Management of non-performing loans in banking institution- study case Badr-

Meziane Imene *

Globalization and economic policies laboratory

University of Algiers3

Imen.meziane.enssea@gmail.com

Berrazouane Hassan

Globalization and economic policies laboratory

University of Algiers3

Hassan.egthr@gmail.com

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Abstract:

The study aimed to determine the impact of non-performing loans on the granting of loans, highlighting the various theoretical concepts of non-performing loans and how to manage them in the banking institution, as well as the various methods and mechanisms for the collection and recovery of non-performing loans in the Bank of Agriculture and Rural Development.

The study concluded that the disruption of loans is the result of various reasons that may be due to the borrower himself or the financial institution or for sudden reasons outside of all parties and The methods of processing the loan vary according to the reasons that lead to it

Keywords: distressed loans; Banks; loans; non-performing loans ; Loan Processing.

Jel Classification Codes: E5, N2.

* Corresponding author.

1. Introduction :

The introduction to the article should contain a preface to the topic, and then introduce the research problem and make the appropriate assumptions, in addition to determining the research objectives and methodology of the study.

The phenomenon of bank loan defaults is one of the biggest risks that banks are exposed to as a result of the increase in credit risks, as this problem appeared in the late seventies of the last century, and increased in the mid eighties. This is due to several reasons, including both the customer and the bank As well as some other economic variables, and despite the precautionary measures taken by banks, realistically no bank can achieve a regular and stable composition of its loan portfolio. This is due to the nature of the relationship between loans and risks and the extent to which they are related to each other, and it has also proven that no loan is granted to a client unless the bank carries a certain amount of risk, regardless of the nature of the guarantees obtained.

Problem: Through the above, the following main problem can be posed:

What are the mechanisms used to deal with non-performing loans in the Bank of Agriculture and RuralDevelopment?

in order to answer this problem, the following sub-questions can be asked:

- What are the procedures followed in the process of granting loans?
- What are the reasons for defaulting on loans in various countries of the world, and what are the proposed solutions to reduce them?
- What are the reasons for defaulting on loans in various countries of the world, and what are the proposed solutions to reduce them?
- What are the banks' preventive strategies to manage the risk of non-performing loans?

1.1. hypotheses of the study:

To answer these questions, we put forward the following hypotheses:

- defaults loans are credits that the borrowers were unable to repay within the agreed upon deadlines.
- Banks follow many different procedures to limit exposure to various loan risks.
- defaults loans are an inevitable risk that requires the existence of several strategies to protect against it.

1.2. **The importance of the study**:

Defaults loans are among the banking risks that have a significant impact on the performance and activity of Algerian banks, as it places them in front of the inevitability of applying effective methods and methods to manage the risk of these loans and the need to develop their activities and work related to the collection and recovery of loans in order to protect their entity and the confidence of those who deal with them.

Objectives of the study The study seeks to achieve a number of goals including:

- Shedding light on the various theoretical concepts of non-performing loans and how to manage them in the banking institution.
- Getting acquainted with the various methods and mechanisms for collecting and recovering non-performing loans of the Bank for Agriculture and Rural Development;
- Presenting new additions with regard to addressing the methods of preventing non-performing loans;

1.3. Study Approach:

In order to reach a solution to the problem, we relied on the descriptive approach in the theoretical aspect, in addition to our reliance on the analytical approach in the applied aspect.

1.4. Previous studies:

There are numerous theoretical and empirical researches on non-performing loans, especially credit risk in general. Many papers produced more than twenty years ago emphasize the connection between credit quality and economic activity, for example:

- Determinants of Non Performing Loans in Commercial Banks:A Study of NBC Bank Dodoma Tanzania (2015) Dr. N.ViswanadhamPublished by SSBFNET The study attempts to ascertain the determinants of nonperforming loans in National Bank of Commerce. Data was collected from 152 respondents. Tables, percentages, mean and standard deviation were used to analyze data. Data collection methods adopted for the study were interview, questionnaire and documentary evidence. Interest rate, GDP, concentration of lending activities, bank's loan supervision capacity and economic condition were investigated, and the results concluded that interest rate, GDP, bank's loan supervision capacity and economic condition influence the level of NPLs. In order to extend the literature on non-performingloans, the researcher suggested incorporating models of Golem effect, Social loafing, Inverted pyramid effect, Pollyanna effect and High default culture effect. Also, basing on the merits of the study, the researcher suggests determining relationship between non-performing loans and loan size, collateral, credit culture, and credit management information system.
- The Effect of Non-Performing Loan on Profitability: Empirical Evidence from Nepalese Commercial Banks(2021) by Sanju Kumar SINGH, Basuki BASUKI, Rahmat SETIAWAN .The main objective of this research is to find out the effect of Non-Performing Loan (NPL) of Nepalese conventional banks. The population of this study is major commercial banks in Nepal and the data obtained for this study was from the period 2015–2019. This research used secondary data and it is collected from each bank's annual report and GDP and Inflation taken from the World Bank database. The method used for data analysis in this study is multiple regression analysis. The study used NPL as a dependent variable and Return on Asset (ROA),

Capital Adequacy Ratio (CAR), Bank Size, GDP growth, and Inflation as independent/explanatory variables. The result of this research shows that ROA, Bank Size, GDP, and Inflation have a significant effect on NPL but CAR does not have a significant effect on the NPL of banks. In other words, the GDP effect on NPL in this study shows a positive and significant effect while most studies show a negative effect. It demonstrates that when GDP growth increases, there is a significant increase in the growth of Nepalese banks even though there were no significant changes in income growth. Therefore, GDP growth has a positive and significant effect on the NPL of commercial banks. Thus, the bankers and policymakers need to consider GDP growth carefully while taking NPL-related decisions.

- Non-performing Loan and its Effects on Banking Stability: Evidence from National and International Licensed Banks in Nigeria (2018) by Atoi, Ngozi Victor This study examines Non-Performing Loan (NPL) and its effects on the stability of Nigerian banks with national and international operational licenses from 2014 to 2017. A "restricted" dynamic GMM is employed to estimate the macroeconomic and bank specific drivers of NPL for each licensed category. Z-Score is constructed to proxy banking stability, and its response to shocks NPLs is examined in a panel vector autoregressive framework. Theresults reveal that drivers of NPLs vary across the two categories of banks, but, weighted average lending rate is a vital macroeconomic driver of NPLs for both. The results also confirm the moral hazard hypothesis and risk return tradeoff of efficient market theory. Furthermore, international banks withstand NPLs shocks in the long run, despite temporary flux in the short horizon, while the stability of national banks is susceptible to NPLs shocks in the long run

2. Bank loans:

2.1. **loan concept**

The word "loan" is derived from the verb "to borrow" and its linguistic meaning is that which is given to others from money on condition that they be returned after a specified period known to be beneficial (ناصر, عابد, & ابو زيتون, 2013, p. 51). Conventionally, a loan is defined as a contract between two parties, the first party being a lender and handing over to the other party, the borrower, a certain amount, provided that the borrower returns it to the lender with its interest at the time specified in this contract. From the trust that the bank or the lending entity gives to its client so that it puts at its disposal a certain amount of money to be used for a specific purpose and during a specified period, in return for the bank or the lending entity to obtain an agreed material return, with the borrowing client providing a set of guarantees that enable the creditor to recover his money in If the customer stops paying . (النجار, إدارة الائتمان والقروض المصرفية المتعثرة, 2000, p. 28)

2.2 Steps for granting loans:

Loans go through several stages before granting them to clients, starting with studying the client's file and ending with informing the client of the decision, whether acceptance or rejection. The following are the steps that the loan goes through when granting in a financial institution or a bank:(المطلب, البنوك الشاملة وعمليات إدارتها, 2000, p. 53)

- **The stage of customer attraction:** In this case, the lender searches for customers that it anticipates their need for its products, and markets them for loans.
- **Submission of the loan application:** It is in accordance with certain forms in which the applicant is provided by the entity that will grant the loan, and the information must be complete and able to be entered into automated systems, to form a database and credit information for the customer.
- **Sorting applications:** The credit department at the lending authority sorts applications according to their types and according to the degree of risk in grants, in preparation for the credit analysis, which is carried out according to the credit inquiry that shows the credit history of the customer, and according to the policy of the country in which the application is submitted.
- **Evaluation:** In this case, the credit department evaluates the request, and sets the benefits and costs resulting from the credit decision, whether positive or negative, and based on the credit policies of the banking institution in the grant process.
- **Making a credit decision and preparing the loan contract:** The credit department takes the decision to grant the customer the loan according to certain or additional conditions, or based on the information provided by the customer, and it sets conditions on the contract and adds the appropriate guarantees according to the type of loan, and the loan contract is prepared in coordination with The Legal Affairs Department of the donor.
- **Execution of the loan and its withdrawal by the customer:** This step takes place after completing the signature between the creditor and the debtor, where the loan amount is disbursed in the customer's account or in the form of checks drawn on the creditor's account, either in the form of a single payment or payments based on the terms and guarantees required in a contract loan.
- **Loan collection:** This is done by following up on the credit department itself, or a specialized department called the Collections Department, where the loan granted to the customer is recovered in installments as stated in the loan contract. The researcher believes that the process of proving the cash flows of the customer requesting the loan is the most important indicator that must be relied upon in order to grant the customer the loan.

2.3 .Criteria for granting loans:

First, the credit standards modelBefore making a credit decision, the credit department seeks to be aware of the risks that the bank or institution will be exposed to when granting credit, and this is done by analyzing a set of criteria, which are as follows (ربعي, 2019, p. 27)

- capacity: leveraged ability: The establishment of banks came to meet the needs of customers from various banking services, and the law gave customers the right to request credit facilities from the lending authorities, but the law is reserved for these parties. The right of refusal or acceptance, based on the analysis of the ability of the customer requesting debt, and this ability is measured based on the total debts of the entity or the person requesting the credit compared to the assets of this entity, and in the event that the institutions or individuals rely on debt to finance their business, this is an indication of the risks They may be exposed to it in the future if their activity decreases.
- **customer character:**It is one of the most important matters to be taken care of in the process of granting loans, as studying the client's personality and behavior, in addition to honesty, trust and credibility, indicates this client's sense of responsibility, and thus this is reflected in the client's commitment to fulfill his obligations. (ربعي, 2019, p. 28)
- **capitalcustomer:** The client's capital is considered one of the most important foundations of the decision and credit, so the credit management increases its analysis of the client's capital to determine the degree of risk to which it is exposed. The client's capital includes stocks, bonds and other property such as cars, real estate and land, and any other immovable assets. Movable and immovable assets owned by him.
- **collateral warranty:**The guarantee is an enhancement or protection from certain risks that the lending institutions are exposed to when granting credit to a customer, so the greater the risk that surrounds the credit operation, the greater the guarantees required to protect the rights of the lender. Movable, which the customer puts on the mortgage of the donor to document the credit process, and he cannot remove this mortgage except at the end of the life of the loan, or replace it with other guarantees acceptable to the institution granting the loan. (ربعي, 2019, p. 30)

3.Non-performing loans

The process of granting loans from the bank is, in fact, the confidence that it places in its customers. Although trust is considered an essential basis for the lending process, it does not guarantee the bank to protect it from the risks that it may be exposed to when granting these loans, due to the possibility of events or influences that hinder the borrower or prevent him from fulfilling his obligations towards the bank, and in this case, the The bank's rights on the borrower become in a danger situation, and the loans that reach this situation are called by a group of names, the most important of which are: critical debts, debts and bad debts, debts and frozen debts, outstanding debts, bad debts, stagnant debts, private debts, non-performing debts, difficult debts, doubtful debts collect them. (الخيضري, 1996, p. 21)

3.1 Non performing loan concept.

The definition of a non-performing loan came as the debt that the bank considers, after studying the financial position of the client and the guarantees of the debt, that it is of such danger that it cannot be collected within a reasonable period (نوفل, 2000, p. 02).

Non-performing loans are defined as loans that no longer bring the bank interest income, or loans that the bank finds itself obliged to reschedule in accordance with the current conditions of the borrower. The issue of default has been linked to the percentage of the bank's inability to collect loans, and with regard to the determinants of non-performing loans, they differ from one country to another, some of which can be mentioned:

- The United States of America, if any of the loan installments are due for more than 90 days, it is considered a non-performing loan.
- South Korea and Indonesia, the loan is considered non-performing, if three months have passed since the date of paying the oldest installment due.
- In India, if six months have passed since the date of paying the oldest installment due, the loan is considered defaulted.
- Jordan, a period of 180 days has been taken from the date of paying the oldest installment due as a limit to consider the loan as defaulted; Until 1999, then this period was gradually reduced to 90 days in 2002 and beyond.
- Algeria, if a period of six months has passed since the date of paying the oldest installment due, the loan is considered defaulted.

3.2 Reasons for bank loan defaults

Through research and realistic experience of the problem of loan defaults, a set of reasons were stopped, which were formed by the credit management workers and bank customers and some other variables represented in the following set of reasons related to the borrower :

❖ Since the borrower, whether an individual or an institution, is one of the parties to the credit relationship, he can cause loans to default on the following points: (النجار, إدارة الائتمان و القروض المصرفية المتعثرة, 2000, p. 56)

- Using the loan for a purpose other than that for which it was granted.
- Poor management capabilities of the borrower.
- Borrower's bad faith - Providing incorrect information about the borrower or the funded project.
- The death of the borrowing customer and the failure of the heirs to pay.
- Declare the borrower's bankruptcy.

- The borrower's failure to comply with the bank's directions and instructions.
- There are operational problems with the funded project.
- There are gaps in financial and accounting management.
- Excessive borrowing.

❖ **Bank-related set of reasons**

As the bank is the party responsible for the steps and methods of studying the loan, and is responsible for granting and following up on the loan, any failure in these procedures will lead to loans defaulting for one of the following reasons: (النجار, إدارة الائتمان و القروض المصرفية المتعثرة, 2000, p. 58)

The inability of the bank to estimate the cash needs of the borrower;Errors in credit analysis ;Error in estimating guarantees;The bank grants to the borrower the proceeds of the loan to be used in one payment ;The bank does not have a credit policy; The bank precedes the return factor over the risk factor ;Decision to grant credit based on pressure exerted by other parties ;Making credit decisions based on guarantees, regardless of creditworthiness ;The bank's inability to follow up on the funded project ; Full or almost complete financing of the project ;Inadequate credit activity staff;Poor working conditions for bank employees.

❖ A group of other reasons that loans may falter for reasons beyond the management of the two parties to the credit process, and these reasons are as follows:

- Weak supervision of banks.
- Changing banking regulations and legislation related to credit.
- Poor economic performance.
- State interventions that have a negative impact on the borrower.
- Security and political instability.

When talking about the case of Algeria, the problem of non-performing loans with institutions is due to the following reasons:

- Granting loans to unqualified institutions and persons with weak management capabilities, under the cover of supporting employment and economic development.
- The emergence of a large number of institutions in improper conditions that belong to the general environment of the country, which was the reason for their inability to keep pace with and respect development plans. (النجار, إدارة الائتمان و القروض المصرفية المتعثرة, 2000, p. 60)
- There is a defect in the credit studies due to their reliance mainly on the information provided by the borrowers without sufficient verification of it from external sources.
- The lack of a clear policy for banks to follow up on projects financed by institutions.

- Lack of accuracy in estimating the financial needs of institutions and estimating the guarantees provided by them.

3.3Stages of bank debt default.

The process of default goes through a number of stages. The default does not happen suddenly, but is represented as a result of several stages that start with a lack of liquidity and develop until it reaches the cessation of payment. Before reaching the stage of default, a customer usually passes through stages that must be the focus of attention and attention of workers in the field of lending and credit , so that the loans granted to him can be dealt with before they become non-performing loans, and these stages are represented in : (المطلب, الديون المصرفية المتعثرة و الازمة المالية المصرفيةالعالمية, 2009, p. 19)

❖ **The stage of financial liquidity:**

The project enters this stage as a result of investing the available money in slow-moving assets, or in untapped production capacity, or entering into investments that do not give a quick or low return, or as a result of the bankruptcy of the largest clients of the project, which means low collection

This stage is also linked to the emergence of a number of negative factors resulting from production and marketing problems, such as poor efficiency of production methods, weak competitive position, and insufficient banking facilities.

❖ **The stage of deficit in working capital:**

This stage is related to the project's inability to meet its current obligations, and it is in dire need of cash despite its possession of physical assets, and thus the voluntary capacity of the invested funds decreases, and the reliance on debt increases as sources to support cash balances and provide liquidity. The project may resort to reducing the size of its business and liquidating some of its current assets to reduce the increase in the value of the realized losses or to try to increase its ability to achieve profits.

❖ **the stage of temporary financial hardship**

This stage is related to the project's inability to use its normal policy to obtain the cash required to be used in the face of its obligations, and the difficulty of converting part of its assets into cash when creditors request to obtain their outstanding debts. At this stage, a set of indicators may appear that leads to the next stage, which is the stage of permanent financial hardship. : (المطلب, الديون المصرفية المتعثرة و الازمة المالية المصرفيةالعالمية, 2009, p. 20)

- Erosion of the project's capital as a result of the project's inability to recover all the money spent.
- In the asset transformation cycle.
- The growing debts of the project.
- Inflation of merchandise stock as a result of slowing and stagnation of merchandise turnover.

❖ **The stage of permanent financial hardship:**

At this stage, the market value of the project's assets is less than the total of its obligations, and the project becomes unable to pay its short contractual obligations in the terms owed by others, which is what often leads to bankruptcy. (المطلب, الديون المصرفية المتعثرة و الازمة المالية المصرفيةالعالمية, 2009, p. 21)

3.4Financial effects of default:

❖ Effects of non-performing bank loans on the banking system: The high volume of non-performing bank loans in the loan portfolio and credit facilities would have several negative effects on the banking system, as follow (صديقي &خروبي, 2021, p. 43)

❖ Influencing the credit decision and adopting a conservative credit policy, or affecting the structure of investing funds, which may result in an increase in liquid balances with banks.

❖ Non-performing loans lead to the freezing of an important part of the bank's funds as a result of the inability of the defaulting clients to pay their obligations.

❖ Non-performing bank loans lead to a decline in the total revenues of banks, as a result of saving the interests calculated on non-performing bank loans, in addition to creating necessary provisions to direct them. Non-performing bank loans also limit banks' ability to Expanding its credit activity and granting new facilities to new clients.

❖ The accumulation of non-performing bank loans leads to a decrease in the bank's turnover of funds, and thus the operational capacity of its resources.

❖ The banks are forced to set aside a large penalty of their profits in the form of allocations and reserves to meet these loans and credit facilities, which leads to a decrease in the surplus activity.

❖ Banks' tendency towards more costly sources of financing their employment.

3-5. Impact of Non-Performing Loans on National Income and General Budget Revenues:

Non-performing loans lead to depriving the state's general budget of an important part of the sovereign resources, as well as a decrease in the proceeds of taxes transferred to the state from the banking system and faltering projects, in addition to an increase in idle capacity. (صديقي &خروبي, 2021, p. 43)

3-6-Impact of Non-Performing Loans on the Investment Climate:

The high volume of non-performing loans leads to a negative impact on the investment climate, whether this investment is public, where the state is unable to implement public projects, or a private investment, which suffers from low returns or disputes between banks, where the level of liquidity decreases and what It causes the projects to be unable to find the funds needed to operate them, as the demand for workers decreases, unemployment increases, and troubled companies achieve successive losses, thus reducing the tax revenue from them, i.e. reducing the state's public revenues (صديقي &خروبي, 2021, p. 48)

3-7-Impact of Non-Performing Loans on Business Units and Funded Projects:

Non-performing debts lead to more cases of credit defaults for the actually troubled units and other units. for distressed units.

3-8- Non-performing loans in Arab countries

The ratio of non-performing loans to total loans exceeded 10 percent in Tunisia, Algeria, and Iraq, reaching 13.8 in Tunisia and 12.3 in Algeria, while it reached 11.4 percent in Iraq in 2017. On the other hand, statistics indicate that the profits of commercial banks increased by about 38.4 percent in Tunisia in 2017, in conjunction with a slight decline in the ratio of loan provisions to total non-performing loans from 57.9 percent in 2016 to 57.7 percent in 2017, bringing the value of banks' profits to about one billion Tunisian dinars. . While the profits of commercial banks in Algeria declined from 474 billion Algerian dinars in 2016 to 436 billion Algerian dinars in 2017, despite the decline in provisions for bad loans from 54.5 percent in 2016 to 51.4 percent in 2017. (قاسم حسن, 2019, p. 19)

It is also noted that the percentage of non-performing loans decreased to less than 2 percent in both Saudi Arabia and Kuwait, reaching about 1.6 and 1.9 percent in 2017, respectively. The percentage of loan provisions from the total non-performing loans in Saudi Arabia decreased from 166.6 percent in 2016 to 151.9 percent in 2017, and the net profits of banks increased by about 45.1 billion Saudi riyals in 2017, compared to 41.1 billion Saudi riyals in 2016. In Kuwait, the percentage decreased Provisions for non-performing loans increased to 230 percent in 2017 compared to 237% in 2016, while the net profits of banks in Kuwait rose to 813 million Kuwaiti dinars in 2017 compared to 746 million Kuwaiti dinars in 2016. (قاسم حسن, 2019, p. 23)

Table N°1: the effect of non performing loans on the net profits of banks

Arabic countries	Ratio of loan provision to total non performing loans(%)			Bank net profits		
	2015	2016	2017	2015	2016	2017
Saudi arabia	164.3	166.6	151.9	43,643	41,058	45,095
Algeria	59.2	54.5	51.4	426,286	473,952	435,892
Tunisia	56.9	57.9	57.7	643	779	1,078
Bahrain	59.2	56.6	52.8	765	915	1,053
United arab Emirates	109.8	110.2	107	37,813	35,618	38,594
Jordan	74.7	77.9	80.8	582	522	546

Source : 2019 مجلة صندوق النقد العربي

3-9- Suggested solutions to the problem of bad loans and possible alternatives :

If the lending process is one of the most prominent activities of commercial banks, the risks of loans and default represent the main problem and the major obstacle to these activities, but this does not prevent commercial banks from preventing them by granting credit on objective, not personal, bases, in addition to carrying out continuous monitoring of the bank loan portfolio. The following are some suggested solutions to address the problem of non-performing loans: (الطروانة, 2003, p. 35)

- Establishing a credit department specialized in dealing with non-performing loans, entrusted with studying the data of the borrowing institutions in terms of the type of activity, how to use the disk, the volume of non-performing loans.
- Raising the professional competencies of the employees assigned to the credit process.
- Accurate diagnosis of the bad loan from all external aspects Postponing the date of loan recovery when there is an actual need for it, especially if the bank found that the reasons for default were outside the borrower's management and not his mismanagement of the institution's affairs.
- In order to meet credit risks and reduce their effects to the minimum possible, the bank should make provisions for this, and according to the decisions of the Basel Committee, the debt whose owner stops paying for six months is considered a non-performing debt.
- Proposing solutions and setting rules for repayment that are consistent with the capabilities of the borrower, based on an in-depth study of loans and the borrowing institution to guide it in how to reduce costs, rationalize expenses, liquidate some assets, raise performance efficiency and make changes in management.
- Studying the possibility of expansion for the troubled borrower by granting him additional facilities to solve his financial-impact problems, if it turns out that this helps him to fill the emergency shortfall as a result of the deterioration of his financial situation.
- Studying the possibility of transferring risks with the defaulting client to a party more capable of it, as is the case for loan guarantee institutions.
- Converting the bank's debt into an in-kind share of the debtor's assets, which is then converted into shares, so the bank becomes a shareholder in the institution participating in the profit and loss. Whereas the owners of this proposal see that the bank's participation in the management of troubled institutions can lead to the improvement of the company's conditions and its transformation from loss to profit. (Al-Tarwana, 2003, p. 36) Selling some non-performing assets that the borrower can dispense with during this period.
- Carrying out loan liquidation procedures, which is the most extreme and most sensitive alternative to the bank's reputation.

3-10- In fact, dealing with interest on loans results in the following results:

The accumulation of interest on the borrower and the possibility of his inability to pay, which leads to the freezing of the bank's funds.

The inability of the bank to directly intervene in the project in the event of a weakness in the managing capabilities of the borrower, as the bank is a creditor and not a partner.

Assigning credit decisions based on guarantees, regardless of creditworthiness. Perhaps one of the alternatives available to banks for loans and the resulting default is a number of transactions that make the banking institution in the position of a partner, seller or advisor, and among the activities that achieve such financing positions is what is dealt with in banks that adopt formulas Islamic finance, including risk capital and comprehensive banks. Here, all banking efforts are directed towards assisting the borrower and contributing to project management, which gives impetus to generate cash flows that ensure profitability in the project, and thus ensure the continuity of its activity and keep it away from all cases of default. (الطروانة, 2003, p. 36)

4.Study Case

To address the issue of non-performing loans in Algerian banks, we will present the case of a non-performing loan in the Rural Development Bank and how to settle it.

4.1 Definition of Rural Development Bank

The Bank of Agriculture and Rural Development is a national financial institution subject to the rules of the commercial law and the Bank of Algeria system. It was established on March 13, 1982, to finance agricultural activities, as it enjoys legal personality and financial independence. The establishment of the Bank for Agriculture and Rural Development came on the impact of the reforms of the banking system and commercial banks Which seeks the most profit possible already, and given the importance that characterizes the bank, it has imposed itself among the various banks, where the latter performs several tasks, including :

- Financing agricultural production structures and activities and all activities related to this sector.
- Financing the structures and activities of agricultural production, activities of traditional industries, traditional crats and rural crafts
- Financing small and medium enterprises and working on their development;

4.2 Amicable settlement of a non payed loan

A client of the Bank of Agriculture and Rural Development applied by proxy to obtain an investment loan in order to finance his agricultural project to grow grain on a land estimated at 250 hectares.

- The loan amount is 83,653,467 DA.
- The purpose of the loan is to purchase agricultural equipment represented in a truck. Agricultural tractor. 4 axles. Agricultural dumper. Tank. Plow. Crop cover, sprayer, fertilizer sprinkler, electrical equipment.
- The loan term is 6 years.
- Postponement period of a year.
- interest rate.

4-2-2- Guarantees granted.

- Mortgage of agricultural land of an area of 250 hectares
- Undertaking funded equipment.
- Commitment of traded shares.
- FGA Warranty

Note that this client also benefited from an agricultural loan in 2015 to finance the purchase of agricultural materials, as he repaid this loan according to the stipulated terms.

The following table shows the payments to be paid according to their specific dates and the dates they were paid.

Table N°2: assumed loan payment

Payment day	Payment value
31-12-2018	19520102.37
31-12-2019	19520102.37
31-12-2020	19520102.37
31-12-2021	19520102.37

Source : bank document

Table N°3: loan payments dates

Payment day	Amount payed	Remaining amount to pay
2019-06-30	23046.27	-
2019-07-08	1961330.84	-
2019-12-16	1311987.14	-
2019-12-25	2463800.79	13759937.33
2020-01-15	869221.21	-
2020-01-19	12890716.12	-
2020-05-31	22748542.18	16702823.91
2021-06-20	860.23	-
2021-06-30	1882241.48	-
2021-06-30	-	11591282.38
-	46969024.72	31111384.75

Source: bank document

Tables Analysis

We note from the previous table that the customer has failed to pay his installments in full since the year 2019 and that he stopped paying his payments in the middle of the year 2021. -2021 The reasons for the delay in payment according to the customer were both the Corona pandemic and the high costs of raw materials; Where after studying the customer's request, the loan was restructured as follows.

Table N°4:loan amortization schedule

Remaining loan	Payment	Benefit	Paid amount	Total amount
3111385	6222277	2022240	384226	2406466
24889108	6222277	1617792	307380	1925173
18666831	6222277	1213344	230535	1443879
12444554	6222277	808896	153690	962586
6222277	622277	404448	76845	481293

Source :bank document

5- Conclusion

Banks play an important role in the process of economic development by providing the necessary funds for investment, and this is by granting them loans. However, this process is not without risks, such as the risk of default on loans granted to this, and in order to avoid these risks, they resort to several measures, including the required guarantees and the feasibility study of the project .

Through our study of this topic, both theoretical and practical, we reached the following results:

- Loan default is the result of various reasons that may be due to the borrower himself or the financial institution, or to sudden reasons outside of all parties.
- The methods of processing the loan vary according to the reasons leading to it, as the bank takes the appropriate measures for each case, while striving to preserve the customer's interest.
- The loan default process goes through several stages through which it can be predicted and the problem can be addressed before the loan defaults.
- The effects of the loan default go beyond the effects on the bank to include the economy as a whole.
- The recovery of banks' funds through the judiciary requires a lot in terms of the time period and the costs of the judiciary, as the judicial procedures require a significant period of time to settle the dispute, which disrupts the interests of the bank and affects its financial position.
- Providing banks with an information system with the use of modern information and communication technology that allows them to obtain as much information as possible about the customer before granting the loan and after granting it, and allows them to avoid exposure to the risk of loan defaults.

6- Recommendations:

- weighted average lending rate, anchored on monetary policy rate should be the focus of banks' regulators when addressing issues of NPLs. Again, strategies for mitigating short run impacts of NPLs on the stability of international licensed banks should be incorporated in the off-site regulatory framework to ensure banking stability.
- banks should put in place a vibrant credit process that ensures proper customer selection and risk identification, robust credit analysis, proactive monitoring and clear recovery strategies for bad loans, formulate clear policy framework that addresses issues of ethical standards and check and balance credit

process, organizational capacity enhancement of banks, deliberate effort to develop credit culture for managing loans ,and ensure prudent policies that govern bank loans

- The government and the central bank should ensure rigorous enforcement of the present banking rules and regulations. The punitive measures for noncompliance of the annual performance agreement with the Ministry of Finance or the failure to meet the goals in line with the memorandums of agreement signed with the central bank should be ensured.
- To ensure that loans do not go bad and NPLs do not accumulate in the first place, corporate governance should be strengthened and careful due diligence followed in lending decisions by banks. Efforts are needed to ensure that loans are made only on commercial considerations, devoid of administrative or political influences. Similarly, effective measures are needed to ensure that sincere efforts are made at recovering loans.

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