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EFFECT OF CREDIT MONITORING PRACTICES ON LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS IN SOUTH SUDAN: A CASE STUDY OF KENYA COMMERCIAL BANK. MIXED METHODS STUDY.

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ABSTRACT

Background:
The study aimed at examining the Effect of credit monitoring practices on the Loan Portfolio performance of commercial banks in South Sudan, a Case of Kenya Commercial Bank.

Methodology:
In this study, a case study research design was adopted; stratified random sampling and purposive sampling techniques were used to select a sample of 92 employees from a population of 120 respondents. Out of 82 questionnaires administered, only 68 respondents returned questionnaires making a response rate of 83% and out of 10 interviewees targeted only 8 interviewees' responded making a response rate of 80%. The study was both qualitative and quantitative.

Results:
The majority of the respondents (42) were females (55.6%) and 34 of them were males (44.4%) and of them were above 18 years. Findings revealed that credit monitoring positively and significantly affects the perception of loan portfolio performance (r=0.732, P<0.01). The adjusted R square value of 0.501 indicates that credit monitoring practices included in the study explain a 50.1% variation in loan portfolio performance with an F value of 44.68 significant at p-value =0.01.

Conclusion:
All outstanding loans in the loan portfolio are continuously reviewed & closely monitored. Kenya Commercial Bank has ensured that reviews are done on the collection policies to improve credit management.

Recommendation:
Banks should value all information about the customers at a high level when doing their credit assessment because the information they may consider to be less important could be the cause of a failure in their decisions or, it could be the area from which the customer's default arises.

Keywords: *Loan portfolio performance, Kenya Commercial Banks, Credit monitoring practices.*
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BACKGROUND OF THE STUDY

Loan portfolio performance refers to the rate of return of an investment in various loan products (Krestlow, 1992). Loan portfolio performance will be greatly interpreted as the ability to attain an increase in loan turnover, client goal attainment, client affordability to repay/service, loan recovery/collection rate, arrears rate, loan loss rate, portfolio risk, and the ultimate reduction in nonperforming loans (Mohammad, 2014).

Credit-extending institutions need monitoring systems to clearly and quickly highlight repayment problems so that loan officers and their supervisors can focus on delinquency/default before it gets out of hand (Warue, 2012). However, even when stringent loan monitoring practices are implemented, the performance of loans might not improve. This is because Nakayiza (2013) studied the contribution of interest rates on loan portfolio performance in commercial banks coupled with an increase in clients defaulting on loan repayments.

KCB has continued to face poor loan portfolio performance on average between 20-40% bad debts written off yearly, the loan loss rate increased from -0.10% to 2.81% and the number of outstanding loans increased from $18795 to $24479 (KCB Statistical Abstract, 2017). This trend has continued as the Nonperforming loans have increased from

shs.39.8 billion in 2018 to pounds .60.82 billion in 2019. The bad debts written off also have continued to increase from pounds, 25.9 billion in 2018 to pounds .128.8 billion in 2019. The loan loss rate increased from 1.0% in 2018 to 1.2% in 2019 and the number of outstanding loans increased from pounds.1.53 billion to pounds .1.74 billion in 2019 (KCB Annual Report,2019).

Kenya Commercial Bank (South Sudan) has tried to follow strict procedures and regulations in administering credit, but there is an increase in the bad debts written off in the bank ultimately affecting profitability. Since Nakayiza (2013) recommended adequate loan review policies and strict enforcement to credit officers who issue credit without following the credit policies of the bank, this current study seeks to add to her findings by ascertaining if such strict enforcement (monitoring) practices when followed, shall help the financial institutions improve on their loan portfolio performance. (Wehinger, 2014).

The study aimed at examining the Effect of credit monitoring practices on the Loan Portfolio performance of commercial banks in South Sudan, a Case of Kenya Commercial Bank.

METHODOLOGY

Research Design

The study adopted a case study research design to provide a depth investigation of the underlying effect between the variables under study. This design was selected because it narrows abroad area of research into one case within that field. The study applied both quantitative and qualitative approaches.

Study setting

The study was conducted in Juba in Kenya Commercial and focused on the period 2019 to 2022.

Study Population

The population under study was 120 employees who included top-level, middle-level, and lower-level staff of all departments in Kenya Commercial Bank (Investment, procurement, finance, risk, legal, internal audit, benefits, compliance, customer service, and data management unit) was used. The researcher believes that this category of people is knowledgeable enough about his area of study. The population was made up of respondents of both sexes (male and female).

Sampling Techniques and Procedures

Stratified random sampling

To get the desired information, stratified random sampling was used to sample the staff from different functional departments of the managing director's office, credit, procurement, finance, risk, internal audit, legal, and compliance departments using a questionnaire as a tool of data collection.

Purposive Sampling

Purposive sampling involves selecting respondents who are knowledgeable and experienced. According to Mugenda & Mugenda (1999), purposive sampling is restricted to specific types of people who possess the desired information and it enables the researcher to pick a sample based on his interest, knowledge, and judgment. This technique was used to select 10 knowledgeable respondents who participated in the interviews.

Data Collection Methods

Data for analysis in this study was collected using the questionnaire survey and the interview methods.

Surveys

Surveys were used based on the fact that the variables cannot be observed such as views, opinions perceptions, and feelings of the respondent (Sekaran, 1990). The researcher developed a survey; the surveys looked into how the employees felt about credit monitoring and whether it was effective in their opinion.

Interview Method

To obtain accurate information through interviews, a researcher has to obtain the maximum cooperation from respondents. The researcher used interviews because they provided in-depth data which was not possible to get using a questionnaire and they made it possible to obtain data required to meet the specific objectives of the study. In total 10 interviews were to be conducted that included 01 from top management, 03 team leaders, 03 Heads of Departments, and 03 Supervisors.

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Sample Size and Selection

The study was based on a sample size of 92 that was drawn from a population of 120. The sample size of 92 was determined using Krejcie and Morgan (1970).

Data collection instruments

Questionnaire

A semi-structured questionnaire with closed-ended questions which he sent to top managers, branch managers, supervisors, and clerical staff of Centenary Bank to fill during his free time. Closed-ended questionnaires were used because according to Amin (2005), questionnaires provide specific responses that are easy to analyze.

Interview Guide

The interview guide was unstructured containing questions on all variables of the study. Interviews were used because they have the advantage of ensuring probing for more information, clarification, and capturing the facial expressions of the interviewee.

Data Validity and Reliability

Data Validity

The validity of the instrument quantitatively was established using the Content Validity Index (CVI). This involved the expert scoring of the relevance of the questions in the instrument about the study variables. The instruments that yield a CVI above 0.7 were within the accepted ranges. Amin (2005) notes that a CVI of more than 0.7 implies that the tool is valid. Content validity Index (CVI) was computed using the formula below:

$$CVI = \left[\frac{n}{N}\right] X100$$

Where; n = Number of items rated as relevant.

N = Total number of items in the instrument.

Reliability of Data

To ensure the reliability of instruments, the Cronbach's coefficient alpha test was carried out. If the results from the test were more than 0.70, the researcher had to proceed with the instruments and administer them to respondents. This is because Mugenda &Mugenda, (1999) suggest that a coefficient of 0.70 and above implies that there is a high degree of reliability of the data.

Table 1: Population, Sample Size, and Sampling Techniques

Category	Accessible population	Sample size
Managing Director's office	1	1
Credit Department	20	17
Procurement Department	09	7
Finance/Accounts Department	15	11
Risk Department	12	11
Internal audit Department	11	8
Legal Department	14	6
Compliance Department	14	10
Customer service Department	18	15
Data management Unit	06	06

TOTAL	**120**	**92**

Source: Primary Data (2023)

Table 2: Content Validity Index Results

Content Validity Index Results for Questionnaires		
Variables	**Content Validity Index**	**Number of items**
Credit monitoring practices	0.766	8

Source: Primary Data (2023)

Table 3: Content Validity Index Results

Cronbach Alpha Coefficient Results for Questionnaires		
Variables	Cronbach Alpha Coefficient	*Number of items*
Credit Monitoring practices	0.734	8

Source: Primary Data (2023)

The Cronbach Alpha Reliability test was carried out and the test results revealed that credit monitoring practices had a reliability test result of 0.734 and loan portfolio performance had a reliability test result of 0.804. All the variables had results above the standard value of .70 (70%) which showed that all items in the instruments were reliable.

Qualitative data

Qualitative data was collected based on the trustworthiness between the researcher and the respondents to ensure the credibility of the study findings. Therefore, the researcher explained extensively the purpose of the study to the respondents as its specific purpose was to extract more knowledge on how credit monitoring practices affect loan portfolio performance and that the information provided was only to be used for academic purposes and be treated with a lot of confidentiality.

Data Collection Procedures

The researcher approached Kenya Commercial Bank South Sudan Limited with an introductory and data collection letter from Kyambogo University for general permission to carry out research in their organization. The researcher explained to different respondents the purpose of the study and how their responses were to be treated with confidentiality and were for academic purposes only. Then, various instruments were administered to different respondents as per schedule and then collected when completed for purposes of data analysis.

Quantitative Data Analysis

This dwelt on the analysis of quantitative data. Quantitative data from questionnaires was sorted using the Statistical Package for Social Sciences (SPSS) method. Both Excel and SPSS have a similar feel, with pull-down menus, a host of built-in statistical functions, and a spreadsheet format for easy data entry. The analysis relied on both descriptive and inferential statistics. Quantitative data obtained from the questionnaires was computed into frequency counts and percentages. The descriptive statistics included the use of frequency tables, mean, and standard deviation. The researcher adopted a multiple regression analysis in analyzing the effect between the study variables. The hypotheses were tested using the Pearson Correlation Coefficient.

Qualitative data analysis

Qualitative data was summarized into relatively shorter and more meaningful phrases that capture the overall views of different respondents. The summarized views were reported in verbatim, indirect, and direct quotations. Where necessary, part of the qualitative data was coded to determine the frequency of key ideas and phrases. Data collected was coded in a code book, correctly synthesized, and interpreted using patterns generated, frequencies of occurrences, commonalities and differences, and relationships from the information gathered (Mugenda & Mugenda, 1999).

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Measurement of Variables

The five (5) rating scale of Likert was used to measure the effect of credit monitoring on loan portfolio performance, Respondents were asked about the degree of agreement with the statements in the questionnaire classified from 1-Strongly disagree to 5-Strongly Agree. Based on the responses, analysis was done to measure the respective variables.

Data Analysis Techniques

Data analysis involved the use of qualitative and quantitative techniques where SPSS-17 was used for the quantitative aspect of data collected using the questionnaires. The data in the questionnaires was first coded and then entered into the SPSS software and afterwards various parameters were derived for descriptive and inferential statistics. Content analysis based on themes was used for qualitative aspects that come with data collected using an interview guide. The interviewee responses were given codes for identification to completely mask the identity of the interviewees.

Ethical Considerations

Sought permission from respondents after explaining the purpose of the study to them. Only those respondents with informed consent were included in the study. Ensured that participants had a complete understanding of the purpose and methods used in the study, the risks involved, and the demands placed upon them as participants. The participants were informed that they had the right to withdraw from the study at any time. The researcher ensured the confidentiality of the information and names of the respondents. Privacy was ensured for both respondents and the information was used for academic purposes only. This was done by informing the respondents not to write their names on the questionnaires and the researcher coded numbers to describe the respondents. The researcher ensured intellectual property rights were observed by acknowledging all works cited, and no plagiarism of other authors' work was done. This means the researcher recognized the author's work where due and no misrepresentation of the author's work.

Table 4: Response Rate

Instrument	Target response	Actual response	Response Rate
Questionnaire	82	68	83%
Interview	10	8	80%
Total	**92**	**76**	

Source: *Primary Data, 2023*

RESULTS

Response Rate

As indicated in Table 4, for the qualitative information, out of the 10 respondents who were expected to be interviewed, 8 accepted and participated in the study making a response rate of 80%. For the quantitative information, 82 questionnaires were distributed and 68 were completed and returned making an 83% response rate. This response rate was considered sufficient since according to Mugenda & Mugenda (1999), a response rate of 50% and above is good enough for a study.

Demographic characteristics of the respondents

From Table 5, all the respondents that took part in the study were above 18 years of which 21% were between 20-30 years, 29% were between 30-40 years, above 40 years 50%. Thus the respondents were mature and knowledgeable on the subject matter.

Further, the majority of the respondents (42) were females (55.6%) and 34 of them were males (44.4%). This distribution indicates that the variation in gender representation was not very big to cause worry arising from gender bias. It can also be observed from Table 5 that the majority of the respondents were married (67.5%) a sign that they were responsible. In terms of the level of education, many of the respondents were degree holders (45.3%) followed by 21.4% belonging to the category of Master, 20.5% diploma holders,7.7 others, and 5.1% certificate holders. The results indicate that the respondents had reasonably good education qualifications and the desired skills and knowledge to enable them to read and interpret the issues presented to them in the questionnaires and interviews.

Descriptive statistics on the study variables

These are represented in terms of the different items used to represent the variables of interest on a five-point Likert scale where 1 strongly disagrees (SD) and 5 strongly agree (SA)

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while 2 disagrees (D), 3 is neither agrees nor disagrees and 4 agrees (A).

Table 5: Demographic characteristics of the respondents

Characteristic	Frequency	Percentage (%)
Age		
20-29 years	16	21
30-39 years	22	29
40 and Above	38	50
Total	**76**	**100**
Gender		
Female	42	55.6
Male	34	44.4
Total	**76**	**100**
Marital status		
Married	51	67.5
Single	21	27.4
Widow/Widower	4	5.1
Total	**76**	**100**
Education levels		
Others	6	7.7
Diploma	16	20.5
Certificate	4	5.1
Degree	34	45.3
Masters	16	21.4
Total	**76**	**100**

Source: *Primary data, 2023*

Table 6: Descriptive statistics for credit monitoring practices

Items on Credit monitoring practices	Mean	Standard Deviation	Agree	Max	Min
The Loan Department periodically meets loan clients for further advice.	3.848	0.1056	65.60%	5	1
The bank periodically gathers information about loan clients.	2.106	0.6903	14.90%	5	1
All bank debtors are visited regularly to assess the financial performance of their businesses.	1.888	0.666	22.30%	5	1
The loan department holds recovery meetings regularly with the clients	2.111	0.5912	37.70%	5	1
The loan department officials periodically send notifications to clients of the outstanding amount.	3.248	0.7056	51.60%	5	1

Credit supervisors sometimes do not review portfolio management reports of the branches which makes monitoring work difficult.	2.106	0.6903	14.90%	5	1
Compliance with the approval terms and conditions is strictly enforced and monitored.	3.588	0.666	63.30%	5	1
Regular reviews are done on collection policies to improve the state of credit management.	2.111	0.5912	43.70%	5	1
Grand mean	**2.626**				

Source: *Primary Data, 2023* N= 68

Generally, with a grand mean score of 2.626, the results as presented in Table 6 indicate a relatively low degree of rating. Based on survey findings, it was established that the loan department periodically meets loan clients for further advice as indicated by the mean =3.848 and SD =0.1056. This indicated that the majority of the respondents agreed with the practice. The respondents were asked to state whether the bank periodically gathers information about loan clients, with a mean score of 2.106 the majority of the respondents disagreed with the practice.

The survey findings further revealed that the majority of the respondents disagreed with the practice that all bank debtors are visited regularly to assess the financial performance of their businesses with a mean score of 1.888 with SD= 0.666.

The respondents were asked to state whether the loan department holds recovery meetings regularly with the clients. The trend of responses indicates that the majority of the respondents disagree with the mean score of 2.111 with SD=0.592. When asked about whether the loan department officials periodically send notifications to clients of the outstanding amount, a mean of 1.84 and SD of 0.467 on this item indicated that the majority of the respondents disagreed with the occurrence of this practice. About the above interviewee 06 noted that all

"*Outstanding loans in the loan portfolio are continuously reviewed and closely monitored*".

Interview findings further revealed that Kenya Commercial Bank uses various tools for controlling credit losses. These included covenants, collateral, credit rationing, loan securitization, and loan syndication.

The survey findings indicated that credit supervisors sometimes do not review portfolio management reports of the branches which makes monitoring work difficult henceforth a mean of 2.100 indicated disagreement implying that compliance with the approval terms and conditions is not strictly enforced and monitored. When asked whether regular reviews are done on collection policies to improve the state of credit management, a mean score of 2.111 indicates disagreement with the existence of this practice.

Interview findings revealed that in Kenya Commercial Bank, top management support is required to ensure that there are proper and clear guidelines for managing credit. Monitoring of borrowers is given weight as current and potential exposures change with both the passage of time and the movements in the underlying variables and are also very important in dealing with moral hazard problems; and supportive technologies and equipment such as computers are useful in credit analysis, monitoring, and control, as they make it easy to keep track on the trend of credits within the portfolio. Considerations that form the basis for a sound CRM system include policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities and how a credit portfolio is managed.

The descriptive statistics of loan portfolio performance in the case study

To examine the levels of loan portfolio performance available in the bank, the following measures were presented to respondents, and their opinions and responses were generated as presented in Table 7.

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Table 7: Descriptive Statistics for Loan Portfolio Performance in the Case Study

Item measures for Loan portfolio performance	Mean	SD	Agree	Min	Max
The bank does alter the repayment period in case of default.	2.807	0.7092	34.30%	1	5
Interest rate variation affects loan portfolio performance.	2.201	0.9701	38.30%	1	5
The costs of loan recovery affect loan portfolio performance	3.503	.5.301	57.40%	1	5
Collusion between bank staff and clients during loan acquisition affects loan portfolio performance.	2.746	0.6034	49.50%	1	5
Increased charges during repayment may affect the loan recovery process	3.92	0.3012	51.30%	1	5
The structuring of some repayment schedules affects loan portfolio performance	1.666	0.5567	27.80%	1	5
I expect an improvement in clients' loan repayment in the coming years.	3.603	0.5301	61.40%	1	5
The bank registers an increase in the number of loan applicants.	3.746	0.6034	68.50%	1	5
Loans not paid on time are eventually recovered	1.52	0.3012	20.30%	1	5
The bank registers an annual decline in loan-related costs.	1.666	0.5567	27.80%	1	5
Grand Mean	**2.738**				

Source: *Primary data, 2023* N= 68

Generally, the results as presented in above Table 7 indicate a moderate low of almost all the items that measured loan portfolio performance based on the mean score of 2.738 which was scaled based on a maximum score of 5 and a minimum score of 1 since the survey instrument had a 5 Likert scale

The quantitative results presented above reflect the perception of the respondents. However, there are findings from interviews and documentary reviews that give the status of the variables on loan portfolio performance.

Based on survey findings, it was established from the respondents about item 1 stated that the bank does alter the repayment period in case of default; a mean score of 2.807 with SD= 0.7092 showed that the majority of the respondents disagreed with the item implying that the bank does not alter the repayment period in case of default.

When the respondents were asked to state whether the costs of loan recovery affect loan portfolio performance, a mean of 3.503 indicated the majority of respondents agreed with the item. About item three, the respondents were required to state whether the costs of loan recovery affect loan portfolio performance.

The respondents were further asked to state whether collusion between bank staff and clients during loan acquisition affects loan portfolio performance. The statistical grand mean of 2.746 implied that the majority of respondents disagreed with the items provided.

In connection to the item that stated that increased charges during repayment may affect the loan recovery process. A mean value of 3.920 implied that the majority of the respondents agreed with the fact that an increase in loan charges may affect its recovery process.

About the survey findings, the respondents revealed that the structuring of some repayment schedules affects loan portfolio performance. The computed test figures reveal that the mean score of 1.666 suggests that the majority of the respondents disagreed with the item implying that the structuring of some repayment schedules is not affecting loan portfolio performance.

About the survey findings, the respondents revealed that they expect an improvement in clients' loan repayment in the coming years. The computed test figures revealed that the mean score of 3.603 suggests that the majority of the respondents agreed with the item implying that they do expect an improvement in clients' loan repayment for the coming years.

Interviewee 02 noted that

"Credit staff always present correct information or analysis to the loan committee".

As to whether the banks have ensured liquidity, it was observed that liquidity depends on the credit policy of the bank. Thus it can be deduced that a lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. Loans given to its customers are mostly not considered liquid meaning that they are investments over a longer period. Although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short-term securities to ensure that any monies needed can be accessed in the short term.

Table 8: Statistics from the Regression Analysis for Credit monitoring and loan portfolio performance

	Summary Output					
	Regression Statistics					
	R	0.734				
	R Square	0.538				
	Adjusted R Square	0.501				
	Standard Error	0.50252				
	ANOVA					
		Sum of square	Df	Mean Square	F	Sig
1	Regression	3969.98	1	3969.9	44.688	0
	Residual	7345.34	67	93.011		
	Total	11315.3	68			
Step	Variable	B	SE	Beta	T	Sig
1	Constant	60.712	0.411		32.992	0
	Credit monitoring	0.708	0.11	0.734	5.021	0

Source: *Primary Data, 2023*

Regression Results for Credit Monitoring and Loan Portfolio Performance in Kenya Commercial Bank

From the findings presented in Table 8, the results indicated that credit monitoring positively and significantly affects the perception of loan portfolio performance (r=0.732, P<0.01). The adjusted R square value of 0.501 indicates that credit monitoring practices included in the study explain a 50.1% variation in loan portfolio performance with an F value of 44.68 significant at p-value =0.01.

SUMMARY OF FINDINGS

The results show that the correlation coefficient was 0.734 and its significance level 0.01. This shows that there was a strong and highly significant positive relationship between credit monitoring practices and loan portfolio performance in Kenya Commercial Bank (Adjusted R^2=0.501, P-value=0.000). Therefore, the results can be interpreted that

the better the credit monitoring, the better their loan portfolio performance in Kenya Commercial Bank, and the reverse is also true. The higher loan portfolio performance as a consequence of effective credit monitoring practices can be reflected in supervision, monitoring, and control, holding other factors constant.

DISCUSSION

The study reveals that there is a significant positive relationship between credit monitoring practices and loan portfolio performance; Compliance with approval terms& conditions is strictly enforced and loans are reviewed & closely monitored by credit officers although they find difficulty sometimes. Similarly, Gerd (2016) noted that the comparatively more difficult situations encountered by a loan officer become capacity and condition because, in addition to the understanding and analysis of the information about capacity and condition, it is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise (*Benchmarking in Services*, 2006).

Client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key. Similarly, Newton (2000) noted that the assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques for example good safety of their documents. However, borrowers' attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

Findings further revealed that all branches have an updated record of inventory of all loan securities in branch custody.

It was revealed that loan funds are disbursed only to clients that exist and can be identified (Akankwasa, 2018.). Consistent with the above, Mulumba (2016) noted that tools like covenants, frequent meetings, collateral, credit rationing, loan securitization, and loan syndication have been used by banks in the developing world to control credit losses.

It was observed that all securities are verified by the credit administration before disbursement of loans. Bategeka (2009) noted that high-quality CRM staff are critical to ensure that the depth of knowledge, and securities are verified and the judgment needed is always available, thus successfully managing credit. The Kenya Commercial Bank Report (2015) noted that the establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities; maintenance of an appropriate credit appraisal that involves monitoring process as well as adequate controls over credit; top management support is required to ensure that there are proper and clear guidelines in managing credit.

CONCLUSION

The study concluded that credit monitoring practices affect significantly and very strongly positively loan portfolio Performance of commercial Banks. Therefore, an improvement in credit monitoring will lead to an improvement in loan portfolio performance. Kenya Commercial Bank has ensured that reviews are done on the collection policies to improve. Monitoring of borrowers has a positive and strong effect on the level of nonperforming loans in Commercial Bank.

RECOMMENDATION

Banks should design instruments that collect as much information about a customer as possible and should not ignore any information collected but analyze it critically while doing their credit assessment.

Also implement the following: Move from manual interventions to automation for greater accuracy; Deploy analytics to improve credit decisions; Engage with an offshore partner that has robust credit processing capabilities to mitigate losses from delinquency and reduce costs.

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LIST OF ACRONYMS

CRM: Customer relationship management
CVI: Content Validity Index
SPSS: Statistical package for social sciences

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