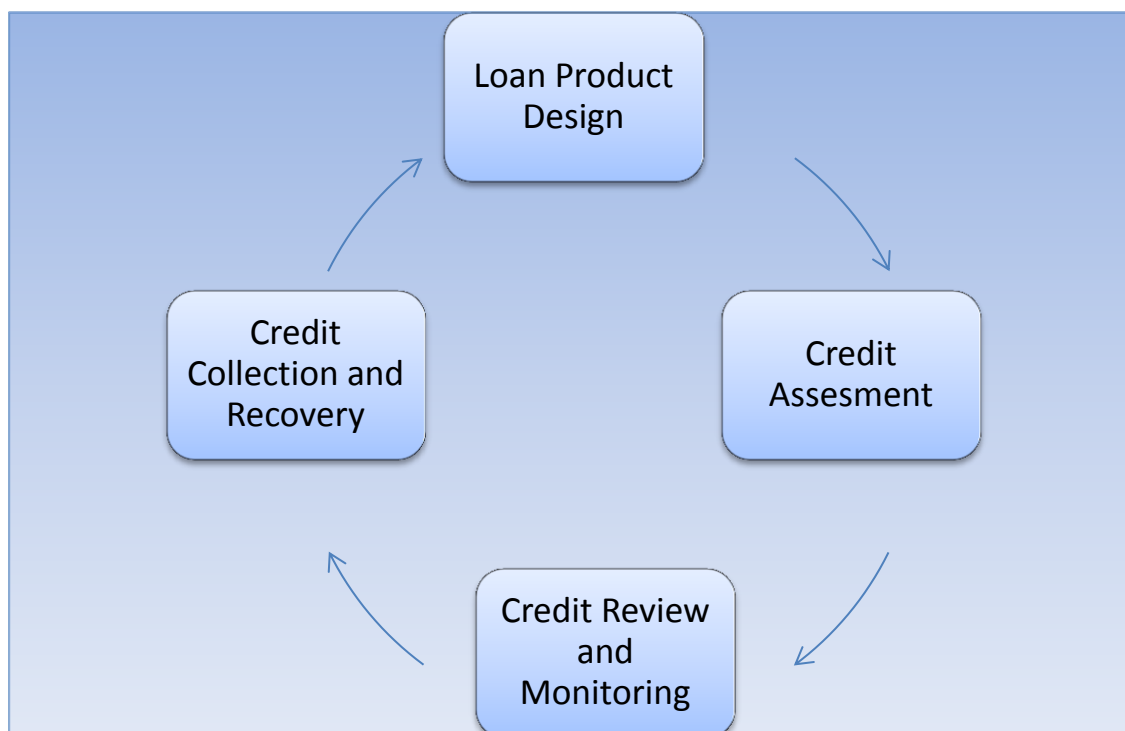
2.4.1 Credit Management Practices and Nonperforming Loans

The foregoing literature review clearly demonstrates that nonperforming loans are primarily caused by factors within the direct control of the management of financial cooperatives. These factors relate to the ineffectiveness of lending institutions' credit management processes in mitigating credit risk. The credit management relates to effective management of debtors as well as judicious financing of debtors. It incorporates the right credit standards that allow financial institutions to be able to achieve its strategic objectives through the application of an effective and well adapted credit regime capable of safe guarding the interest of the financial institution and at the same time the needs of borrower (Asante, 2015).

Basu and Rolfes (1995) cited in Walsh (2010) stated that "quality credit management processes are key components in the foundation upon which every successfully financial establishment is built." It is one of the most essential processes that cannot be neglected by any company involved in credit provision no matter the nature of its business. A Negera (2012) stated that the quality of the credit management processes is one of the most important drivers of efficiency and profitability in financial institutions. Thus getting it right is one of the most demanding but rewarding challenges of every financial institution. Similarly Teame *et al* (2016), avers that the success or failure of financial institution is determined by the quality of its credit management processes.

The essential elements of a successful credit management, according Teame *et al* (2016), are: well-developed credit policies and procedures, strong portfolio management, effective credit controls and most importantly a well-qualified staff capable of implementing designing and implementing the credit management system. Generally there are four basic stages in a credit management process. These are credit product design and development, credit assessment, and credit monitoring and credit recovery (Negera, 2012; Walsh, 2010; Asante, 2015). These are shown figure 2.1 below.

Figure 2-1: The Credit Management Process



Source: GE Money, 2016

2.4.1.1 Loan Products Design

Every loan product comes with specific terms and conditions as it is outstanding. Loans offered by institutions are mainly short-term, medium term and long-term loans. The short-term loans are those repayable within a year and are usually meant for school fees and other emergency expenses. Long-term or development loans normally have a longer repayment terms and the maximum amounts are normally larger than for medium terms loans (Gatimu & Kalui, 2014).

There is a view that financial institutions can reduce a significant element of default risk by designing loan products with credit terms that suite the unique profile of the intended borrowers. According to Asante, (2015) it is of vital importance that loan products are designed to address the particular reasons for which it is being sought. Loan products elements include the size of the credit, interest rates and charges, repayment period, security and other peculiar terms. According to a study conducted by CGAP in 2005, many traditional financial cooperatives, offer only one type of loan product with no variation according to the risk profile of the borrower. For instance the repayment capacity, purpose and character of the borrower are not generally assessed to determine the creditworthiness of the borrower. These types of loans are not flexible enough to meet members' diverse credit needs.

Waterfield (2001), cited in Oppong, Agyeiwaa, Abruquah, (2015) states that a proper design of financial products and their respective delivery methodologies is fundamental for effective and sustainable delivery of financial services. They stated that credit institutions have to design loan products and disbursement procedures that fit the unique financial needs of the targeted segment of customers. They also opined that loan products also need to be sustainable from the credit provider's point of view in order for the target market to continually have access to these financial products in the long term. Oppong, Agyeiwaa, Abruquah, (2015) stresses that properly designed and developed loan products and delivery method when managed efficiently and effectively could significantly help reduce some of the known causes of default in lending institutions.

According to Darban *et al* (2005) cited in Nawai and Sharriff (2000) states that loan delinquency could be caused by inherent characteristics of borrowers, characteristics of lending institution and the suitability of the loan product to the borrower “which makes it unlikely that it would be repaid”. Copisarow (2000) argued that loan delinquency generally arises from poorly developed programs or poor implementation, not from any fundamental problems with the borrower.

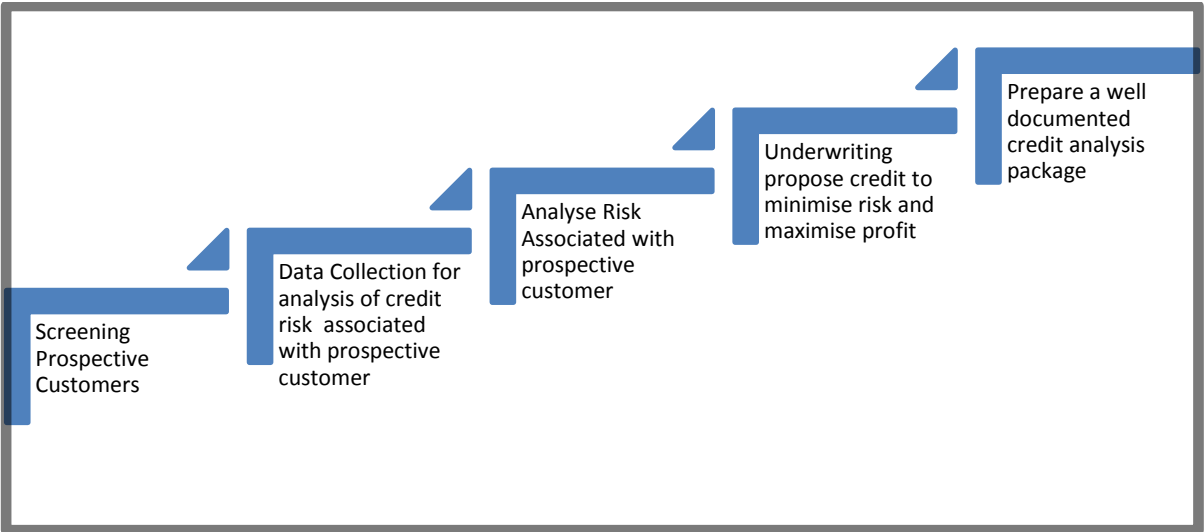
A report by Genetics Analytics (2013) indicates that business loans are not common in financial cooperatives in Swaziland due to lack of the necessary skills to correctly appraise such loans. Popular loans offered are those used to finance household activities such as education, household repairs, car maintenance, furniture, lobola etc. This means that financial cooperatives in Swaziland offer consumption loans as opposed to business loans. By design the risk of default in consumption loans is inherently high compared to business loans because they are unsecured and are not used to finance income generating activities. The report further indicates indicate that loan products in financial cooperatives in Swaziland are priced lower compared to loans offered by commercial banks in Swaziland. This means that the study is likely to find that interest is not a significant driver of nonperforming loans in financial cooperatives in Swaziland.

2.4.1.2 Credit Assessment and Underwriting

Credit assessment is probably the first and most important step of credit risk management which ensures that loans are granted to borrowers with the financial capacity and willingness to repay the loan. Boldizzoni (2008) cited in Gatimu and Kalui (2014) stated that loan

appraisal process plays a vital role in assuring that lending losses are minimised by eliminating non-deserving customers.

Figure 2-2: Credit Initiation and Analysis Process



Source: BearingPoint (2006)

Generally credit assessment begins with gathering, analysis and evaluation of information to ascertain the creditworthiness of the borrower as shown on figure 2.2 above. This process is normally guided by a credit policy which sets the applicable standards, procedures and risk tolerance levels (BearingPoint, 2006). Generally a credit policy specifies acceptable loan purposes, types of loans, interest, repayment period, the sectors which the lending institutions is willing to lend to, the types of information the lending officer should collect for analysis. A credit policy creates a framework, requirements and acceptable credit risk levels which all lending officers should abide to. Underwriting flows from credit assessment. It involves structuring the credit facility to minimise or mitigate identified risk, increase the likelihood of loan repayment, and generate best possible return from the transaction. It includes setting terms and condition of the loan such as security required, instalments, timing of the repayments instalments, source and method of repayment and reporting requirements (BearingPoint, 2006).

Makori (2015), states that measuring the riskiness of a borrower can be difficult due to problems of moral hazard or information asymmetry which makes lenders unable to differentiate between creditworthy and uncreditworthy borrowers. According to Teame *et al* (2016) lending financial institutions face the following four main challenges as they undertake their credit extension activities: (a) to establish the risk profile of the borrower (adverse

selection), (b) ensuring that the loan amount is utilised on its intended purpose by the borrower, so that s/he will be able to repay it (moral hazard), (c) to establish the main reason why a project failed in cases where the borrower declares his inability to repay and (d) to find methods of forcing the borrower to pay if s/he is reluctant to do so (enforcement). These problems of imperfect information and enforcement lead to inefficiencies in the credit market which in turn leads to loan default.

Many approaches have been developed in client appraisal process by financial institutions ranging from relatively simple methods to fairly complex ones, such as the use of computerized simulation models (Moti, 2012). Some of these include CCCPPARTS (character, capital, capacity, purpose, person, amount, repayment, terms and security); PARSER (person, amount, repayment, security, expediency and remuneration) and CAMPARI (character, ability, margin, purpose, repayment insurance and security). However the most common approach is the 5 Cs, which stand for capital, character, capability, collateral and condition (Addae-Korankye, 2014). Kariuku (2014) refers to the 5Cs as the canons of lending and asserts that it is a screening and evaluation model in which borrowers are classified according to their strengths or lack of it.

Gatimu and Kalui, (2014) defines character as the customer's responsibility, truthfulness, serious purpose and intention to repay loan. Character is most important but difficult to assess (Ejigu, 2015). One common approach for assessing the character of an applicant is to conduct a credit bureau background check. A credit bureau is an entity that "collects and maintains credit data on behalf of the credit industry". It is a model that enables evaluation of credit risk by supplying information on a borrower's payment history, level of indebtedness and amount of cleared loans (Walsh, 2010). Hobbs (2010e) cited in Walsh (2010) states that the use of credit bureau checks lead to "better lending decisions and cheaper, more proficient credit management". Pagano and Jappeli (1993) of the adverse selection theory cited in Makori (2015) states that information sharing enhances the repository of borrowers, reduces defaults and the cost of credit and can lead to expansion of lending.

Gatimu and Kalui, (2014) defines capacity as the ability to request a loan and the legal standing to sign a binding loan agreement. It also refers to the income available to meet the requirements instalment repayments (affordability). The loan officer must be convinced that a customer has a well-defined purpose for requesting a credit and has a serious intention and capacity to repay. If there is reasonable suspicion that the customer is unlikely to use the

borrowed funds as planned and repay as agreed, the loan should not be made to avoid a credit problem.

Korankye, (2014) states that collateral should only be considered towards the end of the credit assessment process and should be considered only after the borrowing proposition has met the lending criteria. Thomas (2009) cited in Walsh (2010) states that it is the lack of cash flow, not assets, that causes borrowers to default on their loan obligation and he also proposed an affordability model as follows:

$$(\text{Realisable Assets})_{t+1} = (\text{Realisable Assets})_t + (\text{Income Level})_t - (\text{Expenditure})_t - (\text{Loan repayment})_t$$

This model means that the borrowers' realisable assets, plus income must be sufficient enough to cover operating expenditure and loan instalment. Allen & Makhumbi (2009) cited in Micheni (2014) state that the financial cooperatives have not always been assessing sufficiently the ability of members to repay within a specified time frame. They further states that the cooperatives model of finance relied to a certain extent on the common bonds shared by members, which fostered a trust between members.

Condition relates to the external factors that could affect the customer's ability to repay the amount borrowed. This could include the economic, legal, political and social environment. It also relates to the terms and condition under which the loan will be granted to protect the financial institution interest. Capital refers to the level of investment a borrower has made in the project as a sign of commitment to the project. This provides an important signal against moral hazard (Ejigu, 2015).

Golden and Walker (1993) as cited in Arko (2012) developed 5 Cs of bad credit management practices, which lending institutions should avoid to reduce bad loans. These are: complacency; carelessness; communication; contingency and competition. Complacency refers to the habit of assuming that a good borrower will remain a good borrower in the future. Carelessness relates poor underwriting evidenced by poor documentation, lack of current information in the credit application file and lack of protective covenants in the loan agreement. Communication refers to the lack of communication between management and loan officers with regard to credit policy objectives, gaps and any problems with existing loans as soon as they appear. Contingency and competition involves following competitors lending

practices instead of maintaining your own lending standards. Cluelessness, which is an additional C, refers to cases wherein the lender or inexperienced staffs takes on the lending function without additional support from management.

Moti, (2012) states that, notwithstanding the availability of the credit assessments models discussed above, many lending decisions by microfinance institutions such as financial cooperatives are frequently based on subjective processes. They use this approach because it is both simple and inexpensive.

2.4.1.3 Credit Review and Monitoring

This refers to on-going supervision of the loan account to ensure that instalment repayments are made when due. This helps in detecting and preventing potential defaults in time (Frank *et al*, 2015). Gatimu and Kalui (2014) expresses similar views and states that loan reviews are crucial as they help management to identify problematic loans more quickly and act as a continuing check on whether the loans policy was followed by loan officers. Same views are also expressed by Ejigu, (2015) who asserts that credit monitoring is essential in assessing whether the borrower complies with the terms and condition of the loan, the borrowed funds are being used for the intended purpose, identifying early warning signals and taking corrective or remedial action where necessary to avert possible default.

Negera, (2012) states that whilst lending decisions are made on a sound credit analysis and assessment of credit worthiness of borrowers, past satisfactory credit assessments do not fully guarantee future payment. A loan approved on the basis of sound credit assessment could go bad due to the ever-changing socio-economic environment. It is for that reason that proper follow-up and monitoring is essential to verify whether or not the assumption on which the lending decision was based on continues to hold.

A report by BearingPoint (2006) states that loan monitoring should be informed by the weaknesses identified during the analysis and credit underwriting phase in order to identify early deviation by the client from agreed terms and conditions. The greater the weakness identified during the analysis stage, the more frequent the monitoring should be. The report further states that the strength of the borrower identified during the analysis phase, especially preservation of sources of income, should be monitored for deterioration. Effective monitoring involves regular, close customer contacts and receipt of financial information to ensure that lending institution has knowledge about the current activities of the borrower.

Korankye, (2014) opines that microfinance institutions need a monitoring system that highlights and isolates repayment problems clearly and quickly so that loan officers and managers can manage these loans before they deteriorate further. Dhakal, (n.d) states that one of the essential measures necessary for easy identification of nonperforming loans, in addition to capable human resources, is to have a robust computerised information management system (MIS) to assist loan officers follow-up slow paying borrowers and for management to analyse the loan portfolio, preferably on daily basis. Warue (2012) also states that MIS is vital for controlling loan delinquency. It should be able to track missed instalments, provide accurate and timely reports to management on the performance and status of the loan portfolio, so that appropriate actions to collect the payment can be instituted immediately. Lack of MIS or inefficiency of the systems may lead to inaccurate and/or late information leading to erroneous decision making on loan delinquency performance. As a result, opportunities for loan default are created.

Weaver (2003) cited in Walsh (2010) stated that timely review of loan performance is as important as thorough assessment of the original loan. Ralston and Wright (2003) also cited in Walsh (2010) claimed that credit review and monitoring is not often carried out by credit unions in a manner that is required by best practices.

2.4.1.4 Credit Collection and Recovery Practices

Credit collection and recovery is the final, but essential element in credit management as it helps to convert debt in to cash for on lending again. According to a report by ACCION, (2008) high loan delinquency can also be caused by lack of overall collection forethought. The report further states that collection in MFIs is sometimes seen as a secondary or non-existent activity and lack a defined strategy.

Fedaseyeu and Hunt (2014) state that a collection policy involves monitoring the loan portfolio to identify the paying pattern of borrowers and follow-up on past due loans. It is a contract enforcement mechanism through which credit institutions recover debt owed to them. It is important for lending institutions to have a collection policy and procedure in place in order to guide its collection efforts.

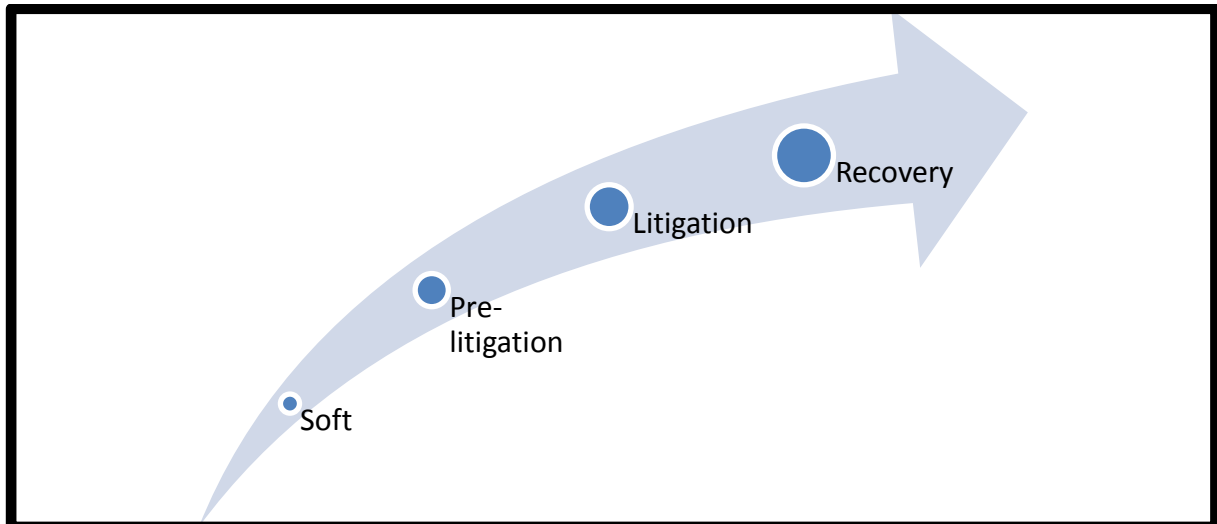
Gatimu & Kalui (2014) defines a collection procedure manual as a detailed statement of processes and steps to be followed regarding when and how past-due amounts of a debt are to be collected. A properly prepared collection procedure should have details such as due dates,

grace periods, penalties, date of repossession, date of turnover of delinquent account to collection agency, among others. The collection procedure should be clearly spelt out in the loan agreement and it is essential for borrowers to be made aware of the finer details of the collection policy and procedure so as to avoid penalties, and in the case of collateral repossession. ACCION (2008), states that a poorly structured collection process could lead to ineffective and costly strategies as well as the breakdown of the entire collection process.

Wambugu (2012) states that a debt collection strategy entails keeping a strong debt recovery unit with clearly defined, documented, consistent policy and procedure framework that guide staff throughout the collection and recovery process with clear steps on how to respond in a particular situation. In addition, he states that effective recovery is about putting in place proactive systems and procedures that recognises the value and role of a well-trained and knowledgeable internal collection staff and third party collection agents. Nyanumba (2010) cited in Wambugu (2012) expresses the same views and states that ineffective collection strategies usually stem from or are usually caused by lack of clear systems, procedures, inadequate and poorly trained staff, lack of enforcement strategies and the structure of the organisation.

Some scholars such as Finlay, (2008) have suggested strategies of achieving a better probability of collecting arrears. These include the use of regular issuance of clear but firm letters and phone calls (Walsh, 2010). Hinder (2004) cited in Walsh, (2010) contends that collections are about “customer service, protecting the asset and speed recovery” and when the delinquency duration gets longer, the financial institution should place emphasis on protecting the financial institutions’ asset and less emphasis on maintaining good relationship with the borrower. However, such strategies must be lawful and ethical. A white paper by EXUS (2016), an international debt collection company, states that there are four crucial phases in modern collection and recovery processes. These are the soft, pre-litigation, litigation and recovery phases as shown on figure 2.3 below.

Figure 2-3: The Four Phases of Collection



Source: EXUS Debt Collectors (2016)

During the soft and pre-litigation phase emphasis is on finding a solution with the client, maintaining positive relations and limiting cases that move to the later stages. This includes making telephone calls, sending reminder letters and loan restructuring. In the later stage, litigation and recovery phases, emphasis shifts from maintaining customer relations to protection of the institution's resources and minimizing losses. This includes foreclosing on pledged securities, handing over the file to debt collectors and instituting legal action.

Ahiable (2012) argues that lack of frequent contact with borrowers is the biggest mistake lending institution make in debt recovery. Constant contact is essential in debt recovery as it brings the debt to the attention of the delinquent customer. Ahiable (2012) analysed the recovery strategies of African Development Bank and found that letters of reminders often prompt defaulters to honour their loan obligations. Walsh (2010) conducted an assessment of debt collection practices of credit unions in Ireland and found that one of the most used strategies to liquidate delinquent loans was loan restructuring and many of the surveyed financial cooperatives considered loan rescheduling as an effective intervention in the arrears recovery process. There is a school of thought; however which argues that loan rescheduling worsens the riskiness of credit unions (Hobbs, 2010). ACCION (2008) states that this practice disguises the true position of the loan portfolio and cautions that loan restructuring should never be applied as a general strategy which does not change the payment pattern of the borrower. Such a strategy should only be applied during exceptional circumstances such as natural disasters etc. Empirical result on the use of third party or external debt collection agencies are mixed, however Wambugu (2012) advises that before the choice of whether to

outsource or insource or keep a hybrid collection function should be preceded by proper assessment of the strength and weaknesses of each collection option.

2.4.2 Credit Governance Practices and Nonperforming Loans

The four phases of credit management discussed above depends heavily on the quality or otherwise of the calibre of corporate governance in a financial institution. There is a growing school of thought that corporate governance and the style of management or management culture play a crucial role in minimizing nonperforming loans in financial cooperatives (Magali, 2014). The review of literature on credit governance is important particularly in this study because of the unique governance structure of financial cooperatives, which some scholars (Branch and Baker, 2000; Odera, 2012) have described as the major weakest link in the operations of financial cooperatives.

Generally, corporate governance refers to processes by which an organisation is led, controlled and managed by the steward on behalf of their principals. It relates to the processes and structures for decision making, accountability, control and behaviour at the top of the organisations (Brownbridge, 2007). Credit governance relates to oversight practices that improve adherences to set standard policies and procedures for the credit function in order to improve accountability, transparency and oversight (Makori, 2015). Macheloni (2014) stated that good corporate governance practice enables organisations to eliminate risk and optimizing performance. Implementation of good governance is not only about achieving better returns but also management of risks to ensure long term sustainability of the organisation.

Friends Consult Ltd (n.d) cited in Magali (2014) reported that high levels of loan delinquency in Umrenge (financial cooperatives) in Uganda were caused by failure of the board of directors to establish proper credit policies and procedure manuals, inefficient credit committees, poor organisational policies and strategy, lack of staff capacity and general poor staff management and supervision. This means that the board must develop essential policies and procedure manual to guide the activities of the credit function and these policies must be continuously reviewed to ensure that they remain responsive to current practices and risks inherent in the operations of the financial cooperative.

Tadele and Rao (2014) cited in Magali and Lang'at (2014) reported that poor corporate governance practices in MFIs in India (Andhra Pradesh) led to issuance of loans without proper assessment and underwriting, lack of loan portfolio diversification, poor MIS and

accounting systems, poor staff supervision which allowed loan officers to handle high amounts of cash which led to fraud and misuse of funds.

Asante, (2015) contends that credit culture is a critical element of credit risk governance in lending financial institutions. Credit culture relates to a financial institution's approach to the administration of credit risk. A strong credit culture can help create the right symmetry. Management needs to develop an organisational ethic or culture that is intolerant to default and where defaulting borrowers can easily be traced for repayment. CCGAP (2005) recommends that microfinance institutions should cultivate a culture of zero tolerance against late payments, development appropriate products and establishment of acceptable level of delinquency.

Odera (2012) states that one of the fundamental challenges facing financial cooperatives is that of establishing a proper governance system and that governance is considered to be one of the weakest link in financial cooperatives. After evaluating literature relating to the theories and conflicts of governance in financial cooperative, Odera found that governance problems in financial cooperatives are generally caused by "lack of clear and proper rules separating management from decision making, unqualified staff in management, inadequate managerial skills, failure of board and membership to exercise fiduciary responsibility and the one man one vote system". He further reported that a borrower-dominate board operating in an environment that lacks sound governance rules and internal controls provides temptation for improper manipulation of the credit assessment, approval and granting process by directors.

Branch & Baker (1998) cited in Odera (2012) states that governance problems in financial cooperatives can also be magnified by the lack of a robust election process comprising of fit and proper vetting system through which competent members could be elected into the board. They state that the current system allows some members to canvas for votes by promising cheap and easy loans to supporters. Once elected these board members sidestep and manipulates internal credit management processes in order fulfil their pledge to their supports. Furthermore, Branch & Baker further asserts that these governance problems occur because of the combination of the traditional borrower dominated service structure together with circumstances in which rules for decision making and control are not well defined and enforced. In most traditional cooperatives bylaws allow board members substantial involvement in operational decision and internal controls on insider dealing are generally

weak which allows unscrupulous board members to issues out loans for their own selfish interests and as political favour.

To close the above highlighted weaknesses in the governance structure of cooperatives, Branch & Baker (1998) suggested that as a financial cooperative grows, volunteer credit committees should be dissolved or should not permitted to conduct credit assessments but they should be made to assume a supervisory and monitoring ensuring compliance of the loans processes with policy and procedures. They further suggested that traditional credit committees should be replaced with a technical committee made up of employees with specialized skills, wherein the manager has authority to approve small loans, the technical committee approves larger loans and the board approves loans to directors and staff and loans larger than those approved by the technical credit committee.

2.5 EMPIRICAL REVIEW OF THE CAUSES OF NONPERFORMING LOANS

This section provides an insight into the findings of some studies conducted on the phenomenon under study. The empirical literature reviewed spans across the financial cooperative, microfinance and banking sectors.

Korankye (2014) analysed the causes of loan default in financial cooperatives in Ghana by using a sample of twenty five microfinance institutions. The study found that some of the key causes of nonperforming loans include: high interest rates, poor appraisal, lack of monitoring and improper client selection. The study recommended the following controls: training before and after disbursement, reasonable interest rate, monitoring of clients and proper appraisals. It further recommended that financial cooperatives should endeavour to have clear and effective credit management procedures and that these must be regularly reviewed.

Gatimu & Kalui (2014) assessed the contribution of institutional factors to loan delinquency in microfinance institutions in Kenya. A descriptive survey design was used to carry out a census of 59 microfinance institution registered by the Association of Microfinance Institution in Kenya. The data collected through questionnaires was analysed using multiple linear regression to establish relationship between loan delinquency and credit policies, loan recovery procedures, and loan appraisal procedures. The study found that all three factors were critical drivers of loan delinquency in microfinance institutions in Kenya.

Moti, Masinde, Mugenda and Sindani (2012), investigated the effect of credit management systems on loan performance in microfinance institutions in Kenya. Credit management systems included credit terms, client appraisal, credit control measures, and credit collection policies. A descriptive design approach was used to conduct the study and the target population was 70 credit officers from 14 microfinance institutions registered in Meru Town. A census survey was used and questionnaires were distributed to all the 70 credit officers. All the credit management systems were found to have an effect on loan performance. However, collection policy was found to have higher effect on loan performance compared to the other factors.

Maina, Kinyariro and Muturi (2016) used a sample of 44 credit officers to investigate the influence of credit risk management on loan delinquency in financial cooperatives in Meru County of Kenya. Credit risk control and collection policy was used as a proxy for credit risk management practices. Primary data was collected through questionnaire and it was analysed using multiple linear regression and percentage frequency distribution tables. The study revealed that there was a strong relationship between credit risk control, collection policy and loan delinquency. The study concluded by advising financial cooperatives to develop more stringent credit risk management policies for effective loan delinquency recovery.

Bebeji (2010) evaluated credit management strategies and non-performing loans of Nigerian Banks. He employed survey design using both primary and secondary data with a sample of thirty (30) employees of Ecobank. He found that a liberal credit policy, poor management and ineffective monitoring of debts were significantly related to non-performing loans. Similarly, Jha and Hui (2012) as cited by Magali (2013) also found that poor credit appraisal, inadequate follow-up and poor supervision of loans were the main drivers of high ratio of nonperforming loans in Nepal.

Magali (2013), used a qualitative, descriptive and multivariate regression analysis to assess factors affecting credit risk default from rural savings and credit cooperatives in Tanzania. He found that years of schooling of borrowers contributed positively to loan delinquency. However attributes such as marital status, age, family size and borrower experience were found to be irrelevant. Other borrower specific attributes, found by the study were: loan size, inadequate loan follow-ups, political interference and absence of proper credit risk management techniques which resulted in huge amount of loans default.

Teame *et al* (2016) investigated factors affecting nonperforming loans in Ethiopia and used the Development Bank of Ethiopia as a case study. A descriptive research design was used to conduct the study and data was collected from a sample 77 consisting of staff members and borrowers. The collected data was analysed using descriptive statistics, frequencies and percentages distribution tables. The study found that poor credit assessment, credit monitoring and high interest rate were some of the major causes of nonperforming in the Development Bank. The study concluded by suggesting that the bank needed to strengthen its application criteria and due diligence assessment to identify potential risk applicant. They also recommended that the bank needed to adopt pre and post credit assessments to limit incidences on nonperforming from occurring.

Nyor, Mejabi (2013) cited by Oghojafor, Olayemi, Okonji, and Okolie (2010) examined poor corporate governance and its consequences on the Nigerian Banking Sector. The study used structured questionnaires to obtain responses from one hundred and twenty (120) respondents consisting of investment analysts, financial experts, banks' employees, shareholders and customers among others. Using chi-square, the study confirmed that poor governance culture and supervisory laxities were majorly responsible for the current banking crisis.

Magali (2014) used primary data from 37 rural financial cooperatives to assess the influence of leadership and corporate governance in financial cooperatives in Tanzania. The study found that poor credit risk management in financial cooperatives in Tanzania emanates from incompetent staff, poor corporate governance practices, political interference and lack of auditing.

Magali and Langa'at (2014) evaluated the influence of corporate governance on the efficiency and sustainability of rural financial cooperatives in Tanzania. Three best financial cooperatives were compared on their efficiency and sustainability to ascertain the overall best performing and outline the underlying reasons driving the performance. Data was analysed using descriptive and qualitative methods. The findings of the study revealed that experience in financial cooperative business, commitment in credit screening, effective loans recovery systems, sound credit risk management and adherence to good leadership and corporate governance principles were the main drivers of sound financial performance.

Moti *et al* (2012) investigated the effectiveness of credit management systems on loan performance in 14 microfinance institutions in Kenya and found a significant relationship

between an adopted collection policy and loan performance. Gatimu and Kalui (2014) opined “that if microfinance institutions do not come up with well administered collection procedures then this could be a recipe for clients not to repay their loans”.

Warue (2012) conducted the causes of nonperforming loans in Kenya. The results revealed that management information system was positively related to loan delinquency which suggested that loan delinquency is dependent on management information system performance in MFIs in Kenya.

The foregoing literature review has clearly demonstrated that nonperforming loans are largely caused by factors under the control of management. These factors relate to credit management practices of financial institutions and they appear to be constant across all lending sectors. The following section provides an analysis of strategies that can be implemented to reduce the occurrence of nonperforming loans in financial cooperatives.

2.6 DISCUSSION OF STRATEGIES FOR REDUCING NONPERFORMING LOANS

The foregoing review of literature demonstrates that nonperforming loans are generally caused by the management of financial cooperatives to put in place sound credit management system and effective oversight structures resulting in poor loan product design, poor screening and underwriting, poor delinquency monitoring, and poor credit collection practices.

Several strategies for reducing nonperforming loans have been proposed by financial cooperatives scholars and professionals. ACCION (2008) recommends the following best practices to limit the occurrence of loan delinquency: developing proactive strategies to prevent delinquency from occurring by educating borrowers about the key features of the product, its associated fees, set-up mutually agreed repayments schedules of instalments, address complaints timeously and employ positive enforcement strategies; improving the efficiencies and productivity of the collection unit through the development of appropriate policies, procedures, employment and training of staff; ensuring that there is quality MIS and to have a clearly defined collection plan by developing customer contact policies, risk-based collection approaches and payments alternatives.

Golden and Walker (1993) as cited in Arko (2012) argues that for lending institution to reduce bad loans they should avoid; (1) complacency, the habit of assuming that a good borrower will

remain a good borrower in the future; (2) carelessness evidenced by poor underwriting, poor documentation, lack of current information in the credit application file and lack of protective covenants in the loan agreement; (3) poor communication between management and loan officers with regard to credit policy objectives and gaps; (4) contingency and competition which is following competitors lending practices instead of maintaining own lending standards and (5) cluelessness, wherein inexperienced staffs takes on the lending function without additional support from management.

Waterfield (2001), cited in Oppong, Agyeiwaa, Abruquah, (2015) and Asante, (2015) emphasised the importance of ensuring that loan products are designed to address the unique profile of the intended borrowers and their diverse needs. They also opined that loan products also need to be sustainable from the credit provider's point of view in order for the target market to continually have access to these financial products in the long term. Oppong, Agyeiwaa, Abruquah, (2015) stresses that properly designed, developed loan products and delivery method when managed efficiently and effectively could significantly reduce some of the known causes of default in lending institutions.

Allen & Makhumbi (2009) cited in Micheni (2014) state that the financial cooperatives have not always been assessing sufficiently the ability of members to repay within a specified time frame and relied to a certain extent on the common bonds shared by members, which fostered a trust between members. Arko (2012) recommended the use of credit bureau referencing to reduce delinquency. Hobbs (2010e) cited in Walsh (2010) states that the use of credit bureau checks lead to “better lending decisions and cheaper, more proficient credit management”. Pagano and Jappeli (1993) cited in Makori (2015) states that information sharing enhances the repository of borrowers, reduces defaults and the cost of credit and can lead to expansion of lending. Thomas (2009) cited in Walsh (2010) states that it is the lack of cash flow and affordability that causes borrowers to default on their loan obligation and proposed that the borrowers’ realisable assets, plus income must be sufficient enough to cover operating expenditure and loan instalment. Korankye, (2014) states that collateral should only be considered towards the end of the credit assessment process and should be considered only after the borrowing proposition has met the lending criteria.

Weaver (2003) cited in Walsh (2010) stated that timely review of loan performance is as important as thorough assessment of the original loan. Ralston and Wright (2003) also cited in Walsh (2010) claimed that credit review and monitoring is not often carried out by credit

unions in a manner that is required by best practices. Gatimu and Kalui (2014) states that ongoing loan monitoring and reviews are crucial in helping management identify problematic loans more quickly and act as a continuing check on whether the loans policy was followed by loan officers. Ejigu, (2015) and Negera, (2012) assert that credit monitoring is essential in assessing compliance with the terms and condition of the loan, the borrowed funds are being used for the intended purpose, identifying early warning signals and taking remedial action where necessary to avert possible default and to verify whether or not the assumption on which the lending decision was based on continues to hold. Korankye, (2014); Dhakal, (n.d) and Warue (2012) argued that microfinance institutions, in addition to capable human resources, need a robust computerised monitoring system that highlights and isolates repayment problems clearly and quickly so that loan officers and managers can manage these loans before they deteriorate further. It should be able to track missed instalments, provide accurate and timely reports to management on the performance and status of the loan portfolio, so that appropriate actions to collect the payment can be instituted immediately.

Nyanumba (2010) cited in Wambugu (2012) states that ineffective collection strategies usually stem from lack of clear systems, procedures, inadequate and poorly trained staff, lack of enforcement strategies and the structure of the organisation. Magali (2013) recommended that financial cooperatives management should use recovery strategies such as personal persuasion, civil procedure and compromise. Finlay, (2008) suggested the use of regular issuance of clear but firm letters and phone calls (Walsh, 2010). Ahiabile (2012) argues that frequent contact is essential in debt recovery as it brings the debt to the attention of the delinquent customer. Ahiabile (2012) analysed the recovery strategies of African Development Bank and found that letters of reminders often prompt defaulters to honour their loan obligations. Walsh (2010) conducted an assessment of debt collection practices of credit unions in Ireland and noted that one of the most used strategies to liquidate delinquent loans was loan restructuring and many of the surveyed financial cooperatives considered loan rescheduling as an effective intervention in the arrears recovery process.

Macheni (2014) stated that financial cooperatives should implement effective good corporate governance practice for effective credit risk management, performance optimization and long-term sustainability. Magali (2013) and Arko (2012) recommended that financial cooperatives management and credit officers should be continually trained on investment and credit management. After studying high levels of loan delinquency in Umrenge (financial cooperatives) in Uganda, Friends Consult Ltd (n.d) cited in Magali (2014) recommended that

the board of directors must develop essential policies to guide the activities of the credit function and these policies must be continuously reviewed to ensure that they remain responsive to current practices and risks inherent in the operations of the financial cooperative. Asante, (2015) and CCGAP (2005) contend that financial cooperatives' management needs to develop an organisational ethic or culture that is intolerant to default and where defaulting borrowers can easily be traced for repayment, develop appropriate products and establish of acceptable level of delinquency.

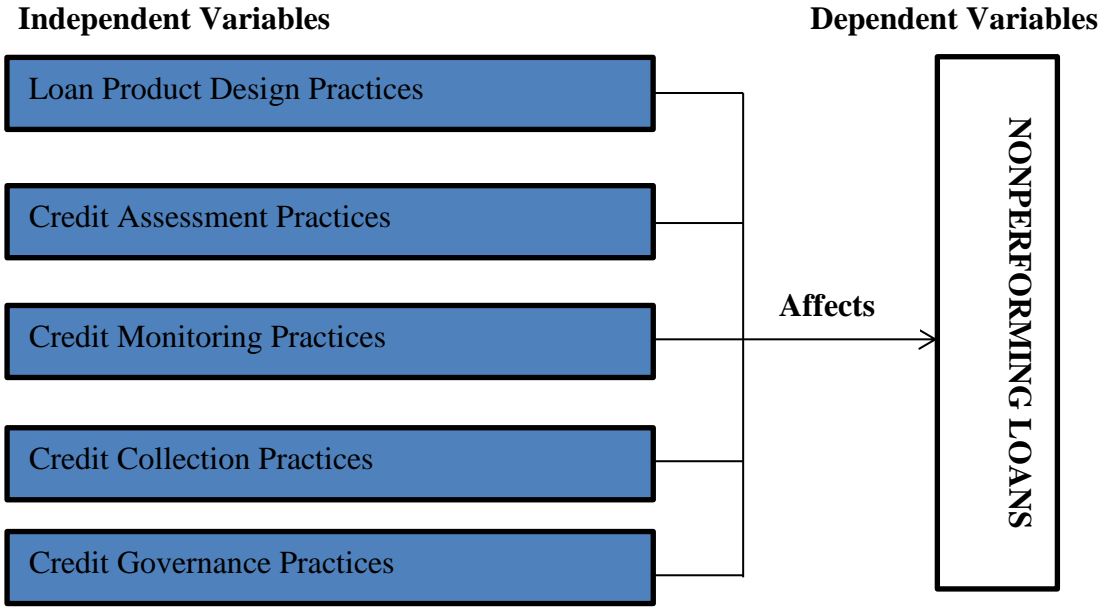
Branch & Baker (1998) cited in Odera (2012) suggested that as a financial cooperative grows, volunteer credit committees should be dissolved or should not be permitted to conduct credit assessments but they should be made to assume a supervisory and monitoring ensuring compliance of the loans processes with policy and procedures. They further suggested that traditional credit committees should be replaced with a technical committee made up of employees with specialized skills, wherein the manager has authority to approve small loans, the technical committee approves larger loans and the board approves loans to directors and staff and loans larger than those approved by the technical credit committee.

The foregoing section provided a summary of strategies that can be implemented by financial cooperatives to reduce poor performing loans. The following section provides a conceptual framework postulating the causes of nonperforming loans in financial cooperatives based from the foregoing literature review.

2.7 CONCEPTUAL FRAMEWORK

A conceptual framework provides a visual view of the relationship between the variables so discussed and distilled from the literature review. Sekaran and Bourgie (2014), state that a conceptual model helps the reader to visualise the theorised relationships between the variables in the model. It also enables the researcher to obtain a quick idea about how the problem can be solved. Figure 2.4 below displays the conceptual framework of the study.

Figure 2-4: Conceptual Framework



Interpretation

The conceptual framework postulate that performing loans, is a function of loan product design, credit screening practices, credit monitoring practices, credit collection practices and credit governance practices poor board oversight.

A financial cooperative that offers loan products with credit terms that are incompatible with the financial profile and needs of borrowers (loan product design), lacks an effective credit management systems (credit appraisal practices); does not have effective systems and structures for monitoring delinquent loans (Monitoring practices); lacks effective debt collection and recovery processes and structures and is led by a weak board of directors and management, is likely to experience high levels nonperforming loans and vice versa.

This means that the quality of the above credit management practices determines the level of nonperforming loans in financial cooperatives. A financial cooperative that executes poorly the above credit management practices is most likely to experience high incidents of delinquent loans and the reverse is true.

2.8 CONCLUSION

The chapter presented a literature review on financial cooperatives, non-performing loans and the causes of non-performing loans. The review indicated that non-performing loans are

usually caused by ineffective credit management practices resulting in poor product design, credit assessment and underwriting, credit review and monitoring, credit collection and recovery practices. There is a growing school of thought that poor governance practices contribute towards non – performing loans. The following chapter presents the methodology of the study.

CHAPTER 3 : METHODOLOGY

3.1 INTRODUCTION

The previous chapter presented a review of the prevailing literature on the causes of nonperforming loan in financial cooperatives. This chapter outlines the methodology used in investigating the causes of nonperforming loans in financial cooperatives in Swaziland. The chapter presents discussion on the research design, population, sampling technique, sample size, data collection and analysis methods used in the study.

3.2 RESEARCH DESIGN

A research design is a blueprint for the collection, measurement, and analysis of data based on the research questions of the study (Sekaran & Bougie, 2013). Research design influences the choice of data sources; the types of data collected and provide the context for identifying the relationship amongst variables (Cooper & Schindler, 2003). It involves the intersection of philosophy, strategies of enquiry and specific research methods (Creswell, 2009). This study adopted an explanatory and quantitative research design. It is a cross-sectional and correlational survey research that embraces a positivism philosophical paradigm.

3.2.1 Research Philosophy

Research philosophy refers to a system of beliefs and assumption about the development of knowledge (Saunders, Lewis, and Thornhill, 2016). It encompasses ontological and epistemological assumption about what constitute valid research and which research methods are appropriate for the development of knowledge (Neuman, 2014). A research philosophy underpins a researcher's methodological choice, research strategy and data collection techniques and analysis procedures (Saunders et al, 2016).

There are several philosophical approaches in business and management research. These can be placed on a continuum of two opposing extremes of objectivism and subjectivism. Objectivism is generally associated with the positivism philosophy, whilst subjectivism is generally associated with interpretive philosophy.

The premise for the positivism philosophy is that the social world can be studied through scientific enquiry same as the natural world with little regard to the subjective state of the individuals. The positivists believe that a social science researcher is separated from the

phenomenon being researched and research should be value-free. Positivist research is therefore a “systematic and methodological process” that emphasises “rationality, objectivity, prediction and control (Kura, 2012).

In contrast, the interpretive philosophy seeks to understand knowledge based on social reality through detailed understanding and interpretation of meaning of events and specific life experiences. Interpretivists use research methods such as participant and non-participant observation to understand details of interaction in their context. The interpretive approach comprises of phenomenological sociology, philosophical hermeneutics and constructionist perspectives (Kura, 2012). The interpretive is often loosely associated with qualitative research. First, this type of research tends to be more time and resource intensive than positivist research in data collection and analytic efforts. Too little data can lead to false or premature assumptions, while too much data may not be effectively processed by the researcher (Bhattacharjee, 2012). Therefore, the positivist approach was considered more practical and suitable for this study than the interpretivists approach.

3.2.2 Research Approach

There are three board types of research approaches. These are: exploratory, descriptive and explanatory research approaches. An exploratory research is often conducted in new areas of research with an aim of ascertaining the magnitude of a particular phenomenon, in order to generate some initial ideas about a phenomenon and to test the feasibility of conducting an in-depth research on the phenomenon (Bhattacharjee, 2012).

A descriptive research design approach, according to Sekaran & Bougie, (2013), is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. It is suitable when a researcher seeks to understand the characteristics of a group in a given situation or is interested in associations among variables to describe populations, events or situations. It is directed to making careful observations and detailed documentation of a phenomenon of interest (Bhattacharjee, 2012).

Explanatory research seeks explanations of observed phenomenon, problems or behaviours. It attempts to connect the dots in research by identifying causal factors and outcome of the target phenomenon (Bhattacharjee, 2012). Its emphasis is to study a situation or problem in order to explain the relationship between variables (Saunders, *et al*, 2016). According to Weathington, Cunningham and Pittenger (2012), explanatory is not necessarily grounded in theory but rather

by the need to answer a specific question. They also add that much research in business is explanatory research. This study adopted the explanatory research design approach, as it sought to investigate the causes on nonperforming loans in Swaziland.

3.2.3 Research Method

There are three broad types of research methods. These are qualitative, quantitative and mixed methods. The qualitative method downplays the use of statistical techniques in data collection and analysis. It often employs a naturalistic, interpretive philosophy as a way of understanding the meanings individuals attach to phenomena based on their actions, beliefs, values, decisions, etc. within their social contextualises (Kura, 2012). It seeks to understand the experiences and practices of key informants and to locate them within their settings and context through the use of techniques such as observation, case studies, interviews, grounded theory, photographs, recordings, and memos (Saunders *et al*, 2016). Data collection techniques are not predetermined or standardised. This allows the questions and procedures to change and emerge during the research process that is both naturalistic and interactive. Qualitative research generally begins with an inductive approach to theory development, where data is collected to develop a theoretical perspective (Saunders *et al*, 2016). Qualitative research is seen as less scientific because it usually adopts a non-probability sampling approach which does not allow for generalizability.

On the contrary, quantitative research is an empirical research which employs statistical techniques and methods in the collection and interpretation of data. It seeks to classify features, count them, and construct a statistical model in an attempt to explain what is observed (Kura, 2012). It is generally associated with the positivism philosophy and its epistemological orientation. It is also associated with a deductive reasoning approach where emphasis is on using data to test a theory; however it may also incorporate an inductive approach where data is collected to develop a theory (Saunders *et al*, 2016). It denotes collection of observations through instruments such as questionnaires and measurement of repeated incidences of social phenomena.

A mixed method combines both the quantitative and qualitative approaches in research design (Saunders *et al.*, 2016). It overcomes weaknesses associated with a mono method and it provides scope for a researcher approach to data collection, analysis and interpretation.

While the mixed method approach provides additional benefit, it is time consuming and not cost effective (Zondi, 2015). The qualitative approach was also not considered appropriate for this study because it requires a vast amount of data collection and interviews and lacks external generalizability. The quantitative method was considered more suitable for this study because it is reliable and ensures that findings and interpretations are robust and generalizable (Kura, 2012).

3.2.4 Research Strategy

Saunders *et al*, (2015), defines a research strategy as a plan of action that outlines how a researcher will go about in answering his research questions. It links a researcher philosophy and the choice of data collection method and analysis. There are several strategies a researcher can use when conducting a research. Some of which include experiments, survey research, observation, case studies, grounded theory, action research and mixed methods. According Zondi (2015) research strategies associated with the positivist approach are the experimental design and survey methods. According to Sekaran and Bougie (2013) experimental designs are often used to establish causal relationships in lab settings. They are less useful in exploratory and descriptive business or management questions. They further argue that survey research strategies are very common in business research because they enable collection of both qualitative and quantitative on many times of research questions.

The survey research approach was adopted in this study. By definition survey research is a system for collection information from or about people to describe, compare, or explain their knowledge, attitudes, and behaviour. It includes setting objectives for data collection, designing the study, preparing a reliable survey instrument, administering the survey, managing and analysing survey data, and reporting the results. This allows the researcher to collect both qualitative and quantitative data on any type of research questions. It is used in exploratory, descriptive and in causal research to collect data about people events or situations (Sekaran& Bougie, 2013).

The strengths of field surveys are their external validity (since data is collected in field settings), their ability to capture and control for a large number of variables, and their ability to study a problem from multiple perspectives or using multiple theories (Saunders *et al*, 2016). Survey research is also comparatively cheap, with a better turnaround in data collection (Creswell, 2009).

3.3 POPULATION AND SAMPLING

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. It is the group of people, events or things of interest for which the researcher wishes to make inferences (Sekaran & Bougie, 2013). Therefore the population of this study was all the credit management officers working in all the 54 licenced financial cooperatives in Swaziland. However, Burns and Grove (2004), states that not all members of the population necessarily form part of the target population for the study. An eligibility criterion has to be defined for specifying what was required for the membership in the target population. Therefore the target population of this study were those permanent officers with sound practical experience, and knowledge in credit management in financial cooperatives and occupying a position of operational authority at their financial cooperatives. There are generally two officers who exercise direct oversight over the credit function of financial cooperatives. Therefore the total targeted population of this study was 108 officers, comprising of all the managers and credit supervisors working in the 54 licenced financial cooperatives in Swaziland.

3.3.1 Sampling Strategy

Sampling is the process of selecting a sufficient number of the right elements from the population, so that a study of the sample and understanding of its properties or characteristics make it possible to generalise such properties to the entire populations (Sekaran & Bougie, 2013).

There are two sampling techniques used in research studies. These are the probability and non-probability sampling methods. In probability sampling technique, the probability of each sample unit to be selected is known and likely to be uniform for all items. On the contrary, in non-probability sampling method the probability of each sampling unit being selected is unknown. Probability sampling can be further classified into simple, systematic, stratified or cluster random sampling. Nonprobability sampling, on the other hand, includes convenience and purposive sampling (Saunders *et al.*, 2012). Convenience sampling refers to the collection of information from members of the population who are conveniently available to provide it, whilst purposive sampling collection refers to collection of information from members of the population who are in a position to provide the desired information either because they are the only ones who have it or they conform to some criteria set by the researcher (Sekaran & Bougie, 2013).

However, Mugo (2002) states that when the population is not vast, a census is more desirable than sampling. A census refers to the complete examination of the of pupulation units. Mugo (2002) states that condcting census gives the researcher an opportunity to conduct an intense study about the problem understudy. It is also impartant in groups with hetorgeinity or deferrences in size and charecteristics. In light of the above, the study adopted the census method of data collection because the size of the defined target population was small (108 population units). The census method is also appropriate in this study because the financial cooperatives' sector in Swaziland is concetrated, with the top five fiancil cooperatives accounting for about two-third of the sectors' total assets. It is not homogeous, there are vast differences both interms of assets and practices therefore sampling would not result in a true represative sample.

3.4 RESEARCH INSTRUMENT

Primary data was collected through a self-administered questionnaire (SAQ). A questionnaire is a method of data collection in which respondents are asked to respond to the same set of questions in a predetermined order. Questionnaires provide an efficient way of collecting data from a large sample prior to quantitative analysis; SAQs are less intrusive than other forms of data collection instruments; respondents can complete SAQs at their own convenient time, place and pace; they are less costly and quicker to distribute particularly where respondents are geographically dispersed and they tend to be used more often in descriptive and exploratory research (Saunders *et al*, 2016; Zondi, 2015). Therefore SAQs were considered appropriate for this study due to location of some of the respondents which would have been difficult to reach. It was also important to ensure a high level of confidentiality to ensure that respondents' answers were genuine due to the sensitive nature of the questions asked.

3.4.1 Questionnaire Construction

The questionnaire was formulated after taking into account the problem statement of the study, research questions, research objectives, literature review, conceptual framework and method of data analysis of the study. This was meant to improve the questionnaire's internal validity and reliability as well as improve the response rate (Saunders, et al, 2016). The questionnaire comprised of 37 questions of 8 sections as detailed below:

- | | | |
|-------------------|--|-------------|
| Section A: | General Information about Respondents: | 3 questions |
| Section B: | Nonperforming loans financial: | 2 questions |

Section C:	Loan Products Design:	5 questions
Section D:	Credit Appraisal Practices:	5 questions
Section E:	Loan Monitoring Practices:	5 questions
Section G:	Debt Recovery Practices:	5 questions
Section H:	Credit Governance Practices:	5 questions
Section I:	NPLs Recovery Strategies:	7 questions

Section A consisted of a closed-ended list of questions and these were used to collect information about the professional experience and qualification of the respondents. Section B also consisted of a closed-ended list of questions which were used to collect information about nonperforming loans in financial cooperatives of the respondents. Section C to H consisted of a five-point likert scale statements ranging from strongly agree (1) to strongly disagree (5). These statements sought to elicit and gauge the views of the respondents with regard to the extent to which poor product development practices, poor credit appraisals, poor credit review practices, poor debt recovery practices and poor credit governance practices have contributed to nonperforming loans in financial cooperatives. The likert scale questionnaire was adapted from the following previous studies: Makori (2015); Wangui (2010) and Negra (2012).

3.5 VALIDITY AND RELIABILITY OF RESEARCH INSTRUMENT

All research instruments require validity and reliability in order to obtain trustworthiness (Makhalemele, 2016). Wagner *et al.* (2012) cited in Zondi (2015) adds that validity and reliability are essential in ensuring the quality of research and its conclusions. Sekaran and Roger (2013) assert that the results of any research can only be as good as the measures that tap the concepts in the theoretical framework. This means validity and reliability is concerned with the dependability and credibility of research findings and its attendant research methodology.

3.5.1 Validity of Research Instrument

Generally, validity is concerned with the appropriateness of the measurement instrument used in a study, accuracy of the data analysis and external generalizability of the findings of the study (Saunders, *et al*, 2016). This section addresses the first aspect of validity called measurement validity. It is a test of how well an instrument measures the concept it is intended to measure. In other words measurement validity is concerned with whether we measure the right concept (Sekaran and Roger, 2013). According to Bordens and Abbott, (2014) there are

three types of validity one should consider when using a questionnaire as a measuring instrument. These are content validity, construct validity, and criterion-related validity.

Content validity assesses whether the questionnaire items taps all the dimensions of the construct or concept under study. It seeks to ensure that the measure includes an adequate and representative set of items that tap the concept. The more the scale items measuring the concept under study, the greater the content validity of the measuring instrument (Sekaran and Roger, 2013). Construct validity is concerned about how well the results obtained through the use of measuring instrument fit the theories which formed the basis of the formation of the measuring instrument. That is, to what extent do the results converge or diverge with variables it was predicted to do so based on theoretical literature. Criterion validity is concerned with extent to which a measuring instrument differentiates individuals on a criterion it is expected to predict (Creswell, 2009).

To ensure content validity of the questionnaire used in this study, extensive literature on the various aspects of nonperforming loans and its causes such as credit terms, credit appraisal, credit monitoring, credit collection and credit governance, was reviewed before developing the questionnaire. This was to ensure that the questionnaire fully reflect the various dimension of the variables under study. In addition, each concept or variable was tapped with five scale items or statements in the questionnaire in order to ensure all facets of concept are measured appropriately. Secondly, before the actual data collection instrument was circulated to the respondents, a pilot questionnaire was sent to 10 selected respondents in order to pre-test the validity and reliability of the questionnaire. Golloway (1997) cited by Moti, Masinde, Mugenda and Sindani (2012), suggested that a populations of 5-10% of the final sample is considered sufficient for a pilot study. Finally, construct validity was established by comparing the results with results of other researchers who conducted a similar study as suggested by Bordens and Abbott, (2014).

3.5.2 Reliability of Research Instrument

Reliability is the test of how well an instrument measures whatever concept it seeks measure and reliability with stability and consistency of measurement. It refers to the extent to which a measuring instrument is without bias or error free. It implies that the data collection methods and analytical procedures would produce consistent findings if they were repeated by another researcher or duplicated on another occasion (Saunders *et al.*, 2016). Therefore, reliability of a data collection instrument ensures stability and consistency across time and the various items

in the instrument. Stability refers to the ability of measuring instruments to remain the same over time, whilst consistency is concerned with the homogeneity of the items in the measuring instruments that taps the construct instrument (Sekaran and Roger, 2013).

The study adopted a five-point likert scale questionnaire as a data collection and measuring instrument. The stability of the questionnaire was tested through a test –retest reliability exercise, wherein the questionnaire was sent to a group of 10 respondents for their review and comments (pilot test). After the pilot test (3 weeks later), the final questionnaire was sent to all respondents including the piloted respondents. The responses collected from the piloted group through the final questionnaire were compared with their responses obtained during the pilot study and there were no significant differences noted. The internal consistency of the questionnaire was tested through Cronbach’s coefficient alpha which is reliability measure that indicates how well the items tapping a specific construct are positively correlated to one another. The closer the Cronbach’s alpha is to 1, the higher the internal consistency. According to Sekaran and Roger (2013) reliabilities less than 0.6 are considered poor and those more than 0.7 are considered good.

3.6 DATA COLLECTION TECHNIQUE

The primary data was collected through self-administered questionnaires from two members of each financial cooperative being, credit supervisor and officer manager. The questionnaires were mailed to each respondent through electronic mails (emails). Hard copies of the questionnaire were printed and hand delivered to those participants who did not have access to the internet and computers in the workplace. Follow-up calls and reminder e-mails were sent to participants that had not responded two weeks after sending the questionnaire. Secondary data (six year series) on the ratio of nonperforming loans to gross loans was collected from the Department of Cooperatives (2011-2013) and (2014-2016) was collected from the Financial Services Regulatory Authority

3.7 DATA ANALYSIS

The data analysis method used in the study was adopted from Makori (2015). Data collected was analysed using descriptive and inferential statistics. Descriptive statistics describes features of a data sample, while inferential statistics makes inferences about the populations from which samples are drawn from (Saunders *et al.*, 2016). Data was analysed in accordance with the objectives of the study.

The first objective of the study was to investigate the trend and ratio of nonperforming loans in financial cooperatives. To achieve this objective, data collected from respondents was analysed using descriptive statistics such pie charts, bar charts and percentages.

The second objective of the study was to investigate the effect of loan product design, credit screening, credit monitoring, credit collection and credit governance practices on nonperforming loans. To achieve this objective, data collected from respondents was analysed using percentage frequency distribution tables and Pearson correlation matrix. The statistical significance of the relationship was tested at 5% significance level. The respondents were asked to indicate agreement or disagreement with statements designed to investigate the causes of nonperforming loans. Responses were rated on a five point likert scale ranging from agree to strongly disagree. The statements were negative worded; therefore a score of 1 and 2 in the likert scale reflected poor credit management practices whilst a score of 4 and 5 reflected good credit management practices. The results were then analysed using percentage frequency distribution tables and Pearson correlation analysis.

The third objective of the study was to investigate commonly used strategies used by financial cooperatives to recover nonperforming loans, and to achieve this objective data collected from respondents was analysed using percentage frequency distribution tables.

The data analysis was conducted with the assistance of Statistical Package for Social Sciences (SPSS) and Microsoft Excel.

3.8 ETHICAL CONSIDERATIONS

The study complied with all ethical standards related to assignment of this nature. Firstly, ethical clearance to conduct the study was sought and granted by the Social Science Research Ethics committee of the University of Kwazulu Natal. The Questionnaire was accompanied by a covering letter assuring respondents that the confidentiality of the information collected would be preserved and that their names and other information that could expose their identities would not be disclosed in the data collected. It was also made clear to the respondents, that their participation in the study was voluntary, that they are free to pull out if they felt uncomfortable in participating in the study.

3.9 CONCLUSION

Chapter 3 described the methodology used in investigating the causes of non- performing loans in financial cooperatives. The study used an explanatory and quantitative research design. The chapter discussed the sampling strategy, research instruments, which included the questionnaire construction. The chapter also discussed validity and reliability of the research instrument, data collection technique, data analysis and concluded with ethical considerations. The following chapter provides the presentations, analysis and the discussion of findings.

CHAPTER 4 : PRESENTATION, ANALYSIS AND DISCUSION OF FINDINGS

4.1 INTRODUCTION

This chapter presents the analysis of data collected from the respondents. The analysis has been presented in accordance with the research objectives and questions of the study as set out in chapter one. The response rate and reliability of research instrument used for this study is discussed, followed by an examination of the demographics of the respondents. Thereafter the results of the questionnaires are presented, analysed and discussed in relation to the literature reviewed in Chapter Two.

4.2 RESPONSE RATE

The total number of questionnaires that were administered to the respondents were 108. Out of these, 85 questionnaires were properly filled and returned by respondents. This translated to a response rate of 78%. According to Sekaran and Bougie (2013), a response rate of 30% in mail and electronic questionnaires is considered acceptable. Saunders *et al* (2016) also state that a response rate of 30-50% in mobile and web questionnaire is deemed acceptable. This means that the response rate of 78% was above the acceptable range.

4.3 RELIABILITY OF THE RESEARCH INSTRUMENT

The research instrument consisted of 25 items. Table 4-1 displays the reliability coefficients of the five factors; namely loan product design, credit assessment, credit monitoring, credit collection and credit governance practices.

Table 4-1: Research Questionnaire Cronbach's Alpha Coefficients

Variable	Number of Items	Cronbach's alpha
Loan Product Design Practices	5	0.661
Credit Assessment Practices	5	0.622
Credit Monitoring Practices	5	0.743
Credit Collection Practices	5	0.841
Credit Governance Practices	5	0.860
Overall Score	25	0.745

Source: *Survey Data, 2016*

The above results indicate that: Loan Product Design Practices (alpha=0.66); Credit Assessment Practices (alpha=0.62); Credit monitoring practices (alpha =0.74); Credit

Recovery practices ($\alpha=0.84$); Credit Governance practices ($\alpha=0.86$) and the overall Cronbach's Alpha Coefficient was 0.74. According to Sekaran and Roger (2013) reliabilities less than 0.6 are considered poor and those more than 0.7 are considered good. Therefore the above results indicate that the reliability of the questionnaire was within acceptable standards.

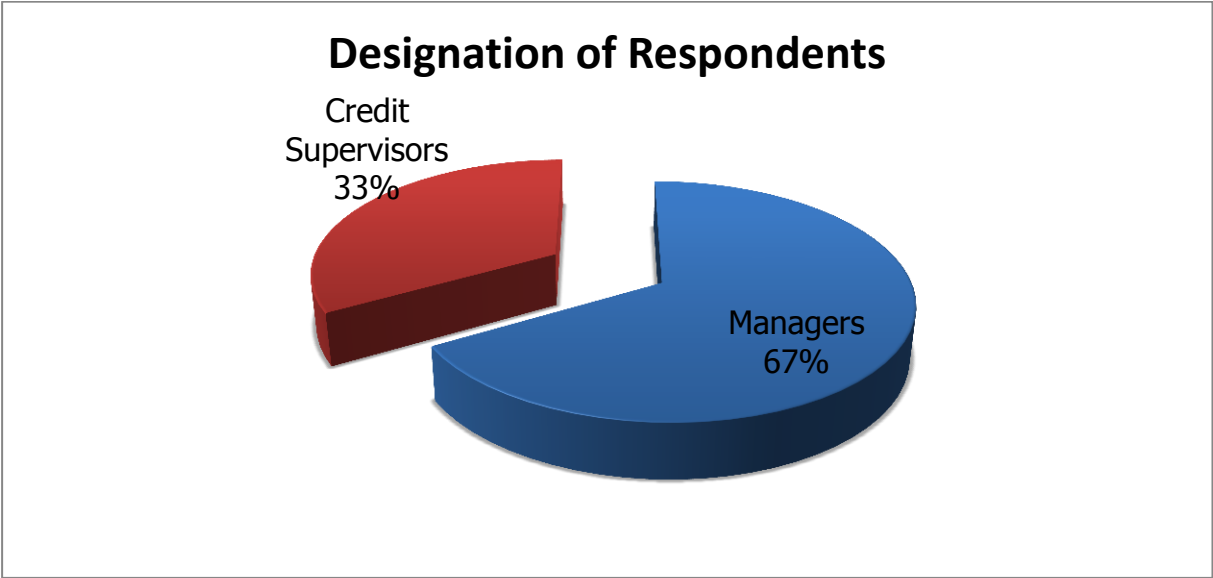
4.4 PROFILE OF RESPONDENTS

The study sought general information about the respondents. The purpose of seeking the information was to understand the profile of the respondents with regard to their role and experience in credit management, especially in financial cooperatives. Specifically the respondents were requested to state their current designation, duration of experience and level of qualification.

4.4.1 Respondents Designation

The respondents were requested to state their current positions in the financial cooperative. This was meant to understand whether the respondents have the fundamental understanding of credit management in financial cooperatives and whether they would be able to provide reliable information for this study.

Figure 4-1: Pie Chart of Respondents Designation



Source: *Survey Data, 2016*

Figure 4.1 above indicates that 67% of the surveyed respondents were managers whilst 33% were credit supervisors. Accordingly this enhanced the validity and reliability of the data collected as managers have more rounded knowledge in financial cooperatives because they

are entrusted with the day-to-day general supervision of the financial cooperatives and whilst credit supervisors are solely responsible credit management.

4.4.2 Respondents Experience

The respondents were further requested to state the duration of their working experience with financial cooperatives and the results are displayed in the table 4.2 below.

Table 4-2: Respondents Experience

Years of Experience	Frequency	Percentage	Cumulative Percentage
1-3 Years	28	33.3	33.3
7-9 Years	10	11.1	44.4
More than 9 Years	47	55.6	100.0
Total	85	100.0	

Source: *Survey Data, 2016*

The results indicated that a majority (55%) of the respondents had more than 9 years of working experience in financial cooperatives. This means that the respondents were familiar with matters the causes of nonperforming loans in financial cooperatives and the probability of uninformed response was minimal.

4.4.3 Level of Education of Respondents

The respondents were requested to state their educational qualification. The respondents were made to choose from high school, diploma, degree and masters qualifications and the results are displayed in table 4.3 below.

Table 4-3: Level of Education

	Frequency	Percentage	Cumulative Percentage
High School	7	7.1	7.1
Diploma	34	40.5	47.6
Degree	34	40.5	88.1
Masters Degree	10	11.9	100.0
Total	85	100.0	

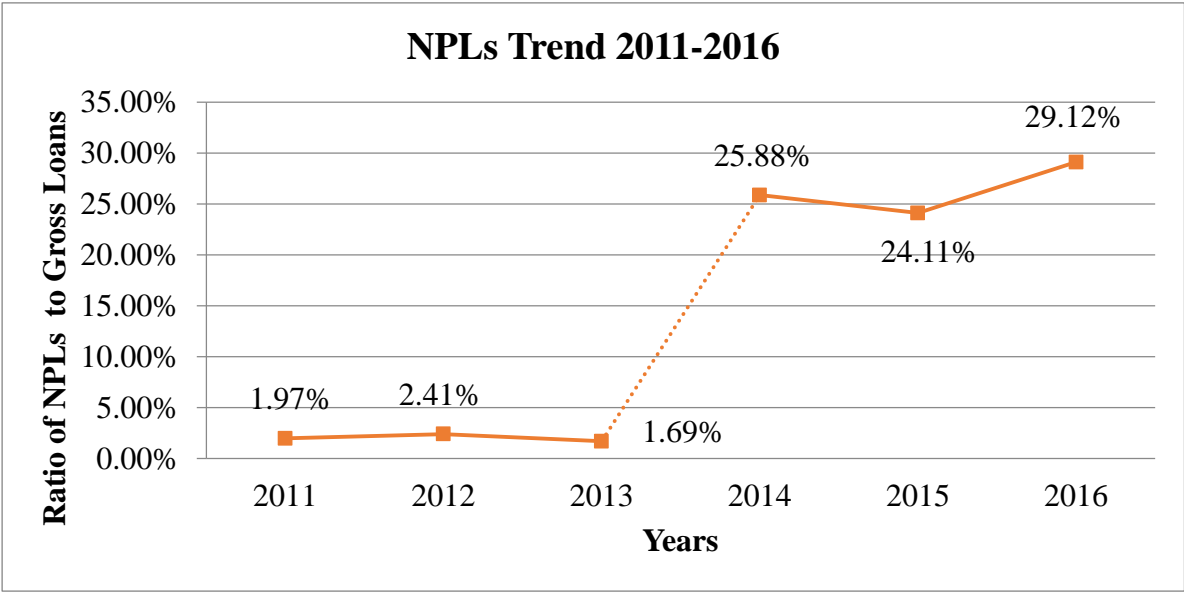
Source: *Survey Data, 2016*

The result indicates that 7% of the respondents had completed high school education, 40% diplomas, and 40% undergraduate and, 12% completed graduate education.

4.5 ANALYSIS OF NONPERFORMING LOANS IN FINANCIAL COOPERATIVES IN SWAZILAND

The first objective of the study was to investigate the level and trend of nonperforming loans in financial cooperatives. Secondary data from 2011 to 2016 (six years) was collected from the Department of Cooperatives Development and the Financial Services Regulatory Authority and the results are displayed on figure 4.2 below.

Figure 4-2: NPL Trend Analysis



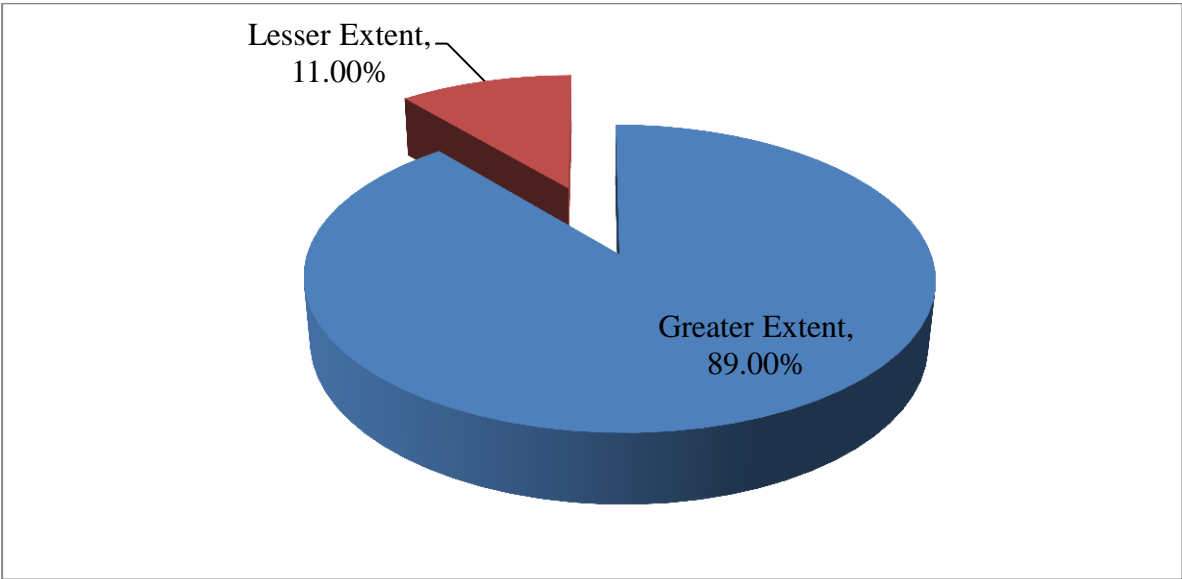
Source: DCD/FSRA

The results indicate that between 2011 and 2013, the ratio of nonperforming loans to gross loans was below the maximum acceptable ratio of 5%. However from 2013 to 2014 NPLs accelerated to 26% and increased to 29% in March 2016. This was far above the acceptable maximum level of 5%. It should be noted that before 2012 financial cooperatives were solely incorporated and supervised by the Department of Cooperatives and Development. During that period, it was not mandatory for financial cooperatives to disclose and provide for NPLs in their annual financial statements. Financial statistics for cooperatives used to be collected through survey questionnaires. This created an opportunity for these entities to under-declare their true level of NPLs. The establishment of FSRA in 2012 brought about drastic and significant changes to financial management practices of financial cooperatives as they were required by law to submit quarterly financial statements to the regulator with a full disclosure of NPLs. In 2014, the FSRA collected the first set of data directly from cooperative hence the significant increase from 1.63% (2013) to 29.12% in 2016.

These findings are consistent with the assertions of the World Bank, which stated that the level of nonperforming was more than 9%. The findings also clearly indicate that previous data on NPLs for financial cooperatives was significantly understated which compromised the quality of interventions the Government of Swaziland could have made to mitigate the situation.

The study also sought to gauge the extent to which NPLs has affected the performance of financial cooperatives in Swaziland and the results are presented in figure 4.3 below.

Figure 4-3: The Effect of NPLs on Performance



Source: *Survey Data, 2016*

A majority (89%) of the respondents indicated that the financial performance of financial cooperatives has been greatly affected by nonperforming loans, whilst 11% were of the view that the effect has not been that significant. These findings are consistent with results obtained by Wangai *et al* (2014) who investigated the impact of performing loans on financial performance of microfinance banks in Kenya and found that an increase in credit risk reduces the financial performance of microfinance banks. Dube and Matanda (2015) also investigated the causes of micro lending institution failures in Zimbabwe and they found that high level of delinquent loans was one of the major causes of micro lending institutions to collapse in Zimbabwe. These findings are also consistent with findings reported on figure 4.2 above which indicated that the level of nonperforming loans in financial cooperatives in Swaziland is significantly above (29%) the acceptable level of 5%. The results also lend credence to the

view that nonperforming loans have contributed significantly to the poor financial position of financial cooperatives in Swaziland reported in Chapter one.

4.6 ANALYSIS OF THE CAUSES OF NONPERFORMING LOANS

The second research questions of the study was “Do poor loan product development, poor credit appraisal practices, and poor credit monitoring practices, poor credit recovery practices and poor credit governance practices account for nonperforming loans in financial cooperatives? Subsection 4.6.1 to 4.6.5 below presents percentage frequency distribution and Pearson correlation results of the survey results in relation to the research questions.

4.6.1 Loan Product Design Data Presentation and Analysis

The study sought to investigate whether high interest rates, improperly structured repayment period, loan diversion loan (loan product design) contributed to loan delinquency in financial cooperatives.

Table 4-4: Loan Product Development Frequency Distribution Results

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
NPLs are caused by poorly designed and unfavorable terms and conditions of loan products	0%	29%	18%	29%	24%
The current loan products do not sufficiently meet the needs of our members.	0%	23%	18%	41%	18%
The current loan interest charges are not affordable to our members.	0%	12%	6%	53%	29%
The loan repayment period is not suitable for our members	0%	6%	6%	59%	29%
loans granted are not monitored to ensure that are used for the intended purposes by members	41%	29%	6%	18%	6%

Table 4.4 above indicates that 53% (29%+24%) of the respondents disagreed with the general statement that delinquent loans are caused by poor loan product designs and unfair credit terms; 59% of the respondents disagreed with the second statement that loan products do not meet the needs of members; 82% of the respondents disagreed with the third statement that the current interest on loan is not affordable to our members, 88% disagreed with the fourth statements that loan repayment period is not suitable for our members and 70% agreed with the statements that loans granted are not monitored to ensure that are used for the intended

purposes by members”. Overall majority of the respondents disagreed with four of the five statements.

The responses on product design were further subjected to a correlation analysis to establish the relationship between loan product design and nonperforming loans. The results are presented in table 4.5 below presents.

Table 4-5: NPLs and Loan Product Design Correlation Results

	Nonperforming loans	Credit development	Credit Appraisal	Credit Monitoring	Credit Collection	Credit Governance
Pearson Correlation	1	-.305	-.633**	-.743**	-.656**	-.574**
Nonperforming loans Sig. (2-tailed)		.065	.000	.000	.000	.000
N	85	85	85	85	85	85

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The findings indicate that loan development practices and credit terms are negatively correlated with nonperforming loans with a correlation coefficient of -0.35. This means that an improvement in the quality of loan product development is associated with a decrease in nonperforming loans. However the negative correlation was not statistically significant at 5% significance level as the p-value was 0.065.

Overall, the percentage frequency distribution and correlation results indicate that respondents were of the view that the loan products offered by financial cooperatives are properly structured to meet the profile and unique needs of financial cooperative members and have not contributed to nonperforming loans. This is contrary to the argument advanced by CGAP (2005) that “many financial cooperatives offer only one type of loan product which is not flexible enough to meet diverse members’ credit needs”. The findings are also inconsistent with the findings of Korankye (2014) who, found that high interest rates on loans and inadequate loan sizes were the main causes of nonperforming loans in microfinance institution in Ghana. The findings are consistent with finds of Genesis Analytics (2014) that loan products are priced lower than that of commercial banks in Swaziland.

Whilst the respondents have indicated that loan product elements such as interest rates and repayments period are not unfavorable to borrowers so as to cause them to default on their loan obligations, there was however, a strong support (70%) for the view that loans granted are not monitored to ensure that they are used for the intended purposes. This means that many financial cooperatives do not have the mechanisms for ensuring that loans granted are used for the intended purposes. Owusu *et al* (2015) argued that that a significant element of loan default can be controlled by ensuring than loan funds are invested directly to the intended project. This would prevent members from diverting cash into non-productive uses and ensure that the core needs of members are met by the loan pay-out.

4.6.2 Credit Assessment Practices Data Presentation and Analysis

The study further sought to establish whether poor credit appraisals practices account for nonperforming loans in financial cooperatives. Specific areas of interest were the availability of credit policy, competence of loan officers, background checks and affordability assessments. The results are displayed in table 4.6 below.

Table 4-6: Credit Assessment Practices Frequency Distribution Results

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
NPLs are caused by poor assessment of borrowers during loan applications	12%	59%	12%	12%	6%
The current credit policy does not properly guide credit assessment practices	12%	6%	6%	35%	41%
Loan officers do not possess sufficient credit assessment skills	6%	12%	29%	41%	12%
The credit history of a borrowing member is generally not verified with credit bureaus	36%	24%	6%	28%	6%
The Society does not have a standard template for assessing the capacity of borrowers to pay	18%	53%	6%	0%	23%

The results indicate that about 71% agreed with the general statement that nonperforming loans are caused by poor assessment of borrowers during loan application, 76% disagreed with the statement that the current credit policy does not properly guide credit assessment practices, 53% disagreed with statement that loan officers do not possess sufficient credit assessment skills, 60% agreed with the statement that the credit history of a borrowing member is generally not verified with credit bureaus, and 71% agreed with the statement that the Society

does not have a standard template for assessing the capacity of borrowers to pay. In total, the respondents agreed with three of the five statements.

The responses on credit assessment were further subjected to a correlation analysis to establish the relationship between credit assessment and nonperforming loans. The results are presented in table 4.7 below.

Table 4-7: Credit Assessment and Nonperforming Loans Correlation Results

	Nonperforming loans	Credit development	Credit Appraisal	Credit Monitoring	Credit Collection	Credit Governance
Pearson Correlation	1	-.305	-.633**	-.743**	-.656**	-.574**
Nonperforming loans Sig. (2-tailed)		.065	.000	.000	.000	.000
N	85	85	85	85	85	85

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Findings revealed that credit assessment is negatively correlated to non-performing loans with a correlation coefficient of -0.633. The p-value was 0.000 which meant that it was statistically significant at 5% significance level. This means that improvement in the quality of credit assessment practices reduces the level of nonperforming loans in financial cooperatives. This is in line with the view expressed by Boldizzoni, (2008) that loan appraisal process plays a vital role in ensuring that lending losses are minimised by eliminating non-deserving customers. The findings are also consistent with the findings of Teame *et al* (2016); Korankye (2014) and Gatimu and Kalui (2014) who found a significant relationship between nonperforming loans and loan appraisal procedures.

Overall, the percentage frequency distribution and correlation results indicate that nonperforming loans in financial cooperatives can be attributable to weaknesses in credit assessment. The weaknesses identified were: failure to conduct background checks through credit bureaus and lack of affordability assessment calculators. This is consistent with the views of Allen & Makhumbi (2009) cited in Micheni (2014) who stated that financial cooperatives generally do not sufficiently assess the ability of members to repay because of the cooperative model of common bonds, which emphasise social trust between members. The findings are also consistent with the assertion by Moti (2012) that lending decisions by

microfinance institutions are generally based on subjective feelings and they have not adopted robust credit scoring models for client appraisal.

4.6.3 Credit Review and Monitoring Practices Data Presentation and Analysis

The study also sought to establish whether poor credit monitoring practices contribute to nonperforming loans in financial cooperatives. Specific areas examined were credit monitoring procedures, loan review officer, enabling management information system and internal reporting system on delinquent loans. The results are presented in table 4.8 below.

Table 4-8: Credit Monitoring Practices Frequency Distribution Results

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
NPLs are caused by lack of proper procedure for monitoring delinquent loans	18%	29%	18%	29%	6%
There is no loan review and monitoring manual in place	6%	59%	12%	12%	12%
The Society does not have a dedicated loan review officer	29%	24%	18%	29%	0%
The current MIS is not able to track and produce delinquent loan reports	0%	12%	0%	41%	47%
Loan delinquency reports are hardly submitted to the board for their review	18%	12%	12%	41%	18%

The results illustrates that about 47% agreed with the general statement that nonperforming loans are caused by lack of proper system and procedure for monitoring delinquent loans; 65% agreed with the statement that the that there is no loan review manual in place, 53% agreed with statement that the society does not have dedicated loan review officers, 88% disagreed with the statement that the current MIS is not able to track and produce delinquent loan reports and 59% disagreed with the statement that loan delinquency reports are hardly submitted to the board for their review. In total, the respondents agreed with three of the five statements. This means that the respondents agreed with the statement that nonperforming loans are caused by poor credit monitoring practices. This is consistent with the assertion by Ralston and Wright (2003) also cited in Walsh (2010) who stated that credit review and monitoring is not often carried out by credit unions in a manner that is required by best practices.

Table 4.9 below illustrates correlation results between credit monitoring and nonperforming loans.

Table 4-9: Credit Monitoring and Nonperforming Loans Correlation Results

	Nonperforming loans	Credit development	Credit Appraisal	Credit Monitoring	Credit Collection	Credit Governance
Pearson Correlation	1	-.305	-.633**	-.743**	-.656**	-.574**
Nonperforming loans Sig. (2-tailed)		.065	.000	.000	.000	.000
N	85	85	85	85	85	85

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

The results reflect that credit monitoring is negatively correlated to nonperforming loans with a Pearson correlation coefficient of -0.743 and the p=0.000 indicating that it was statistically significant at 5% significance level. This means quality credit monitoring activities are associated with lower levels of nonperforming loans.

The results are consistent with the findings of Moti *et al* (2013); Bebeji (2010) and Jha and Hui (2012) who found that ineffective monitoring and follow-up of loans were the main drivers of nonperforming loans in Kenya, Nigeria, and Nepal respectively. The findings are also consistent with the views of Gatimu and Kalui (2014) who stated that proper follow-up and monitoring are essential in assisting management to identify problematic loans more quickly and take corrective actions where necessary to avert possible default. Interestingly 88% of the respondents disagreed with the statement that the current MIS is not able to track and produce delinquent loan report. This is somewhat inconsistent with the view that financial cooperatives do not have proper information technology of managing their operations.

Weaknesses identified by the respondents in this area were: the lack of a loan review procedure manual and dedicated loan review officers. Friends Consult Ltd (n.d) cited in Magali (2014) reported that high levels of loan delinquency in financial cooperatives in Uganda were partially caused by failure to establish proper credit policies and procedure manuals, strategy, lack of staff capacity and general poor staff management and supervision.

4.6.4 Credit Collection and Recovery Practices Data Presentation and Analysis

The study further sought to establish whether poor credit collection practices account for nonperforming loans in financial cooperatives. Specific areas investigated were credit collection policy, loan agreements, loan collection officer and enforcement of collection policy and loan agreements. The results are displayed in table 4.10 below.

Table 4-10: Credit Collection Practices Responses Frequency Distribution Results

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
NPLs are caused by weak recovery and collection practices of delinquent loans	47%	12%	18%	12%	12%
There is no policy and procedure guiding collection of delinquent loans	6%	53%	18%	12%	12%
Borrowing members are not made to sign loan agreements	0%	12%	0%	29%	59%
Society does not have a competent loan recovery and collection officer	24%	30%	29%	0%	18%
Delinquent are not always followed through in accordance with policy and loan agreements	18%	47%	24%	6%	6%

The results show that 59% agreed with the general statement that nonperforming loans are caused by weak recovery and collection practices of delinquent loans; 59% agreed with the statement that there is no policy and procedure manual for collecting delinquent loans; 88% disagreed with statement that borrowing members are not made to sign loan agreements; 54% agreed with the statement that society does not have a competent loan recovery and collection officer and 65% agreed with the statement that delinquent are not always followed through in accordance with collection policy and loan agreements signed by borrowers. In total, the respondents agreed with four of the five statements.

The responses on credit recovery and collection were further subjected to a correlation analysis to establish the relationship between credit recovery and collection and nonperforming loans. The results are presented in table 4.11 below

Table 4-11: Nonperforming and Credit Collection Correlation Results

	Nonperforming loans	Credit development	Credit Appraisal	Credit Monitoring	Credit Collection	Credit Governance
Pearson Correlation	1	-.305	-.633**	-.743**	-.656**	-.574**
Nonperforming loans Sig. (2-tailed)		.065	.000	.000	.000	.000
N	85	85	85	85	85	85

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The results reflect that there is a negative and a significant correlation between credit collection and nonperforming loans ($r=-0.656$, $p=0.000$). This means stricter credit recovery activities are associated with lower levels of nonperforming loans. These results are consistent with the findings of Gatimu and Kalui (2014) who found a negative relationship between loan defaulting and loan appraisal processes.

Weaknesses identified by the respondents in the collection processes include lack of delinquency collection procedure manual, dedicated loan collection officer and failure to enforce terms and condition of loan agreements for defaulting members. ACCION (2008) stated that a poorly structured collection process could lead to ineffective, costly strategies and the breakdown of the collection process itself. Karungari (2012) stated that a debt collection strategy entails keeping a strong debt recovery unit with clearly defined documented and consistent policy and procedure framework that guide staff throughout the collection and recovery process and instruct them on how to respond in a particular situation.

4.6.5 Credit Governance Data Presentation and Analysis

The study also sought to establish whether poor credit governance practices account for nonperforming loans. The specific areas examined were lack of proper board oversight, policies and procedures, systems and competent personnel. Five statements were posed to the respondents and the results are presented on table 4.12 below.

Table 4-12: Credit Governance Practices Frequency Distribution Results

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
NPLs are caused by insufficient oversight and governance by the Board of Directors	6%	59%	6%	18%	12%
The board has insufficient understanding of credit risks management practices	6%	41%	24%	18%	12%
The current credit/collection policies do not sufficiently guide personnel on credit management	18%	41%	24%	12%	6%
There are no sufficient controls for ensuring that loans are approved, monitored and collected in accordance with policies and loan agreements	29%	65%	0%	0%	6%
There is lack of sufficient personnel to ensure proper management of the loan portfolio	18%	29%	35%	0%	18%

Out of the 85 respondents: 65% agreed with the general statement that NPLs are caused by insufficient oversight and governance by the Board of Directors; 47% agreed with the statement that the board has insufficient understanding of credit risks management practices, 59% agreed with the statement that current credit policies do not sufficiently guide personnel on credit management, 94% agreed with the statement that there are insufficient controls for ensuring that loans are approved, monitored and collected in accordance with policies and loan agreements, and 47% agreed with the statement that there is lack of sufficient personnel to ensure proper management of the loan portfolio.

Overall, the respondents agreed with all of the five credit governance statements. Weaknesses identified are: insufficient understanding of credit risks management practices by the Board, lack of clear credit policies and standard operating procedure, lack of sufficient controls for ensuring that loans are approved, monitored and collected in accordance with policies and loan agreements and lack of sufficient personnel to ensure proper management of the loan portfolio.

The results are consistent with the findings of Friends Consult Ltd (n.d) and Tadele and Rao (2014) who reported that high levels of loan delinquency in financial cooperatives in Uganda and India, respectively were caused by failure of the board of directors to establish proper credit policies and procedure manuals, inefficient credit committees, poor organisational policies and strategy, lack of staff capacity, poor staff management and supervision which led to issuance of loans without conducting proper assessment and misuse of funds.

A Pearson correlation matrix was also conducted to establish the relationship between credit governance practices and nonperforming loans, and the results are displayed in table 4.13 below.

Table 4-13: Nonperforming Loans and Credit Governance Correlation Results

	Nonperforming loans	Credit development	Credit Appraisal	Credit Monitoring	Credit Collection	Credit Governance
Pearson Correlation	1	-.305	-.633**	-.743**	-.656**	-.574**
Sig. (2-tailed)		.065	.000	.000	.000	.000
N	85	85	85	85	85	85

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The results indicate that there is a negative relationship (r=-0.574) between credit governance practices and nonperforming loans and that the relationship is statistically significant at 5% significance level.

The findings are consistent with Magali (2014) who found that poor credit risk management in financial cooperatives in Tanzania emanated from poor staff competencies, poor corporate governance practices, political interference and lack of auditing. Magali and Langa’at (2014) also found similar results when they evaluated the influence of corporate governance on the efficiency and sustainability of rural financial cooperatives in Tanzania. They also found that sound credit risk management and adherence to good leadership and corporate governance principles were the main drivers of sound financial performances.

4.7 ANALYSIS OF DEBT COLLECTION AND RECOVERY STRATEGIES

The third objective of the study was to evaluate the debt collection and recovery strategies. The respondents were requested to indicate the extent to which they employ seven debt collection strategies namely: sending reminders (telephone calls and letters); penalties on delinquent loans; loan restructuring; and foreclosure on pledged savings; blacklisting; debt collectors and legal action. These strategies were adapted from the study of Walsh (2010). The results are displayed in table 4.14.

Table 4-14: NPLs Recovery Strategies Frequency Distribution Results

Delinquent Loan Recovery Strategies	Not Used	Least Used	Moderately Used	Most Used
Reminders (telephone calls and letters)	26.7%	40.0%	40.0%	26.7%
Penalties on delinquent loans	7.1%	7.1%	57.1%	28.6%
Restructuring of loan repayment terms	6.7%	46.7%	40.0%	6.7%
Foreclosure/ offsetting on member savings	13.3%	33.3%	13.3%	40.0%
Blacklisting of defaulters (ITC)	57.1%	28.6%	7.1%	7.1%
External Debt Collectors	33.3%	33.3%	20.0%	13.3%
Litigation against defaulters	20.0%	20.0%	26.0%	20.0%

The above results indicate that blacklisting (57.1%) and external debt collectors (33.33%) are not used by financial cooperatives. Least used strategies are restructuring of nonperforming loans (46.7%) and frequent reminders to defaulters (40%); moderately used strategies includes charging defaulting borrowers penalties (57%) and sending reminders to defaulting borrowers (40.0%); mostly used debt recovery strategies are foreclosure of members savings (40%) and charging defaulting members with penalties (28%).

These findings indicate that financial cooperatives are reluctant to use third party collection agent such as debt collectors, credit bureaus and ligation against defaulting members. Another interesting finding is that common debt collection tools such as reminders in a form of calls, statements and letters are not frequently used by financial cooperatives. This indicates that

debt recovery practices for cooperatives are lenient. Internal debt recovery structures appear to be significantly weak. Basic debt recovery processes such as telephone calls, reminder letters, and third party collection agencies are hardly used. The only tools used are penalties and foreclosure of savings, which if used in isolation would not be effective.

The findings are consistent with the result found in section 4.6.5 above where 59% of the respondents agreed with the statement that nonperforming loans are caused by weak recovery and collection practices of delinquent loans. This was attributable to lack of sound debt collection and recovery policy and procedure manuals (59%); insufficient staff capacity (54%) and weak enforcement of loan agreements (88%). This is consistent with the view expressed by Nyanumba (2010) that ineffective collection strategies usually stem from lack of clear systems, procedures, inadequate and poorly trained staff, lack of enforcement strategies and the structure of the organisation. ACCION, (2008) also stated that collection in MFIs is sometimes seen as secondary or a non-existent activity and lack a defined strategy. Ahiabile (2012) stated that lack of frequent contact with borrowers is the biggest mistake lending institution make in debt recovery.

4.8 CONCLUSION

This chapter analysed and presented the findings from the study and also discussed them in relation to the literature reviewed in Chapter Two. The findings succeeded in identifying the causes of non- performing loans in financial cooperatives in Swaziland. The last chapter (Chapter Five) provides a summary of the findings, conclusions and recommendations to the management and regulators of financial cooperatives and suggestions for further studies.

CHAPTER 5 : CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This final chapter summarises major findings obtained in chapter four. The findings are summarised in accordance with the objectives of the study enumerated in chapter one. The study concludes by providing recommendations to financial cooperatives and policy makers about possible measures of mitigating the occurrence of nonperforming loans. The chapter ends by outlining limitations of this study and as well as suggestions for further research.

5.2 SUMMARY OF MAJOR FINDINGS

The purpose of the study was to investigate causal factors of nonperforming loans in financial cooperatives in Swaziland. Specific objectives were to:

- Analyse the general trend and impact of nonperforming loans in financial cooperatives over the last 6 years;
- Investigate the effect of loan product design, credit screening, credit monitoring, credit collection and credit governance practices on nonperforming loans; and
- Evaluate strategies employed by financial cooperatives to recover nonperforming loans.

5.2.1 The first objective of the study was to investigate the general trend and impact of nonperforming loans in financial cooperatives from 2011 to 2016. To achieve the first part of the objective, secondary data on the ratio of nonperforming loans to total loans was collected from the Department of Cooperatives Development; and the Financial Services Regulatory Authority. The results indicate that between the periods 2011 to 2013, the general trend of nonperforming loans was constant at around 2% which was within the maximum acceptable ratio of 5%. However from 2013 to 2014 nonperforming loans accelerated from 1.7% to 27% and increased to 29% in 2016 which was significantly higher than the acceptable maximum level of 5%. This means that there was under reporting of NPLs before 2013. During that period to 2013, financial cooperatives were under the supervision of the Department of Cooperatives Development and it was not mandatory for financial cooperatives to disclose and provide for NPLs in their annual financial statements. The establishment of the non-bank financial regulator (FSRA) in 2012, brought about drastic and significant changes to the financial management practices of financial cooperatives as they were required by law to

prepare and submit quarterly financial statements to the regulator with a full disclosure of NPLs hence the significant increase of NPLs from 1.63% (2013) to 29.12% in 2016.

To achieve the second part of the objective, that is to assess the impact of NPLs in financial cooperatives. Primary data was collected from 85 respondents. The respondents were asked to state the extent to which nonperforming loans have affected their financial cooperatives. The majority (89%) of the respondents indicated that the financial performance of financial cooperatives has been greatly affected by nonperforming loans, whilst 11% were of the view that the effect has not been that significant.

5.2.2 The Second objective was to investigate the effect of credit management practises of financial cooperatives such as product design, credit screening, credit monitoring, credit collection and credit governance practices on nonperforming loans. To achieve this objective the effect primary data was collected from 85 respondents. Pearson correlation matrix and percentage frequency distribution were used to analyse the data. The findings of the study in this regard were as follows:

Credit Assessment Practices: The correlation results revealed that credit assessment is significantly correlated to non-performing loans with a correlation coefficient of -0.633 ($p=0.000$). This means that the better the quality of credit assessment practices, the lower the level of nonperforming loans. The percentage frequency distribution analysis also revealed that a majority (71%) of the respondents agreed with the statement that nonperforming loans are caused by poor assessment of borrowers during loan application.

Specific weaknesses identified by the respondents in the credit screening process of financial cooperatives were: failure to conduct sufficient background checks of the borrower with credit bureaus and other lenders (60%) and lack of standard affordability calculators for assessing the capacity of borrowers to pay (71%).

Credit monitoring practices: The correlation results revealed that credit monitoring is significantly related to nonperforming loans with a correlation coefficient was -0.743 ($p=0.000$). This means an improvements in the quality of credit monitoring activities is associated the lower the level of nonperforming loans. The percentage frequency distribution analysis revealed that 65% of respondents also agreed with the statement that nonperforming loans are caused by poor delinquent loans monitoring practices.

Specific weaknesses identified in the credit monitoring process of financial cooperatives were: lack of loan review manual (63%) and lack of dedicated loan review officers (65%).

Credit Collection and Recovery practices: The correlation results revealed that nonperforming loans and credit recovery practices are negatively and significantly related ($r=-0.656$, $p=0.000$). This means that an improvement in the quality of credit collection and recovery practices is associated with the lower the level of nonperforming loans. The percentage frequency distribution analysis revealed that 59% of the 85 respondents agreed with the general statement that nonperforming loans are caused by weak recovery and collection practices of delinquent loans.

Specific weaknesses identified in the credit collection and recovery process of financial cooperatives were: lack of or weak collection policy and procedure manual (59%); lack of dedicated and competent loan recovery and collection officer (54%); and weak enforcement of loan agreements on defaulting borrowers (65%).

Credit Governance Practices: The correlation results revealed that credit governance practices and nonperforming loans are negatively and significantly correlation ($r=-0.574$, $p=0.000$). This means an improvement in the quality of credit governance practices is associated with better levels of nonperforming loans. The percentage frequency distribution analysis also revealed that 65% of the respondents agreed with the general statement that NPLs are caused by insufficient Board oversight.

Specific inadequacies identified in credit governance practices are: insufficient understanding of credit risks management practices by the Board/Credit committee (47%), Weak credit/collection policies (59%), insufficient controls for ensuring that loans are approved, monitored and collected in accordance with policies and loan agreements (94%), and lack of sufficient personnel to ensure proper management of the loan portfolio (47%).

Loan Product Design Practices: correlation results revealed that loan product design is negatively correlated (-0.35.) with nonperforming loans, however the relationship was not statistically significant at 5%. Secondly most of the respondents (61%) disagreed with the view that the statement that nonperforming loans in financial cooperatives is caused by poorly designed loan products, high interest rates and improperly structured repayment period. This

means that poor product design does not account for nonperforming loans in financial cooperatives in Swaziland.

However 70% of the respondents agreed with the statement that “loans granted are not monitored to ensure that are used for the intended purposes by members. This means many financial cooperatives do not have mechanisms of ensuring that loans granted are used for the intended purposes in productive projects.

5.2.3 The third objective of the study was to evaluate debt collection and recovery strategies used by financial cooperatives and the results are as follows: **Frequently used debt recovery strategies** are foreclosure of members’ savings and charging defaulting members with penalties; **Moderately used strategy** are sending reminders to defaulting borrowers and default penalties; **Least used recovery strategies** are restructuring of nonperforming loans and frequent calls to borrowers; and **Not used recovery strategies:** Blacklisting or credit bureaus and external debt collectors.

These findings indicate that financial cooperatives are reluctant to use third party collection agent such as debt collectors, credit bureaus and litigation against defaulting members. Another interesting finding is that common debt collection tools such as reminders in a form of calls, statements and letters are not frequently used by financial cooperatives. This indicates that debt recovery practices for cooperatives are lenient. The main tools used are penalties and foreclosure of savings, which if used in isolation are not be effective.

5.3 CONCLUSION

The main objective of the study was to investigate causal factors of nonperforming loans in financial cooperatives in Swaziland. The findings revealed that poor credit screening of prospective borrowing members, poor practices of monitoring delinquent loans, poor credit collection and recovery processes and insufficient board oversight are the main drivers of nonperforming in financial cooperatives in Swaziland. The level of nonperforming loans was also found to be significantly higher the recommended minimum of 5%. Finally an assessment of the strategies used by financial cooperatives to recover nonperforming loans revealed that financial cooperatives do not aggressively use basic recovery strategies such as sending reminders, blacklisting, debt collectors and litigation.

5.4 RECOMMENDATIONS

Following, the findings of the study in chapter four and the weaknesses identified thereof in the credit management practices of financial cooperatives, the following are recommended as measures to mitigate the occurrence of nonperforming loans in financial cooperative in Swaziland.

Improve credit risk management capacity and competencies with the Board and Credit Committees. Financial cooperatives and the regulator of financial of financial cooperatives should devise an effective fit and propriety system for ensuring that the board of directors of financial cooperatives comprises of members with competencies in credit risk management so that they would be to establish effective and proactive credit risk management practices.

Strengthen credit appraisal and underwriting practices. Financial cooperatives should understand most delinquency is not caused by bad borrowers but by failure of management and the Board to establish effective credit management systems and practices. Therefore they should adopt clear credit assessment standards such as the 5 Cs of credit assessment, make use of credit bureaus to conduct background checks on borrowing customers, and strengthen credit policies, develop standard affordability calculators to avoid reckless lending. In addition, a technical credit assessment team comprising of permanent staff members should be established to assist the Credit Committee in credit appraisals.

Strengthen debt collection and recovery practices: Financial cooperatives should strengthen their debt collection and recovery practices by establishing adequately resourced and staffed loan review and collection units. This will enable financial cooperatives to follow an organised, effective and efficient debt collection and recovery strategies. A credit culture and philosophy that has a zero tolerance towards late payments and delinquency should be cultivated. This function should not be made to report to the credit committee, but a separate oversight subcommittee of the Board should be established to oversee its activities.

Lastly, financial cooperatives should ensure that loan products offered do not perpetuate loan delinquency, but addresses the unique needs of their members. They should understand that product design is the first line of defense against nonperforming loan. Loan funds should not be disbursed directly to the member but they should be paid directly to the service

provider or supplier of the member in order to prevent diversion of loaned to non-productive and unintended purposes.

5.5 SUGGESTIONS FOR FUTURE STUDIES

Although the study achieved its purpose and objectives, there were other areas of nonperforming loans which this study could not cover adequately due to limited time and resources, which if investigated could provide more insight into the causes of nonperforming loans in financial cooperatives. One of these areas relates to the effect of nonperforming loans on the performance of financial cooperatives. Therefore it is recommended that a full study be conducted to evaluate the impact of nonperforming loans on the financial performance of financial cooperatives in Swaziland.

5.6 CONCLUSION

The main objective of the study was to investigate causal factors of nonperforming loans in financial cooperatives in Swaziland. The findings revealed that poor credit screening of borrowing members, poor monitoring of delinquent loans, poor credit collection and recovery processes and insufficient credit governance are the main drivers of nonperforming in financial cooperatives in Swaziland. The level of nonperforming loans was also found to be significantly higher than the recommended minimum levels. The study also found that financial cooperatives do not aggressively use basic recovery strategies such as sending reminders, blacklisting, third party collectors and litigation. Finally the study recommends that further research should be conducted to evaluate the impact of nonperforming in financial cooperatives in Swaziland.

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APPENDIX I: INTRODUCTION LETTER

Informed Consent Letter

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

Dear Respondent,

MBA Research Project
Researcher: Themba Mamba (+26878021670)
Supervisor: Dr Emmanuel Mutambara, +27 31 260 8104
Research Office: Ms P Ximba 031-2603587

I, **THEMBA MAMBA**, an MBA student, at the Graduate School of Business and Leadership, of the University of KwaZulu Natal. You are invited to participate in a research project entitled

**“An Investigation Into The Causes of Nonperforming Loans in Financial Cooperatives
In Swaziland”**

The aim of this study is to: investigate the factors that contribute to the high level of loan delinquency in financial cooperatives in Swaziland.

Through your participation I hope to understand **factors that cause nonperforming loans in financial cooperatives in Swaziland**. The results of the focus group are intended to contribute to the development of sound management practices and regulatory policies of financial cooperatives in Swaziland.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about **10** minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature _____ Date _____

APPENDIX II: QUESTIONNAIRE

AN INVESTIGATION INTO THE CAUSES OF NONPERFORMING LOANS IN FINANCIAL COOPERATIVES IN SWAZILAND

Please take a few minutes to complete this questionnaire. Your honest responses will be completely anonymous and will only be used for academic purposes only.

SECTION A: GENERAL INFORMATION ABOUT THE RESPONDENT

1. Please indicate our position in the Cooperative

Manager Accountant Credit/Loan Officer

2. Please indicate your experience in Financial Cooperatives

1-3Years 3-6 Years 6-9 Years +9 Years

3. Please indicate your highest level of qualifications

High School Diploma Degree Masters Other

SECTION B: GENERAL INFORMATION ABOUT THE FINANCIAL COOPERATIVE

1. Do you think nonperforming/delinquent loans are a problem in your cooperative

Yes No

2. Please indicate the level of nonperforming/delinquent loans (as a percentage of total loans) in your cooperative

0-5% 5-10% +10%

3. Does you cooperative have a loan loss provisioning policy

Yes No

SECTION C: LOAN PRODUCT TERMS AND NONPERFORMING LOANS

This section aims at determining whether Loan Product terms affect Nonperforming loans in financial cooperatives. Please indicate your agreement or otherwise with the following statements using the following Likert scale

Statements	Strongly	Agree	Neutral	Disagree	Strongly
	1	2	3	4	5
NPLs are caused by poorly designed and unfavorable terms and conditions of loan products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current loan products do not sufficiently meet the needs of our members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current loan interest charges are not affordable to our members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The loan repayment period is not suitable for our members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION D: CREDIT APPRAISAL/SCREENING PRACTICES AND NON PERFORMING LOANS

This section aims at determining whether credit appraisal practices affect Nonperforming loans in financial cooperatives. Please indicate your agreement or otherwise with the following statements using the following Likert scale

Statements	Strongly	Agree	Neutral	Disagree	Strongly
	1	2	3	4	5
NPLs are caused by poor assessment of borrowers during loan applications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current credit policy does not properly guide credit assessment practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loan officers do not possess sufficient credit assessment skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The credit history of a borrowing member is generally not verified with credit bureaus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION E: NONPERFORMING LOANS

This section aims to assess the quality of Nonperforming loan monitoring practices in your cooperative. Please indicate the frequency which the following strategies are used in monitoring and managing nonperforming loans in your cooperative

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
NPLs are caused by lack of proper procedure for monitoring delinquent loans	1	2	3	4	5
There is no loan review and monitoring manual in place	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Society does not have a dedicated loan review officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current MIS is not able to track and produce delinquent loan reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loan delinquency reports are hardly submitted to the board for their review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION F: DEBT COLLECTION PRACTICES AND NONPERFORMING LOANS

This section aims at determining whether Debt/loan collection Practices influence nonperforming loans in financial cooperatives. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
NPLs are caused by weak recovery and collection practices of delinquent loans	1	2	3	4	5
There is no policy and procedure guiding collection of delinquent loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Borrowing members are not made to sign loan agreements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Society does not have a competent loan recovery and collection officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delinquent are not always followed through in accordance with policy and loan agreements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION G: GOVERNANCE AND NONPERFORMING LOANS

This section aims at determining whether governance practices influence nonperforming loans in financial cooperatives. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
NPLs are caused by insufficient oversight and governance by the Board of Directors	1	2	3	4	5
The board has insufficient understanding of credit risks management practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current credit policies do not sufficiently guide personnel on credit management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There are no sufficient controls for ensuring that loans are approved in accordance to policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is lack of mechanisms for ensuring ongoing monitoring of delinquent loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NPLs are caused by insufficient oversight and governance by the Board of Directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The board has insufficient understanding of credit risks management practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION H: NONPERFORMING LOANS COLLECTION STRATEGIES

This section aim to determine mostly used debt recovery strategies by financial cooperatives. Please indicate the extent to which you think the below strategies are used by financial cooperatives

	Not Used	Least Used	Moderately Used	Most Used
Sending reminders (telephone, letters)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Restructuring of loan repayment terms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Penalties on delinquent loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Foreclosure/offsetting on member savings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Blacklisting of defaulters (ICT)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
External Debt Collectors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legal action against defaulters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX III: ETHICAL CLEARANCE APPROVAL LETTER