

Critical Success Factors for the Resolution of Non-Performing Loans (NPLs) through Public Asset Management Companies. A Case Study of Zimbabwe Asset Management Corporation

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Abstract: High and persistently increasing levels of non-performing loans (NPLs) remain a challenge for most economies across the globe. If these non-performing loans are left unresolved they have detrimental effects on both the individual banking institutions concerned and the entire economy in general. Literature indicates a broad array of different strategies for resolving NPLs. The most prominent and common strategy is the use of public asset management companies which acquire, manage and dispose of non-performing loans.

This paper focuses on a review of literature to identify factors that are critical to the success of AMCs in the resolution of NPLs. In addition, the research also seeks to explore the importance of the identified critical success factors in a practical context i.e. using the views of risk managers of banks based on their knowledge of Zimbabwe Asset Management Corporation (ZAMCO), an AMC formed to resolve NPLs in Zimbabwe.

Through a detailed review of the literature, 17 critical success factors were identified for the success of public AMCs. The degrees of criticality or importance of each of these factors were assessed in an experience survey using a questionnaire administered to the risk managers of 14 commercial banks in Zimbabwe. The top most critical factors identified by the risk managers were *Adequate Funding, Sound Legal Framework, Realistic Asset Pricing, Stable Macroeconomic Environment and Speedy Resolution*.

The above findings hold significance for any central bank or policy makers wishing to resolve NPLs using public AMCs. By identifying and focusing on the critical success factors, the policy makers or central banks will be able to establish successful AMCs to resolve NPLs within their respective banking sectors.

Key words: Non-performing loan, resolution, critical success factors, banking sector, Asset Management Company.

1. BACKGROUND

- 1.1 One of the major challenges facing banking systems across the world is high levels of non-performing loans (NPLs). According to Cmok (2016) concerns relating to high levels of NPLs are very high on the agenda of many emerging economies. Many countries have experienced financial or banking crises due to the high level of non-performing loans.
- 1.2 Studies show that high NPL levels significantly impact on banks' lending, economic recovery and ultimately on economic growth. If banks are saddled with huge unpaid loans, its credit intermediation role is hampered because a huge portion of loanable funds have to be reserved as provisions for possible losses, instead of being productively used for new loans and investments.

- 1.3 There is no generally acceptable definition of non-performing loan. In Zimbabwe, a loan is considered non-performing when the principal, interest or both is due and unpaid for 90 days or more; or interest payments equal to 90 days or more have been capitalized, refinanced or rolled over in terms of the Banking regulations S.1.2000.

- 1.4 Woo (2000) pointed out that if NPLs are left unresolved, they can deepen the severity of financial crises and complicate macroeconomic management. Literature indicates a broad array of different strategies for resolving NPLs. The most prominent and common strategy is the use of public asset management companies.

- 1.5 According to Akiko Terada-Hagiwara and Gloria Pasadilla (2004) a number of countries have resorted to public asset management companies

(AMCs) as a central strategy for solving the problem of high levels of NPLs. An asset management company acquires, manages and disposes of non-performing assets of banks [Fung, George, Hohl and Ma (2004)].

1.6 AMCs have become very popular in Asia and a number of countries namely Malaysia, Korea, Vietnam, Thailand, Indonesia established centralized AMCs soon after the onset of the financial crisis in 1998 to help clean out their bad loans problem. China also established AMCs to address its problem of NPLs. Many experts believe that the transfer of NPLs is a more appropriate approach for banks as they should focus on their primary activity and not be distracted by NPLs (Cmok, 2016).

1.7 In Africa, the most popular AMC formed to address NPLs is the Asset Management Corporation of Nigeria (AMCON) which was set up in Nigeria in 2009. Zimbabwe also formed its own AMC i.e. Zimbabwe Asset Management Corporation (ZAMCO) in 2014.

1.8 The AMCs formed across the globe have achieved different measures of success. According to Fung et al (2004) in Asia alone, public AMCs have achieved a total recovery of between 20 and 50%, which is comparable to other AMCs in other parts of the world. Thus the success of the AMC is crucial to ensure total resolution of NPLs.

1.9 A number of considerations have to be taken into account to ensure the successful resolution of NPLs by AMCs. Chief among these considerations are the Critical Success Factors for resolving NPLs through public AMCs. This paper seeks to identify and assess the importance of the critical success factors in the successful resolution of NPLs by the Zimbabwe Asset Management Corporation in Zimbabwe.

2. OVERVIEW OF ZIMBABWE ASSET MANAGEMENT CORPORATION

2.1 The Zimbabwe Asset Management Corporation (Pvt) Ltd (ZAMCO) was set up in July 2014 by the Reserve Bank of Zimbabwe as part of measures to resolve the problem of rising non-performing loans. The ratio of non-performing loans to total loans in the Zimbabwean banking

sector had reached a peak of 22.14% which is way above the international benchmark of 5%.

2.2 ZAMCO was thus formed to provide a holistic solution to the issue of non-performing loans in the banking sector through the acquisition, restructuring, managing and disposal of NPLs.

2.3 ZAMCO is modelled along similar AMCs formed in other countries to address NPLs such as in South Korea (Korea Asset Management Corporation), Nigeria (Asset Management Corporation of Nigeria), Indonesia (Indonesian Bank Restructuring Agency) and Malaysia (Danaharta).

2.4 The principal mandate of ZAMCO is to clean up the balance sheets of banks to enhance their financial intermediation role as well as enhance stability of the financial sector.

2.5 As at 30 September 2016, ZAMCO has acquired NPLs totaling \$811million from the Zimbabwean banking sector. This has seen the ratio of NPLs decreasing from a peak of 22.14% in September 2014 to 7.9% in December 2016.

3. CRITICAL SUCCESS FACTORS

3.1 Critical success factors (CSF) are those items or issues that are important to a company's operations and which are necessary for a company to achieve its objective/mission.

3.2 Boynton and Zmud (1984) define Critical Success Factors as 'those few things that must go well to ensure success for a manager or an organization, and, therefore, they represent those managerial or enterprise area, that must be given special and continual attention to bring about high performance.'

3.3 The research involved a comprehensive review of various articles, journals, periodicals, reports, and executive white papers etc. that discuss the resolution of NPLs through public AMCs and critical success factors in particular. Based on the literature review a list of potential factors considered key to the success of public AMCs were identified. The table below outlines the key factors revealed from the literature review that are considered vital for the success of public AMCs.

TABLE 1: Critical Success Factors for the Success of AMCs

NO.	CRITICAL SUCCESS FACTOR	REFERENCE
1	Governance and Transparency	Klingebiel, D (2001), Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004) Woo (2000)
2	Stable Macroeconomic Environment	Woo (2000), Klingebiel, D (2001), Cooke, D and J Foley (1999)
3	Efficient Market Infrastructure	Cmok (2016), Hagiward & Pasadilla (2004)
4	Sound & Effective Legal Framework	Hagiward & Pasadilla (2004)
5	Clear Mandate	Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004), Woo (2000)
6	Adequate Funding & Government Support	Impavido, G. Klingen C and Y. Sun (2012), Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)
7	Pace of Asset Transfer	Impavido, G. Klingen C and Y. Sun (2012), Woo (2000)
8	Skilled Personnel	Hagiwara & Pasadilla (2004)
9	High Loss Absorption Capacity of banks	Cooke, D and J Foley (1999), Cmok (2016)
10	Speedy Resolution	Woo (2000), Cooke, D and J Foley (1999)
11	Strong Political Will	Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)
12	Realistic Asset Pricing	Klingebiel, D (2001), Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)
13	Independence	Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)
14	Well Defined Life	Cooke, D and J Foley (1999), Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)
15	Sound Regulatory and Supervisory Framework	Cmok (2016), Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004), Klingebiel, D (2001)
16	Quality of Assets	Woo (2000), Impavido, G. Klingen C and Y. Sun (2012),
17	A Neutral Tax Framework	Woo (2000), Hagiwara & Pasadilla (2004), Klingebiel, D (2001)

4. RESEARCH AIMS AND METHODOLOGY

4.1 The aim of the study is to (a) identify *through a comprehensive review of literature*, the critical success factors (CSFs) that are considered to be important for successful resolution of NPLs using public AMCs and (b) to evaluate the factors in terms of criticality and importance through the views of risk managers of banks based on their knowledge of the Zimbabwean Asset Management Corporation.

4.2 A study was conducted on 14 commercial banks in Zimbabwe and data was collected using a questionnaire. The questionnaire was centred on the criticality and importance of the 17 CSFs identified through a comprehensive review of literature and which are considered to be critical to the success of public AMCs.

4.3 The target respondents for the survey were risk managers who are directly involved in the management and monitoring of non-performing loans. The questionnaire identifies the risk managers' perception of the importance of CSFs necessary for the successful resolution of NPLs through ZAMCO.

4.4 The respondents were asked to rate the degree of criticality and importance of each of the critical success factors in the resolution of NPLs through ZAMCO. A 5-level Likert scale was used. The rating ranged from - extremely critical and important (5) critical and important (4) moderately critical and moderately important (3)

important but not critical (2) and neither critical nor important (1).

5. RESULTS AND DISCUSSION

Questionnaire Response Rate...

5.1 A total of 14 questionnaires were distributed by email to 14 commercial banks currently operating in Zimbabwe. Out of the 14 questionnaires distributed, 12 responses were received translating to a response rate of 85.71%. A response rate of between 20% and 25% is considered reasonable for questionnaires sent by mail. In that regard, the response rate of 85.71% of this study could be considered reasonable for data analysis.

Degree of Importance of Critical Success Factors...

5.2 The results of the mean scores of importance of the 17 CSF are indicated in Table 2 below. If the mean score is more than 3 it must be confirmed that the factor is critical in the success of ZAMCO. The results show (at least as far as the respondents' and statistics are concerned) that 14 out of the 17 factors are critical for the resolution of NPLs through AMCs. The respondents confirmed that three factors namely Pace of Asset Transfer (3.00), Well Defined Life (2.50) and a Neutral Tax Framework (3.00) were not critical in the success of ZAMCO. These factors had average scores of 3.00 and below.

Table 2: Statistics of Critical Success Factor (CSF)

CRITICAL SUCCESS FACTOR	N	Mean	STDEV	Ranking Based on Sum of Scores	Sum of Scores
Adequate Funding	12	5.00	-	1	12
Sound & Effective Legal Framework	12	4.75	0.50	2	75
Realistic NPL Pricing	12	4.75	0.50	3	76
Stable Macroeconomic Environment	12	4.75	0.50	4	84
Speedy Resolution	12	4.50	0.50	5	85
Quality of Assets	12	4.75	0.50	6	90
Strong Political Will	12	4.25	0.50	7	91
Governance and Transparency	12	4.00	1.41	8	94
Clear Mandate	12	4.50	0.58	9	96
Robust Provisioning Policies by banks	12	4.50	0.58	10	128
Sound Regulatory and Supervisory Framework	12	4.50	1.00	11	132
Skilled Personnel	12	4.25	0.50	12	135
Independence	12	4.00	0.82	13	138
Well Defined Life	12	2.50	0.58	14	142
Efficient Market Infrastructure	12	4.25	0.96	15	147
A Neutral Tax Framework	12	3.00	-	16	151
Pace of Asset Transfer	12	3.00	0.82	17	160

5.3 *Adequate Funding* was regarded as the most critical success factor and had the highest mean score of 5. The second most important critical success factors were *Sound Legal Framework*, *Realistic Asset Pricing*, *Stable Macroeconomic Environment*, and *Speedy Resolution* which all had a mean score of 4.75. This was followed by the *Quality of Assets*, *Strong Political Will*, *Governance and Transparency*, and *Clear Mandate* whose average scores were 4.5 respectively.

Ranking of the CSF...

5.4 The respondents also ranked the CSF in a priority order based on the degree to which the factors influence the success of ZAMCO with “1” being the most influential factor and “17” being the least influential. Table 2 above shows the summary of sum of ranking scores for each factor by the 12 respondents.

5.5 The sum of scores for Adequate Funding was 12 as all the respondents ranked it “1”. The other factors namely Sound & Effective Legal Framework, Realistic Asset Pricing, Stable Macroeconomic Environment, Speedy Resolution, Quality of Assets and Strong Political Will had sum of scores of 75, 76, 84, 85, 90 and 91 respectively.

6. CONCLUSIONS

6.1 This study identified a total of 17 critical success factors for the resolution of NPLs using public asset management companies based on literature review. Based on the empirical data for the research, adequate funding was regarded to be an extremely critical factor in the success of the Zimbabwean Asset Management Corporation (ZAMCO) in the resolution of NPLs in the Zimbabwean banking sector. Sound & Effective Legal Framework, Realistic Asset Pricing, Stable Macroeconomic Environment, Speedy Resolution, Quality of Assets, Good Governance & Transparency and Strong Political Will were also considered to be critically important in the success of ZAMCO.

6.2 The findings from this research would be invaluable to bankers and regulatory authorities when designing strategies for resolving NPLs in the banking systems. Further, researchers and consultants interested in resolution of NPLs through asset management companies will find the findings of this research useful as it identifies factors that actually have an impact on the successful operation of AMCs.

7. REFERENCES

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