

**AN INVESTIGATION INTO THE CAUSES OF CUSTOMER LOAN
DEFAULT AT THE AGRICULTURAL BANK OF NAMIBIA, OSHAKATI
BRANCH**

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Abstract

Agribank has faced credit risk of borrowers not repaying loans on time as per the loan contract. This has resulted in financial losses to the bank. The Bank is concerned with the low rate of loan recovery on its scheduled loan instalments. This concern is due to clients defaulting, resulting in a persistent growth in the arrear loan book. Though the bank has adequate security in place for its loan portfolio, the impact of a low rate of debt collection on its liquidity remains a cause for concern. This study sought to investigate factors that cause customers to default on loan repayments on loans financed by Agribank. Due to strict privacy of the Bank, information was only assessable to the authorised persons. The mixed method approach was adopted for the study. The study used a semi-structured questionnaire for customers and a semi-structured interview guide for staff members. The sample size was 187 participants that comprising of 37% female and 63% male, with the biggest age group of 41-50 years contributing 44.9%. The loan accounts represented in the study were livestock, horticulture, tractor, and poultry. The study identified that poor loan-monitoring and follow-up, poor credit risk assessment, high interest rates, and grace period were the specific factors from the bank's side that affected the level of loan repayment. On the other hand, business experience, loan size and multiple loans, loan diversion and, other income were the reasons for defaulting from the customer's side. This study recommends that Agribank should enforce its loan monitoring officers to always follow up on the loans taken and to strengthen credit risk assessment. Training workshops were suggested for customers in areas that concern credit or loans, its sustainability, and activities that are considered to help the repayment of the loans or that lead to defaults thereof.

Keywords: Agribank, Loan, Defaults, borrowers, customers, factors, cause, repayment

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Acronomys

AGRIBANK- Agricultural Bank of Namibia

CAPFIT- Customer Service, Accountability, Professionalism, Fairness, Integrity, Transparency.

FAO- Food and Agriculture Organisation

NBS- Namibia Business School

SME- Small Medium Enterprise

SPSS- Statistical Package for Social Science

UN- United Nation

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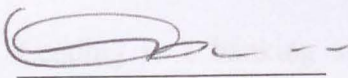
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Declaration

I Victoria N. Namupala declares that this study entitled “**An investigation of the causes of the customers loan default at the Agricultural Bank of Namibia, Oshakati Branch**” is my own work and is a true reflection of my research, which has not been presented for a degree at any other University. All the materials used in this study have been duly acknowledged.

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16 April 2021

Victoria N. Namupala

Date

CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.0 Introduction

This chapter gives an overview of the study on the causes of the customers' loan default at the Agricultural Bank of Namibia, Oshakati branch. It gives the background of the study, statement of the problem, objectives which guided the drawing up of the research instrument, the significance of the study as well as the limitations and delimitations of the study. The chapter concludes with the organisation of the overall thesis.

1.1 Background of the study

Any development that needs to be done to improve the country's economy and infrastructures, there should be fund involved. Banks are the main entity that provide fund for financial support to business minded people, for the country's economic development through a banking system known as lending

Lending is a banking system that is a way of extending credit to creditworthy borrowers and to projects that show positive financial viability and are socially acceptable following a thorough appraisal (Gerba, 2017). According to Jote (2018), lending is important as it also helps in reducing poverty in countries by creating employment. This is especially so in many developing countries in Africa. The evolution of lending started more than 3000 years ago and began in Italy when moneylenders could sit in local markets on benches, lent money out money and this gave birth to the term "bank" (Abaidoo and Oppong 2015). Financial institutions are businesses involved in banking and the practice involves taking and managing risks

(Garr, 2013). They play a big role as they serve as the pillars for the growth of business sectors that are responsible for national development and economic growth (Makorere, 2014). The main principle activity of the bank is to grant loans to borrowers and they make a major share of the bank assets accounting for about 50 to 75 percent of the total amount. The loans contribute to the biggest portion of banks' operating revenue (Chelagat, 2009).

Banking started in Africa when banks started lending money to the white settlers in the 1950s. However, in the 1990s, loan defaults became prominent as clients failed to pay (Abaidoo and Oppong 2015). Lending involves risk-taking and this becomes a challenge to the Banks as customers might not pay back the monies borrowed in accordance with the terms and conditions of the loan agreement (Sandada and Kanhukamwe, 2016). The banks generally rely on the goodwill of their customers to honour their contractual obligations, which in turn helps the required circulation of funds in the economy (Sandada and Kanhukamwe, 2016). Many customers become loan defaulters as they fail to meet their contractual loan obligations and this behaviour is putting banks into increased credit risk. The management of credit is a primary concern of banks and any other financial institution and plays a role in reducing loan default. This is due to the direct impact it has on the success and growth of the bank (Hwarire, 2012). Credit risks have a negative impact on the growth of the Bank as it leads to the inability of the bank to pay out the loans fully or at the expected maximum level (Makorere, 2014) This leaves the bank earning less on its investment and unable to pay out its creditors and other stakeholders in the supply chain (Garr, 2014). It also brings distress to the economy of the country (Sandada and Kanhukamwe, 2016).

In order for the financial institution to reduce this credit risk, credit management needs to ensure ample monitoring of cash-flows and they should establish an appropriate and

effective loan repayment environment (Makorere, 2014). Crucial to this practice are measures to assess customers' ability to repay the loan. These are not limited to operating under sound loan provision processes, maintaining an appropriate loan repayment administration, having clear procedures and criteria for evaluating loan applications, efficient internal control systems, and demanding adequate and easily realisable collateral (Makorere, 2014).

Though many financial institutions have come up with different collection strategies, they are still faced with the problem of low recovery rate as there is still an increase in outstanding balances due to the fact that not all scheduled instalments are made when due (Makorere, 2014). Prolonged loan defaults have caused many banking institutions to have liquidity problems, leading to closure and borrowers being sequestered (Chelagat, 2009).

The high level of non-performing loans continues to be an issue in Kenya as the level of non-performing loans has been increasing steadily (Chelagat, 2009). Ochung (2013) in his study on loan defaults in commercial banks in Kenya, stated that Kenya has experienced banking problems, closing of main banks. 37 banks failed due to loan default in which bank-specific and economic factors were the contributing factors to loan default. The decrease in goods and services was found to be the major cause of loan default in the study done by Abaidoo and Oppong (2015). This was in their study on determinants of loan defaults in commercial banks in Ghana. In Zimbabwe, loan default has led to a decline in economic growth as the businesses are faced with challenges in accessing finance for their businesses to operate effectively (Sandada and Kanhukamwe, 2016).

The sustainability of a bank can be enhanced if loan defaults are reduced. Hence, this study aims at identifying the cause of the loan default of the Agricultural Bank of Namibia (Agribank). To the researcher's knowledge, no study had been conducted on the Agricultural Bank of Namibia on loan default before the current research. Agribank is a development bank and development banks have different strategies of operating and marketing in comparison to commercial banks. In contrast, the above studies mostly focussed on commercial banks. Therefore, there was a need to explore factors affecting loan default in development banks, and this study focused on Agribank which was at the time of the research facing high levels of arrears.

1.2 Background of organisation of the study

Agribank is a state-owned enterprises, a development financing institution with a mandate to lend money to individuals, business entities or financial intermediaries in order to promote the growth and development of agriculture or agriculture related activities through affordable and innovative financing (Agribank Annual Report, 2018). Its mandate which is derived from Agribank Act No. 5/2003 as amended is to provide the legal framework for regulating the business operations to be responsive to the changing environment (Agribank Annual Report, 2018).

The Bank has board of directors that are accountable for implementing an effective governance framework within the bank which safeguards the bank's interest and its stakeholders (Agribank Annual Report, 2018).

The bank operates under core values which is customer service, accountability, professionalism, fairness, intergrity and transparency. This is abbreviated as CAPFIT

The Bank has seven (7) branches offices countrywide in the following palces: Mariental, Windhoek, Gobabis, Otjiwarongo, Oshakati, Rundu and Katima Mulilo (Agribank Annual Report, 2018). The bank clients are: commercial farmers, communal farmers, emerging commercial and resettled farmers, co-operatives societies, individuals , companies and partenerships, trust and control boards established by the marketing act (Agribank Annual Report, 2018).

Oshakati branch is the area where the study will be conducted, which is located in the northern part of the country and the officesa are located in the town of Oshakati. Though the bank has seven (7) branches in total, Oshakati branch is the only branch that deals with farmers with various loan products compared to other branches. The branch deals with the highest number of five regions in comparison to the other branches that deals with two regions on maximum. Because othis, the researcher was sure to obtain more detailed information from oshakati branch than the other branches. The branch services customers from the four main regions namely: oshana, ohangwena, omusati, oshikoto and part of Kunene region. The branch has 11 staffs in total which is made up of a branch manager, control officer, 2 sales consultants, 1 recovery office, 1 valuation officer, 1 inspection officer, a branch secretary, 2 conveyance and finance administrator and an office assistant. The branch has a credit committee that seat bi-weekily to table loan application that are within their power. The committee is made up of 5 staffs.

1.3 Statement of the problem

Agricultural Bank of Namibia (Agribank) is a development bank mandated to lend money to individuals or companies in order to promote the growth and development of agriculture and related activities (Agribank Annual Report, 2018). The bank has recorded a loan book growth for the past 8 years from N\$1.6 billion in 2011 (Agribank Annual Report, 2011) to N\$2.8 billion in 2018 (Agribank Annual Report, 2018). Despite its loan book growth, Agribank has faced credit risk in that counterparties could not repay the debt on time and in full as per the loan contract, resulting in a financial loss for the bank (Agribank Annual Report, 2018). The Bank has a concern with the low rate of loan recovery on its scheduled loan instalments, which is resulting in a persistent growth in the arrear loan book (Kandjeke, 2016).

The bank's arrears increased from N\$239 million in 2011 (Agribank Annual Report, 2011) to N\$549 million in 2018 (Agribank Annual Report, 2018). The total arrears as a percentage of the total loan book for the past eight years ranges between 23% recorded in 2014 and 18% recorded in 2011, with an average of 20% of total arrears. Its highest recovery rate was recorded at 3.6% in the 2014/2015 financial year. Also, a low or no recovery was recorded at -2% in 2011/2012, 2013/2014, and 2016/2017 financial years (Agribank Annual reports 2013-2018). Though the bank has adequate security in place for its loan book, the impact of a low rate of debt collection on its liquidity remains a cause for concern and a high level of arrears is pressuring the bank's cash-flow position (Kandjeke, 2018).

Knowing the factors causing loan default to the bank will be of high value as this should help the bank to tackle and minimise this problem and set deals for the future.

It is for this reason that the researcher would like to investigate the causes of customer loan default at Agribank Namibia.

1.4 Objectives of the study

The main objective of the study is to investigate the causes of the customer loan default at the Agricultural Bank of Namibia, Oshakati Branch. In line with this, the following are the specific objectives of the study:

- To identify bank-specific factors causing customers to default on loan repayments at Agribank Oshakati Branch.
- To identify the customer-specific factors that make them default on loan payments at Agribank Oshakati Branch.
- To design strategies that can be implemented to prevent customers from defaulting the repayment of their loan at the Agribank Oshakati branch.

1.5 Research Hypothesis

In order for the researcher to achieve the research objectives of this study, the researcher would test the following hypothesis concerning the factors that are causing loan default in Agribank.

H_0^1 : There is no relationship between bank-specific factors and loan default.

H_1^1 : There is a relationship between bank-specific factors and loan default.

H_0^2 : There is no relationship between customers' specific factors and loan default.

H_1^2 : There is a relationship between bank-specific factors and loan default.

1.6 Significance of the study

Banks play an important role in the country's economy by lending credit to business and business-minded people who will be short of funds to grow their businesses. However, most borrowers do not meet their financial obligations timely and Agribank is no exception to this. In order for the bank to remain profitable and be financially stable, the Bank needs to know the factors that prevent borrowers from meeting their contractual obligations. This study and its findings are significant for many more reasons and it is projected to contribute so much to Agribank and other stakeholders as follows:

Agribank: the results and recommendations of this study will enable the bank to adopt strategies that will control the problem of increasing loan default and this can have a positive effect on its financial performance and profitability. It will serve as a guide for the credit staff in making their credit decisions which will lead to a better loan portfolio.

Other financial institutions: institutions such as commercial and development banks will be educated on the importance of the factors that can lead to loan default. Results and recommendations will be useful to these institutions as they will get information on how they can reduce or prevent loan defaults in their organisations. It will also help them to formulate policies that would reduce the level of defaulting in their organisations.

Government: companies operate based on rules and regulations put up by the Government. The government will find valuable information that should help them formulate effective policies that should help the banking sector in curbing the factors that hinder their financial growth such as loan defaults.

Researchers and Scholars: the research benefits the researcher to gain new knowledge on the causes of loan default and should enable her to work smarter. Upcoming researchers that seek to further research in the area under this study will discover new information that can facilitate further understanding of the causes of loan default. The research should also contribute to the existing knowledge and fill the gap on the factors causing loan default in Agricultural Bank of Namibia and this can be used as a source of referencing for further research by other researchers. The researcher will also gain knowledge and skills on how to conduct research.

1.7 Limitations of the study

The bank has strict privacy requirements which demand that the information will only be accessible to the authorised person. In order for the researcher to collect authentic information, the research received an authorisation letter from the university which was presented to the bank for it to avail information required.

1.8 Delimitation of study

The study was delimited to Agribank, Oshakati branch as it serves four regions and has high volume loans of various loan products as compared to other Agribank

branches that deal only with one or two regions. Due to this, the researcher was certain to obtain more detailed information from the Oshakati branch.

1.9 Organisation of the study

This report is organised in five chapters:

Chapter one is an introduction that provides general information on how the thesis is organised. Chapter two presents the literature review associated with the topic under the study. Chapter Three discusses the methodology employed in the study in order to achieve the objectives. Results and Discussions from the data analysed are contained in chapter four. Chapter five gives a summary of the research, conclusions, and recommendations.

1.10 Chapter summary

The main reason that motivate this study was to find out what causes currently loan default in Agribank Oshakati branch and to find ways to improve minimise the loan default. This chapter represented the background of the study, statement of the problem, objectives of the study, research questions, research hypothesis, significant of the study, limitation of the study and delimitation of the study. The next chapter will present the the literature review.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, the literature review summarises information on work done by other researchers on the topic under study. The chapter consists of three parts: the theoretical literature review, empirical review, and the conceptual framework.

2.1 Theoretical Literature Review

2.1.1 Agency Theory

The study is informed by the agency theory to form a theoretical lens. The theory was developed by Jensen and Meckling (1976). The theory considers the relationship in which the principal employs another person as an agent to do the work on their behalf including decision making. The agent is expected to perform in the best interests of the principal of the firm (Araka, Mogwambo, and Otieno, 2018).

Agency theory explains how the principal and the agent come in agreement based on the available asymmetric information (Sandada and Kanhukamwe, 2016). Practicing agency theory represents the behaviour of the decision-makers when presented under various circumstances in which he makes the best decisions (Sandada and Kanhukamwe, 2016). The theory becomes powerful when there is the ability to find theoretical ways of motivating the agent in making the right decisions even though there is an insurance contract. Such procedures have been used in the agency framework for several typical circumstances known as moral hazards and adverse selection (Sandada and Kanhukamwe, 2016).

In adverse selection models, the theory explains the asymmetric information which tells us that it is difficult for the creditor to differentiate between a good borrower and a bad borrower (Araka, Mogwambo, and Otieno, 2018). The theory explains that customers give information that is misleading about their financial position and their capacity and capability to repay their loans; in other words their creditworthy information (Araka, Mogwambo, and Otieno, 2018). Since the bank relies on the information provided by the customers, the bank ends up advancing loans to customers who possess no capacity and capability to repay the loan and this becomes a moral hazard. Ultimately, the moral hazard problem has led to an increase in non-performing loans (Araka, Mogwambo, and Otieno, 2018).

The relationship between agency theory and moral hazard is vital for this research. This research recognises the relationship between agency and the likelihood of the borrower defaulting on their loan repayments. Information may be asymmetric between banks and their borrowers getting loans even though their chances to repay may be minimal.

In general, the borrowers are expected to choose actions that are beneficial in case there is any cost that might occur. This is not the same when the creditor does not have perfect information about the borrower. In addition, when there is no collateral in place, the borrower does not take full responsibility for that and this leads to the bank paying for the agency costs. The bank however is also not in a position to tell the borrower how he can undertake his business as that can lead to another agency cost.

In this study, Agribank represents the principal whereas the borrowers represent the agents who are entrusted with loans and are expected to repay in full with both capital plus interest as per their contractual agreement that they signed. Therefore the bank's

inability to acquire information of the borrower on business on business performance can lead to default in loans. This theory indicates that the existence of loan default can

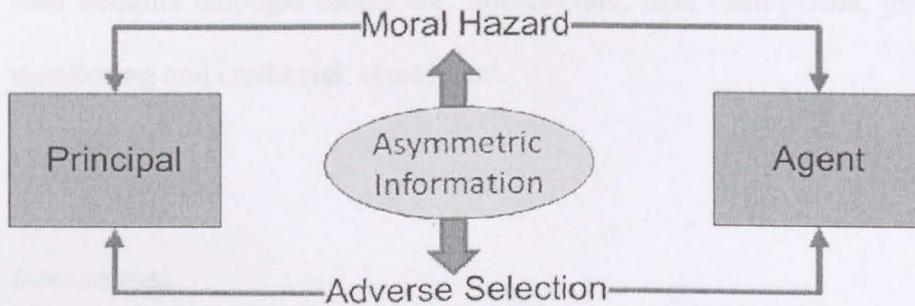


Figure 1.1 principal /agent problem caused by asymmetric information

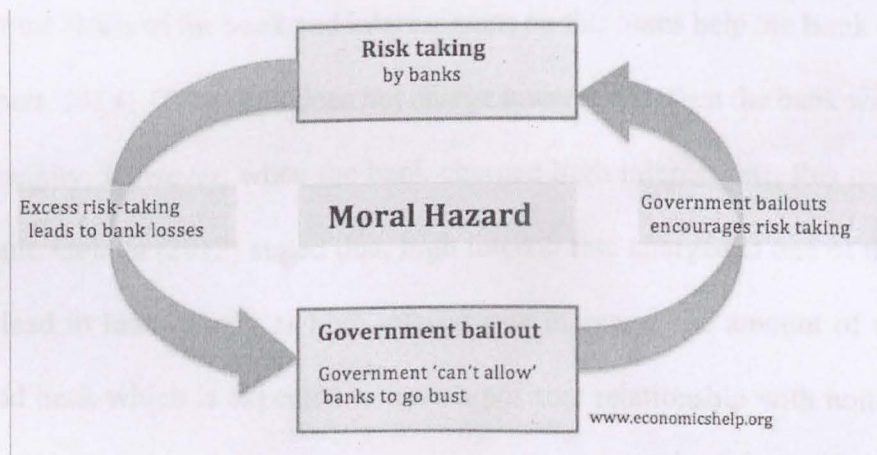


Figure 1.2 moral hazard problem

2.1.2 Determinant of non-performing loans

There are different determinant factors of loan defaults in the Bank. Amongst others are bank specific factors which are internal factors from the bank's perspective and there are borrowers' specific factors of which borrowers characters or behaviors attribute to the level of loan defaults.

2.1.2.1 Bank specific factors

These are internal factors that arise from bank side and can be controlled by the bank's management through proper decision making . the bank specific factors that determine loan defaults amongst others are: interest rate, loan term/period, grace period, loan monitoring and credit risk assessment.

Interest rate

Interest rate are the rates at which the bank lend its money to the borrowers. Loans are the most assets of the bank and interest gains on this loans help the Bank to make profit (Robert, 2014). If the bank does not charge interest rate, then the bank will not perform financially. However, when the bank charged high interest rate, this can lead to loan default. Geletta (2012) stated that, high interest rate charged is one of the factors that can lead to loan default as high interest rate increases the amount of the loan to be repaid back which is expected to have a positive relationship with non-repayment of the loan.

Grace period

Grace period is time the given for the project to be implemented or established (Gerba, 2017). Grace period gives the borrower to have ample time to implement its projects by utilising properly the loan granted and generate income from its activities after its operations (Gerba, 2017). In a study done by Makorere (2014), inTanzania on factors affecting loan repayment revealed that 8% of the respondents interviewed complain about the inadequate time given to them to allow their business to established before

the first instalment falls due. He further stated that financial institution could only give a grazing period of one month which was not sufficient for the business owner to start realising enough income in order to start paying for their loan. Business that get enough grace period have never experienced problems of loan default, hence grace period reduced high level of loan defaults (Ilyas, Hassan & Abdul-Rehman, 2015)

Loan monitoring

Lending decisions are made based on the positive outcomes from the credit risk appraisal and assessment of the borrowers' creditworthiness (Geletta, 2012). Though past records of client credit experience score satisfactory performance, that does not guarantee that the client will perform satisfactory as the borrower might not meet the contractual obligation as per term and condition (Atem, 2017).

Regular monitoring of the loan quality helps the bank to detect early warning signs of non performing loans. Loan monitoring is important in ensuring a sound financial system and prevent economic crises (Ilyas, Hassan & Abdul-Rehman, 2015). Borrowers tend to give better attention to their loan when they are given better attention . some borrowers default as they are ascribed to lower level of attention. Bank loses money due to lack of loan monitoring as they fail to detect the warning signs earlier. When the bank does not give attention to the borrower and see what they do with the funds granted to them, the bank fail to see the risk of loss (Ilyas, Hassan & Abdul-Rehman, 2015). The bank can visit the borrower occasionally in order to have an understanding of the progress on the business activities of the borrower and thereby to give advice where it is necessary (Atem, 2017).

Effective credit monitoring entails checking into diverse operations of the company such as checking if the business is properly managed and if the environment in which the business is operation is taking place satisfactory (Ilyas, Hassan & Abdul-Rehman, 2015). A sustained monitoring increases the chances for the bank to respond to its concern and provide information willingly. It can also help the bank to pinpoint out the danger or another business opportunities to the bank which can help the borrower expand his business through another credit request (Rorbert, 2014).

Bank that incur expenses on monitoring and assessing the borrower business operations are believed to have lower non performing loans (Ilyas, Hassan & Abdul-Rehman, 2015). If banks keep contiously checking on the borrowers, the bank will have more secured loans. Poor loan monitoring is known to be one of the main bank specific factor in creating non performing loans (Ilyas, Hassan & Abdul-Rehman, 2015).

Proper loan monitoring and follow up is essential to the loaperformance as it help the borrower to comply to the term and condition of the loan agreement. When the bank do follow up on the borrower's project operations, it will be difficult for the borrower to deviate from the purpose of the loan which was intended for. Regular monitoring will help for the bank to detect the viability of the business operation (Atem, 2017).

Credit risk assessment

A weak credit risk assessment has a huge impact in increasing non performing loans. Lack of due diligent while granting a loan become key reasons behind non performing loan. (details on credit risk assessment is narrated on page 24 under 2.1.6 credit risk assessment and appraisal)

2.1.2.2 Customer specific factors

Determinants of non performing loans are not only from the bank perspective but also caused by distinctive features of each individuals (Atem, 2017). The following are some of the borrowers specific factors that contribute to loan defaults amongst others.

Age

Age is the number of years associated with a human individual life (Atem, 2017). In Agribank, a person who is eligible to enter into contractual obligation is any person who is 18 years of age and above. There are certain age group that mostly defaults . it is believed that older borrowers are wiser, more responsible and has lots of business experience which may lead to loan repayment compared to young borrowers (Gerba, 2017). Defaulting in young borrower could be lack of absents at the business as the age group are full time workers in government ministries, parastatal or private company. These borrowers recruit only project managers to run the business operation of which a time these managers lack skills and experience on the business oeration technique. those these age group have other income which is from their employments, they tend to default as their businesses does not generate enough income or do not take of successfully as they don't pay attention to their businesses (Gerba, 2017). However, it is argued that young borrowers are more knowledgeable and independent which can also lead to loan repayment though they have limited experience as attributed to their age (Ilyas, Hassan & Abdul-Rehman, 2015). Therefore the age in determining the non performing loan could not be established.

Education

According to Robert (2014), education improves borrower's ability to repay. High education level allows borrowers to grasp compounded information, business record keeping and able to make right decision making (Gerba, 2017). Robert (2014) further stated that, educated borrowers have stable and high income employment that can lower the rate of default as they are more likely to repay their loan. In addition Jote (2018) stated that an educated borrower is able to use modern technologies to perform business activities and manage resources properly. These in return boost production which will improve loan repayment (Jote, 2018).

Loan diversion

When the funds given to the borrower is not utilised for its intended purpose, then the funds are diverted. According to Murthy & Mariada (2017), borrowers diverted funds due to emergencies or better opportunities. Atem (2017) in her study on factors affecting non performance in Kenya stated that borrowers usually only uses half the funds for its intended purpose and divert the other half for unintended purpose. This however causes many projects to fail as they become halfway done (Atem, 2017). In addition Gerba (2017) stated that when funds are not fully utilised for intended purpose, such projects do not generate necessary profits and benefit to repay the loan.

Gender

Gender can be either a male or female. Gerba (2017) stated that female borrowers have a tendency of better loan repayment. Robert (2014) further stated that, women are more risk adverse, hence their default rate is very low.

Loan size/multiple loans

A loan size is the amount of money permitted for the borrower (Gerba, 2017). In order for a business to operate on its full capacity, sufficient funds are required to cover all the necessary costs (Gerba, 2017). Loan size affects the nature of the business and its investment for the borrower. If a borrower is granted a small loan size, this can minimize the risk of non-repayment of the loan. However, if the borrower is not granted adequate capital to cater for all his business expenses, this can lead to business not operating fully or resorting to multiple loans/borrowing. This in turn affects the repayment of the loan and increases the risk of default (Jote, 2018). In addition, when a borrower is granted enough funds for his business operations, it will have a positive impact on the borrower's capacity to repay, however, if the amount exceeds the borrower's needs and ability to repay, this can lead to loan default (Ilyas, Hassan & Abdul-Rehman, 2015).

Collateral/Security

Collateral is the asset the borrower pledges to the bank in order to mitigate the risk in case of default (Geletta, 2012). Banks require collateral when granting loans in order to reduce the adverse selection problem (Robert, 2014). A collateral should be

something of value as it is regarded as a secondary source of repayment should the borrower default. Pledging a security motivate the borrower repay his loan and provide protection should the borrower diverted from loan purpose outlined at the time of credit extension and to provide insurance should the borrower default (Geletta, 2012). Secured loans tend to perform compare to unsecured loan as the borrowers fears losing it due to default. Types of security accepted by the banks are those that can be easily realised in case of loan default (Murthy & Mariadas, 2017). The types of security Agribank accepts are such as a fixed property in proclaimed urban area, an investment with commercial bank and a surrender values with the insurance company.

Credit experience

Knowing the customer previous credit history is very important before you grant the customer a loan (Geletta, 2012). This can be obtained from credit report from credit bureau, by obtaining for a bank report from the borrower's bank and also by obtaining his bank statement. Borrowers with previous credit experience has minimum risks of non repayment compared to those that are borrowing for the first time as first time borrowers are believed to lack skills in fund management (Gebremedhin, 2010).

Business experience

According to Gebremedhin (2010), no lender would want to borrow money to any person who does not possess business experience or have limited experience the the type of business he want to venture into. Lenders need to be ascertained that the person borrowing funds has experience and expertise in the business he want to under take

(Gebremedhin, 2010). Borrowers who have been in specific business for longer are expected to be more experience in such business and also to be more successful with their business. Their business sales are stable and have good cashflows compared to starters. Borrowers with more experience have minimum risks of non repayment (Gerba, 2017).

Other income

Other incomes are those that are not generated from the business activities such as incomes from employment and other businesses (Murthy & Mariadas, 2017). If a borrower has other income from different sources, it is expected that the borrower will cover his expenses from that income which is out of the project and it is belived that this will results in high deposit of the money from the project outcome, leading to high loan repayment performance (Gebrehedhin, 2010)

2.1.3 Banking Risks

The business of banking comprises of taking and managing risk. Lending is the main activity, which involves the risk that the borrower may not pay their loans on time as per their contractual agreement. This risk leads to the bank slowing down on lending activities, leaving the bank with little returns on its investment than it is paying out on deposits or than it gets in managing customers' funds and other transactions.

Lending is defined by Robert (2014) as an amount of money, which is advanced to the borrower by the creditors and it is payable at the same time in the future as per the loan agreement between the borrower and the creditor. Ochung (2013) defines lending as a

way of giving money to a person or firm with the belief that they will repay it with interest in a specific time. Ochung (2013) further emphasised that most lenders protect themselves when lending money by way of asking the borrower to furnish security which will remain in the bank's custody and is only released to the borrower upon settling his or her account with the bank.

Since there is high competition in the banking industry or the financial sector, some financial institutions lend their money out without asking for collateral and this is because they want to win the client in order to grow their loan book and increase their interest income (Robert, 2014). Lending has been the main source of funding for many businesses and banks are the main financial institutions that play a big role in lending. There is a need for the bank to be careful when they are giving out loans so that they can prevent the inherent risk such as credit risk that is connected to the product in order to maximise shareholder returns and boost the reputation of the company (Galletta, 2012). Lending is a very risky business since the repayment of those loans is not guaranteed and this leads to credit risk.

2.1.4 Credit risk

Credit risk is defined by Galletta (2012) as a risk that the counterparties will not pay their obligation on time and in full as expected or contracted, resulting in a financial loss to the bank. Garr (2013) describes credit risk as a risk that the promised cash-flow from money advanced to the customer and the collateral kept by the bank may not be paid in full. He further stated that credit risk has caused many financial institutions to fail. Nikolaidon and Vogiaza (2011) highlighted that the credit risk remains the main risk in the banking sector.

Garr (2013) indicated that a detailed study and understanding of the manner in which external and internal factors contribute to credit risk is required. Banks are increasingly faced with credit risks, not only in loans but also in acceptance, foreign exchange transactions, interbank transactions, trade financing, and financial derivatives (Gerba, 2017). Due to the exposure of the credit risks in the banking sector worldwide which continue to be a problem, it is imperative for the banks and their supervisors to implement strategies of managing this risk (Chelagat, 2012).

2.1.5 Credit risk management

Managing credit risk involves the process of identifying, measuring, and managing institutional credit risk. Chelagat (2012) emphasises that the aim of credit risk management is to capitalise on the bank's risk-adjusted rate of return by sustaining credit risk exposure within acceptable parameters. Weaknesses in credit risk management have been blamed to be the major cause of banking difficulties such as non-performing loans. Loans are the main bank assets and if the amount of non-performing loans due to the lack of poor credit risk management continues to rise and exceeds the bank's profits, it will reduce the bank's net-worth (Gerba, 2017).

Poorly managed credit risk can grind down the profitability of the bank leading to the deterioration of confidence in the financial system (Hwarire, 2012). In a similar vein, Hwarire (2012) indicated that poor credit management can also lead to delayed loan repayment to the creditor and also to stakeholders within the supply chain. For that reason, credit management needs to ensure that cash-flow should be monitored well as well as the strategies for collecting money from the debtors (Hwarire 2012).

2.1.6 Credit Assessment and appraisal

Robert (2014) emphasises that credit assessment is the initial step taken to screen an applicant for credit. He further highlighted that the creditor starts by understanding the client's needs whereby the credit applicant presents the necessary documentation to the bank in order to be advanced the credit. The creditor then assesses the customers to establish his capacity to ensure that there is a good fit in terms of the financing solution (Robert, 2014). Conducting credit assessment is imperative to the bank because, if the bank does not properly assess the client, there will be a high chance for the borrower not to be able or willing to honour their obligation. It is also important to protect the bank's interests by ensuring the underlying quality of the credit being advanced. This is considered as the main element of credit risk management (Garr, 2013).

Credit assessment entails analysis of the risks involved in financing, thereby anticipating the probability of default and recovery (Sandada and Kanhukamwe, 2016). Financial institutions have credit policies in place that they use when assessing a customer in order to grant them a loan. A credit policy is a document with general guidelines which the credit officers use in awarding credit. The policy states rules on who should be given credit, when, and why one should get the credit. The process includes also the repayment arrangement and the essential collateral (Sandada and Kanhukamwe, 2016).

A company credit policy can be lenient or stringent. When the company uses a lenient policy, the company can advance credit to customers whose creditworthiness is questionable. This usually ends up with the customer being awarded high levels of money under the assumption that the bank will yield high profit should it collect all

debts in full. In the case of the stringent credit policy, customers have to be strictly appraised to determine the customers' capability and capacity to repay the loan. Stringent lending helps the company to minimize the costs and losses associated with bad debts.

The guiding principle in credit appraisals is to make sure that only customers with good credit records will be awarded credit as they are believed to meet their repayment ability. In some instances, borrowers would want to borrow at a high-interest rate when they discover that they cannot be awarded the loan. However, the lender in stringent lending may refuse to award credit in such a condition but they can meet the customer halfway by restricting the loan to a smaller amount than what the borrower wanted to borrow at the initial stage.

According to Geletta (2012) credit analysis is used by the credit officers to evaluate the customer's creditworthiness. There are various factors a credit officer considers to assess the client. These factors are known as the 5 Cs of credit appraisal which guides the credit assessment process. The 5 Cs are known as the Centre for successful lending. The 5 Cs are capacity, capital, character, collateral, and condition (Geletta, 2012). Geletta (2012) explained the 5Cs as follows:

Capacity - is a factor that is used to determine a client's credit-worthiness. It refers to the business' ability to generate enough cash to repay the loan. The credit officer assesses the borrower by weighing his earning ability and the likelihood of continuing income against the number of debts carried by the borrower at the time the application of credit is made. The credit officer looks at the applicant's business plan, management accounts, and cash-flows as they are a good indicator of whether the client has the capacity to repay his or her loan (Geletta, 2012).

When the bank is evaluating a company as its client, it is imperative for the bank to understand the company's capacity by also looking at the type of business and industry the company is operating in. This is important as an industry can be influenced by different factors: external or internal factors. These factors can be such as the type of industry, market share, product quality, and its life cycle, whether the business is labour intensive or capital intensive, the current condition of the economy, seasonal trends, the buyer's bargaining power, the seller's bargaining power, competition and also the legislative changes. With all these factors, the bank will be able to form a view of the specific company and the industry (Geletta, 2012).

Besides business and industry evaluation, the financial position of the company or individual also plays a role in determining the client's capacity. The credit officer evaluates the client by checking past financial performance and the projected financial performance by looking at the audited financial statements. Financial projection contains projected cash-flows that show the need for the credit and the ability to repay the debt. The creditors usually consider three to five-years audited financial statements with a concentration on the balance sheet and income statement (Geletta, 2012).

Over and above the audited financial statements, some lending institutions such as banks also look at the ratio calculations. Ratios are very critical in assessing the business position. The liquidity ratio is one of the ratios that tell whether the company is able to meet its short-term obligations and this is determined by the current liability. The activity ratio is another ratio which indicates whether the assets are used efficiently in order to generate sales. The leverage ratio indicates whether the company will be able to meet its instalments as scheduled and this is determined by looking at the company's financial mix between equity and debt and potential instability of earnings. A high instability of earning indicates the chances that the client will have

difficulties in paying back his or her loan. The profitability ratio is another ratio that creditors can use to gain information about the company's sales and earnings performance (Geletta, 2012).

The capacity of the client to repay the loan can also be determined by looking at the cash-flow of the company. The cash-flows are evaluated in order to distinguish the net income from the cash from operations. The cash from operations tells the creditor how much cash was made from the normal business activities and this should be able to service the debt (Geletta, 2012).

An analysis of the company's financial capacity should include an evaluation of trends. Trends evaluation gives a clear picture of where the company is heading if done over a period of three to five years. The bank should be able to conclude from the trend evaluation whether the company is collecting slower or faster than the other companies in the same industry and whether the company is more profitable than the peer groups in the same industry (Geletta, 2012).

The projection is a credit capacity tool to evaluate the purpose, amount and type of finance required. It also creates awareness in the company's ability to produce enough cash to pay the debts. The creditors should always make sure that the type of financing is in line with its purpose of finance.

Assessment of the financial capacity of the Organisation should be carried out so that the creditors can determine the ability of the borrowers to meet its repayment obligations as scheduled. Checking customers' repayment habits over time is a good indication of cash-flow. Bank and trade references or any pending contingent liability checking are of high importance. An agency rating that forecasts slow payment or

default should be undertaken before the completion of the investigation of the borrower (Geletta, 2012).

Capital - capital factor in determining the credit worthiness of the debtor consists of tangible assets and resources. It is defined as a level of the owner's investment in the business. When there is sufficient presence of capital in a borrower's profile, the creditor can be assured that the debt can be paid from the debtor's assets should the need arise. Creditors prefer significant debtors' own contribution as it shows that the owner has commitment and confidence towards his business (Geletta, 2012).

Character - character of the borrower is determined by looking at the past credit history. It is the borrower's reputation and willingness to pay back his loan. The borrower should possess certain characteristics when he is assessed. He should show honesty, integrity and trustworthiness. The borrower's past credit records should show a good reputation and this means that the credit commitments were met timely. Character is considered to be one of the 5 Cs that is important but difficult to analyse (Galletta, 2012).

When a debtor is a legal entity, analysing the quality of management is critical, hence the history of the borrower and management experience are important in analysing the ability of the company to determine its financial obligation satisfaction. There are factors that are considered when assessing the quality of the management. These are such as reputation, integrity, qualification, experience and ability to manage different business disciplines such as finance, marketing and human resources. A company with a strong and competent management team can maintain a good financial position even in a period of economic down-turn. In cases where the debtor is a natural person, a

succession plan is of importance and should be in place as the role of the management remains important to the success of the company (Geletta, 2012).

Collateral - collateral which is also known as security is an asset or property that a borrower pledges to the bank for the term of the loan to mitigate the risk when a borrower fails to repay the loan. The creditor takes ownership of the collateral in the event of default in order to recover the outstanding debt owed by the client or company. It is valuable and should be able to be pledged by the bank with the intention to support the borrower's intention to meet its repayment obligation. Collateral is taken in order to mitigate the risk to the bank in the event of default and it is considered to be a secondary source of repayment should the client default. A good security is one with high value and whose value can be easily realised (Geletta, 2012).

When a loan is hedged against collateral, it can be regarded as a secured loan. The intention of asking for the client to provide collateral is to reduce the risk of giving credit and by increasing the chances of the lender to recover the amount of money owed by the debtor in case of default. Collateral increases the availability of credit and also improves the terms on which the credit is available. By offering collateral, the borrower increases his chances of receiving the credit by influencing the lender's decision on the loan term, size and interest rates (Geletta, 2012).

According to Chelagat (2012) collateral is required in the banking environment for the following reasons: it guarantees the creditor the full commitment of the borrower to its business operations, it protects the bank should the borrower deviate from the planned course of action stated at the time of credit approval. It also provides assurance to the Bank in the event of default.

The borrower offers an asset as a security. Its value is based on the estimated re-sale value at the time of disposing it. The bank values the property to determine the market value for the purposes of the security. Fixed investments can also be used as collateral (Chelagat 2012).

Despite physical collateral, a borrower can also provide surety-ship for his debt by using a third party's property and the third party becomes a curator. When the borrower fails to honour his obligations and is drowning into debt, the bank can call up the security to settle the outstanding amount.

Conditions - conditions are external factors that could affect the borrower's ability to repay his loan. These factors are often associated with the factors of capital, capacity and character. These factors are such as economic and industrial trends, regulations, legal and liability issue conditions (Geletta, 2012).

In conclusion, the 5 Cs of credit assessment are well-known principles. Banks have developed their credit risk assessment models that guide them whether they should fund the business or not. Based on the credit information received from the applicant and credit assessment results, the credit approval process is done.

2.1.7 Non-performing loans or loan default

Loans form part of the bank's primary source of income. Just like any other business, the bank seeks to make a return on investment in the form of a profit (Asfaw, Bogale and Teamer, 2016). Due to the profitability of the loans in comparison to other banks' assets, a bank is prepared to lend as much funds as possible. However, they have to be cautious regarding the safety of such loans (Asfaw, Bogale and Teamer, 2016). Banks

naturally try to equate the problem of expanding profit by lending and also by managing the risks at the same time as it would diminish the profits. Furthermore, banks need to be vigilant in advancing credit as they possess a greater risk which follows it in a situation where loan default may occur (Sandada and Kanhukamwe, 2016).

Loan defaults are known to be the main cause of banking crises. Sandada and Kanhukamwe, (2016) stated that the magnitude of non-performing loans is the key element in the initiation and progression of financial and banking crises. Unless loan defaults are well managed with reasonable standards, loan defaults will be linked to the cause of bank failure. The issue of loan default is associated with non-repayment of the loan and this is when the borrower does not repay her loan as scheduled. The loan is known to be a non-performing loan as it stops performing and generating interest income to the bank (Sandada and Kanhukamwe, 2016)

Loan defaults put the bank in difficult situations especially when they are high. Though banks may hold collateral for the loans, the assurance for the borrower to repay their loan in full cannot be guaranteed. It is then in such events the loan turns to be a non-performing loan (Sandada and Kanhukamwe, 2016).

There is no universal standard definition to best describe non-performing loans, however there are various way to described them based on terms and content. Various countries have different measures that they use to classify their loans as no-performing loans.

The concept of loan default is described in different studies. According to Anguine and Waari (2014) loan defaults are explained as loans which don't bear profit for the bank. They are loans that can hardly recover within the period of time as governed by

the law of a country. Addae-Korankye (2014) describe a non-performing loan as any loan in which capital and interest are not paid for more than 90 days and above after the due date. Murthy and Maridas (2017) also concur with Mungure (2015) and emphasise that loan default is known to occur when the borrower has not paid his or her instalment on time as stipulated in his loan contract. This happens when the debtor is either unable to pay or he or she is not willing to pay.

Loan default in most cases refers to loans which do not generate income for a relatively long period of time of which its capital and interest are left unpaid for at least 90 days or more. Loan default is further described by Werema and Opanga (2016) as loans in which the bank cannot be able to rely on its cash-flow stream as it does not validate the income until the cash is received or paid.

Gerba (2017) describes loan default as accounts whose principal and interest rates are left unpaid for a period of up to 90 days or more after its due date. He further stated that these loans usually do not generate any income to the bank. Vogiaza and Nikolaidon (2011) explained loan default as any credit accommodation in which contractual repayment is 90 days or more after the due date. Oganda, Mugwambo and Otieno (2019) describe loan defaults as loans that do not earn interest income and full payment of capital and interest is no longer anticipated and the maturity date has passed for more than 90 days and more.

According to Korankye (2014), default happens when a borrower has not met his contractual obligation and Nyarko-baasi (2018) describes loan default as a possibility of a borrower defaulting on an unpaid loan in full or partially. From these definitions, it is clear that loan default occurs when a borrower has not met his or her legal obligations as per the loan contract.

2.1.8 Effects of non-performing loans

A high rate of loan default should be a major concern in any financial institution that is involved in lending and also to policy makers of the country especially in developed countries. This is because, loan default has the unintended negative impact on financing (Vogiaza and Nikolaidon, 2011).

Non-performing loans are very a sensitive element of a bank operation. They are one of the concrete presentations of credit risk the bank takes. They have significant implications on the bank's functions and overall financial sector development (Vogiaza and Nikolaidon, 2011).

Historically, banking crisis phenomenon has been connected with enormous accumulation of non-performing loans which account for a fairly large share of total assets of insolvent financial institutions. The decline in the bank loans quality is one of the main causes of financial fragility (Vogiaza and Nikolaidon, 2011).

Experiences from the past indicate that an increase of bad loans plays a critical role in banking crises. It is generally believed that loan defaults are often related with bank failure and financial crises worldwide (Vogiaza and Nikolaidon, 2011).

Non-performing loans have negative effects on the financial position of the lending institution as it can cause insolvency and ultimately hurt the whole country (Oganda, Mogwambo and Otieno, 2019). In such events when non-performing loans rate is high, the banks try to carry out an internal consolidation in order to improve asset quality which help in minimising the granting of the loans.

Gabriel, Victor and Innocent (2019) stated that the management of loan defaults is linked to high operation costs, leading to the diminishing of capital growth within the

lending institution. In addition, they further stated that loan defaults reduce the liquidity of the firm, interfering with credit expansion and slowing down company growth. Loan default reduces the number of investors as investors are usually discouraged from investing in a company that has a deteriorating financial position (Gabriel, Victor and Innocent 2019). Loan default tarnishes the image of the company through a bad reputation.

Nyarko-Baasi (2016) argued that dealing with loan default takes up too much time of the management which could be put to good use on other important activities that are fruitful. The author further said that, loan default does not contribute to the interest income of the bank but rather wastes the money of the bank. This is because of the bank intervention of hiring debt collectors to deal with loan defaults. Loan default may slow down the lending activity in companies with a high rate of default due to the company's inability to recycle the funds to the other borrowers. In such an event, the company will either stop the lending or it can lend to companies or individuals that require small loans (Kingu, 2018).

Loan default does not only have a direct negative effect but has also indirect effects mostly on the country at large (Kingu, 2018). Loan defaults can cause unemployment when the bank is unable to pay its people. This leads to downsizing the work-force which at the end leaves many people unemployed. When the unemployment rate is high, this can further lead to consequences such as inflation, high crime rate and reduction in tax (Kingu, 2018). Reduced tax has implications to the government, its people and the economy as there will be a reduction in GDP. Government will not be able to provide full public services such as health, education and roads infrastructure, hence mortality rate may increase and there could also be poor road facilities and when

road facilities are bad, the tourism industry will also be negatively affected as the tourists will stop visiting the country (Kingu, 2018).

Loan defaults are unavoidable in the lending business. However in the event when the loan defaults are increasing, banks can minimise the risk of loan default by carrying out adequate analysis of the credit-worthiness of a borrower.

2.2 Empirical evidence

All financial institutions worldwide function in a changing environment. These variations present dangers or opportunities as a result exposing the banking sector to great risk which needs to be managed efficiently and effectively (Araka, Mogwambo and Otieno, 2018). Many financial institutions have collapsed or experienced financial difficulties. According to Araka, Mogwambo and Otieno (2018) the current main problem facing financial institutions is cumulative amounts of loan defaults.

Galleta (2012) conducted a study to assess the determinants of loan defaults in Ethiopian banks. The study employed a mixed method approach. Findings from the study indicated the following reasons for loan defaulting: poor credit assessment, aggressive lending, weak institutional capacity, failed loan monitoring and unfair competition among banks. Also,, lenient credit terms and conditions, underdeveloped credit culture, wilful default by borrowers knowledge limitation, and loan diversion. He further stated that, when the bank has a poor/no credit policy in place, this can lead to wilful poor lending standards which can cause delays in loan approvals. Poor credit appraisal and management lead to loans being granted to customers with high risks of a loan default (Galleta 2012).

Ochung (2013) investigated factors affecting loan repayment among customers of Kenyan commercial banks. The study used a descriptive research design. The study revealed that there is a relationship between bank factors and non-performing loans and also between customers' factors and loan default. The study pinpoints credit risk management and loan diversion to have led to loan default.

Gerba (2017) employed descriptive statistics and econometric analysis, particularly the logistic regression (binary logit) to identify and analyse the major factors of loan repayment performance. The study was conducted in the development bank of Ethiopia, Jimma district with a concentration on four different perspective factors: borrower related, bank related, business related and the external environment. The study discovered the following factors to have a significant relationship with loan default: educational qualifications, family size, credit experience, multiple businesses and proper follow ups. Also, time horizon, loan amount and loan diversion were found to have a significant relationship with loan default. When a borrower commits to a high loan amount or has multiple loans with a high interest rate, it can lead to loan default if the borrower cannot handle it due to its high instalments that become difficult for the borrower to repay as per contractual obligation (Gerba, 2017). In addition to that, Adusei (2017) also stated that, if a borrower is granted a lower loan amount than requested, s/he can also default as the funds may not be sufficient for the business operations.

Chelagat (2012) also carried out a study on determinants of loan defaults in small and medium enterprises. The study was conducted among commercial banks in Kenya with the objective of determining the relationship between non-performing loans associated with the small and medium enterprises sector. The study found that loan default by

small and medium enterprises (SME) has significantly been increasing and this is caused by the interest rate, how long the business has been in existence, applicant characters, poor credit analysis and monitoring, loan type, loan term and economic conditions.

Robert (2014) examined the determinants of loan default and its effects on the financial performance of commercial banks in Ghana, a case of Fidelity Bank limited using a mixed method research design. The study realised that delays in loan approvals, poor management, poor credit appraisal and fund diversion for unintended purposes were the main reasons for loan default.

Hwarire (2012) used the logit model to assess the relationship and impact of the determinant factors affecting loan repayment by analysing loans granted to small businesses by South African commercial banks. The study concluded that borrowers' age, interest rate, loan amount granted, product type, gender and race has an impact on loan default.

Werema and Opanga (2016) conducted a study on factors affecting clients' loan repayments for micro-finance institutions in Pride Arusha, Tanzania. The researcher employed quantitative and qualitative techniques to investigate the factors affecting loan repayment performance. The study findings show that the age of the borrower, household size, gender, educational qualification, business type and stability, income level, loan repayment period, mode and amount of repayments were amongst the factors. The study further revealed that there was a significant relationship between loan repayment and client business challenges, funds diversion to non-income activities and also external environmental factors.

Anguine and Waari (2014) studied factors influencing loan repayment in micro-finance institutions in Kenya. The descriptive and inferential results show that the most significant factors like educational level, number of dependents, length of operation, management, hobbies and business type has strong effects on stimulating loan repayment. The study recommended that government and other stakeholders in the sector should ensure that prospective financial borrowers should have access to formal education and training on business management and financing. The study further stated that micro finance institutions should reduce the turnaround time and develop models that are effective in creditworthiness evaluation of the borrowers.

Jote (2018) conducted a study on determinants of loan repayment in micro finance institutions in Gedeo Zone SNNPRS, Ethiopia. Using a binary logistic model to analyse the data, the results show that educational level, method of lending, distance of borrower to the bank, family size and income from activities financed by loans and training significantly affects loan repayment. The researcher recommends that micro finance institutions, stakeholders and policy makers need to intervene in coming up with strategies that will significantly reduce or avoid defaulting problems.

Addae-Korankye (2014) in his study analysed the causes and control of loan delinquency/default in micro finance institutions in Ghana. Findings of the study indicated that high interest rate, inadequate loan size, poor credit appraisal, lack of monitoring and improper client selection has an influence on loan defaults. The study recommends that microfinance institutions should have clear and effective credit policies and procedures. It also mentioned that government should regularly monitor and supervise the microfinance institutions to ensure client deposit safety and confidence.

In an exploratory research conducted by Murthy and Maridas (2017) on the factors contributing to loan repayment default among the loan borrowers in microfinance institutions of Shah Alam Selangor, Malaysia, the researcher discovered that the nature of the business operated by a borrower is one of the factors that affect loan repayment. The researchers are however against age of the borrower, loan diversion and repayment schedule to have an influence on loan defaults.

Asfaw, Bogale and Teamer (2016) studied factors affecting non-performing loans which lead to default in the development bank of Ethiopia, central region. The descriptive results show poor credit assessment and credit monitoring to be the most significant factors. Credit size, high interest rate, poorly negotiated credit terms and lenient or lax credit terms together with extended processes of approval were the main cause of occurrence of non-performing loans from an institutional perspective.

From the borrower's perspective, the credit culture of the customer, lack of knowledge of the business they are engaged in, deliberate default, loan diversion and project management problems were the main causes. The study suggested that the bank should strengthen its credit assessment criteria and conduct proper due diligence to select potential risk taking applicants and adopt appropriate pre and post credit risk assessment. The bank must also make sure that the funds borrowed are not diverted to unintended purposes or consumptive activities by enhancing credit monitoring

2.3 Conceptual framework

According to Jote (2018) a conceptual framework entails establishing of ideas on the relationship between the dependent (loan default) and independent (client and bank factors) variable in the study by means of a diagram. The concept model of this study

is to analyse the cause of loan default in Agribank. The study focuses on clients' perspective factors and bank perspective factors in carrying out an empirical study to investigate the probability of these variables causing loan default in Agribank.

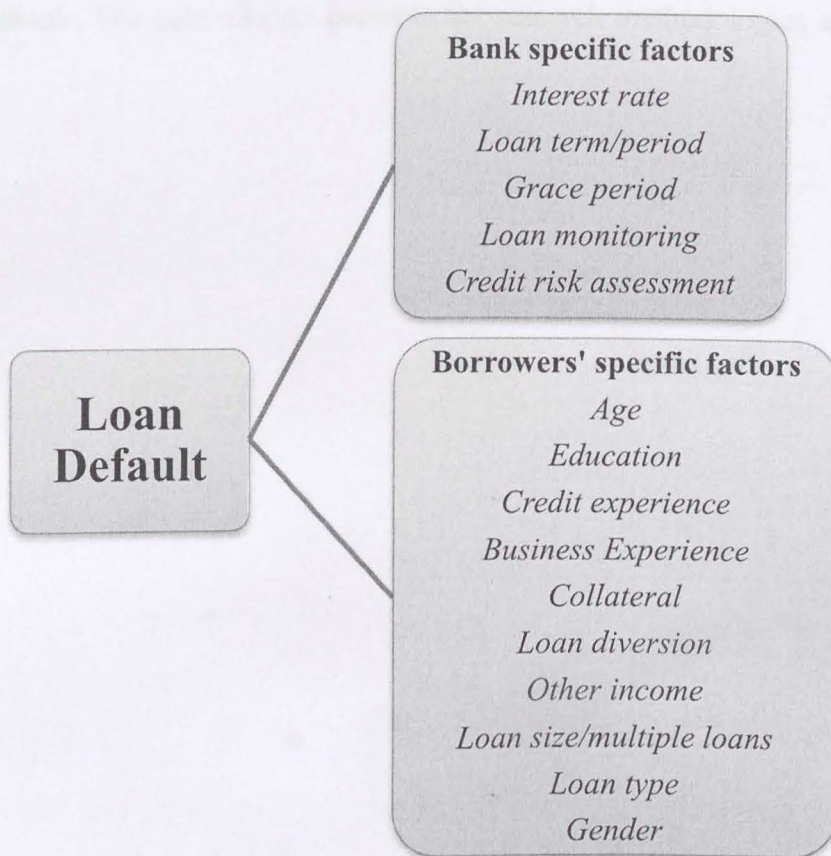


Figure 2.1: Conceptual Framework

2.4 Summary and knowledge gap

The literature reviewed above from various companies in various countries has provided the information or evidence on the causes of loan default from the bank's perspective, the borrower's perspective, and the industry's perspective factors. This has helped the researcher to gain an understanding of her research area and has helped her to formulate her research methodology.

From the empirical evidence, there is a lack of studies on loan default in Namibia, especially with an emphasis on development banks. As a result, this study tried to

investigate the causes of customers' loan default from the bank's perspective and borrowers' perspective in Agribank. This will help fill the gap in the literature on the area under study and provide an amicable solution to reduce the level of loan default in Agribank. The next chapter presents the research methodologies adopted for the study.

3.1 Research design

Research design is a procedural plan that is adopted by the researcher to collect, analyze, interpret and report on data in a research study (Hatch, 2015). A research design sets the processes on data collection, methods applied in collecting data, analyzing data and how all this is going to answer the research question. There are three types of research design namely, exploratory, descriptive and explanatory research design (Khan, 2015).

The classification of the research design is based on the purpose of the research and since each design serves a different purpose at the end. For example, the purpose of descriptive study is to give a clear picture of a situation, process or event or show how things are related to each other in their current or their natural setting. However, descriptive study does not clarify why an event has occurred, hence this research design is only suitable to relatively new or a research area that is not yet explained.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This study sought to identify factors that cause customers to default on loan repayments. These factors were from both the bank and the customers' side. In order for the objectives to be realised, this chapter uncovers the research methods that were employed. The chapter also informs on the research design and approach used, population and sampling procedures, research instruments used and the data collection procedure, how the data was analysed and ends with ethical considerations.

3.1 Research design

Research design is a procedural plan that is adopted by the researcher to collect, analyse, interpret and report on data in a research study (Boru, 2018). A research design sets the processes on data required, methods applied in collecting data, analysing data and how all this is going to answer the research question. There are three types of research design, namely: exploratory, descriptive and explanatory research design (Boru, 2018).

The classification of the research design is based on the purpose of the research area since each design serves a different purpose at the end. For example, the purpose of descriptive study is to give a clear picture of a situation, person or event or show how things are related to each other as they appear in their natural setting. However descriptive study does not clarify why an event has occurred, hence this research design is only suitable to relatively new or a research area that is not yet explored.

Therefore in an event with a lot of descriptive information, a different research design such as exploratory or explanatory should be used (Boru, 2018).

Exploratory research is conducted when there is insufficient information regarding the phenomenon and a research problem is not yet clearly defined. It is used to explore the researched topic but does not give a final and convincing answer of the research question (Boru, 2018). Therefore, it is used to deal with new problems whereby little or no previous research has been conducted. On the other hand, explanatory research sets out to describe and account for descriptive information since the descriptive studies may focus only on “what” kind of questions (Boru, 2018). Explanatory research seeks to ask the “why and how” questions, hence explanatory research design is built on both the exploratory and descriptive research design and it leads to identifying the reason why a phenomenon has occurred (Boru, 2018).

Explanatory research looks for the cause and reasons by providing evidence to support or reject an explanation or prediction. Explanatory research is conducted in order to determine and report on the relationship between various aspects of the phenomenon under study (Boru, 2018).

The research design used in any study depends on the research objectives of the study in order to answer the research question in its problem, which is an issue that needs to be addressed. This study aims at testing relevant theories that relate to loan default by establishing the link between measures of the customers and bank factors against the loan default. Therefore, the explanatory research design amongst others is suitable for this study as this research design studies the situation or a problem in order to describe the relationship between variables.

3.2 Research Approach or Method

Research approach is the strategy used to implement a research design. There are three different methods of conducting a research and these are: qualitative, quantitative and mixed method research.

Quantitative research method is described by Boru (2018) as a method that explains phenomena by collecting numerical data. Quantitative researchers use experiments and survey techniques in collecting data. Quantitative data is known by its strength in providing reliable and measurable data. The qualitative research method helps the researcher to understand the phenomenon by observing or interacting with the participants of the study. The researcher interacts with the participants in their natural settings and this helps the researcher to explore and get insight on the topic under the study (Amadhila and Ikhide, 2016).

The mixed method approach involves both qualitative and quantitative methods in collecting data. This means that, the researcher is able to answer questions that cannot be answered only by qualitative or quantitative method alone. Mixed method gives a comprehensive picture by stating trends and generalisation as well as in-depth knowledge of participants' point of view.

The research method employed in this study is a mixed-method approach. The quantitative aspect in this study sought for information that could be generalised about the relationship between bank and customer specific factors and loan default at Agribank. The qualitative method then sought data that can enhance the gap that was not recorded by the quantitative method and also gain a better understanding of the bank and customer-specific factors that would lead to loan default. The main objective of the study is to investigate the causes of the customer loan default at the Agricultural

Bank of Namibia, Oshakati Branch. To achieve this, the researcher drew statistical, quantitative results and further sought to provide justifications on the established relationship with the qualitative study. The pertinent research design was the explanatory type that responds to both how and why the aspect of the fundamental research question. The researcher, therefore, employed literature research, in-depth study of the problem, and case analysis to provide deep insight into a specific subject, which gave birth to more subjects and provided more opportunities for the researcher to study new things and questions new things related to loan defaults.

3.3 Population

The population of the study comprised of Agribank staff and its customers for the Oshakati branch. The branch consists of 827 customers and 11 members of staff. At the time of carrying out the research, 399 out of 827 customers were recorded on the branch loan portfolio to be in arrears with their accounts. The targeted population of the study was therefore the 11 members staff of Agribank and 399 customers who were in arrears.

3.4 Sample

In sample size determination, the borrowers' sample was selected from customers that had defaulted using simple random sampling procedure. A list of branch clients in arrears was obtained from the recovery office. The arrears percentages against the loan capital was calculated and arranged from highest to the lowest percentage (%). Calculating percentages in order to select the borrowers with highest arrears against the

capital helps the researcher to have unbiased information. Sample was then taken from the highest percentage to the lowest percentage until the total sample size was achieved.

According to Hangula, 2018, a customer is consider as a loan defaulter if s/he fails to pay his or her's account 3 months and above after the due date. The borrowers' sample size of the study was determined using the Slovin's sample size estimation formula (Langat, 2018):

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

Whereby: N is the population

n is the sample size

e is the error of tolerance in this case 0.05

Slovin's formula was used as a researcher needed to sample the population with a degree of accuracy. This formula gives the researcher an idea of how large the sample size needs to be to ensure reasonable accuracy of results (Ellen, 2018), especially since the behaviour of the population is not known. The formula produced a sample of 199 customers in total. The sample for the staff was the branch credit and recovery team. The sample was selected using purposive sampling. Purposive sampling is a non-probability method of sampling whereby respondents are chosen according to the researcher's judgment as to the suitability of the project (Amadhila and Ikhide, 2016). The staff participants were 5 which included: the branch manager, branch controller, recovery officer and two sales consultants. The participants were selected purposively because they had in-depth knowledge on credit risk management and factors that lead to loan default. The overall sample size was 204 participants.

3.5 Research instruments

In order for the researcher to achieve the objectives of the study as stated in the previous section, the researcher used mixed methods. Quantitative data was collected from the clients through a survey using self-administered structured questionnaires, whereas; qualitative data was collected through a semi structured interview guide in face-to-face interviews with the officials of the bank.

3.6 Procedure

The researcher requested for an ethical clearance letter from the University, which the researcher presented to the bank in order for the Bank to authorise the researcher to conduct the research. The participants were given informed consent to read and this stated clearly that the instruments being administered were meant for research purposes only and would be kept confidential.

Respondents were given the opportunity to ask questions related to the research and had to sign the informed consent before they participated in the research. The questionnaires were delivered to respondents by email and some were hand-delivered. The face to face interviews was done with the bank's staff at times and places convenient to them.

3.7 Piloting

3.7.1 Validity and reliability

Piloting refers to the conducting of preliminary research before the main research is conducted. Piloting is important in the questionnaire development process (Boru,

2018). It helps the researcher to detect and eliminate any possible problems before administering the survey. It also helps the researcher to investigate whether important components of the main study will be feasible (Boru, 2018). Questionnaires are one of the most widely used instruments to collect data. The main aim of questionnaires is to get relevant information, which is reliable and valid. The questionnaire used in this study was pre-tested for validity, to ensure that the research instrument measured what the researcher wanted to know. The main reason for pre-testing the instrument was for the researcher to scrutinize and verify the relevance and suitability of the questionnaire. Reliability and validity testing are significant components in research. The researcher ensured reliability by making sure that the same research tool was employed to all the participants and that the questions were phrased the same way each time. External influences such as crowds were prevented not to allow for variation in the results. Another reason was also to determine the readability and correctness of the survey questions (Boru, 2018).

Before the researcher administered the research instruments to the participants, a pilot study was carried out to ensure that the questionnaires were relevant, they were clearly understood by the participants and they made sense and were not too sensitive to the participants. The piloting study aimed to determine the validity of the research instruments by looking at areas such as wording, structure, and arrangement of the questions.

In this research, an expert panel and interviews were used to pre-test the questionnaire to get over the shortcoming of using one method. The questionnaire was first evaluated and revised by the researcher's supervisors. Next, the tool was pretested by way of interviewing the bank team members of Agribank, Oshakati branch and in addition, a small survey test with 15 customers was also conducted. The purpose for this was to

improve the research instruments so that the participants of the main study would find it easier to answer the questions and give legitimate answers.

During the piloting phase, the respondents were requested to comment on the suitability of the questions and its representativeness. They were requested to come up with suitable suggestions on corrections that suit and presents best the research instrument and adjustments to the questionnaires were made depending on the results from the pilot study. All participants of the pilot study were excluded from the main study.

3.7.2 Trustworthiness

For qualitative aspects of the research, the researcher strengthened the research findings to show the result is worthy of attention. According to Orodho, (2015), four criteria for classifying the quality of qualitative research include credibility, dependability, and transferability.

3.7.2.1 Credibility

The credibility of the study, or the confidence in the truth of the study and therefore the findings, is the most important criterion (Connelly, 2016). To ensure credibility, the researcher verified the responses given by the respondents and developed data sets that were analyzable. The researcher also summarized the findings including the interpretations of the research report and asked the participants to confirm whether the summary reflected their positions accurately.

3.7.2.2 Dependability

Dependability measures the quality and appropriateness of the inquiry process (Bryman, 2012). This guides on whether the findings from multiple types of research using a particular qualitative instrument reach similar interpretations and whether repeated examinations produce similar observations. In this study, the researcher tested whether the same open-ended questions will give similar information when used by different researchers. Respondent outside the sample of the study was interviewed and the results were scrutinized on the extent of a true reflection of the study.

3.7.2.3 Transferability

Brink (2006) shares that research findings are transferable or generalizable only if they fit into new contexts outside the actual study context. In this study, the researcher made inferences in a case where the study matched the results of one case study. Critical processes and procedures helped to connect the meaning associated with the phenomenon under study.

3.8 Data analysis

Analysis of quantitative data was done after all significant data was collected from the participants. The data collected was examined before analysis commenced for completeness and consistency. Gathered data was then edited, coded, and fed into a computer for processing. The data was processed and analysed using the Statistical Package for Social Sciences (SPSS) Version 21.0 statistical software. The data were

first examined using descriptive statistics to identify the frequency distributions. Regression analysis was used to identify the causal relationship between the variables under study and the effect of the factors.

Thematic analysis was used to analyse qualitative data as described by Creswell (2009). Since the responses were already written, researcher read through the participants' responses to get a general sense of its meaning, coding the data by combined similar codes to form themes or categories, and selected a type of narrative interpretation of the data. Identified themes from the responses were used to classify, analyse, and report patterns from the open-ended questions of the questionnaire data.

3.9 Ethical considerations

The data collection process involves interacting with participants and entering their private space. This raises several ethical issues that should be addressed during and after the research has been conducted. The researcher has the right to respect the rights, needs, values and desires of the informant. Therefore, appropriate steps should be taken to adhere to strict ethical guidelines in order to uphold participants' privacy, confidentiality, dignity, rights and anonymity (Boru, 2018). The researcher considered the following ethical issues during the data collection process:

Informed consent: the researcher obtained an ethical clearance letter from the University of Namibia's ethical committee which permitted the researcher to conduct the research. The researcher informed the participants about the purpose of the research. In line with this, the researcher obtained their informed consent in writing.

Harm and risk: safety of the participants needs to be guaranteed; hence the researcher ensured that participants were not harmed as a result of participation.

Privacy, confidentiality and anonymity: during the data collection process, the participants' confidentiality, their responses and anonymity were maintained and the writing of their names on the research instruments was optional.

Voluntary participation: it was made clear by the researcher that their participation would be voluntary. The researcher explained that the participants had the right to withdraw any time should s/he feel uncomfortable in participating, hence no participant was forced to participate.

3.10 Summary

This chapter covered the research design, approach, sampling procedures, research instrument used in the study, as well as the procedures followed in data collection, analysis and ethical issues considered during and after the study. The next chapter presents the results of the study following the data analysis and their discussion with the literature in mind.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the data that was collected and discusses the results to get meaning out of the data. The researcher used self-administered semi-structured questionnaires to collect data from customers, while a semi-structured face-to-face interview guide was used to collect information from the officials of the bank. The study collected both quantitative and qualitative data. The study was conducted on 204 participants, however only 187 participants in total responded to the questionnaires distributed.

4.1 Demographic information

The researcher collected the background information of respondents to understand possible relationships with loan repayments. Such information included sex, age, level of education, loan product financed by the bank, length as a customer at the bank, length of operations, and an indication of whether they were part-time or full-time farmers. The data collected is as below.

The study comprised of 37% female and 63% male as shown in figure 4.1, and they were between the ages of 31 to 60 years as in figure 4.2.

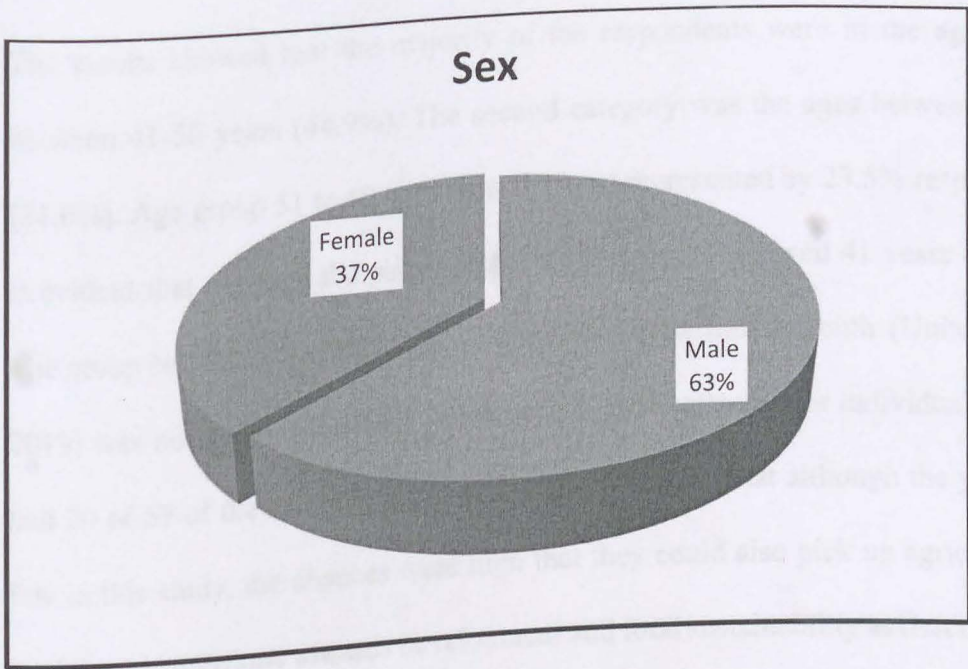


Figure 4.2 Respondents' sex

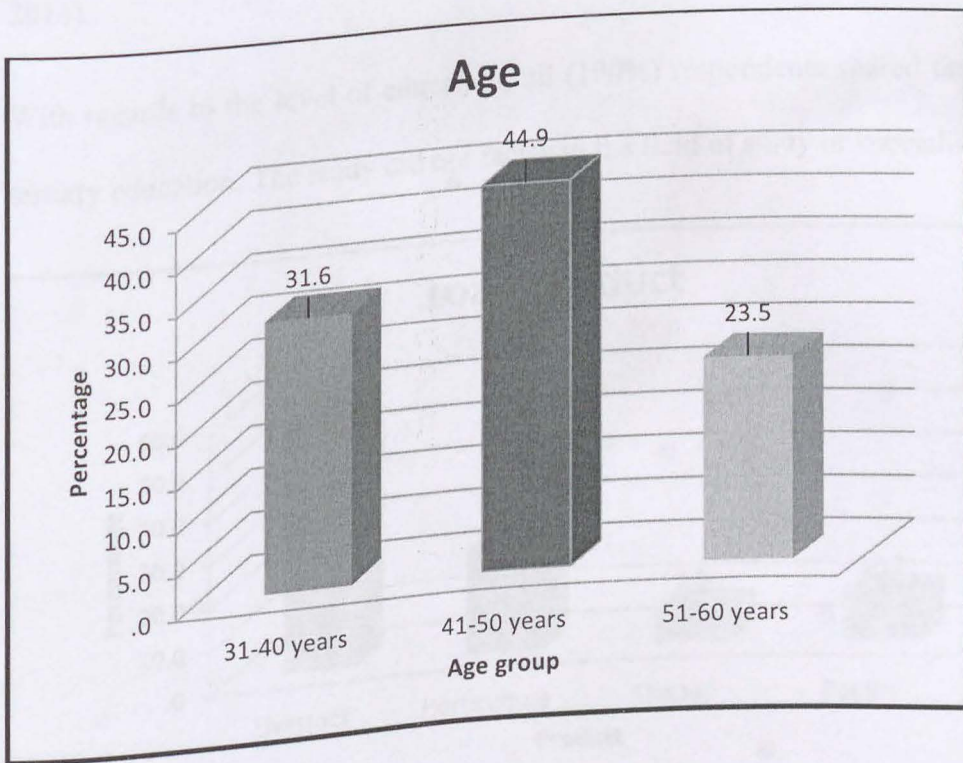


Figure 4.3 Respondents' age group

The results showed that the majority of the respondents were in the age category between 41-50 years (44.9%). The second category was the ages between 31 to 40 (31.6%). Age group 51 to 60 years was the least represented by 23.5% respondents. It is evident that amongst the participants, the majority were aged 41 years and above. The group between 15 to 34 years, which is broadly defined as youth (United Nations, 2019) was not well represented, for the actual data collected for individual ages only had 20 of 59 of the category total. This is an indication that although the youth were few in this study, the chances were high that they could also pick up agriculture as a business to contribute towards development and food sustainability as described in the Harambee Prosperity Plan, under social progression (The Office of the President, 2016).

With regards to the level of education, all (100%) respondents shared that they had tertiary education. The study did not factor in the field of study or specialisation.

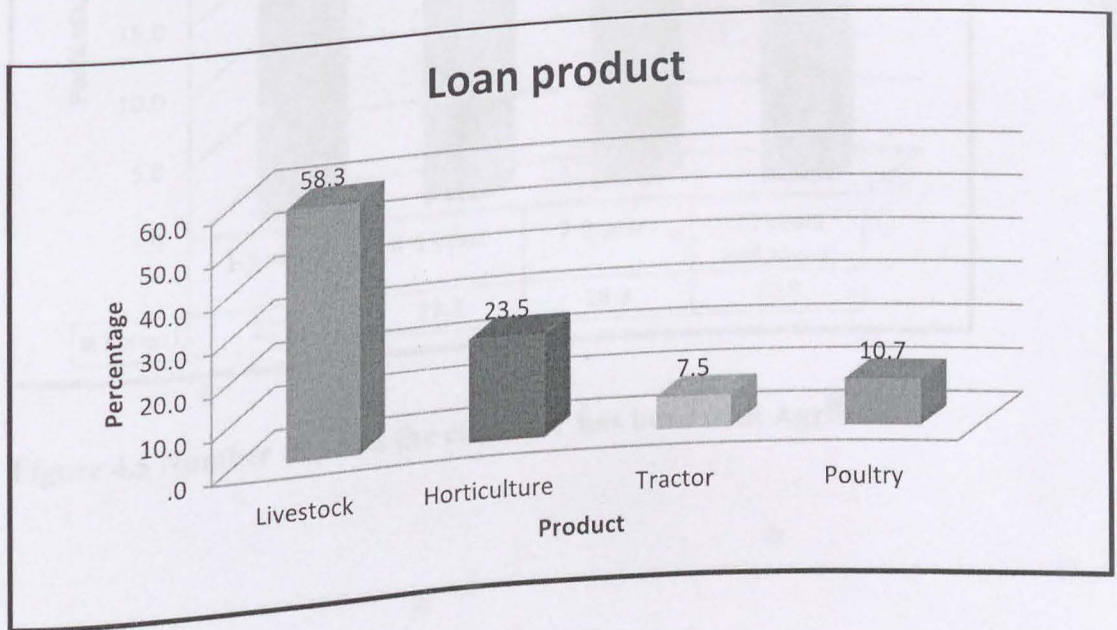


Figure 4.4 Loan product financed by Agribank

The respondents were asked to share the loan products for which they sought financial support from Agribank. The majority (58.3%) of respondents indicated that they were

involved in livestock production, while 23.5%, 10.7%, and 7.5% were in horticulture, poultry and tractors respectively. It is important to note that a tractor is an implement that can be used in the farm to plough, cultivate, or harvest, whereas the rest are specific to the kind of production the respondents are engaged in. Diversity in terms of agricultural produce was recorded which showed that farmers do not only approach Agribank for one type of produce, but for many, as far as agriculture is concerned. The loan products captured in the study contributed only 23.5% (4) out of 17 loan products offered by Agribank (Agribank, 2020b).

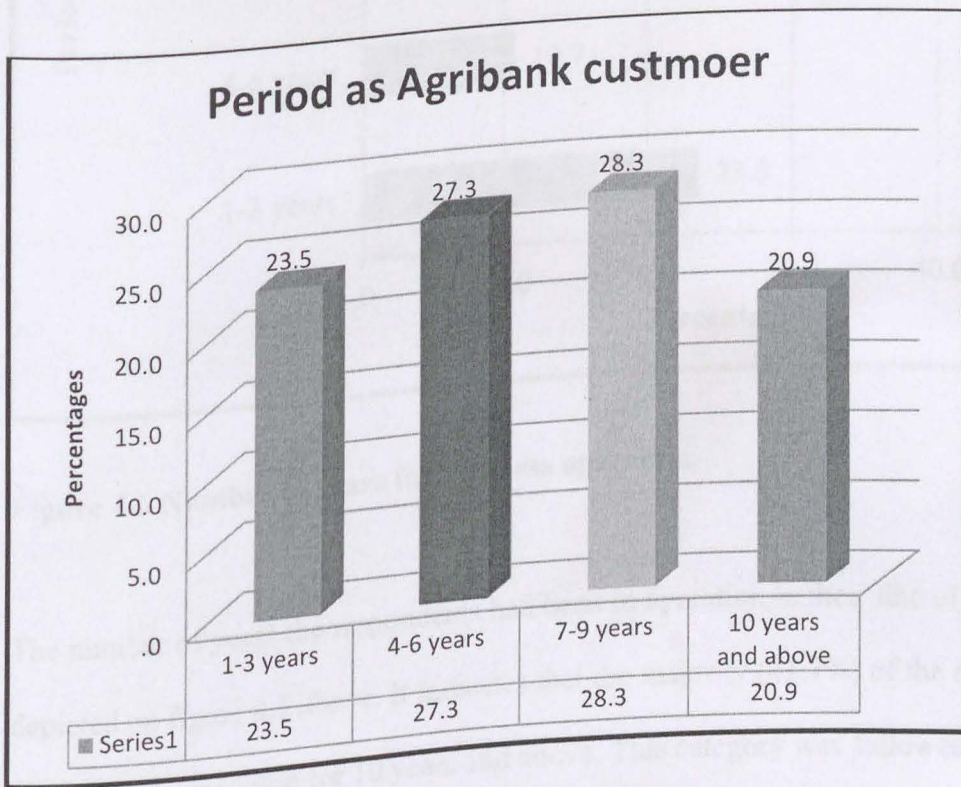


Figure 4.5 Number of years the customer has been with Agribank

The findings showed that the respondents were evenly distributed with regards to the number of years they had been customers for Agribank. The main group (28.3%) had been customers for seven to nine years, 27.3% for four to six years, 23.5% for one to

three years, and 20.9% for 10 years and above. The results showed that the farmers had a wide range of experience related to the loan repayments and the engagement with the bank as was recorded across the years.

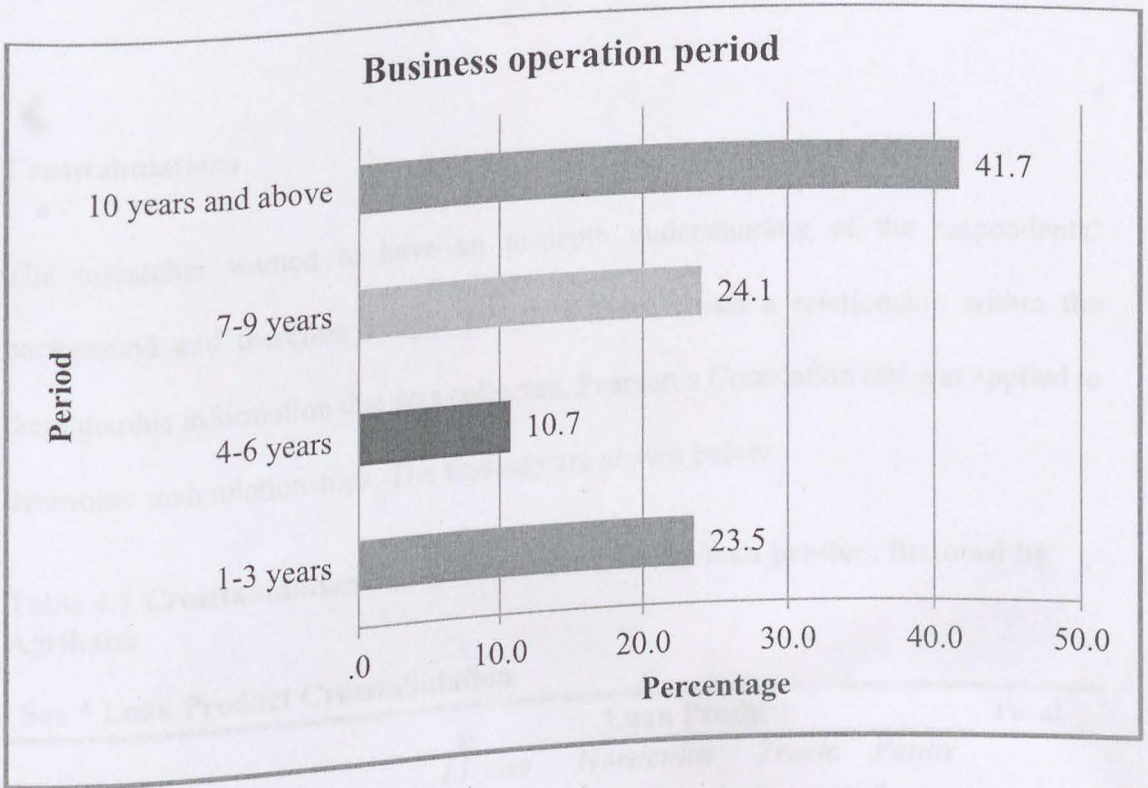


Figure 4.6 Number of years for business operation

The number of years the respondents had been in operation in their line of business is depicted on figure 4.5 above. It indicates that the majority (41.7%) of the respondents have been in operation for 10 years and above. This category was followed by 24.1%, 23.5%, and 10.7% who have been in operation for seven to nine years, four to six years, and one to three years respectively. In relation to figure 4.4 above, it is evident that there are those amongst the respondents who have been AgriBank's customers since the beginning of production.

All farmers indicated that the mode of farming is on the part-time basis. They are involved in other type of work or employment, whilst they are self-employed in the

farming business. The requirement for beneficiaries of Agribank loans does not restrict the applicants to full-time basis only, hence the high possibility of most farmers to involve in farming activities at a part-time basis (Agribank, 2020a).

Crosstabulations

The researcher wanted to have an in-depth understanding of the respondents' background and therefore sought to see if there exists a relationship within the demographic information that was collected. Pearson's Correlation test was applied to determine such relationships. The findings are shown below.

Table 4.1 Crosstabulation between Gender and the loan product financed by Agribank

Sex * Loan Product Crosstabulation

Sex		Loan Product				Total
		Livestock	Horticulture	Tractor	Poultry	
Male	Count	84	0	14	20	118
	% within Sex	71.2%	.0%	11.9%	16.9%	100.0%
Female	Count	25	44	0	0	69
	% within Sex	36.2%	63.8%	.0%	.0%	100.0%
Total	Count	109	44	14	20	187
	% within Sex	58.3%	23.5%	7.5%	10.7%	100.0%

Table 4.2 Chi-square test for Gender and Loan product

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	104.254 ^a	3	.000
Likelihood Ratio	128.854	3	.000

Linear-by-Linear Association	3.664	1	.056
N of Valid Cases	187		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.17.

With the Chi-square test (χ^2) value of 104.254 and a p-value of less than 0.05 (<0.001), it can be stated that there is a significant difference between sex and the loan product financed by Agribank. There is, therefore, enough evidence to conclude that the loan products financed by the bank were not the same across the sex of the borrowers. Table 4.1 above shows that while males opted for livestock (71.2%), tractor (11.9%), and poultry (16.9%), these were selected by 36.2%, 0%, and 0% of females respectively. Females opted for horticulture (63.8%), and none of the male respondents engaged in the same.

These results go hand in hand with the report that was produced by the World Bank Group. The report states that providing financing to agriculture is challenging for both male and female farmers, however women face some unique challenges (International Finance Corporation, 2015). These challenges relate to the role of women in the household, which often restricts their control over assets and constrains their available time for productive activities. Their role in the household is often invisible, particularly when it comes to their economic and financial contributions. As such, women have lower access to economic and financial services (International Finance Corporation, 2015). These unique challenges make access to finance a much bigger challenge for women compared to men in the agricultural sector, and as such revert to taking up activities that fits their time schedule.

Table 4.3 Crosstabulation of sex and years as Agribank customer

Sex * Years as Agribank customer Crosstabulation

		Years as Agribank customer				Total	
		1-3 years	4-6 years	7-9 years	10 years and above		
Sex	Male	Count	0	26	53	39	118
		% within Sex	.0%	22.0%	44.9%	33.1%	
	Female	Count	44	25	0	0	69
		% within Sex	63.8%	36.2%	.0%	.0%	100.0%
Total		Count	44	51	53	39	187
		% within Sex	23.5%	27.3%	28.3%	20.9%	100.0%

Table 4.4 Chi-square test for sex and years as Agribank customer

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	132.261 ^a	3	.000
Likelihood Ratio	175.565	3	.000
Linear-by-Linear Association	116.413	1	.000
N of Valid Cases	187		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 14.39.

The Chi-square test (χ^2) value is 132.261 and a p-value of <0.001 is less than 0.05. This shows that there is a significant difference between sex and the length as Agribank customers. There is enough evidence to conclude that the number of years as Agribank customers were not the same across the sex of the borrowers. Table 4.2 above shows that males had been Agribank clients for longer (four to more than 10 years), whilst females only for a shorter period (one to six years).

Table 4.5 Crosstabulation of respondents' sex and number of years in business

Sex * Years in business Crosstabulation

			Years in business				Total
			1-3 years	4-6 years	7-9 years	10 years and above	
Sex	Male	Count	0	20	20	78	118
		% within Sex	.0%	16.9%	16.9%	66.1%	100.0%
	Female	Count	44	0	25	0	69
		% within Sex	63.8%	.0%	36.2%	.0%	100.0%
Total		Count	44	20	45	78	187
		% within Sex	23.5%	10.7%	24.1%	41.7%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	139.279 ^a	3	.000
Likelihood Ratio	184.420	3	.000
Linear-by-Linear Association	93.922	1	.000
N of Valid Cases	187		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.38.

The χ^2 value is 132.261, with a p-value of <0.001, which is less than 0.05. There is a significant difference between sex and the years in business. Evidence from table 4.3 depicts that the majority (66.1%) of males have been in business for 10 years and more, while the female majority (63.8%) have been in business for one to three years. This does not depict the African norm known concerning agriculture. Women are known to have been the oldest in the agriculture business and to form a large proportion of the agricultural labour force in Sub-Saharan Africa and thus play a vital role in ensuring family nutrition and food security (UN women, UNDP, UNEP, World Bank Group 2015). In Eastern and Southern Africa, agriculture continues to be a key engine for

local and regional economies, represents a critical source of income and ensures food security and nutrition (UN women et al., 2015). However, as has been widely documented, gender-based inequalities in access to and control of productive and financial resources inhibit agricultural productivity and reduce food security (International Finance Corporation, 2015).

4.2 Bank specific factors causing bank customers to default on loan repayments

The researcher asked the customers to identify the major bank specific factors affecting the levels of loan repayments at Agribank. The respondents were given a list of possible factors from which they had to indicate whether the factors were main contributors to loan repayments default or not. The results of the factors are discussed below.

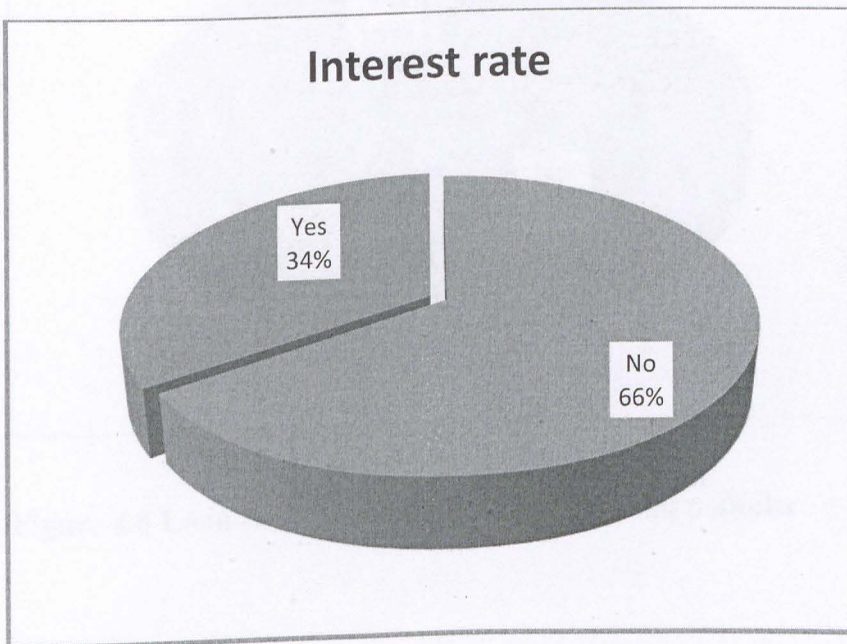


Figure 4.7 Interest rate as the main factor for loan defaults

Most (66%) of the respondents shared that the interest rate was not the main factor that affects the loan repayment at Agribank, while 34% indicated that indeed the interest rate also contributed. In 2013, an empirical analysis of agriculture in Africa found that the interest rates being charged by the various financial institutions especially commercial banks had been on the high side. Most of the farmers found it unaffordable to access agricultural credit in the continent (Salami & Arawomo, 2013). Agribank claims that the interest rate on loans given to farmers is affordable (Agribank, 2020b) However it does not explain the affordability thereof. This could have shed more light on the outcome, however it should be noted that one's affordability is not the same as what another person has, given the characteristic backgrounds that everyone has, hence the result.

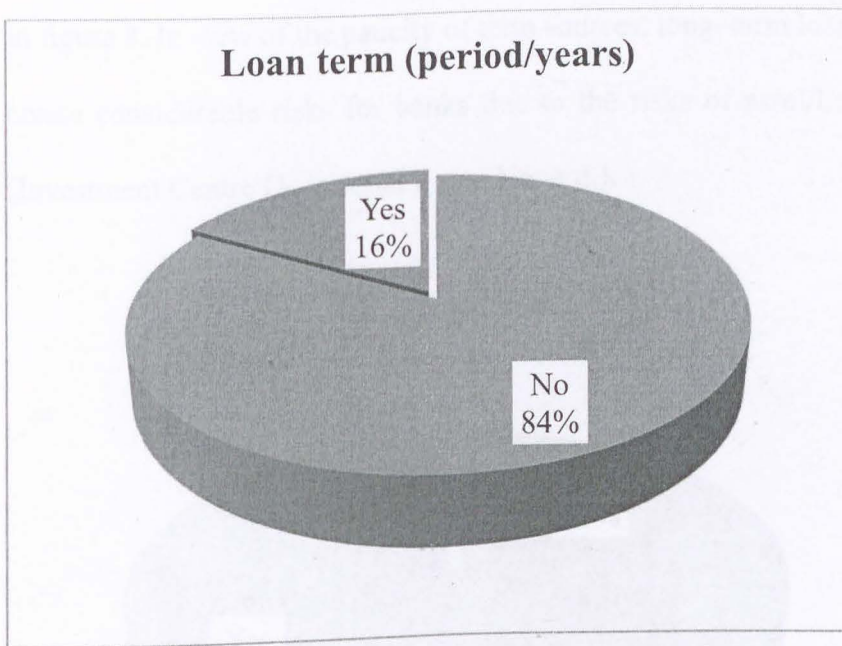


Figure 4.8 Loan term as the main factor for loan defaults

The other main factor that was given for rating to the respondents was the loan term in the number of years or period, and the grace period. 84% of the respondents indicated that the loan term was not a main contributor to the loan repayment defaults. 16% of

the respondents indicated that the loan term also contributed. The Food and Agricultural organisation confirms that the borrower's capacity to repay term loans depends on the extent to which the schedule of repayments has been adjusted to the farm household cash-flow including the investment. Farm machinery and equipment that can be bought ready for use usually requires repayment terms of from three to five years (Food and Agriculture Organisation of the United Nation, 2019).

Loans are given with a grace period of one year and they are subject to normal bank interest rates and credit requirements. Short-term loans are repayable over 3 years; medium-term loans over 5 years; whilst long-term loans are repayable over 8 years (Agribank, 2019). Of all the respondents, 65% responded that the grace period was indeed one of the main factors that also affects the repayments of the loans as shown in figure 8. In view of the paucity of term sources, long-term loans with grace periods create considerable risks for banks due to the risks of asset/liability miss-matches (Investment Centre Occasional Paper No, n.d.).

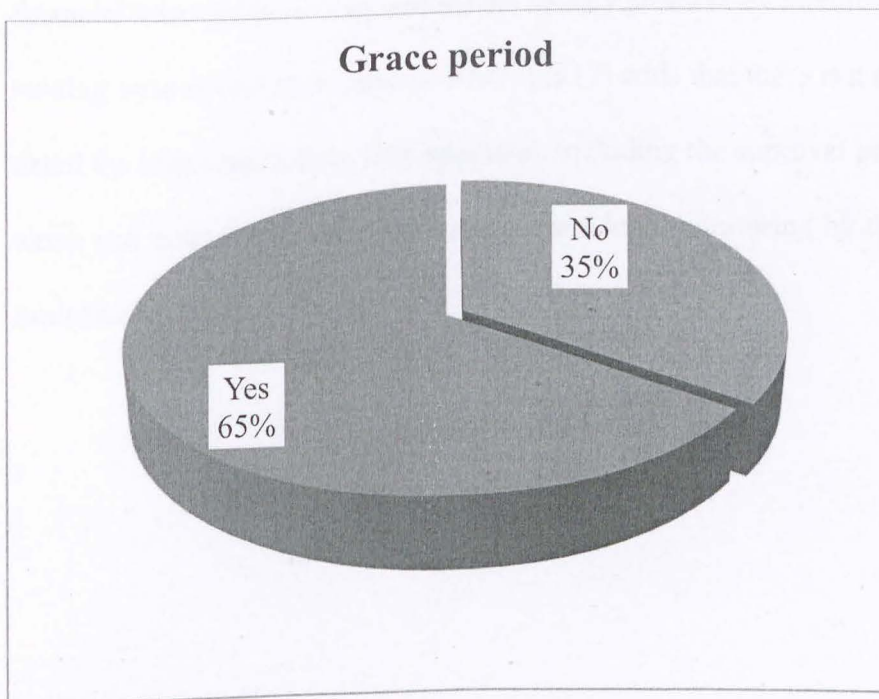


Figure 4.9 Grace period as the main factor

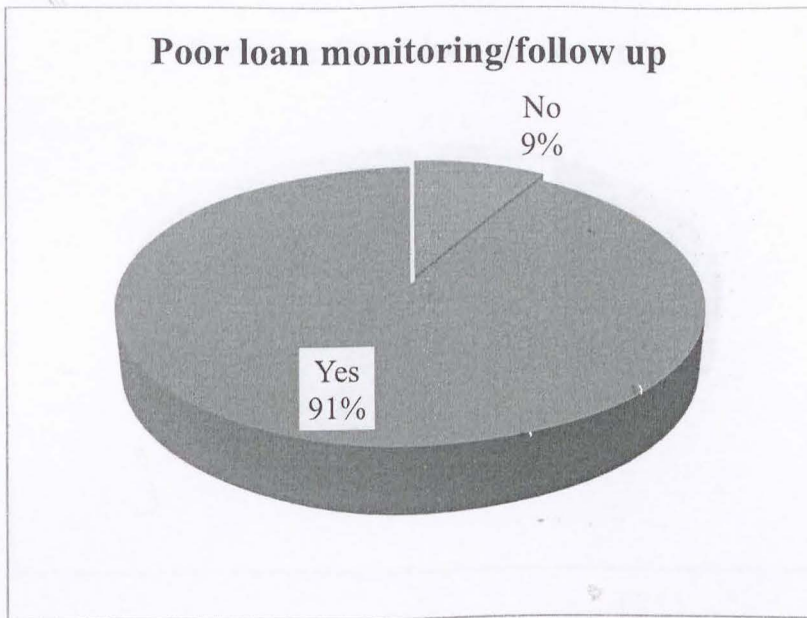


Figure 4.10 Poor loan monitoring as the main factor

The respondents raised concerns on loan monitoring or follow up, as one of the main factors affecting the level of loan repayment at Agribank (91%). They indicated that the monitoring of the loans given to them was very poor. Reta, (2011) opines that financial intermediaries may reduce the agency problem by monitoring borrowers and making wise investment choices. FAO, (2017) adds that there is a need to examine in detail the steps that follow loan appraisal, including the approval process, setting loan terms and conditions, loan disbursement and loan monitoring by the loaning bank to limit loan defaults.

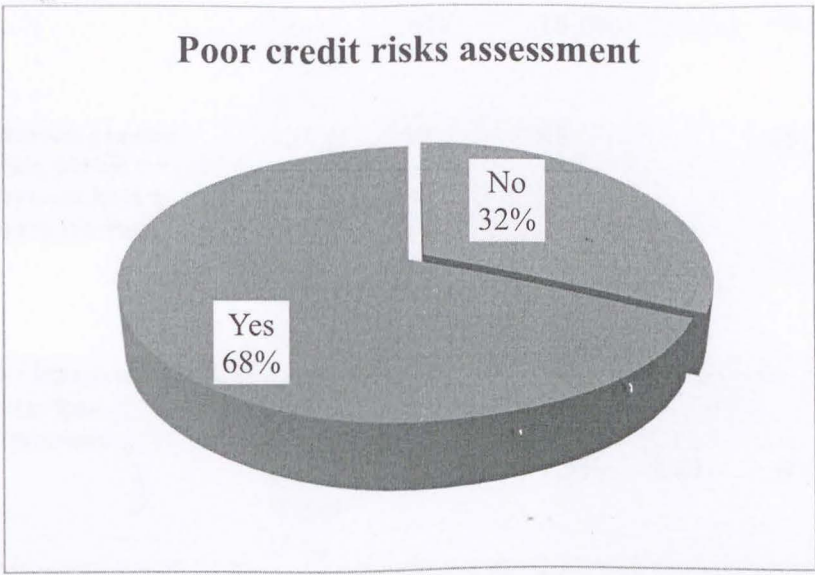


Figure 4.11 Poor credit risk assessment as the main factor

Poor credit risk assessment was one of the factors given to respondents to rate. Figure 4.10 shows that 68% of the respondents indicated that the variable contributed to the loan defaults experienced by the customers and the bank. Although 32% indicated that this was not the case, the results show that it fairly contributed to the acts.

The respondents were asked to rate the bank's factors that affect loan repayment. The levels of agreement with each statement were summarised and condensed in tables as below.

Table 4.6 Respondents' level of agreement on Bank's factors affecting loan repayment

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
High interest rate leads to high loan default	Count	34	29	0	61	63	187
	Row Valid N %	18.2%	15.5%	.0%	32.6%	33.7%	100.0%
Short- and medium-term loans have high loan default than long term loans	Count	0	30	49	108	0	187

	Row Valid N %	.0%	16.0%	26.2%	57.8%	.0%	100.0%
Borrowers granted gracing period before repayment have good loan repayment	Count	59	63	0	16	49	187
	Row Valid N %	31.6%	33.7%	.0%	8.6%	26.2%	100.0%
Strict loan monitoring ensures loan performance	Count	157	14	16	0	0	187
	Row Valid N %	84.0%	7.5%	8.6%	.0%	.0%	100.0%
Less workforce of loan monitoring officers' results in high loan default	Count	127	44	10	6	0	187
	Row Valid N %	67.9%	23.5%	5.3%	3.2%	.0%	100.0%

As shown in table 4.4, the customers agreed to most of the statements above as the bank factors affecting loan repayment. The respondents agreed that strict loan monitoring ensures loan performance (91.4%) and that less workforce of loan monitoring officers' results in high loan default (91.4%). Amongst the factors, the customers disagreed to the statement that high interest rate leads to high loan default (66.3%), and that short-and medium-term loans have high loan default than long-term loans (57.8%).

Mohamed, Mutiri, Samantar (2019) found that period of loan and business purpose, education level, domestic purpose, availability of other source of income and social use have positive effects on borrower loan repayment significantly. The variable of business experience was found to be statistically significant although it has a negative sign whereas size variable of the loan has got positive sign without statistical

significance (Mohamed et al., 2019). The authors further stated that there is a need to consider the characteristics of the borrowers when expecting repayment.

Crosstabulations for determinants of loan defaults

Table 4.7 Cross tabulations of Sex and main factors affecting the level of loan repayment

Bank specific factors	Sex	Rate	Frequency	Percentage	P-value
Interest rate	Male	No	75	63.6%	0.298
		Yes	43	36.4%	
	Female	No	49	71.0%	
		Yes	20	29.0%	
Loan term	Male	No	98	83.1%	0.659
		Yes	20	16.9%	
	Female	No	59	85.5%	
		Yes	10	14.5%	
Grace period	Male	No	45	38.1%	0.205
		Yes	73	61.9%	
	Female	No	20	29.0%	
		Yes	49	71.0%	
Poor loan monitoring/follow up	Male	No	16	13.6%	0.001*
		Yes	102	86.4%	
	Female	No	0	.0%	
		Yes	69	100.0%	
Poor credit risks assessment	Male	No	34	28.8%	0.292
		Yes	84	71.2%	
	Female	No	25	36.2%	
		Yes	44	63.8%	

*p<0.05

At an alpha level (α) of 0.05, the table 4.1 shows that most of the bank's major specific factors were not significantly different across the sex as the p-value was greater than the confidence level of 0.05. A significant difference was found for poor loan monitoring or follow up. This was evidenced by the responses from all (100%) the female participants and 86.4% of male participants who indicated that the variable contributed to the level of loan repayment. The views of the respondents concerning loan repayment factors were generally not different amongst males and females.

4.3 Customer factors that make them default on loan repayments

The researcher asked the respondents to indicate the factors that they thought are the main contributors to the loan repayment defaults. The respondents indicated whether or not the factors provided for on the questionnaire were considered as the main factors, and further shared their level of agreement with the statements, which concern loan repayment. The results are depicted and discussed as below:

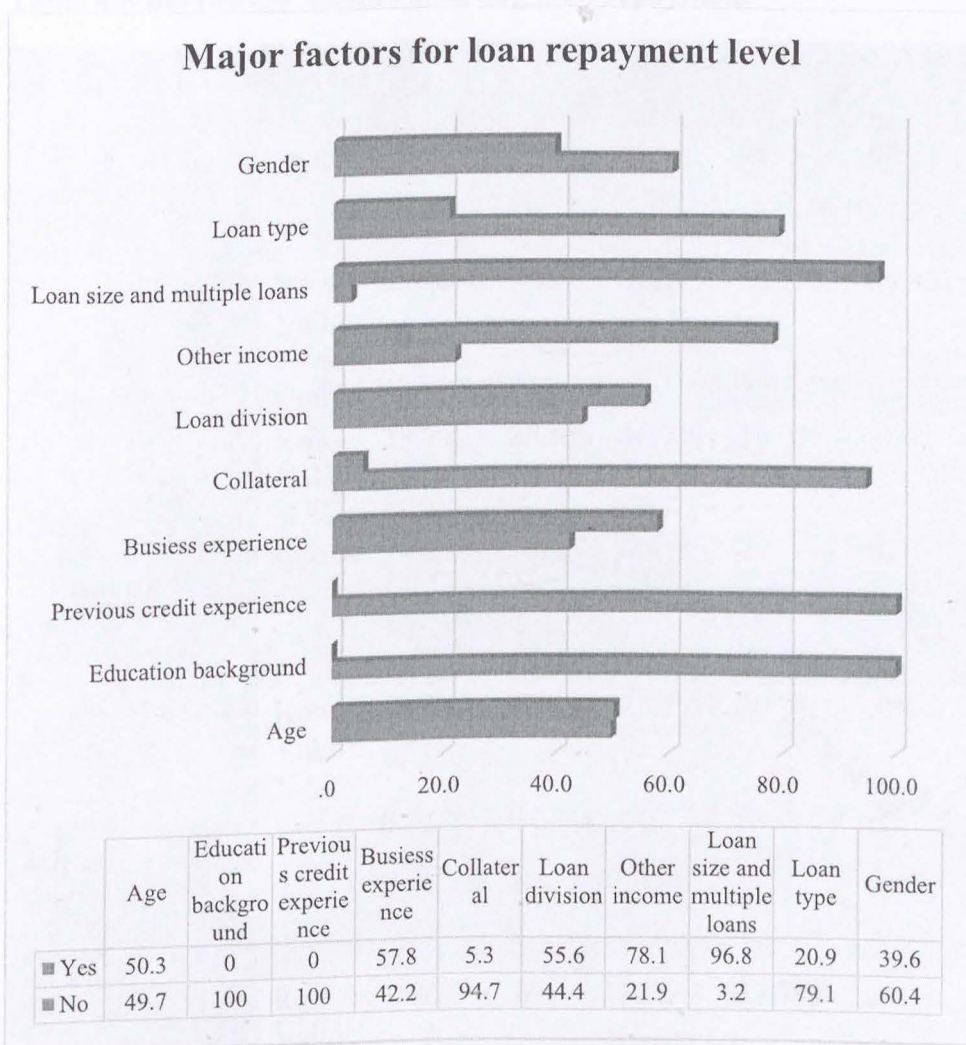


Figure 4. 12 Individual borrowers' factors influencing the level of loan repayment at Agribank

Amongst the bank specific factors given to respondents to indicate whether they affect the level of loan repayments at Agribank, all the respondents marked that educational

background and previous credit experience were not part of the main factors. While collateral and loan type were additionally figured out by 94.7% and 79.1% of the respondents respectively. The findings showed that, loan size and multiple loans was the very highest factor (96.8%), followed by other income (78.1%), business experience (57.8%), and loan diversion (55.6%). Age and gender were found to be somewhat considered as one of the main factors by 50.3% and opposed by 49.7%, as well as 39.6% and opposed by 60.4% of respondents respectively.

Table 4.8 Borrowers' factors affecting loan repayment

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Lack of understanding on credit terms lead to default	Count	10	0	10	99	68	187
	Row Valid N %	5.3%	.0%	5.3%	52.9%	36.4%	100.0%
Willingly default	Count	63	74	20	30	0	187
	Row Valid N %	33.7%	39.6%	10.7%	16.0%	.0%	100.0%
Loan funds diverted for unintended activities leads to high loan default	Count	34	70	44	39	0	187
	Row Valid N %	18.2%	37.4%	23.5%	20.9%	.0%	100.0%
Borrowers with lack of credit borrowing experience leads to loan default	Count	0	0	61	63	63	187
	Row Valid N %	.0%	.0%	32.6%	33.7%	33.7%	100.0%
Borrowers with high loan amount or multiple loans have high loan default	Count	59	122	6	0	0	187

	Row Valid N %	31.6%	65.2%	3.2%	.0%	.0%	100.0%
Secured loans performed better than unsecured loans	Count	10	0	74	74	29	187
	Row Valid N %	5.3%	.0%	39.6%	39.6%	15.5%	100.0%
Borrowers with other income than those generated from loan activities have good performing loans	Count	73	73	16	25	0	187
	Row Valid N %	39.0%	39.0%	8.6%	13.4%	.0%	100.0%
Borrowers with knowledge and skills in the business operation have less chance of defaulting	Count	39	69	79	0	0	187
	Row Valid N %	20.9%	36.9%	42.2%	.0%	.0%	100.0%
Borrowers with formal education have performing loan	Count	0	0	100	87	0	187
	Row Valid N %	.0%	.0%	53.5%	46.5%	.0%	100.0%
Elderly borrowers have good loan repayment whereas young clients tend to default	Count	0	94	93	0	0	187
	Row Valid N %	.0%	50.3%	49.7%	.0%	.0%	100.0%
Female borrowers have high performing loans than male borrowers	Count	0	74	113	0	0	187
	Row Valid N %	.0%	39.6%	60.4%	.0%	.0%	100.0%

All respondents agreed that elderly borrowers have good loan repayments whereas young clients tend to default; and that female borrowers have high performing loans than male borrowers (100%) respectively. The respondents agreed that, borrowers with lack of credit borrowing experience lead to high loan default (91.4%); those with knowledge and skills in the business operations have less chance of defaulting (91.4%); and that secured loans performed better than unsecured loans (76.4%). The study concluded that there is a considerable relationship seen between the characteristics of the borrowers and the performance regarding loan repayments (Mohamed *et al.*, 2019). There was also a significant relationship seen between the loan characteristics and loan repayment performance as well as a significant relationship between the purpose and performance of banks.

4.4 Relationship between bank factor and customer factors on loan default

Table 4.9 Relationship between bank specific and loan default

Bank specific factors	χ^2	df	P-value (2-sided)
<i>Interest rate</i>	42.892	3	0.000
<i>Loan term</i>	129.630	3	0.000
<i>Grace period</i>	22.381	3	0.000
<i>Poor loan monitoring/follow up</i>	12.521	3	0.006*
<i>Poor credit risks assessment</i>	97.730	3	0.000
<i>High interest rate leads to high loan default</i>	178.618	9	0.000
<i>Short- and medium-term loans have high loan default than long term loans</i>	170.570	6	0.000
<i>Borrowers granted gracing period before repayment have good loan repayment</i>	111.563	9	0.000

<i>Strict loan monitoring ensures loan performance</i>	198.190	6	0.000
<i>Poor credit risk assessment leads to loan default</i>	144.054	9	0.000
<i>Less workforce of loan monitoring officers' results in high loan default</i>	158.748	6	0.000
<i>Borrowers who are easily granted loans usually default</i>	269.725	9	0.000
<i>A good due diligence of client leads to high loan performance</i>	150.130	9	0.000

*p>0.05

Table 4.10 Relationship between customer factors and loan default

Customer specific factors	X ²	df	P-value (2-sided)
Age	43.176	3	0.000
Business experience	43.653	3	0.000
Collateral	34.336	3	0.000
Loan diversion	54.233	3	0.000
Other income	37.579	3	0.000
Loan size and multiple loans	4.436	3	0.218*
Loan type	11.236	3	0.011*
Gender	27.432	3	0.000
Lack of understanding on credit terms lead to default	119.818	9	0.000
Willingly default	248.227	9	0.000
Loan funds diverted for unintended activities leads to high loan default	298.659	9	0.000
Borrowers with lack of credit borrowing experience leads to loan default	78.304	6	0.000
Borrowers with high loan amount or multiple loans have high loan default	57.076	6	0.000
Secured loans performed better than unsecured loans	185.352	9	0.000
Borrowers with other income than those generated from loan activities have good performing loans	99.069	9	0.000

Borrowers with knowledge and skills in the business operation have less chance of defaulting	70.325	6	0.000
Borrowers with formal education have performing loan	55.271	3	0.000
Elderly borrowers have good loan repayment whereas young clients tend to default	43.176	3	0.000
Female borrowers have high performing loans than male borrowers	27.432	3	0.000

*p>0.05

The researcher tested the hypothesis to see whether there was a relationship between the bank and customer factors and the bank loan default. From the analysis presented in table 4.9 and 4.10, it was found that overall, there was no relationship found between bank factors and loan defaults as well as customers' factors and the bank loan default. The only relationship was found between one bank factor, *Poor loan monitoring/follow up* with a p-value of 0.006, and two customer factors, *loan size and multiple loans*, and *loan type* with significant values of 0.218 and 0.011 respectively. The study therefore concludes that there was no significant relationship between factors that causes bank defaults. Most respondents had the same say when it comes to the factors that cause bank loan defaults.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of the key findings , conclusion drawn from the findings highlighted and recommendation . the conclusion and recommendations drawn were focused on addressing the purpose of the study which was sought to investigate the causes of customers loan default at the Agribank of Namibia, Oshakati branch. The objectives of the study was to identified bank and customer specific factors causing customer to default on loan repayment and also to design strategies that can be implemented to prevent loan defaulting at Agribank, Oshakati Branch. The study had 187 participants broken down into 182 customers who benefitted from the loans and 5 staff members from Agribank.

5.2 Key findings of the study

This section present the summary of the findings as per research objectives and data presented in chapter 4. The summary is arrange as per research objective below:

- To identify bank-specific factors causing customers to default on loan repayments at Agribank Oshakati Branch.
- To identify the customer-specific factors that make them default on loan payments at Agribank Oshakati Branch.

5.2.1 Bank specific factors causing bank customers to default on loan repayments

In respect of the factors causing customers to default, the subjective question in the survey and in-depth interviews identified factors such as interest rate, loan term/period, grace period, loan monitoring /follow up and credit risk assessment ascribe to the causes of loan default from the bank perspective,

Interest rate and loan term

Interest rate and loan term were rated to be the least factors causing loan default amongst other factors from the bank perspective. The findings revealed that respondents were of the opinion that high-interest rate does not lead to high loan default and shorter terms and medium terms do not have high loan default compared to long term loans. More than 65 % of respondents disagree to the statement that high interest rate charged and shorter loan period leads to loan default and vice versa. 66% of respondents disagree that high interest rate leads to loan default were as 84% of respondents disagree with loan term to be causing loan default. The Bank charges affordable interest rate. Agribank charges as low as 4% with maximum interest rate less than 10% respectively. The loan term period or time was found not to have an impact on the repayment of loans by customers. The bank grants its loan between 5 year and 25 years which is sufficient for a borrower to repay off his loan.

Poor loan monitoring, grace period and credit risk assessment

From the findings of the data analysis, more than 65% of the respondents agreed that the cause of loan default at agribank from the bank perspective are caused by poor loan monitoring, lack of grace period and poor credit risk assessment.

Most of the respondents supported that the low numbers in the workforce of loan monitoring officers resulted in high default. From the study, 91.4% of respondents agree to the statement that poor loan monitoring and follow up leads to loan defaults. Respondents stated that Agribank does not visit their customers after they grant them loans and only look for them when they fall in arrears. Poor loan monitoring can be caused by lack of work force within the bank. The bank has only one inspection officer that inspect if the projects are implemented , who only visit the project once the borrower require further credit from the bank. The bank officials do not go check how the business is progressing and also if the borrower need assistance in their business to be successful. When there is poor loan monitoring from the bank side, the bank tend not to see the risk of non- performing loan in advance (Ilyas, Hassan & Abdul-Rehman, 2015).

65 % of respondents agrees that lack of grace period lead to loan defaults. Grace period is the period given by the lender to the borrower to implement and establish his business before the first instalment falls due (Makorere, 2014). The bank does not gives borrowers grace period or sufficient time for their business to be fully implemented. Respondents are off opinion that one of the reason why they default is because of lack of grace period. Business need to sustain its self and this is only possible if it is given time to operate. The bank main product is livestock and livestock take time to reproduce and for its business to make its first sales. Lack of grace period leads to borrower defaulting on their loans as by the time the first instalment falls due, the business has not make any sales to repay the loan (Makorere, 2014).

lack of grace period with 65 % respondents agreeing to that and poor credit risk assessment with 68% of respondents agreeing to that.

The finding shows that the bank need to strengthen and standardise its credit policy and procedures and do proper due diligence when they are assessing the applicants before they grant them loans. 68 % of the respondents agrees that poor credit assessment lead to loan default. Lack of due diligence lead to the bank lending money to customers that lack repayment capacity. Banks with loose credit policy and procedures tend to lend its funds to borrowers who are high risks and this has potential for the occurrence of loan default (Robert, 2014)

A crosstabulation to determine whether there was a relationship between the sex of a customer and the major bank specific factors affecting the level of loan repayment at Agribank yielded that, poor loan monitoring and follow up was significant with regards to sex.

In summary, the findings revealed that the major bank's specific factors affecting the level of loan repayment at Agribank included: poor loan monitoring/follow up (91%) lack of grace period (65 %), and poor credit risk assessment (68%). Interest rate and loan term/period have little effects on loan repayment performance.

5.2.2 Customer-specific factors that make them default on loan repayments

In respect of the factors causing customer loan default, the survey identified factors such as: age, education, credit experience, business experience, collateral, loan diversion, other income, loan size/multiple loan, loan type and gender. The study tried to investigate these factors further.

Age

The borrowers were asked to indicate their age group in which they fall. This was to determine which age group has defaulted more. From the findings, 3 age groups stand out: 31-40 years, 41-50 years and 51-60 years (figure 4.2). Young borrowers tend to default more than elder borrowers (Gerba, 2017). This was supported by the findings of the results in figure 4.2 of this study where 76% of the defaulters were those below 50 years. Defaulting in young borrowers could be lack of absence at the business as the age group are full-time workers in government ministries, parastatal or private company. These borrowers recruit only project managers to run the business operation of which at times these managers lack skills and experience on the business operation technique. Those age groups have other income which is from their employments, they tend to default as their businesses do not generate enough income or do not take off successfully as they don't pay attention to their businesses (Gerba, 2017)

Education

Education is believed to be the key to success. Gerba (2017) stated that high education level allows borrowers to grasp compounded information, business record keeping and be able to make right decision making. From the study, all the respondents have attended tertiary education and all these respondents have fallen in arrears. This means that borrowers' education does not have a positive relationship with loan repayment. All the respondents disagree with the statement that borrowers with high level of education have performing loans. Though educated borrowers have theoretical skills of the type of the business they venture in, they lack experience of the said business and most businesses require practical skills in order to take off.

Loan diversion

From the study finding, 55.6% of respondents agree that diverting of funds for unintended purpose can cause borrowers to fall in arrears. Loan diversion occurs when borrower did not utilise the fund for its intended purpose. According to Murthy & Mariada (2017), borrowers diverted funds due to emergencies or better opportunities. With Agribank clients, diversion of funds occurs when the borrower want to venture in business opportunities which is not supported by the bank's mandate. Agribank only funds projects that are in line with agriculture or agriculture related activities. Borrowers tend to divert funds when there is no strict monitoring of business activities by the bank officials (Robert, 2014)

Gender

The study findings shows that only 37% of defaulter are female and 63% being males. This is support statement by Gerba (2017) that states stated that, female borrowers have a tendency of better loan repayment than men. Rorbert (2014) further stated that, women are more risk adverse, hence their default rate is very low.

Loan size/multiple loans

The study finding shows that 96.8% of respondents agree with the statement that borrower with high loan amount or multiple loans tend to default more. The multiple or high loan amount is mostly happen when the borrower has no any other incomes or equity to run the business other than the credit from the bank. Farmers commit themselves to bigger businesses that require a lot of capital to run the business:

Loan size affect the nature of the business and its investment for the borrower. If a borrower is granted a small loan size, this can minimize the risk of non repayment of the loan. However, if the borrower is not granted adequate capital to cater for all his business expenses, this can lead to business not operating fully or resort borrower to resort in multiple loan/borrowing. This in turn affect the repayment of the loan and increase the risk of default (Jote, 2018)

Collateral/Security

The findings reveals that 95% of the respondents disagree with the statement that secured loans perform better than unsecured loans. Though from the literature is belived that pledging collaterals leads to high loan repayment, this is not the case with Agribank The bank does not grant unsecured loan, however borrowers still default. The bank lends its money agains a collateral in a form of a fixed property, investment or surrender value in order to mitigate the risk in case of default as it is taken as the secondary source of repayment should the borrower default. Banks require collateral when granting loans in order to reduce the adverse selection problem (Robert, 2014).

Business experience

Finding of the study reveals that 58% of the respondents agree with the statement lack of business experience leads to loan defaults. When a borrower has expertise in the type of business he is venturing into, he tend to have high sales from his business and a good cash flow which leads to good loan repayment performance. Borrowers with business expertice works efficiently and effectively. The borrower will know how to

run his business and utilise the resources sustainably. Borrowers who have been in specific business for longer are expected to be more experience in such business and also to be more successful with their business. Their business sales are stable and have good cashflows compared to starters. Borrowers with more experience have minimum risks of non repayment (Gerba, 2017).

Other income

Other incomes are those that are not generated from the business activities such as incomes from employment and other businesses (Murthy & Mariadas, 2017). The study finding shows that 78.1% of respodents agrees to the statement that, borrowers with other incomes than tose generated from the loan activities have good perfoming loan. This could not really be established wether other income can lead to high loan performance or not as all respondents indicated that they are part-time farmers, meaning that they have an occupation, yet they defaulted. If a borrower has other income from different sources, it is expected that the borrower will cover his expenses from that income which is out of the project and it is belived that this will results in high deposit of the money from the project outcome, leading to high loan repayment performance (Gebrehedhin, 2010)

In summary, the findings revealed that the major individual borrowers' factors affecting the level of loan repayment at Agribank included: age (50.3%) business experience (57.8%), loan diversion (55.6%), other income (78.1%), and loan size and multiple loans (96.8%). Educational background, previous credit experience, collateral, loan type, and gender does not or have little effects on loan repayment performance.

5.3 Recommendations from the study

After a close examination of the research results, the findings puts forward the following recommendations for sustainable improvement on the rate of loan default on the Agribank portfolio:

- Strict loan monitoring needs to be implemented: loan monitoring officers should be employed to always follow up on customers strictly with regards to payments. Undertaking regular business follow ups will help the bank to detect early sign of loan default and this will help to take appropriate action to prevent the default and increase the loan performance.
- Credit risk assessment should be strengthened and made mandatory to avoid lending to risk based customer. This will help the bank to see if client have repayment capacity.
- The Bank to lend funds to business-minded entrepreneurs. The bank should do proper due diligence to every client approaching the bank for finance. This will help the bank to lend money to business minded people and less credit risk based customers. When the bank does not perform proper due diligence, this lead to the Bank lending their money to high credit risk customers who will be unable to repayback the loan.
- Borrowers to be given a sufficient grace period before its first instalment falls due in order to allows borrowers to implement their business fully and generate income from its activities.

- Borrowers to engaged/venture in the business that they have experience and expertise in other than trying to get credit for a business that they lack skills and knowledge. Borrowers to attend training and mentoship in the area of their business interest.
- Borrowers to stop using funds for unintended purpose and also for the bank to monitor the borrowers by strengthening their after sale service .this will help the bank to notice the red flags of non –repayment at an earlier state and take the necessary actions.
- Borrowers to diversify their business by seeking business opportuntinty within the same business in order to increase their income and strengthen their equity. Most customers don not diversify their business and this lead to loan default especially when the natural calamities such as drought or disease out break. Diversification of business stimulate the production of the business and help it grow vigorously.
- Borrower to borrow funds that are able to repay back and not to over commit themselves with high loan and multiple loans. Borrowers to start of with projects on a small scale that can have good returns with little or scare resources and graduate to medium scales with time.
- Customer relationships to be strengthened. The Bank should not only call clients when their accounts are in arrears but they should also do after sales service and regular check-ups on clients' business performance.

5.4 Areas for Future Studies

The study investigated the factor causing loan default in Agricultural bank of Namibia with focus on bank specific factors and customer specific factors. Agribank operate in agricultural sector which its performance can be affected by different factors other than those that are caused by its customers and from bank perspective. The study therefore recommends that a similar study to be carried out on the macro economic factors.

5.5. Conclusions

The study received support from the Agribank staff and its customers. The bank factors related to the loans identified to have an impact on loan defaulting by customers and loan repayments were poor loan monitoring and follow up, poor credit risk assessment, interest rate, and grace period. The rest of the factors were not very influential in this aspect. The repayment of loans by customers was found to be guided by the opinions that strict loan monitoring ensures loan performance; less workforce of loan monitoring officers results in high loan default; good due diligence of client leads to high loan performance; high-interest rate does not lead to high loan default; short-term and medium-term loans do not have high loan default compared to long-term loans; and that borrowers who are easily granted loans usually default.

The borrowers' side highlighted four variables that were considered as individual factors affecting the level of loan repayment at Agribank and they included: business experience, loan size and multiple loans, loan diversion and, other income. Respondents were of the view that, elderly borrowers have good loan repayment whereas young clients tend to default, and that female borrowers have high performing

loans than male borrowers. It was further concluded that borrowers with a lack of credit borrowing experience lead to loan default; secured loans performed better than unsecured loans, and borrowers with knowledge and skills in the business operation have less chance of defaulting.

The study therefore concludes that there was no significant relationship between factors that causes bank defaults. Most respondents had the same say when it comes to the factors that cause bank loan defaults. Thus, H_1^1 and H_1^2 rejected

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APPENDICES

Appendix A: Research Permission Letters



12 May 2020

TO WHOM IT MAY CONCERN

Re: MBA Management Strategy, Student – Victoria Namupala, Student No: 2018256065

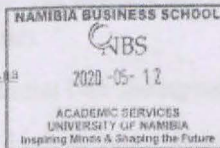
As part of our Masters Programme, students are expected to submit a research report after completion of their course-work. They need to explore in detail, some concepts and issues pertaining management strategies. To do that effectively, they need to conduct interviews and obtain practical examples.

Ms Namupala has chosen your organization to approach for information. It is against this background that I wish to kindly request you to assist Ms Namupala with the information she requires. Accept our assurance that the data will be used for academic purposes only. A copy of the completed document will be available at the Namibia Business School for perusal. Her research synopsis indicates that her topic touches on "An investigation of the causes of the customers loan default at the agricultural bank of Namibia, Oshana branch"

Your kind assistance is highly appreciated.

Yours sincerely

Greenfield Mwakipesile, Dr
Research Co-Ordinator
Namibia Business School
University of Namibia
Tel: +246 61 413 500
Fax: +246 61 413 512
Email: mwakipes@nbs.edu.na



340 Manduwalidimulayo Ave. – Private Bag 16004 – Fiorenzavark – Windhoek – Website: www.nbs.edu.na
Tel: +264 (61) 813500 – Fax: +264 (61) 413512 – Email: info@nbs.edu.na

Victoria Namupala

Box 806

Oshakati

30 May 2020

The Chief Executive Officer
Agricultural Bank of Namibia
Private Bag 13208

WINDHOEK

NAMIBIA

Dear Mr. Nghikembua

Permission to collect data from Agribank clients

My name is Victoria Namupala, currently employed as a Conveyance and Finance administrator stationed at Agribank Oshakati Branch. I am currently pursuing my master's degree in Business Administration: Management Strategy with UNAM in the Department of Namibia Business School (NBS).

As part of the school requirement towards the fulfillment of my master's degree, I am required to carry out a research component as part of the study.

I would like to carry out my research study to investigate the causes of the customers loan default at the Agricultural Bank of Namibia (Agribank). The study intends to collect information from Agribank's customers. The response will be confidential, and results will be reported with anonymity by the respondents

It is against this background that I am seeking permission to collect data from Agribank's clients

In case of any questions, I can be contacted on namupala.victoria@gmail.com or on 081 420 4954

Thanking you in advance

Yours Sincerely

Victoria Namupala

Appendix B: Permission letter to collect data



AGRIBANK
OF NAMIBIA
Your all Season Bank

10 Post Street Mall
Windhoek
Namibia

OFFICE OF THE CHIEF EXECUTIVE OFFICER

P/Bag 13208, Windhoek
Tel: + 264-61-207 42
Fax: + 264-61-207 42

23 June 2020

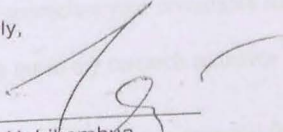
To whom it may concern

PERMISSION TO COLLECT DATA FROM AGRIBANK STAKEHOLDER

I Sakaria Nghikembua hereby authorise Victoria Namupala to conduct her study research from Agribank stakeholders on the following topic: '*An investigation of the causes of the customers loan default at the Agricultural Bank of Namibia (Agribank)*'. Ms. Namupala requires the information as school requirement for the fulfilment of her master's degree at the University of Namibia.

Kindly assist her with all the information that she may require. Information provided will be treated as confidential and will be used for academic purpose only.

Sincerely,


Sakaria Nghikembua
CHIEF EXECUTIVE OFFICER

DIRECTORS:

Mr Michael Iyambo (*Chairperson*), Ms Dagmar Honsbein (*Deputy Chairperson*), Dr Michael Humavindu (*Member*),
Mr Phaniel Kaapama (*Member*), Ms Peyavali Hangula (*Member*)

Appendix C: Consent letter for respondents

Victoria Namupala

P.o.Box 806

Oshakati

To whom it may concern

My name is Victoria Namupala, a post graduate student at University of Namibia, department of Namibia Business School (NBS). I am currently working with the research component of the Master Degree in Business Administration.


The purpose of the study is to investigate the causes of the customers loan default at the Agricultural Bank of Namibia (Agribank). The study intends to collect information from Agribank's customers. The participation is fully voluntary, the response will be confidential and results will be reported with anonymity of the respondents

I would appreciate your favourable consideration in completing the attached questionnaires and assisting me in my research endeavor

In case of any questions, please feel free and contact me on namupala.victoria@gmail.com or on 081 420 4954

Thanking you in advance

Yours faithfully,


Victoria Namupala

Student

Appendix D: Data collection tool- Questionnaire for customers

QUESTIONNAIRE

SECTION A: BIOGRAPHICAL INFORMATION

Please circle the appropriate box

A1. What is your gender?

Male	1
Female	2

A2. What is your age?

Less than 20 years	1
20-30 years	2
31-40 years	3
41-50 years	4
51-60 years	5
Above 60 years	6

A3. What is your education level?

Primary	1
Secondary	2
Tertiary/graduate	3

A4 What was your loan product financed by Agribank?

Livestock	1
Horticulture	2

Tractor	3
Vehicle	4
Machinery	5
Poultry	6
Borehole	7
Infrastructure	8
Others, please specify	9

A5. For how long have you been an Agribank customer?

1-3 year	1
4-6 years	2
7-9 years	3
10 years and above	4

A6 For how long has your business has being in operation?

1-3 year	1
4-6 years	2
7-9 years	3
10 years and above	4

A7 Are you a full time or part time farmer?

Full time	1
Part time	2

SECTION B: DETERMINANTS OF LOAN DEFAULT

B1: BANK'S SPECIFIC FACTORS

B1.1 What are the major bank's specific factors affecting the level of loan repayment at Agribank? Please tick all that apply

No.	Factors causing loan defaults	Tick [✓]
-----	-------------------------------	----------

B1.1.1	Interest rate	
B1.1.2	Loan term (period/years)	
B1.1.3	Grace period	
B1.1.4	Poor loan monitoring/follow up	
B1.1.5	Poor credit risks assessment	

B1.2.: Below are the statements on the Bank's factors affecting loan repayment. Please indicate your level of agreement with each statement by ticking [] the appropriate box.

	Factors and occurrence of loan default	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
		1	2	3	4	5
B1.2.1	High interest rate leads to high loan default					
B1.2.2	Short- and medium-term loans have high loan default than long term loans					
B1.2.3	Borrowers granted gracing period before repayment have good loan repayment					
B1.2.4	Strict loan monitoring ensures loan performance					
B1.2.5	Borrowers who are easily granted loans usually default					
B1.2.6	A good due diligence of client leads to high loan performance					
B1.2.7	Poor credit risk assessment leads to loan default					
B1.2.8	Less workforce of loan monitoring officers' results in high loan default					

B2: BORROWERS' SPECIFIC FACTORS

B2.1 What are the major individual borrowers' factors affecting the level of loan repayment at Agribank? Please tick all that apply

No.	Factors causing loan defaults	Tick [√]
B2.1.1	Age	
B2.1.2	Education background	
B2.1.3	Previous credit experience	
B2.1.4	Business experience	
B2.1.5	Collateral	
B2.1.6	Loan diversion	
B2.1.7	Other income	
B2.1.8	Loan size & multiple loans	
B2.1.9	Loan type	
B2.1.10	Gender	

B2.2: Below are the statements on the borrowers' factors affecting loan repayment. Please indicate your level of agreement with each statement by ticking [√] the appropriate box.

	Factors and occurrence of loan default	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
		1	2	3	4	5
B2.2.1	Lack of understanding on credit terms lead to default					
B2.2.2	Willingly default					
B2.2.3	Loan funds diverted for unintended activities leads to high loan default					
B2.2.4	Borrowers with lack of credit borrowing experience leads to loan default					

B2.2.5	Borrowers with high loan amount or multiple loans have high loan default					
B2.2.6	Secured loans performed better than unsecured loans					
B2.2.7	Borrowers with other income than those generated from loan activities have good performing loans					
B2.2.8	Borrowers with knowledge and skills in the business operation have less chance of defaulting					
B2.2.9	Borrowers with formal education have performing loan					
B2.2.10	Elderly borrowers have good loan repayment whereas young clients tend to default					
B2.2.11	Female borrowers have high performing loans than male borrowers					

SECTION C: RECOMMENDATION TO IMPROVE ON LEVEL OF LOAN DEFAULT

C1: Please state what need to be done for sustainable improvement on the rate of loan default on Agribank loan portfolio.

- i) _____
- ii) _____
- iii) _____
- iv) _____
- v) _____

Thank you for your great contribution on completing my research study!

Appendix E: Data collection tool-Questionnaire for staff

QUESTIONNAIRE

SECTION A: BIOGRAPHICAL INFORMATION

A1: What is your position in the Bank?

Sales Consultant	1
Recovery officer	2
Manager	3
Control officer	4

A2: For how long have you been with the Bank

Less than 1 year	1
1-5 years	2
6-10 years	3
Above 10 years	4

A3: How long have you been in the current position?

Less than 1 year	1
1-5 years	2
6-10 years	3
Above 10 years	4

SECTION B: DETERMINANTS OF LOAN DEFAULT

B1: BANK'S SPECIFIC FACTORS

B1.1: What do you think are the Bank's specific factors that are causing the occurrence of loan default?

- i) _____
- ii) _____
- iii) _____
- iv) _____
- v) _____

B1.2: Below are the statements on the Bank's specific factors affecting loan repayment. Please indicate your level of agreement with each statement by ticking [√] the appropriate box

	Factors and occurrence of loan default	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
		1	2	3	4	5
B1.2.1	High interest rate leads to high loan default					
B1.2.2	Short- and medium-term loans have high loan default than long term loans					
B1.2.3	Borrowers granted gracing period before repayment have good loan repayment					
B1.2.4	Strict loan monitoring ensures good loan performance					
B1.2.5	Borrowers who are easily granted loans usually default					
B1.2.6	A proper due diligence of borrowers leads to high loan performance					
B1.2.7	Poor credit risk assessment leads to loan default					
B1.2.8	Less workforce of loan monitoring officers' results in high loan default					

B2: BORROWERS' SPECIFIC FACTORS

B2.1: What do you think are the borrowers' specific factors that are causing the occurrence of loan default in Agribank?

i) _____

ii) _____

iii) _____

iv) _____

v) _____

B2.2: Below are the statements on the borrowers' factors affecting loan repayment. Please indicate your level of agreement with each statement by ticking [] the appropriate box.

	Factors and occurrence of loan default	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
		1	2	3	4	5
B2.2.1	Lack of understanding on credit terms lead to default					
B2.2.2	Willingly default					
B2.2.3	Loan funds diverted for unintended activities leads to high loan default					
B2.2.4	Borrowers with lack of credit borrowing experience leads to loan default					
B2.2.5	Borrowers with high loan amount or multiple loans have high loan default					
B2.2.6	Secured loans performed better than unsecured loans					
B2.2.7	Borrowers with other income than those generated from loan activities have good performing loans					
B2.2.8	Borrowers with knowledge and skills in the business operation have less chance of defaulting					
B2.2.9	Borrowers with formal education have performing loan					
B2.2.10	Elderly borrowers have good loan repayment whereas young borrowers tend to default					
B2.2.11	Female borrowers have high performing loans than male borrowers					

SECTION C: RECOMMENDATION TO IMPROVE ON RATE OF LOAN DEFAULT

Please state what need to be done for sustainable improvement on the rate of loan default on Agribank loan portfolio.

- i) _____
- ii) _____
- iii) _____
- iv) _____
- v) _____

Thank you for your great contribution on completing my research study!

Appendix F: Language Editing Certificate



The Rev. Dr. Greenfield Mwakipesile

ThD, MBA, HBS | mwakigp@outlook.com

CONTACT

PO Box 99539,
UNAM,
Namibia

LANGUAGE & COPY-EDITING CERTIFICATE

16th September 2020

RE: LANGUAGE, COPYEDITING AND PROOFREADING OF VICTORIA NAMUPALA'S THESIS FOR THE MASTER OF BUSINESS ADMINISTRATION DEGREE OF THE NAMIBIA BUSINESS SCHOOL OF THE UNIVERSITY OF NAMIBIA

This certificate serves to confirm that I copyedited and proofread **VICTORIA NAMUPALA's** Thesis for the **MASTER OF BUSINESS ADMINISTRATION DEGREE** entitled: **AN INVESTIGATION INTO THE CAUSES OF CUSTOMER LOAN DEFAULT AT THE AGRICULTURAL BANK OF NAMIBIA OSHAKATI BRANCH**

I declare that I professionally copyedited and proofread the thesis and removed mistakes and errors in spelling, grammar, and punctuation. In some cases, I improved sentence construction without changing the content provided by the student. I also removed some typographical errors from the thesis and formatted the thesis so that it complies with the University of Namibia's guidelines.

I am a trained language and copy editor and have edited many Postgraduate Diploma, Masters' Thesis, Dissertations and Doctoral Dissertations for students studying with universities in Namibia, Zimbabwe, Eswatini, South Africa and abroad. I have also copy-edited company documents for companies in the region and abroad.

Please feel free to contact me should the need arise.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Dr. Greenfield Mwakipesile".

The Rev. Dr. Greenfield Mwakipesile



greenfield.mwakipesile



@mwakigp



+264813901701



Dr. Greenfield
Mwakipesile