

**"THE IMPACT OF NON-PERFORMING LOANS ON THE PERFORMANCE OF  
COMMERCIAL BANKS IN RWANDA"**

**By:**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND  
MANAGEMENT IN PARTIAL FULFILMENT FOR THE AWARD OF A DEGREE OF  
BACHELOR IN BUSINESS ADMINISTRATION IN FINANCE AND BANKING  
OPTION**

**AT**

**KAMPALA INTERNATIONAL UNIVERSITY  
(KIU)**

**DECEMBER 2011**

## DECLARATION

I, NABONIBO ALBERT Reg.no BBA /20030/82/DF declare that “*The impact of non-performing loans on the performance of commercial banks in Rwanda*” case study BPR MUHIMA branch is my own work, that it has not been submitted for any degree or examination in any other university or institution, for the similar award.

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Signature: .....

Date: .....

## APPROVAL

I do certify that this research study entitled: *"The impact of non-performing loans on the performance of commercial banks in Rwanda" case study BPR MUHIMA branch* was under my supervision and guidance

Done at Kampala International University (KIU) on.....07.12.201

Signature: .....

Name: MR. SUNDAY ARTHUR

## DEDICATION

This dissertation is dedicated to my almighty God; my Mother NDEBEYEHO M. Gaudence and , NDARIVUZE Felicien With your wife MUKARUKWAYA Immacule, MUKANGIRUWONSANGA Agnes, all was possible.

To all those who had a hand in this success so that I reach this memorable moment.

## ACKNOWLEDGMENT

I am most indebted to my supervisor Mr. SUNDAY ARTHUR who guided me throughout this work. I am grateful for his invaluable and incisive comments on both form and substance. I am also grateful to the Faculty of finance at the school of Kampala International University (KIU). Special thanks go to all my lecturers since my first year to my last year of the bachelor's degree for the comfort and knowledge they provided to us. We felt your presence in our reading chambers. I am also grateful to the Government of UGANDA for providing me an opportunity to pursue my long lived dream of a Finance degree.

Special thanks go to my beloved brothers SHIRIMPUMU Jean Claude with KABANA Sabine, MUGABONEJO Raphael, with MUHIMPUNDU Laissa, BANINA with PETER, MAURICE with Livia, PETER with CATY, TICKET with your HUSBAND, HAKIZIMANA (GERANT) with AGNES, NTAWIHEBA with your wife thanks for your support during my studies, may God bless you and keep you a longer life.

I am greatly humbled by my best friends, Nkurunziza Faustin (manager) with DIANA, a theogene, i, eloy, sexier, musonera, noel, achiledanoes, ive, bony, kaitare, madudu, vanessa, fille, mimi, dada, Rachel, alain nkusi, and many others who know me you were more than friends thank you.

My sincere gratitude goes to my family you AMANI, DUSABE, DEBORA, MUKABIYIMO, BIENVENUE, ANITA, ALBERT SIBOMANA, and to all MY FAMILY MEMEBERS and to all my other friends. Thanks for your prays and to your words of wisdom always encouraged me, you were a brother and friend thanks a lot for the love and support you gave me through my life and education.

I feel speechless to my brother **INNOCENT BISANABO** but I can't fail to say something, what I can say is thanks a lot for the love and support you gave me, Your support was immeasurable during this journey you really deserve BLESSING. GOD bless you and keep you longer, I promise to help others. thank you

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## LIST OF ABBRIVATIONS

BBA: Bachelor Business Administration  
BBC: Bangkok bank of commerce  
BCR: Commercial Bank of Rwanda  
BNR: National Bank of Rwanda  
BOP: Balance of Payment  
BPR: Banque Populaire du Rwanda  
CBRC: China Banking Regulated Commission  
CRR: Cash Reserve Ratio  
FDIC: Federal Deposit Insurance Corporation  
FRL: Financial Reconstruction Law  
FSLIC: Federal Savings and Loans Insurance  
GDP: Growth Domestic Product  
LTD: Limited  
NPLs: Non-Performing Loans  
SBP: State Bank of Pakistan  
SFB: School of Finance and Banking  
SLR: Statutory Liquidity Ratio  
US: United States

## ABSTRACT

The objective of this research is to identify the impact of nonperforming loans on commercial banks' performances, especially Banque Populaire du Rwanda Ltd. To identify the impact of NPL on the BPR's income, to assess the criteria used by BPR to give loans to its customers. To identify challenges faced by BPR as a result of non-performing loans. To suggest and recommend on effective and efficient policies that BPR can use in reducing non-performing loans. This research is condensed report of five chapters:

chapter one of this study is general introduction part; this part states the statement of the problem of the research, objective of the study, scope of the study, significance of the study and background of BPR.

Review of available literature on the topic covers the chapter two of the current research.

Chapter three deals with research methodology. This chapter explains how the study will be conducted by the researcher regarding data collection and analysis. It will also explain the research design, sampling design, data collection, data analysis, interpretation and presentation and the study limitations.

Chapter four covers the data analysis and interpretation. This shows the responses given by clients of Banque Populaire du Rwanda, Muhima branch.

Finally chapter five presents the findings, conclusion and recommendations. The principle objective of this study was to analyze the impact of non-performing loans in commercial banks of Rwanda.

Bank Populaire du Rwanda (BPR), being one of the commercial banks in Rwanda, and obviously affected by this, has qualified to be my case study.

Besides the persistent of non-performing loans in Rwanda, I have conducted the study in partial fulfillment for the award of BBA degree.

This chapter therefore will comprise mainly summary of findings, conclusion and recommendation where necessary suggestion of further research will be given.

## CHAPTER ONE

### INTRODUCTION

#### *1.1 Background to the Study*

Non-performing loans are loans that are not paid on due date, especially those in class 3, 4, 5 (more than 90 days); these loans cause the bank to make some provisions in order to account for losses related to them (class 3 is provisioned at 50% of the total loan, class 4 is provisioned at 75% and class 5 is provisioned at 100%); this means that once you provision the NPL, it immediately result in decrease of the net income if the bank.

Studying the impact of nonperforming loans will help commercial banks how to manage and control non performing loans towards better results.

We will deeply analyze causes of nonperforming loans in BPR and suggest possible measures to reduce them.

#### *1.2 Problem Statement*

The banking sector in Rwanda, as well as the rest of the world, is composed of commercial banks and non commercial banks. The commercial banks mobilize deposits and in turn grant loans to borrowers in need of capital. These commercial banks in Rwanda have faced a lot of difficulties in the past; Banks have been experiencing the effects of 1994 Tutsi genocide that took place in Rwanda. During this period, many people were killed and others took refuge in other countries.

These people had loans from commercial banks hence, thereafter, failing to recover them. And this caused a great loss to commercial banks and thus, the economy of Rwanda collapsed; on the other hand, financial crisis that hit the world in 2008 has been another constraint to the performances of the commercial banks in the world generally, and in Rwanda particularly.

Furthermore, some projects which had been financed by the bank have been deviated and debtor have used the credits in unpredicted purposes such as construction of a residential house instead of financing the working capital of a business and some banks have offered loans to clients without deeply assessing their repayment capacity.

Those difficulties have negatively challenged the commercial banks, as they could not recover the loans which had been granted, like to those genocide victims or the persons who had fled the

country, as they could not grant new loans to the borrowers fearing the financial crisis could get even worse than expected. This problem brought to the increasing rise of non performing loans, as the bank feared to grant new loans which in turn led to the increase of the non performing loans.

The significance of non-performing loans is measured by the level of delinquency rate in the bank; the higher the delinquency rate, the significant are non performing loans and this delinquency rate is a performance indicator of any commercial bank in Rwanda. The delinquency rate by the BNR is 5%; above it, the performance is critical. This indicator is hardly to be respected by commercial banks in Rwanda, because most of them have a lot of non performing loans.

Banque Populaire du Rwanda is one of those commercial banks face with the problem of non performing loans (the delinquency rate of the bank is 12.63% as at 31<sup>st</sup> December 2010) and this has brought us to ask ourselves the following questions:

- Have non performing loans affected the net income of BPR Ltd?
- To what extent have non performing loans affected the living standards of BPR clients?
- Can non performing loans be reduced?

### *1.3 Objectives*

#### *1.3.1 General Objective*

The main general objective of this research is to identify the impact of nonperforming loans on commercial banks' performances, especially Banque Populaire du Rwanda Ltd.

#### *1.3.2 Specific Objectives*

- i.To identify the impact of NPL on the BPR's income.
- ii.To identify challenges faced by BPR as a result of non performing loans.
- iii.To suggest and recommend on effective and efficient policies that BPR can use in reducing non-performing loans.

## 1.4 Research Questions

The study is set to find answers to the following questions:

- i. Have Nonperforming loans affected the Net income of BPR?
- ii. To what extent have nonperforming loans affected the standards of living of BPR clients?
- iii. Can Nonperforming loans be reduced?

## 1.5 Significance of the Study

This study will be fundamental to a variety of stakeholders in BPR such as:

- **BPR management:** it will enable the BPR policymakers utilize the findings of this study to better manage and minimize the non performing loans.
- **Government:** This study will enable the government to have a significant control of the activities of the commercial banks in its regulation of their activities through the central bank and promote growth of government revenue.
- **Shareholders;** this study will help them understand the use of fund that they invested in the bank and how efficient non performing loans can be regulated and effectively managed.
- **Student (researcher):** the successful accomplishment of this study will be vital for him to fulfill the requirement that lead to the award of a bachelor's degree.
- **BPR clients:** this study will enable them understand the consequences of non performing loans and reimburse on time as planned.

Finally, the study will be of great importance to academicians and future researchers who will base on these findings to conduct future related studies

## 1.6 The Scope of the Study

**Conceptual scope:** the study will be carried out from Banque Populaire du Rwanda.

**Geographical scope:** BPR- Muhima Branch which is located in Kigali town.

**Time scope:** the study will cover three years from 2008-2010

## **1.7 BPR Profile**

### **Historical Background:**

In 1975 inception of the first banque populaire of Nkamba in kibungo, eastern province. This was followed by the establishment of many others around the country. Then in 1986 various autonomous banques populaires du Rwanda formed an umbrella called union des banques populaires du Rwanda (UBPR) with a cooperative mission.

Finally in January 2008 basing on its strong experience of 33 years in the Rwandan financial sector, UBPR was transformed from a cooperative bank into a commercial bank “Banque populaire du Rwanda”

**Vision:** to be the leading retail bank of Rwanda

**Mission:** to offer a full range of finance services in the urban and rural areas in a market driven and financially sustainable way.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.0 Introduction**

This chapter covered different theories developed on non performing loans strictly in commercial banks.

##### ***2.0.1 Non-performing loans:***

According to Rwanda development bank's definition of nonperforming loans, the loans are classified as nonperforming if an advance where payments of interest or payment of installment of the principal for the case of term loans or both remains unpaid for a period of two quarters or more.

Dues under any of the credit facilities are treated as post due when it remains unpaid for 30 days beyond expected time.

If a borrower fails to pay his dues in the form of principal and interest for a period of 180 days, then such loan is non performing one.

However, with effect from March 2004, according to Indian reserve bank default status would be given to a borrower if dues were not paid for 90 days.

Normally, banks treat all the advances/credit facilities granted to the borrower as nonperforming without having any regard to the fact that they may still exist certain advances/credit facilities having performing status

##### **2.0.2 Non-performing loans and other great variety of financial risk are to be managed by bankers under the following headings:**

A primary function of bank loan manager is to evaluate the risk in the case of loans made to individuals, companies or foreign businesses. A situation where a borrower being unable to repay his loan such instance is known as a credit risk as according to (p.meek, 1998).

Change in interest rate, access and management of capital, management of liquidity are among other risks.

Like it has been explain in the beginning of this chapter, it deals with what other authors have said about the same topic of non-performing loans in commercial banks.



For the country to develop, it means that, its financial institutions are very strong in terms of profitability with minimal credit risks like non-performing loans. However, this may not be a major factor to downfall a country's economy but it stands hindrance factor to the development. According to p.meek (1998), indicates that by 14<sup>th</sup> august 1998, the government of Thailand faced with large operating losses in accounting periods because of high level of nonperforming loans and thus causing imbalanced cash flows of interest receivable and interest payable, and severe liquidity shortage because of these negative elements.

Also the writer reveals how Bangkok bank of commerce (BBC) suffered large losses with performing debtors amounting to amounting to only 27,000 or 16.5 percent of total assets.

This indicates that the bank could not continue in operation because the cash flow from interest received is not sufficient to compensate for the interest payments. There is little opportunity to privatize the bank, and should the government opt to sell the bank, it would have to subsidize income and guarantee the losses from the non performing loans at very high level.

Furthermore, the same writer explains how the state bank of Pakistan (SBP) and the commitment of the government towards the exact magnitude of nonperforming loan problem has been a myth. Several commentators on the same issue of banking system have created a lot of confusion and misunderstanding. They took absolute amount of such loans at the current point of time and compare it with the quantum of such loans in October 1999 and make hue and cry that the situation has deteriorated because the quantum of nonperforming loans has gone up.

### **2.0.3 The financial reconstruction law about non-performing loans in Japan**

The outstanding amount of all banks' non performing loans defined under the FRL as of end September 2002, is 40.1million yen. The figure decreased by 3.1 trillion yen comparing with 43.2 trillion yen as of end of March 2002.

The "special attention "loans, whose risks are relatively lower within the total nonperforming loans have increased by 0.3 trillion yen. This reflects not only newly emerged "special attention" loans due mainly to an aggression of business condition of borrowers under the severe economic circumstances, but also an increase of up word migration of loans that belonged to "doubtful" or its lower categories in the previous period end-march 2002.

The problem of nonperforming loans plaguing Japanese banks is continuing as the characteristics of the problem, the following different points are important:

. With the cost exceeding the profit from the core banking business (net business profits), it can be said that in term of profitability of the banks for some time to come.

.The statement made by Japanese premier Mr. Koizumi (year), indicated that considerable amounts of nonperforming loans are concentrated in specific industries real estate, construction and wholesale and retail

Over the last few years the literature that examines non-performing loans has expanded in line with the interest afforded to understanding the factors responsible for financial vulnerability. This situation may be attributed to the fact that impaired assets plays a critical role in financial vulnerability as evidenced by the strong association between NPLs and banking/financial crises in Argentina, East Asia and Sub-Saharan African Countries during the 1990s. In this section we review the existing literature so as to formulate a theoretical framework to investigate the determinants of non-performing loans in Guyana.

Keeton and Morris (1987) present one of the earliest studies to examine the causes of loan losses. In the latter paper the authors examined the losses by 2,470 insured Commercial banks in the United States (US) over the 1979-85. Using NPLs net of charge offs as the primary measure of loan losses Keeton and Morris (1987) shows that local economic conditions along with the poor performance of certain sectors explain the variation in loan losses recorded by the banks. The study also reports that commercial banks with greater risk appetite tend to record higher losses.

Several studies which followed the publication of Keeton and Morris (1987) have since proposed similar and other explanations for problem loans in the US. Sinkey and Greenwalt (1991), for instance, investigate the loan loss-experience of large commercial banks in the US; they argue that both internal and external factors explain the loan-loss rate (defined as net loan charge offs plus NPLs divided by total loans plus net charge offs) of these banks.

These authors find a significant positive relationship between the loan-loss rate and internal factors such as high interest rates, excessive lending, and volatile funds. Similar to the previous study, Sinkey and Greenwalt (1991) report that depressed regional economic conditions also explain the loss-rate of the commercial banks. The study employs a simple log-linear regression model and data of large commercial banks in the United States from 1984 to 1987.

Keeton (1999) uses data from 1982 to 1996 and a vector auto regression model to analyze the impact of credit growth and loan delinquencies in the US. It reports evidence of a strong relationship between credit growth and impaired assets. Specifically, Keeton (1999) shows that rapid credit growth, which was associated with lower credit standards, contributed to higher loan losses in certain states in the US. In this study delinquency was defined as loans which are overdue for more than 90 days or does not accrue interest.

Studies that examined other financial systems also provide similar results to those in the US. For instance, Bercoff et al (2002) examine the fragility of the Argentinean Banking system over the 1993-1996 period; they argue that NPLs are affected by both Bank specific factors and macroeconomic factors. To separate the impact of bank specific and macroeconomic factors, the authors employ survival analysis.

Using a dynamic model and a panel dataset covering the period 1985-1997 to investigate the determinants of problem loans of Spanish commercial and saving banks, Salas and Saurina (2002) reveal that real growth in GDP, rapid credit expansion, bank Size, capital ratio and market power explain variation in NPLs. Furthermore, Jimenez and Saurina (2005) examine the Spanish banking sector from 1984 to 2003; they provide Evidence that NPLs are determined by GDP growth, high real interest rates and lenient Credit terms.

This study attributes the latter to disaster myopia, herd behavior and Agency problems that may entice bank managers to lend excessively during boom Periods.

Meanwhile, Rajan and Dhal (2003) utilise panel regression analysis to report that favorable macroeconomic conditions (measured by GDP growth) and financial factors such as maturity, cost and terms of credit, banks size, and credit orientation impact significantly on the NPLs of commercial banks in India.

Using a pseudo panel-based model for several Sub-Saharan African countries, Fofack (2005) finds evidence that economic growth, real exchange rate appreciation, the Real interest rate, net interest margins, and inter-bank loans are significant determinants of NPLs in these countries.

The author attributes the strong association between the Macroeconomic factors and non-performing loans to the undiversified nature of some African economies.

More recently Hu et al (2006) analyse the relationship between NPLs and ownership structure of commercial banks in Taiwan with a panel dataset covering the period 1996-1999. The study shows that banks with higher government ownership recorded lower non-performing loans. Hu et al (2006) also show that.

### ***2.1 The Possible Causes of Non-Performing Loans in Commercial Banks***

Many countries today are experiencing difficult times caused by non-performing and for quite time, the issue of non-performing loans has been outstanding.

According to Nepal news (2001). Com, Nepal was passing through a critical period of time. For the first time in about two decades the economy constructed to 0.5 percent in 2001-2002, the balance of payment position also turned negative once in recent past.

#### **2.1.1 Higher Levels of Non-Performing Loans**

Outstanding level of non-performing loans of the banking system, which stands at 30%, has caused anxiety and has become matter of concern. The situation is even worse in case of the banks RBR 52% nonperforming loans and NBL (62% non-performing loans) which together account for 37% of some rs.200 billion and 40% of the total loan outstanding of as. 125 billion of the banking system in the country.

#### **2.1.2 Economic Instabilities**

Besides, some of the private Banks also do not seem to be doing well .In late 1920s and early 1930s U S experienced serious banking crises over time. There were great depression, deposits in different banks were depleted by the poor performance of the banks, bad loans troubled economy, unemployment recorded in all kind etc.

The crisis in some countries like Indonesia in a year 1998 registered the largest decline (-13% and Korea suffered relatively lesser -6.7% balance of payment position also deteriorated being blamed un hedged short-term borrowing from outside to find un productive projects with long gestation periods, taxed enforcement of prudential norms and directed lending programs and unjustified exchange rates.

### **2.1.3 Lack of Enforced Punishments/laws**

One of the leading papers in India “Hindustan paper” reports that, the absence of proper bankruptcy laws and dilatory legal procedures in enforcing security rights are the main causes of bad debts in banks.

### **2.1.4 Lack of well defined procedures for loan provision**

One of the primary reasons for NPLs could be that lending decision was incorrect. Therefore, seasoned Bankers would scoff at this statement but the reality has to be faced.

Appraisal of credit needs of industrial units and business concerns cannot be put into a strait jacket and banks have to re-learn the ticks of the trade.

Had it that it's not enough, the banks do not know how to lend and are corrupt. Big portions of bad loans come as a result of lending to the priority sector, at the dictates of politicians and bureaucrats.

### **2.1.5 Government Policies**

The top management of banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers.

## ***2.2 Causes Of Non-Performing Loans Specifically To Rwanda:***

### **2.2.1 Political instability**

The most strong and cause of non-performing loans from 1990 up to day, is a result of the 1994 Genocide and subsequently political wars that were ranging at the time. This catastrophic facilitated fabrication of recording /loan files and documents by certain banks especially BACAR and BCR fell much victims of this.

### **2.2.2 Bad debtors**

Rwanda has had peculiar causes of non-performing loans as a result of loss of lives who were bank debtors. This facilitated the complication of loan recovery in Rwanda. During the war, the individual property was confiscated and diverted to wrong hands corruption in the courts of laws become a strong instrument in this exercise therefore, banks even had no single property to put the hand on and any debtor to fall on. This factor is significantly contributed to non-performing loans level in the Rwanda economy.

### **2.2.3 Poor government policies**

However, one cannot forget the role played by past Government role with upper hand in contribution to NPLs in commercial Banks. Low skilled personnel were employed in Banks resulting into low levels of expertise in the public banks and rotation of duties among officers who lack apparent training in the lending principles; this also made it hard for developing a fully trained cadre ship in the lending service. This continues existence of NPL could be so since the same old staffs still exist in these appraisal and lending decisions.

### ***2.3 The Management of Non-Performing Loans In Commercial Banks (N P L S):***

Non-performing loans have continued to threaten the economic growth in most countries.

Take an example of a country like Nepal that suffered consequences of NPL that lead the country into a poor shape for such a long period.

For the first time in about two decades the economy contracted by 0.5% in the 2001/2002, the balance of payment (BOP) position also turned negative once in the recent past.

After the crisis of 1997, many countries initiated reform measures on the question of reducing huge NPLs in the financial system, it is from here that we witnessed the economy rebounded in 2002/2003 with a growth of 2.4% and the growth of 4.7% was expected in 2003/2004.

Exports and imports have shown positive signs in the initial months of the current fiscal year. South Korea made remarkable progress followed by Malaysia and this became green light to Nepal to send a team to Malaysia to learn from their experience and to establish a loan Management Company in Nepal. According to Nepal newz.com reported by Dr. Tilak Rawal (2003)

There was great depression of the late 1920s and early 1930s to US where NPLs declined greatly, deposits in different banks were depleted by the poor performance of the banks, bad

loans and troubled economy, hundreds of the banks were closed and thousands of real estate properties were foreclosed.

In response to the call to do something to avoid economic misfortune of this kind, the US congress created the Federal Deposit Insurance Corporation (F D I C) In 1933 and Federal Savings and Loans Insurance (f S L I C) in 1934. Among other things, other savings, these two agencies were also responsible for making sure that the financial institutions were following bank laws, policies and procedures. The system worked well and the economy at large benefited from the trust established.

Malaysia also responded quickly to the crisis, which is manifested by the imposition of capital control measures there. In 1998, Danaharta (Malaysians AMC) was created to obtain NPL of banks and Dan model was created was created to re-capitalize institutions whose capital adequacy ratio fell below 9%. These two agencies, respectively, purchased 5% of non-performing loans (NPLs) and injected \$ 1.6 billion into the capital weak institutions.

Reform measures in managing NPLs in Nepal. Nepal having been faced with the economic crisis as a result of NPLs, it has decided to make a frontal attack in comprehensive manner any problems of varied nature and magnitude that the financial sector of Nepal is riddled with. Management of two ailing banks has been handed over to the two teams consisting of experts from within and outside of Nepal.

Banks and financial institutions act in the process of approval. Debt recovery act has been approved and the debt recovery tribunal has been constituted. Loan management company act is in the process of being approved.

N R B now has decided to concentrate only on core functions and therefore is shedding non-core activities and reducing the number of non-professional staff, which has been affected through voluntary retirement scheme.

Financial institutions in Nepal suffer from rampant irregularities financial sector; N R B has initiated different measures to improve corporate governance in the financial sector. Some of these include:

- Rising of paid up capital for national level commercial Banks from RS.500 million to RS 1 Billion.

-Increase in share capital participation in a nation bank by a foreign bank to 67% from 50%.

-Setting of minimum qualification requirement for promoter's interest in opening financial Institutions.

-Issuing of directives in regard to capital adequacy, loan classification and loan loss provision.

-Establishing code of conduct for governing bodies of banks, defining the duties and Responsibilities for the board of directors and establishing qualification for the appointment of Chief executive officer.

As you will realize, different countries have taken different measures in managing N P L, Indian has an opted due to increase liquid through various rate cuts.

Banks get rid of its excess. Liquidity by increasing it's lending but often shy away from such an option due to high risk of default.

In order to promote certain prudential norms for healthy banking practices most of the developed economies require all banks to maintain minimum liquid and cash reserves broadly classified into cash reserve ratio (CRR) and the Statutory Liquidity Ratio (SLR).

Cash Reserve Ratio (CRR) maintains with its self in the form of cash reserve or by way of current accounts, computed as certain percentage of its demand and time liability the objective is to ensure the safety and liquidity of the deposits with the banks.

Statutory Liquidity Ratio (SLR) is on the other hand responsible for every banking company that shall maintain in form of cash, an amount which shall not at the close of business on any day be less than such percentage of the total of its demand and time liabilities a rate cut (for instance decrease in (CRR) results into lesser funds into a system.

However, Almost all the banks are facing the problem of bad loans, burgeoning NPLS, thinking margins, etc as a result of which banks are little reluctant in the granting loans to corporate Sunil mom motion chartered accountant, Dr. Tilak Rawal (2003)



## **2.4 The Trend of Non- Performing Loans in Commercial Banks**

According to report released by Nepal's Web site Nepal news. Com (2003) the outstanding level of NPL of the banking system, which stands for 30%, has caused anxiety and has become a matter of concern.

The situation is even worse in case of two banks RBB (52%)NPLs and NBL (62% NPLS) that together account for 37% of the total deposits of same RS billion and 40% of the total loan outstanding of RS.125 billion of the private banks also do not seem to be doing well, Beijing time (12/12/2003).

This deplorable situation along with need to make your financial players of the international repute in the gradually evolving competitive environment, prompted as to go ahead with the reform measures.

According to the reserve bank of India (RB 1 in 2001) reports that NPLs increased for public sector Banks and private sector Banks to RS 541773 cores RS 6039 cores respectively as at march 2001 over the levels of RS 53033 cores and RS 4761 cores respectively at end of march 2000.

These percentages of gross N P Ls of public sector banks have reduced from 14.0% to 12.4% and in private sector banks % has increased from 8.2% to 8.5%. However, new private sector bank has increased more as 24.3% as compared to old private by more N P L s new private sector banks are coming. It is clear that there is more volatility in NPLs of private sector banks.

As it is shown in the year 1999 N P L S Increased to 10.8% then it decreased to 8.2%. In the year 2000. Again it increased in the next year. On the other hand in public sector banks N P Ls % has decreased trend. Non-performing Loans as percentage of advances are decreasing year to by year. "Evocated from report about trend and progress of banking in India, RBI (2000-2001)".

From 1998 to a year ended 2001, data has it that public sector banks have improved in N P Ls. There is declining trend from 8.2% to 6.7%. Private sector banks have slightly increased NPLS from 5.44% at the march 2001.

The comparison between private sector banks that is between old private sector banks and new private banks % increased in NPLs new private sector banks has more NPL as compared to old private sector banks. That is 6.9 % and 2.9 % respectively.

## ***2.5 Remedial Actions To Combat Non-Performing Loans in Rwanda and World Wide***

### **2.5.1 Well functioning management**

According to Rwanda, in January (2002), the Government of Rwanda through the National Bank intervened in the BACAR whose non-performing loans had reached alarming levels to the existent that the bank would be closed. Mainly this crisis had been caused by wrong administrative decisions by the management of the bank and influence pending from the shareholders. In the wake of this crisis, the National Bank of Rwanda dismissed the management of the bank administration and then appointed representatives. As a result of this, the report indicates a positive and normal recovery.

### **2.5.2 Financing well analyzed and profitable projects**

Also in the same experienced at one point the government in (May 2002) it took a decision to save commercial bank of Rwanda whose non-performing loans had reached 35%. The Government of Rwanda, which is the biggest shareholder (61% shares) in the bank decided to re-capitalize the bank with 5 billion FRW.

According to the annual report of B C R (2002), it indicates that they slightly moved out of the N P Ls gap by 40%. The new management to the existent that the bank targets to recover its former glory by the year 2006 instituted stringent measures.

Also according to the annual report of B C R (2003), it further indicates that the movement from the non-performing loans had improved compared to the year 2002.

### **2.5.3 Mainly granting short-term**

According to the report released by Beijing Time (2003), china's four leading state-owned commercial banks all have plans to be listed on the stock market, but they first have to reduce the burdens of N P Ls to acceptable amount.

Early 2003, the "big four" namely the china construction banks, the industrial and commercial bank of china, had slowed their ratio of N P Ls by 4.6% points by rate September 2003, with more than 10.7% billion us dollars equivalent to 88.8 billion Yuan, of N P L supply reduced during the period , the latest figures showed.

However, as the four banks N P L rate stood at 21.4%, their task to recover large-sum bad loans remained tough with the gradual opening of china's banking industry to foreign banks, the people's bank of china, the nation's central banks has required that banks lower their NPL rates to less than 15% before 2005.

The bank of china has adopted arrange of measures in risk control and assets recovery, which helped to reduce the 12 billion Yuan of non-performing loans in four months this year.

The Chinese government is providing a considerable policy backing to help banks reduce their non-performing loans rates; Last April china established a new banking regulatory body, the China Banking Regulated Commission (C B R C) to enhance supervision over banks in their N P LS and increase credit risk control.

Some experts argued that the most effective solution to this issue still lies in reforms of state-owned banks, which used to consider little about costs and risks. China welcomed foreign and domestic civil investors to pitch in the regrouping of Chinese stated-owned firms and banks, according to senior officials on various occasions. China Banking Regulatory Commission recently announced that a single foreign investor could hold up to 20% of shares of a joint bank against the previous 15%

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### ***3.0 Introduction***

This chapter explains how the study was conducted by the researcher regarding data collection and analysis. It also explained the research design, sampling design, data collection, data analysis, interpretation and presentation and the study limitations.

#### ***3.1 Research Design***

The study was a descriptive and analytical based on qualitative and quantitative data. Using research design, the researcher had to study systematically the characteristics and views of the respondents to draw conclusions and recommendations.

##### **3.1.1 Descriptive research design**

According to Jill Collis and Roger Hussey [1997:11], a descriptive research design describes the phenomena as they exist. It is used to identify and obtain information on the characteristics of the particular problem or issue.

#### ***3.2 Desk Research***

In addition to this, libraries such as SFB, BNR, BPR, Google and previous dissertations of other researchers to gather all necessary information regarding the bankers' (BPR) functioning.

#### ***3.3 Field Research***

The total population for this study is made of all members of the institution based on the territory of the commercial bank, that's to say Banque Populaire du Rwanda.

**Table 1: Sample size**

Category of respondents	Number of respondents
Top Management	10
Staff	30
Customers	160
<b>Total</b>	<b>200</b>

The members of the sample will be selected according to the category in which the study population fall:

- Employees and customers of Banque Populaire du Rwanda: from this category, the participants will be selected using purposive sampling technique.
- Total sample size of 200 respondents will be selected from an accessible population of 1,949 clients and employees from Banque Populaire du Rwanda.
- 

The researcher used questionnaires and interview guide.

### **3.4 Area of Study**

The study was carried out in only Muhima branch of Banque populaire du Rwanda. BANQUE POPULAIRE DU RWANDA is located in M.V.K

**3.5 The study Population:** The total population for this study is made of all members of institutions based on the territory of the commercial bank that's to say Banque Populaire du Rwanda

### **3.6 Sample and Sampling Design**

A sample is a portion or a subset of a population under study which has to be representative of that population. The researcher selected a sample from the study population with care and taking into account of money and time.

### **3.6.1 Sampling techniques**

The members of the sample were selected according to the category in which the study population fall:

- ✓ Employees of Banque Populaire du Rwanda: from this category, the participants were selected using purposive sampling technique. According to Bailey[ 1978:83], in purposive or judgment sampling, the investigator does not necessarily have the quota to fill from within the various strata ,as in quota sampling but neither does he or she just pick the nearest warm bodies as in convenience sampling.

### **3.6.2 Sample Size**

The sample refers to the representative elements selected from a population on which investigation was done. For this particular study, the sample was “Banque Populaire du Rwanda”. Where 40 staff employees were selected and 160 customers of banque populaire du Rwanda were selected respectively.

## **3.7 Types and Sources of Data**

The researcher used two types of data sources.

**3.7.1 Primary data:** This was the information collected from all the selected customers and clients of BPR from the different BPR branches who were supplied with self-administered questionnaires.

**3.7.2 Secondary data:** This was the information sourced from journals, news papers, and other articles about the different services provided by the different financial institutions.

## **3.8 Data Collection methods**

The researcher used questionnaires and interview guide to collect the data about clients' living standards and effects of NPL on BPR,

### **3.8.1 Questionnaires method**

According to Bailey (1978:93), questionnaire is a list of questions mailed or handed to the respondent and filled in by him or her with no help from interviewer.

Structured questionnaires were used so as to enable the respondents to focus on the key aspects of the research.

“A questionnaire is popular form of intensive interviewing since it provides some data that are comparable for all respondents and other data derived from question tailored to the unique experiences and persecuting of each individual”(Williamson 1982:173).

### **3.8.2 Closed-ended**

Grinnell and Williams (1990:228) asserted that closed-ended question is a type of question on an interview schedule or a survey instrument which limits the respondent's response by the use of pre-selected alternatives.

### **3.8.3 Open-ended**

According to Grinnell and Williams (1990:228) open-ended question is a type of question on interview schedule or a survey instrument which does not limit the respondent's response to any pre-selected alternatives.

### **3.8.4 Direct observation**

The researcher also collected or gathered the relevant data or information about the research topic through unstructured observation. The advantage of this was that the researcher was able to record the data as it occurred. In addition to that, this method was used regardless of whether the respondent was willing to report or give information or not.

### **3.8.5 Documentation**

Documentation as the analysis of that already existing, in boxes, in some organization's basements for hidden in the core of the computer. Documentation is a careful reading, understanding and analysis of written documentation for some purpose other than social research.

Therefore within this research, the researcher collected the already existing data by finding them where they are stored or filled. As indicated earlier, data were got from reports which include; published and unpublished documents, annual reports, clients' loan repayments journals and pamphlets.

## **3.9 Data Analysis**

**3.9.1 Editing:** Editing is the inspection and correction if necessary of each questionnaire or observation form. In the process of editing, the data collection form must be scanned in order to be sure that they are complete, consistent and that instructions are followed.

**3.9.2 Tabulation:** this was another technique that was employed to process the collected data during the study. This is all about transforming the collected data in form of statistical tables like percentages. After the data was edited and coded, it was then combined together in some form of tables for statistical analysis.

### **3.10 Limitations of the Study**

Like any other research, this study is anticipated to encounter some limitations and here are as follows:

- (i) Time limitations and insufficient funds to complete this research in the predetermined period of time.
- (ii) High communication costs to be able to communicate to respective respondents who prefer to use their mobiles to answer some questions. The finances provided by the school (SFB) is anticipated to be insufficient to accomplish the research/ the study. Computer storage devices such as floppies may present other hindrances.
- (iii) Some administrators may reluctantly refuse to grant permission to carry out the study within the premises of organizations and the bureaucratic procedures that are involved in granting permission may take longer than the expected and hence leading to the delay in the scheduled time for the research
- (iv) Delays in data collection. Some respondents may be reluctant to provide informal that may be required in this research study.



## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### *4.1 Introduction*

This chapter analyses and interprets the data collected from the field. It is from this chapter that the tangible results of the research problem were obtained. As indicated earlier in the research methodology, the researcher considered a sample size of 50 populations for both clients and BPR's employees.

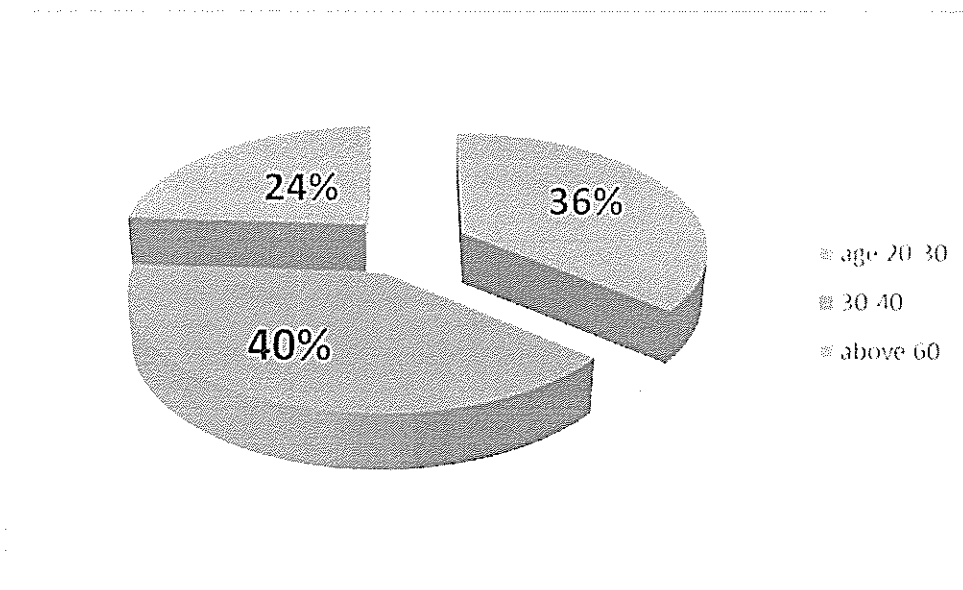
#### *4.2 summary of the questionnaire responded to the age group of customers*

**Table 4.1. Age group of customers.**

AGE	Number of respondents	Percentage %
20-30	18	36%
30-40	20	40%
Above 60	12	24%
Total	50	100%

Source: primary data

**Figure 4.1: Age group of BPR customers**



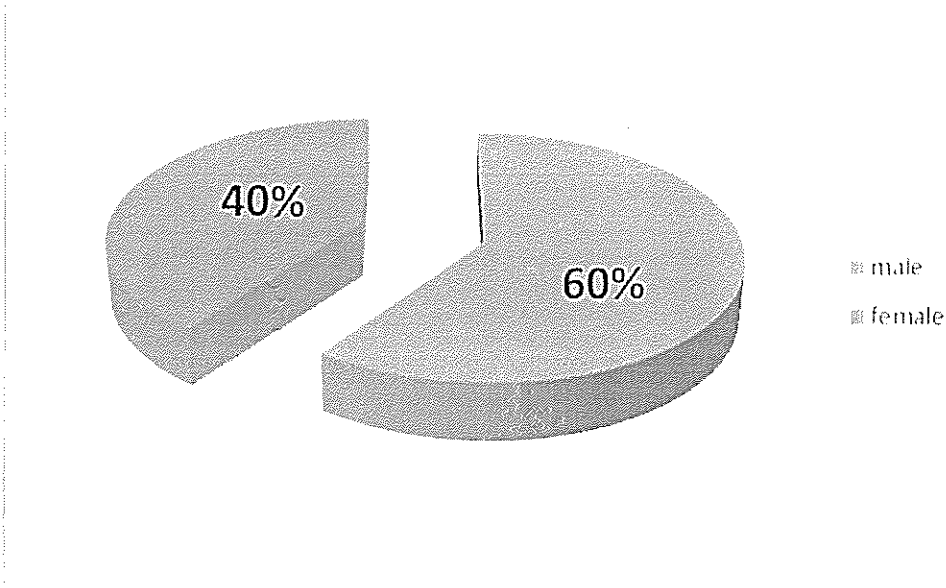
According to the table 1, it indicates that 40% of the sampled respondents are between 30-40, 36% are between 20-30, 24% are above 60 years of age and then the last group is between 50 and 60 years who had no response. This implies that considering the statistics of respondents regarding the age group we find that the majority of clients of banque populaire du Rwanda are the youth ranging from the age of 20-40 meaning provided room for improvement in all the institution’s departments the growth and stability of the institution is bright.

**Table 4.2: Gender aspects of customers.**

Age	Frequency	Percentage
Male	30	60%
Female	20	40%
Total	50	100%

Source: primary data

**Figure 4.2: Gender aspect of customers**



As indicated by the table above, 60% of the respondents are male and 40% of the respondents are female. Though the male percentage is a bit higher than the female percentage, gender complementariness in management of nonperforming loans is of paramount because both can

play a vital role to enable the management of non performing loans success by providing all information they have and full participation in non performing loans management.

**Table 4.3: Level of education of customers.**

Level of education	Frequency	Percentage
No formal education	0	0
Primary level	5	10%
Secondary level	10	20%
University level	35	70%
Total	50	100%

Source: primary data

**Figure 4.3: Level of education of customers**

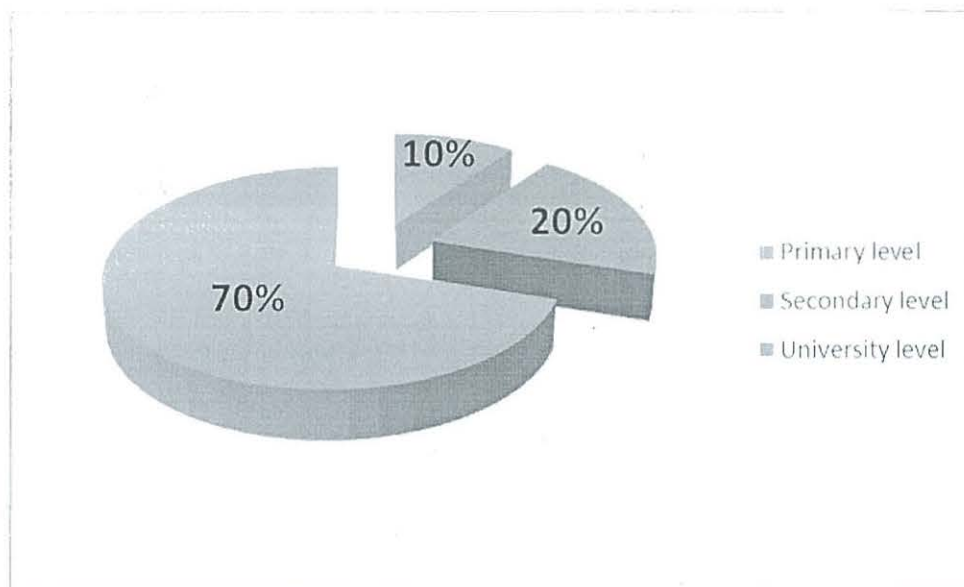


Table 3 indicates that the largest percentage of respondents is 70% in Management of non performing have attained university level of education, next to university level of education among respondents is secondary level of education with 20%. This is followed by primary level of education with 10% and lastly is those with no formal education and they did participate.

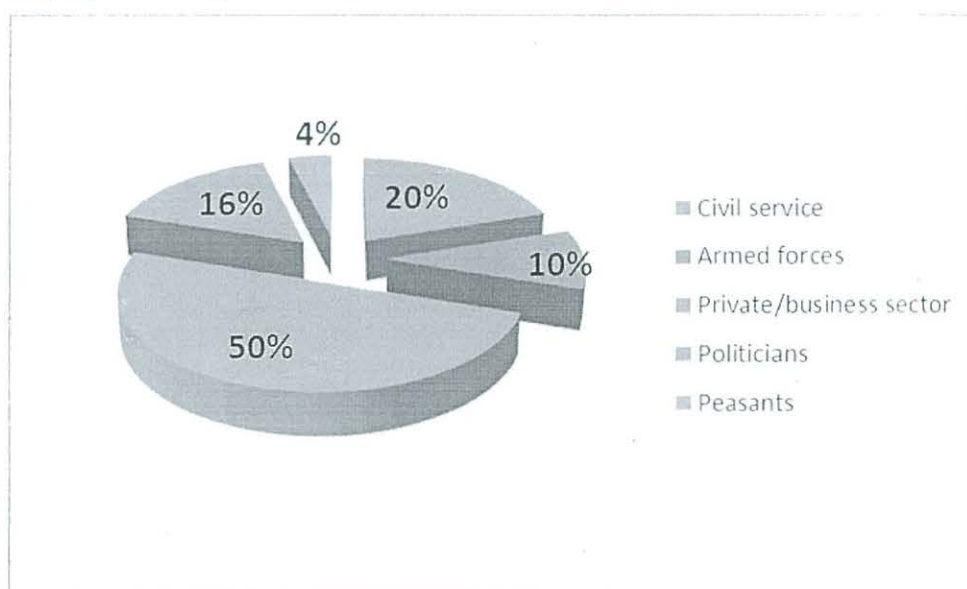
Following the above statistics regarding the respondents level of education where 70% are those who have attained university level of education, this means that by being educated they will work hand in hand with the management of banque populaire du Rwanda to combat non performing loans existing in the institution.

**Table4. 4: Employment aspect of customers.**

Employment sector	Frequency	Percentage
Civil service	10	20%
Armed forces	5	10%
Private/business sector	25	50%
Politicians	8	16%
Peasants	2	4%
Total	50	100%

Source: primary data

**Figure 4.4: Employment aspects of customers**



Following table four, the majority of respondents 50% are in business/private sector and they total up to 25 persons out of sample space of 50 people. Next to this comprises of civil service sector, which has 10 respondents with 20%.

The politicians participated fairly and come after the civil service. 8 persons responded and have an average of 16%, the armed forces also responded with 10% average and last response was also recorded in peasants with only 2 participates that constitutes 4% of the population sample size.

The data obtained in the table four, shows also that the highest number of respondents are in private / business sector. This is because of the fact that the business sector deals with the bank on day-to-day basis. It also illustrate that the peasants with the lowest percentage 4% have low or no dealings at all with banking industry.

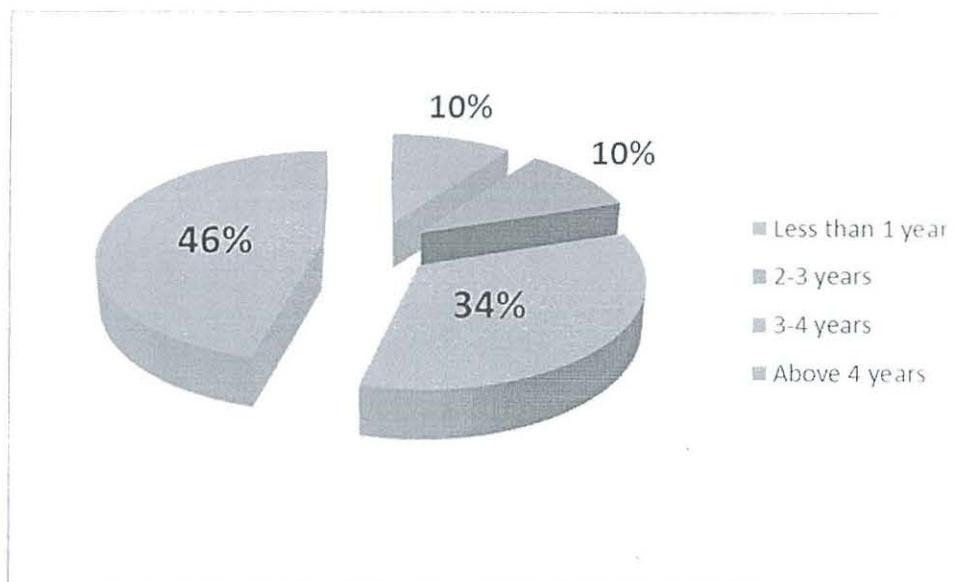
**Table4. 5: Shows an explanation more clearly.**

Period served	Frequency/number Of respondents	Percentage 100%	Period spent In business	Number of respondents	Percentage 100%
Less than 1 year	2	4%	Less than 2 years	5	10%
2-3 years	14	28%	2-4 years	5	10%
3-4 years	18	36%	4-8 years	17	34%
Above 4 years	16	32%	Above 8 years	23	46%
Total	50	100%	Total	50	100%

Source: primary data



**Figure 4.5: Shows an explanation more clearly**



On the side of the customer who have been in business for a period above 8 years constitutes 46% of the population sample size with total of 23 respondents where as employees who have saved in company for a period of 3-4 years which constitutes 36% of the population sample size with total of 18% respondents. Followed by employees served in company for a period above 4 years, which constitutes 32% of population sample size with total of 16 respondents. Also those who have been in a business for a period of 4-8 years makes up 34% of the population sample size totaling to 17 respondents.

The last in business are both with a total number of 5 respondents in each particular period spent in a business that is those in a business less than a period of 2 years and those are in for 2-4 years that makes 36% respectively of the population sample size. On the other hand, from the side of employees that served in a company for a period of 2-3 years constitutes 28% of the sample size with a total number of 14% of respondents. Lastly the employees served in the same company have the least total of respondents of about 2 people in a period of less than one (1) year, which constitutes 4% of the sample size.

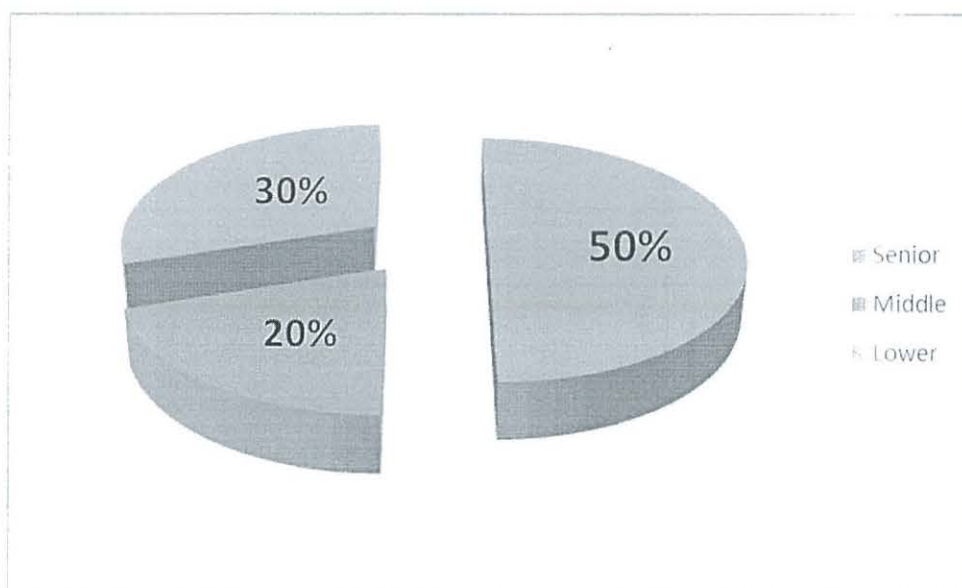
### 4.3 General findings

**Table 4. 6: Position of respondents held in the sector**

Position held	Frequency/ number of respondents	Percentage%
Senior	25	50%
Middle	10	20%
Lower	15	30%
Total	50	100%

Source: primary data.

**Figure 4.6: Position of respondents held in the sector**



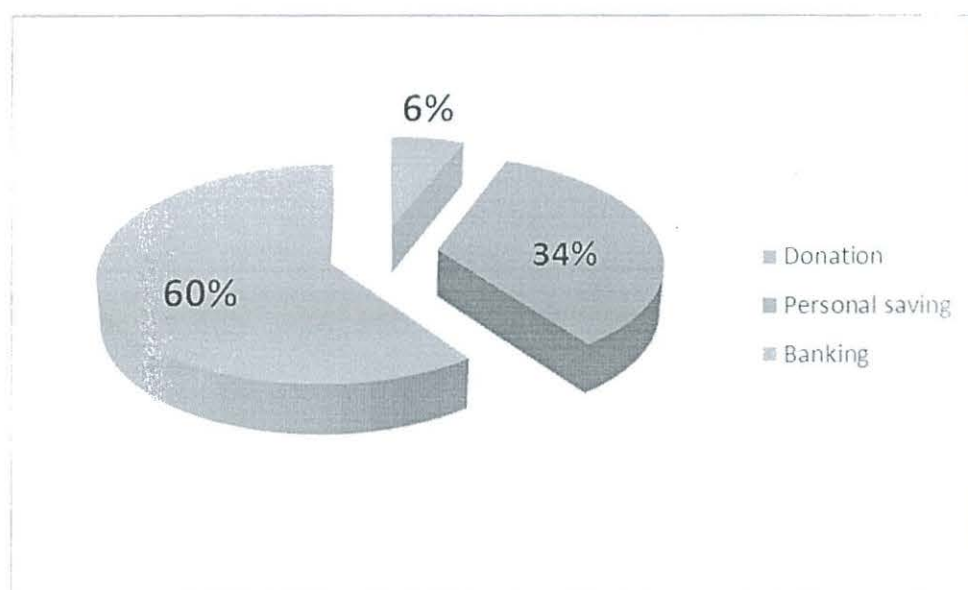
As is indicated in above table, the majority respondents is composed of senior level which constitutes 50% of population sample size being followed by lower level with 30% population and having a total of 15% respondents, the last is middle level that makes 20% of sample size with a total respondents of 5 people.

**Table 4.7: Major source of finance**

Source of finance	Number of respondents	Percentage
Donation	3	6%
Personal saving	17	34%
Banking	30	60%
Total	50	100%

Source: primary data.

**Figure 4.7: Major sources of finance**



The table number of respondents were 50 in number and according to question asked about finance, those who were financed by bank loans indicates the biggest percentage of 60% of the population sample size with 30 respondents followed by personal saving of 17 respondents which constitutes 34% of the population sample size.

On the other hand, the donation has total number of 3 respondents which constitutes 6% of the population sample size where as others had no response.

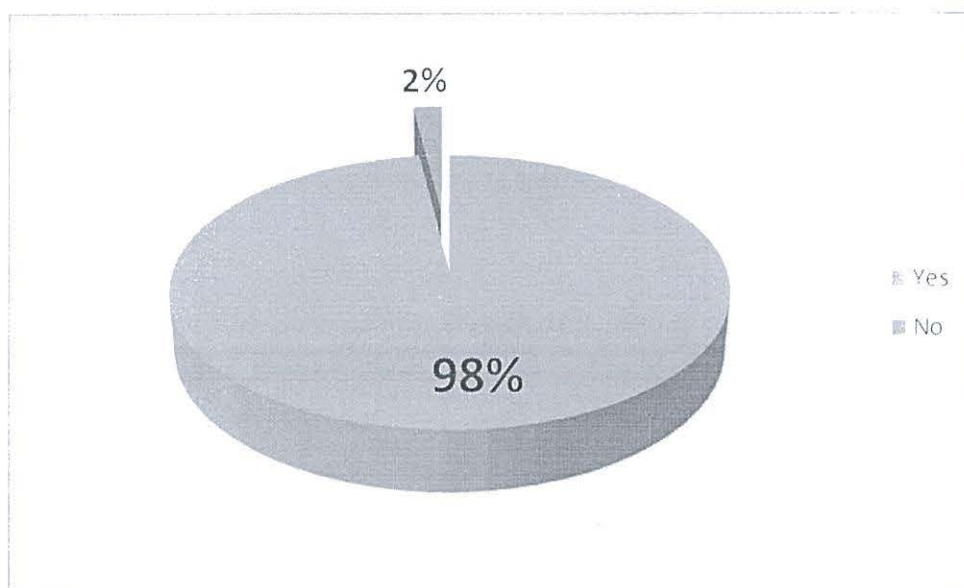


**Table 4.8: Loan got from BPR**

Response	Number of respondents	Percentage
		100%
Yes	49	98%
No	1	2%
Total	50	100%

Source: primary data.

**Figure 4.8: Loan got from BPR**



Interpretation from above, most respondents are satisfied with the management recovery of nonperforming loans (NPLS) though are not all because a certain percentage does not respond positively. The management policies of recovering non performing loans shows a satisfied constitute of 98% of the sample size with a total number of 49 respondent where as those without response is one (1) with a constitute of 2% of the sample size.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### *5.1 Introduction*

The principle objective of this study was to analyze the impact of non-performing loans in commercial banks of Rwanda.

Bank Populaire du Rwanda (BPR), being one of the commercial banks in Rwanda, and obviously affected by this, has qualified to be my case study.

Besides the persistent of non-performing loans in Rwanda, I have conducted the study in partial fulfillment for the award of BBA degree.

This chapter therefore will comprise mainly summary of findings, conclusion and recommendation where necessary suggestion of further research will be given.

#### *5.2 General Responses*

The question asked the respondents views as to why the problem of non-performing loans has persisted in bank populaire du Rwanda.

Most respondent cited reasons such as, bank populaire du Rwanda employ low qualified staff in banking industry. By that arrangement, the bank lacks professionals' personnel to study the project and come up with meaning full analysis of the project in question. It also follows that once the project is poorly analyzed, that loan granting will carry some degree of risks hence non-performing loans persistence.

Other meaningful reasons given are such that loans given by bank populaire du Rwanda usually lacks adequate guarantees/securities to stand in failure to play.

With this kind of situation, when guarantee given does not much the loan granted and owing to poor and low economic performing of Rwandan economy, failure to pay usually stands more chances than ability to pay.

This problem is aggravated by an ever increasing / growing inflation, poor production and very low purchasing power of the population. Such other respondents advanced reasons of Rwanda are highly influenced by political powers. It is evidently clear that most loans from Rwanda commercial banks, which have failed to perform, are those that were political influenced.

This kind of situation does not take into account banking professional ethics. Most of the loans were utilized for construction of houses some of which have failed to complete their houses, hence causing the loan to be non-performing.

Furthermore, some of the respondents gave corruption as one of the reasons for persistence of non-performing loans. They urged that some banks officials make arrangements with dubious clients to acquire loans on abnormal bank procedures for a kick back. These arrangements will definitely lender the loan non-performing.

Many respondents responded on receiving loans from bank populaire du Rwanda but with difficulties. Most problems faced they said included corruption and nepotistic tendencies among bank officials. This kind of situation makes the period of getting the loan much longer.

On the impact of non-performing loans respondents revealed that it was heavy and as result some of the banking institutions have been sold to prospective investors in order to avoid further losses.

On the possible causes of non-performing loans, respondents answered that most of the loans granted lack professional analysis and therefore are not viable in business sense.

Due to non-viability the loans end up failing to return as expected and hence non-performing. One of the respondents gave an example of loans granted for construct houses which some end up failing completion.

On the trend of NPLs, respondents were quick to give similar opinion that the trend is now in a reverse gear with explanation that commercial banks have realized the problem and are working tirelessly to do away with the problem. There is also pressure on commercial banks of Rwanda from BNR to strictly observe professionalism in granting loans.

On management of NPLs, respondents said that banks should strictly recruit professional and experienced staffs that have the skills to analyze project present for the credit lending.

Other respondents answered that the management of the banks should set up strict regulation to fight corruption within their banks. For example some of them suggested that control measures like checks and balances should be adhered to prior to loan approval.

Other respondents cited that, BNR which is the international bank of Rwanda at the same time a bank to all commercial banks of Rwanda should play a vital role in controlling some commercial banks which are known to have excessive non-performing loans.



On remedial actions to be taken, one of them however, respond that the Government through the line ministry in particular ministry of finance should in hence controls in form of pressure and directives to nationals banks in form controls to check excessive money in circulation.

On paying back the loan, some respondent answered differently, some saying yes and that had completed loan repayment. Others said no that they had failed to pay therefore, non-performing loans.

A cause advanced for failure to pay includes; high interest rate charged by the banks; Ever increasing inflation; Low volume of economic activities in the business sector; Very low level of population in ability to purchase and poor monitories economy leading to general poverty.

Furthermore, on management of loans, some respondents answered that, banks should reduce their high interest rate, give out enough period to improve the business status. Clients also should give quality securities, which could pay back loans. Banks should train their analytical teams in order to analyze the client's project well.

### ***5.3 Conclusion***

According to the views of the respondents, it is automatically seen that the majority of the respondents were not satisfied with the management of non-performing loans in bank Populaire du Rwanda, this is because the mechanism put forward and procedures of recovery does not improve the situation as was expected and this has done nothing with the company's performance.

Since the study was based on the systems analysis, it is therefore vital to view non-performing loans as single factor among other factors. Non-performing assets have got a big impact on the productivity of banks and this has to be addressed by other factors like.

- Tight controls and procedures of extending credits to the customers. These tight controls and procedures play an important role in reducing the occurrence of non-performing assets in bank Populaire du Rwanda.
- Periodical follow-up. This endures the banks the actual performance of the loans extended to clients and provides a basis for decision taking programs as early as possible since clients are frequently supervised. It can be done by involving both top level

management and operational level management to assess the performance of clients and their paying abilities.

- Reporting is also a paramount system when productivity is among organizational objectives it helps to assess what have been done and what to be done in the course of action.
- Sufficient supervision of top management is also required most of respondents revealed that supervision has a negative impact on the non-performing assets due to the fact that most employees don't perform their tasks of recovery and this prompts some clients to voluntarily not paying in their obligations, hence reducing the productivity of banks and increasing non-performing assets.

Despite of the above factors, non-performing loans remain the core impact to productivity as revealed by the respondents and it is due to the following:

- High interest rate
- Low purchasing power
- High tax imposed
- Economic recessions
- Competition

From the interpretation of the findings and the theoretical aspect examined in the literature review, it's obvious that there is a relationship between non-performing loans and the managements of banks. It is upon manager's efforts to motivate clients and put much emphasis on interest rates, purchasing power, taxes, economy and competition this may help clients to pay back their loans both effectively and efficiently.

#### ***5.4 Recommendations***

Since the introduction of economic liberation and financial sector reforms, banks are undergoing pressure to bring down their NPLs so as to improve their performance and validity. The asset quality and recovery mechanism of commercial banks have a crucial bearing on the viability of the overall credit system. As NPLs affect badly the financial strength of the banks by way of profitability, Net worth of Bank's resource cycle of banks come to restricted because once the loan becomes NPLs, it stop generating income to bank otherwise this amount would have been

used for providing loans to borrowers in future. So there is a strong need for effective management of NPLs so that can be reduced to possible extent.

i. Credit policies.

-any bank or financial institution shall put in place written policies as regards credit management.

ii. Delegation of credit powers.

Any bank or commercial institution shall make arrangement to be assured that the delegation of powers for credit risk management is appropriate and takes into consideration:

- The bank's or financial institution's policy as regards credit risk
- The quality of credits portfolio
- The degree of market reaction
- The types of assessed risks
- Experience of credit managers

The bank or financial institution shall take steps to ensure that a division of duties concerning the approval of credits, disbursement of funds, debts supervision and recovery respectively.

Units, persons, posts or committees in the bank are empowered with responsibilities and powers of authorization for the credit risk management, including the powers of provision or writing off.

Methods of evaluating the required competence and experience of agents in charge risk management are in place.

iii. Process of granting credits

The process of granting loans shall not be influenced by objective of growth or market share.

The bank or financial institution shall adopt an application for credit evaluation procedures that allows examining:

- The objective of credit and the source of repayment.
- The borrower's personality, integrity and reputation as regards repaying rapidly and determinedly his/her debts or honoring his/her contractual obligation.



- The quality of guaranteed property, including the proprietorship, control and documentation
- The borrower's capacity of repayment taking into account financial records and cash flow forecasts.

There are two objectives of effective management policy of NPLs as:

- a) Prevention of accounts becoming NPLs
- b) Upgrading/reduction of NPLs

Therefore the following are recommended guidelines relating to NPLs management.

#### **5.4.1 Identification of Potential NPLs**

For proactive management of problem loan accounts, exhibiting early warning signals of potential credit risk should be given due attention. The following factors can become reasons for NPLs:

1. Persistent irregularity
2. Defaults in repayment obligations
3. Frequent development loan bills/invoke of guarantees
4. Operating losses
5. Machines crying idle

#### **5.4.2 Problem loan review and reporting**

On identification of potential NPLs the following steps are to be taken:

1. Diagnostic the reasons of deterioration in asset quality
2. Put the account under close monitoring
3. Verify adequacy of cash accruals
4. Inform and follow-up with borrower to regularize the position
5. Ensure securities are intact, marketable and that there is no deterioration in value there are no efforts to be made to obtain additional collateral security.
6. Identify and study primary and secondary sources of repayment and evaluate their adequacy.
7. Efforts to be made to rise at a corrective course of action in consultations with the borrower.

### **5.4.3 Approach to rehabilitation**

The first four recovery/NPLs management is to be on possible up gradation of the advance by rehabilitation of borrower's business. This option may be examined in the cases where is scope for restoring viability of the business. Rehabilitation should be put in place in such cases if the detailed viability study supports the approach and subject to the cost of rehabilitation being financed on a basis acceptable to the bank. This approach as opposed to calling up loans will generally be adopted provided the bank is satisfied:

- a) That the loan become NPL due to factors other than lack of integrity on the part of promoters.
- b) That there is a prima facie case for considering such an approach.

Restructuring /renegotiating is one of the tools of rehabilitation. These tools should be used where commencement of commercial production for the purpose will be when commercial operations result in generation of regular cash flows for servicing of loans.

### **5.4.4 Through legal process**

A legal remedy for example enforcement of securities through the court of law has its own limitations because of inherent weakness and dilatory nature of our judicial systems.

Efforts are to be made so that a suit for recovery is filed before of sanction/approval granted by the competent authority to file the said suit. There after follow up at all stages should be done as per the suggested time norms so that the cases can be concluded at the earliest and execution proceedings are started immediately. Banks can also bid in auction of the property attached in the non-performing borrower account.

### **5.4.5 Compromise settlement:**

Compromise/Negotiated settlements should be made in cases where recoveries in normal course are not expected, court cases are pending, and reasons for default are beyond the control of borrowers. If the default is willful, resorting to the root of compromise may send a wrong signal to other borrowers hence avoidable. Cases where the bank's security cover is weak, documentation defective, borrowers are likely to disappear with available security and realization of assets through forced sale is difficult, compromise definitely is in interest of the bank.



Banks also should try to reduce the interest rate so as to motivate the borrowers to pay back efficiently and effectively or give a grace period to the borrowers in case of failure to pay.

This helps both the borrowers and the banks to recover at least the principles cash given to the borrowers or if possible the part of interest also.

### **5.5 Suggestion**

-persuasion is one of the best methods of recovery so, regular following up with borrower through correspondence and personal visit to borrower.

-educating loaner about genuine loan requirement.

-all loans should be fully secured by primary as well as collateral securities.

-there should be separate recovery courts for banks because procedures of civil courts are too much expensive and time consuming.

-Government should pass laws to give power to bank officers for recovery of banks due in case of will full defaulters.

-Names of the defaulters should be checked be shown in the media and websites.

-political interference should be checked and all the risks a campaigning it should be borne by the government.

-The legal actions should be taken against will full defaulters immediately.

-Paper monitoring should be instituted during the loan period.

-Full transparency should be instituted during the loan period.

-full transparency should disclose NPLs so that need can be felt out for reducing NPLs.

-In line with annual business target for reduction in NPLs should be fixed.

-Staff accountability should be fixed for becoming bad loans and specific guidelines should be put in place.

#### **5.5.1 Suggestions for Further Research**

Due to the fact that profitability of Bank populaire du Rwanda is as a result of many factors but only non-performing loans has been discussed as the factor that contributes mostly on the reduction of the bank's profits, the researcher suggests a further study on the management of non-performing loans taking into account other factors that has an impact on it like strength and weakness of internal control of the credit department in particular and the bank in general. Analysis of the applications for loans should also be done accurately.

Further studies for both commercial banks, people's Banks, Development Banks, concurrently since they might be having different factors contributing much to the increase of non-performing assets that reduce profitability of those banks.

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## APPENDIXES

### QUESTIONNAIRES

**Dear Respondent,**

I am a student at Kampala International (KIU), pursuing Bachelor of business administration Degree specializing in Finance and banking option.

I am in my final year of study and I'm expected to conduct a research on any issues facing our commercial banks today as part of the process to complete my studies.

I have chosen the "impact of non-performing loans on the performance of commercial banks" especially case study in (BPR) Muhima branch. I have also chosen you as one of the people I trust can provide me with the necessary information but this is purely for academic purposes and all your responses shall be kept confidential.

I kindly request you to spare a few minutes to answer the following questions they involve:

Ticking in the space provided corresponding with the response of your choice and others require just filling in.

Your timely participation and speedy responses in this survey shall assist me.

Thank you in advance for your cooperation,

NABONIBO Albert



# THE IMPACT OF NON-PERFORMING LOANS ON THE PERFORMANCE OF COMMERCIAL BANKS IN RWANDA - CASE STUDY (B P R) MUHIMA BRANCH

## QUESTIONS FOR THE EMPLOYEES

1. Age group of respondent

☐ 20-30

☐ 30-40

☐ 50-60

☐ 60 and above

2. Sex:

☐ Male

☐ Female

3. What's your Level of education?

☐ University level

☐ Secondary level

• Primary level ☐

• No formal education ☐

4. How long have you been working with BPR?

• 1-5 ☐

• 5-10 ☐

• 10 and above ☐

If yes, in which department have you been working in?

• finance ☐

• accounting ☐

• Marketing ☐

• human resource ☐

Others specify.....

5. Position held in that sector?

- Senior ☐
- Middle ☐
- Lower ☐

6. Period served in this sector?

- Less than 1 year ☐
- 2-3 ☐
- 3-4 ☐
- Above 4 ☐

7. Are you satisfied with the management policy recovery of nonperforming loans in banque populaire du Rwanda?

- No ☐
- Yes ☐

8. Is your recovery measures well defined?

- Yes ☐
- No ☐



9. Why do you think the problem of non-performing Loans has persisted in Banque populaire du Rwanda?

Poor management policies ☐

Lack of well defined procedures for provision of loans ☐

Higher charges on interest rate ☐

Lack of strict punishments to be issued for failure to pay ☐

Others specify .....

10. What is the impact of non-performing loans on the performance of Banque populaire du Rwanda?

• Loss of income ☐

• May lead to bankruptcy ☐

• Hinders its development ☐

• Others specify.....

11. What do you think are possible causes of non-performing loans in Banque populaire du Rwanda?

• Poor management policies ☐

• Failure to pay back the issued loans in time ☐

- Lack of educative measures to its customers ☐
- Miss management of the loans by the customers ☐
- Others specify.....

12. What difficulties has the management faced as a result of non-performing loans in Banque populaire du Rwanda?

- Loss of income ☐
- Hinderous in its development ☐
- Lost trust to its clients ☐
- Others specify.....

13. What proper ways can you give for the better management of non-performing loans in Banque populaire du Rwanda?

- Educate the customers on proper management ☐
- Examine each individual's capacity and past record in paying loans ☐
- Others specify.....

14. Show the possible remedial actions that can be taken to reduce/ stop the ongoing high rate of non-performing loans in Banque populaire du Rwanda?

- Issuing harsh punishments for failure to pay back ☐
- Educate the customers on how to properly manage the loans ☐
- Encourage the customers to form co-operatives ☐
- Others specify.....

# THE IMPACT OF NONPERFORMING LOANS ON THE PERFORMANCE OF COMMERCIAL BANKS IN RWANDA - CASE STUDY (B P R) MUHIMA BRANCH

## QUESTIONNAIRE DESIGNED FOR THE CLIENTS

1. Age group of respondent

20-30 ☐

30-40 ☐

50-60 ☐

60 and above

2. Sex ☐

Male ☐

Female ☐

3. Level of education

University level ☐

Secondary level ☐

Primary level ☐

No formal education

4. Are you employed? ☐

Yes ☐

No ☐

Others specify.....

If yes, in which sector? ☐

Civil service ☐

Armed forces ☐

Business/private sector ☐

Politician ☐

Peasants ☐

5. Position held in that sector?

Senior ☐

Middle ☐

Lower ☐

6. Period served in this sector?

Less than 2 years

2-4 ☐

4-8 ☐

8. years and above

7. Position held in this sector?

Senior ☐

Middle ☐

Lower ☐

8. If it is a business what is major source of finance?

Bank loan ☐

Personal ☐

Donation ☐

Others specify .....

9. Have you ever got a loan in Banque populaire du Rwanda?

Yes ☐

No ☐

(a) If yes how long did you take to acquire it?

1-3 months ☐

3-6 ☐

6 months and above ☐

(b) If no, why? ☐

I was not able to get it ☐

I did not want it ☐

I was afraid of getting it ☐

Others specify.....

10. Did you pay back the loan acquired?

Yes ☐

No ☐

11. If no what are the causes of the failure?

Poor management ☐

Poverty ☐

Others specify.....

12. What beneficial measures should banque populaire encounter for good management of bank loans in order to facilitate both bank populaire du Rwanda and its customers?

Educate the customers on proper management ☐

Examine each individual's capacity and past record in paying loans ☐

Others specify.....

13. Show interest rate charged by your bank (BPR)

1-5% ☐

5-10% ☐

10-18% ☐

18 and above ☐

14. In case of failure to repay your loans, what do banks use in order to get back their funds?

Suing in court ☐

Auctioning property ☐

Extending repayment period ☐

Others specify.....