The Sources and Potential Methods of Treatment for Loans in Libyan Commercial Banks

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Abstract—Loans and Credit Limits, on the one hand, are the primary objective of commercial banks to provide customers with liquidity and, on the other hand, generate sufficient revenue for themselves. Banks’ credit limits are the result of banks’ loss of credit when the customers are unable to pay their debts. Like other financial systems, the Libyan finance survey system, particularly the Libyan commercial banks, has been hit with bad loans. Therefore, the purpose of this paper is to identify the commercial banks’ loans registered by Libya and identify the causes and causes of the loss of loans in commercial Libyan banks. In addition, the study tries to find the appropriate tools available to manage lending in Libya’s commercial banks. These goals are achieved through the views and views of Libyan people working at different levels of commercial banks.

Qualitative and quantitative methods were used to gather initial sampling data in the form of interviews and interviews. The inquiries were distributed to Libya’s credit bureaus to collect information needed for quantitative analysis. In addition, interviews were held with the party structures to collect the necessary information to continue the qualitative analysis with the credit institutions of Libya’s commercial banks.

This paper demonstrates the similarity of findings (opinions and views) from questionnaires and interviews. Libya’s lending to private, state, and national sectors has resulted in lending to Libya’s commercial banks by respondents and interviewers in determining the types of loans in commercial banks. However, they did not allocate credit to foreign companies who did not receive any information. On the other hand, this research has agreed that interviews and interviewers have not produced loans in the commercial banks sector in Libya, pawnshops, borrowers, and credit organizations in the domestic environment. However, they refused to give reasons for international conditions. In connection with the treatment of bad loans, Libyan commercial banks have agreed to establish an institution for respondents and interviewers to purchase additional lenders and lenders. At the same time, the participants often encountered disagreements with literature on such loans.

Keywords—Loans, Financial institution, Commercial Banks, Financial Analysis Method, credit

I. INTRODUCTION

The importance of financial institutions in the economic growth and development of the country is examined in detail in the literature.

There is a wealth of literature about the impact of financial development and economic growth. (2007); Berger et al. (2004); LEVINE (1997) show this positive correlation. At the same time, economic institutions should work efficiently for effective institutions, including financial institutions, to create an effective economic environment for economic institutions that are the basis of effective economic and political life. Financial institutions, particularly commercial banks, play an important role in investing in economy savings and investment in the economy. Given the direct involvement of commercial banks in day-to-day business, these financial institutions should work effectively as mediators between traders and investors. In other words, they should act effectively in terms of economic development.

This paper focuses on the various aspects of loans that are not problematic in commercial banks in the Libyan state. However, prior to reviewing the details of the investigation, the Department ensures a meaningful implementation of the research by incorporating access to financial institutions and loans without debt.

Despite the fact that the current financial crisis is largely unsuccessful due to institutional and personal loans, such failures depend on other socio-economic and political factors. In particular, transparency, corporate governance and accountability play an important role in the effective functioning of financial institutions. In particular, the role of the public sector in developing countries and the financial sector, in particular, the absence of financial decisions affecting the political priorities of the commercial banks. Corruption and nepotism in these organizations are less important in less democratic or democratic countries. In recent years, liberalization of financial markets in emerging economies has contributed to reducing the impact of political decision-making on the activities of these institutions, as well as reducing the deficit of loans.

Financial institutions are a key element in the development of any nation and society and serve as mediators between advocates and investors. Financial institutions are financial institutions specialized in asset management. In addition, financial institutions store banks, funds, insurance companies and stock exchanges (Saunders and Cornett, 2008).
Therefore, the financial sector considers all aspects of society as one of the most important sectors of the national economy, directly and/or indirectly through the functions and functions of several financial institutions. Community and people have begun a strategy for developing the financial sector to provide a better financial service for economic growth.

Generally speaking, the problem of troubled loans is that the factors that lead to the loss of loans are similar and: (1) the decision of a lender (borrower) to lend a debt to the weaker parts of the borrower; (2) reasons for the collateral provision for securities issued by creditors in the form of loans and credits, such as collateral, cannot be refunded to customers; (3) the reasons why the borrower cannot repay the obligation in due time to the borrower (customer); and (4) general environmental considerations, internal and/or external factors. Internal factors are related to economic, political, national policies and the environment. External factors (international factors) depend on the circumstances of other countries.

One of the most important tasks of the commercial banking sector is to make these funds available as loans and borrowings. Therefore, the commercial banking sector prioritizes credit operations to provide liquidity and profit (Hu et al., 2004). Madura (1995) states that the funds provided by the bank actually belong to depositors. That is why banks have to pay this money on deposit request. On the contrary, the uncertainty about returning money in the form of a bank loan, because such loans are risky investments.

Generally speaking, loans are the most important payment system, 2) to lend and to lend, 3) currency, etc. “the bank plays an important role as an intermediary between depositors and borrowers and plays an important role in transforming deposits into effective investment.” (Podder and Al Mamun, 2004: 729) In this process, most of the funds used in the lending process are depositors. Important financial intermediation investments in the commercial banking sector. Therefore, commercial banks are trying to choose the best debtor to protect their savings. Moreover, selecting good bank borrowers is a major tool in managing cash and savings, ready to use in the process of credit lending (Dyer, 1980).

In practice, loans are the most common risk types for the recovery of assets. As a result, borrowers may not be able to meet their obligations, and creditors may be exposed to credit and credit limits. As a result, in most cases, the loans granted by the banks will be lost to lend money (Heffernan, 2005).

II. LOANS

The main task of commercial banks is to accept deposits and apply them in the form of loans and credits (Hu et al., 2004). Thus, the commitment to lending is one of the major objectives for the liquidity and profitability of the commercial banking sector (Hubbard, 2000). According to Kolb and Rodriguez (1996), most commercial banks are loans and credit limits. Thus, the commercial banks' loan portfolio is often one of the most important assets associated with the balance sheet, reflecting most of the wealth (Kolb and Rodriguez, 1996).

Lending is a high risk of banking business. In other words, as suggested by Hubbard (2000), lending is a risky investment, because banks' loans do not belong to 100 percent of banks, most of them belong to depositors. Therefore, banks have to pay their depositors' demands on their own needs (Hubbard, 2000). Abdul Rahman (1999) pointed out that bankers are trying to use the existing money to maximize their earnings in their banks. On the other hand, he noted that bankers need to take into account the need for sufficient funds to meet their cash needs, the banks keep their reserves on order.

Generally speaking, loans are the most important financial intermediation investments in the commercial banking sector. In the role of the broker, commercial banks try to use their financial instruments to reduce their risks by choosing the best debtor. In addition, the selection of good borrowers selected by bankers is one of the most important steps in protecting the assets of both banks and depositors in reducing potential risk. This, in turn, can be given as loans and credit limits (Dyer, 1980).

From a pragmatic point of view, banks are provided with various loans, which, in turn, are the main source of banking products. Despite the fact that many lending institutions are in lending, many of these funds are related to the benefits of such loans (Hu et al., 2004). Additionally, loans are an important source of liquidity. This, in turn, leads to the majority of commercial banks with credit and credit limits. As a result, the credit portfolio provided by commercial banks is the most important asset of approximately 65% of total assets of commercial banks (Kolb and Rodriguez, 1996). As a result, loans have the largest share.

A. Definition of Loan

Despite the fact that loans are the same bank loans, the broad definition of credit rating includes all types of loans that are borrowed. Hand and Henley (1997: 523) describes the credit rating as "MFI replaces the money lent to a consumer (usually regular)."
Collins et al. (1999: 10) defines the loan as "a loan issued by banks or other financial intermediaries to households, companies and governments".

In short, loans are defined as lending to the borrower. As a lender, the amount of the loan is used to repay the borrower's funds and services, and he / she is obliged to repay the interest rate on the creditor (the lender). That is why it can also be interpreted as borrowing ability. That is why, "Let's have a later pay" or "Future Money Today" or "Future Income Profit and Loss" (Payer, 1991).

In general, in the process of lending, the borrower requires a borrower to borrow from a borrower or to pay his obligations. In general, the borrower will be in the form of assets (assets) that the borrower can hold to the lender before the payment or personal supply (nature) is returned. Most creditors do not provide unsecured loans and maintain liquidity (Hubbard, 2000). Madura (1995: 75) describes the fluid as "easily convertible to cash." Thus, liquid pledge is the best way to use creditors' repayments. Additionally, the creditor safety valve is guaranteed to secure its assets (Podder and Al Mamun, 2004).

In short, "Guardia" (2002) states that the loan consists of three parts and that it cannot be loaned without it. These are: the lender (sometimes referred to as a creditor) who lends money to the borrower is the first part of the credit process. The lender may be a bank, such as a non - bank, as a commercial intermediary, such as Commercial Bank, General Bank, Savings Bank, Cooperative Bank or Union Credit. The second part encourages the borrower to seek money from the borrower for money and services. The third part of the credit process is the agreement between the borrower and the borrower. In general, the credit agreement is a legally binding agreement between the creditors and investors. Therefore, the loan agreement is the debtor's debt (debt) and debt repayment agreement and only interest, including other administrative expenses.

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**B. Traditional ways of detecting and dealing with bad loans**

Deposit banks are lending and lending specialized financial institutions. Financial institutions are trying to use their own funds for lending, but in practice, private investment funds are not enough to satisfy their credit needs. Thus, financial institutions usually use the depositor's resources to handle loans and loans (Kolb and Rodriguez, 1996).

In general, durable loans are one of the most common problems of financial institutions and credit institutions, especially in the areas of credit and repayment. From a practical point of view, many factors relevant to credit risk are important. These factors are a key part of lending: lender (bank), borrower (customer) and credit (credit). Independent learning for every part of the credit risk leads to sufficient knowledge of the credit situation in the future. Therefore, such information will allow you to make appropriate decisions during the credit process. In addition, credit institutions expect the ability to measure credit risk (Salas and Saurina, 2002), as credit losses have been considered one of the major credit risk elements.

**C. The Libyan commercial banking sector**

The local banking system is the most important principle for restoring and maintaining the economic life of any society. This is done through a financial intermediary between traders and investors. The banking sector is a container that saves money for individuals and institutions. Thus, the banking sector uses different ways to raise funds such as deposits (deposits and fixed-term deposits) and mutual funds. The primary task of the banking sector is to convert these funds into real investment.

Another objective of the banking sector is to find ways of linking local economies to the economies of other countries through financing agreements between countries. There are several ways in which the banking sector can use it to implement a cross-border transaction threshold. These methods are guaranteed letters, documentary loans, remittances and more.

The success of some of the finances will largely depend on the success of the banking sector, which is responsible for the implementation of all financial transactions. Therefore, the banking sector is regarded as a financial intermediary between individuals and institutions. It is also a link between citizens and institutions from other countries.

**D. The developments of the Libyan commercial banking sector**

Historical sources show that North Africa in Libya usually has a separate economic activity. The economic activity is characterized by a shopping centre between neighbouring countries. It is characterized by the use of money as a business broker. By the year 202 BC, gold coins (bronze) coins were carved at the age of 148, name and profile.

The real existence of the Libyan banks was the same as that of the Ottoman Empire. During the Ottomans, the Libyan peoples were an agricultural community.
Thus, the Ottoman government drew attention to financial institutions serving agricultural companies. Commercial banks in Libya have thus moved to a series of evolutionary phases (Central Bank, 2006a). This research is based on certain events that occurred in Libya in seven economic and banking cultures in Libya. These events are related to internal and external circumstances, especially the political and economic circumstances.

E. Loans Granted to Public Institutions

This part provides Libyan commercial bank business projects with loans and loans to state institutions. That a large number of respondents reacted to the fact that government loans have a significant impact on the creation of state-owned Libya's illegal loans. In addition, loans to public institutions are estimated to be Libyan second most influential loans to state-owned enterprises.

In addition, discussions suggest that state-owned Libyan Liberals have several reasons for the creation of illegal loans, public institutions. These reasons are as follows:

a. Most of these loans were granted on the basis of government decisions to finance state development plans.

b. Libyan commercial banks have provided adequate unsecured loans and loans to government agencies.

c. Libyan commercial banks have provided adequate unsecured loans and loans to government agencies;

d. As a result of the Board's decisions, owners of nationalized projects have been transferred to their new owners.

Thus, as a result of unemployed loans, the failure of new owners will meet their previous obligations.

e. Weaknesses in legislation on the protection of funds granted to public institutions in the form of loans.

It can therefore be concluded that most of the above factors have arisen from the lack of private relations in state-owned and / or lending-related loans.

F. Loans Granted to Foreign Companies

Of the results of the sixth century, many respondents do not believe that loans to foreign companies were credited to Libya without government debt. In addition, the respondents do not believe that loans to foreign companies have led to unregistered loans from Libyan commercial banks. Consequently, the loans granted by the commercial banks do not have negative effects can be summarized as follows:

<table>
<thead>
<tr>
<th>Loans Granted to Foreign Companies</th>
<th>% Total</th>
<th>Social Loans</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>2133.4</td>
<td>1279.5</td>
<td>34.49</td>
</tr>
<tr>
<td>1999</td>
<td>2296.1</td>
<td>1310.1</td>
<td>32.87</td>
</tr>
<tr>
<td>2000</td>
<td>2462.7</td>
<td>1343.3</td>
<td>31.38</td>
</tr>
<tr>
<td>2001</td>
<td>1877.9</td>
<td>1389.7</td>
<td>35.50</td>
</tr>
<tr>
<td>2002</td>
<td>2072.0</td>
<td>1326.0</td>
<td>31.83</td>
</tr>
<tr>
<td>2003</td>
<td>2290.8</td>
<td>1360.4</td>
<td>30.03</td>
</tr>
<tr>
<td>2004</td>
<td>2647.9</td>
<td>1459.7</td>
<td>28.05</td>
</tr>
<tr>
<td>2005</td>
<td>2802.9</td>
<td>1468.9</td>
<td>26.31</td>
</tr>
<tr>
<td>2006</td>
<td>3156.0</td>
<td>1436.9</td>
<td>23.72</td>
</tr>
<tr>
<td>2007</td>
<td>3269.8</td>
<td>1398.1</td>
<td>21.99</td>
</tr>
<tr>
<td>2008</td>
<td>3549.0</td>
<td>1472.1</td>
<td>21.73</td>
</tr>
<tr>
<td>2009</td>
<td>3194.2</td>
<td>1456.2</td>
<td>22.37</td>
</tr>
<tr>
<td>2010</td>
<td>2701.6</td>
<td>1426.3</td>
<td>23.13</td>
</tr>
</tbody>
</table>

TABLE 2
THE PERCENTAGE DISTRIBUTION OF VARIOUS LOAN CATEGORIES IN THE LIBYAN COMMERCIAL BANKS (1998 TO 2010) (MILLION LIBYAN DINARS)

<table>
<thead>
<tr>
<th>Loans Granted (GMR)</th>
<th>% Total</th>
<th>Social Loans</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>170</td>
<td>127.3</td>
<td>3.43</td>
</tr>
<tr>
<td>1999</td>
<td>230</td>
<td>149.9</td>
<td>3.76</td>
</tr>
<tr>
<td>2000</td>
<td>373</td>
<td>102.3</td>
<td>2.39</td>
</tr>
<tr>
<td>2001</td>
<td>373</td>
<td>274.4</td>
<td>7.01</td>
</tr>
<tr>
<td>2002</td>
<td>373</td>
<td>394.9</td>
<td>9.48</td>
</tr>
<tr>
<td>2003</td>
<td>373</td>
<td>506.0</td>
<td>11.17</td>
</tr>
<tr>
<td>2004</td>
<td>373</td>
<td>723.0</td>
<td>13.89</td>
</tr>
<tr>
<td>2005</td>
<td>373</td>
<td>939.2</td>
<td>16.82</td>
</tr>
<tr>
<td>2006</td>
<td>373</td>
<td>1091.7</td>
<td>18.02</td>
</tr>
<tr>
<td>2007</td>
<td>373</td>
<td>1316.9</td>
<td>20.71</td>
</tr>
<tr>
<td>2008</td>
<td>373</td>
<td>1381.0</td>
<td>20.38</td>
</tr>
<tr>
<td>2009</td>
<td>373</td>
<td>1486.9</td>
<td>22.84</td>
</tr>
<tr>
<td>2010</td>
<td>373</td>
<td>1665.7</td>
<td>27.01</td>
</tr>
</tbody>
</table>

Fig 1. Loans Granted by Libyan commercial Banks (1998 to 2010)

Table 1
THE PERCENTAGE DISTRIBUTION OF VARIOUS LOAN CATEGORIES IN THE LIBYAN COMMERCIAL BANKS (1998 TO 2010) (MILLION LIBYAN DINARS)
c. There are few foreign companies in the Libyan market.

d. Libyanisation and nationalization decisions resulted in the transfer of Libya owners to foreign companies.

Thus, the decisions taken in the form of the nationalization and liberalization of foreign companies, on the one hand, and the lack of sufficient investment environment, led to foreign investments not being invested in the Libyan market.

G. Loans Granted to the Nationalised Sectors

The respondents say Libya's commercial banks have experienced reduced loans since these banks do not pay for loans and loans granted to national sectors. In addition, the loans of these nationalized sectors are in third place with regard to the nature of the loans granted by Libyan commercial banks.

e. Libya must be considered as a basis for loans outside the state-funded loans and credit limits.

f. The absence of the original owners of the national sector;

g. New owners in the national sector have not recognized previous credit and loan commitments;

h. Difficulties in lending to national companies due to lack of legislation;

i. Poor management of some of the national industries by new owners;

j. The lack of inadequate guarantees, as most of the loans from the national sector is based on personal guarantees.

H. Reasons of bad loans in Libyan commercial banks

Generally, this part sets out the reasons for credit losses, as described in the literature. In addition, it presents respondents' views on the problems caused by suspicious loans in Libyan banks. In addition, nine interviewees say that Libyan commercial banks are reluctant to issue a loan they have not had. These reasons are attached to the following parts:

a. Reasons Related to the Bank (Lender):

a. The lack of a clear, written loan policy

b. Conflict of some banks with repayment of government debt.

c. The overlap between the function of the lending department and the follow-up department

d. The weakness in the use of financial analysis methods for the early detection of bad loans

b. This part describes the respondents' opinion on the vulnerability of analytical techniques to the early identification of uncertain loans.

Participants have faced the problem of insolvent loans because of the vulnerability of Libyan commercial banks using financial analytical methods. In addition, the interviewees believe that the use of financial analysis methods is one of the reasons for the failure of Libyan commercial banks. As a result, the reasons why the Libyan government's vulnerability to the use of financial analysis methods can be summarized as follows:

c. Lack of expertise in financial analysis.

d. Lack of modern technology in financial analysis.

e. Lack of adequate attention devoted to the investigation of the loan applications submitted by clients:

f. The respondents agree that the Libyan state commercial banks have faced failures in loans from insufficient customer file research. In addition, due to the insufficient attention paid by the excessive state-owned banking sector to the banking sector, non-loans are based on the following:

c. Lack of database of current credit information collection.

d. Absence of the right person in the credit process.

e. Applying personal relationships to lending.

f. Provision of credit and credit for instructions issued by higher state authorities.

g. Granting a large proportion of loans and credit facilities to a small number of borrowers:

It states that the respondents rely on Libyan commercial banks that deal with large numbers of loans and loans to smaller customers. On the other hand, the interviewees point out that quotations from Libyan banks have spread to all sectors.

For this reason, according to the rules of the highest state agencies, loans and credit limits and personal relationships can provide a large part of the loan to a small customer and thus to loans that are not credit institutions.

h. The allocation of a large portion of loans and credit facilities to a non-matching economic activity:

The question is whether the respondents are "neutral" and "satisfied" with the question of whether the twenty-seven question is whether the Libyan commercial bank has unexpected loans due to unsecured loans in the economy. In addition, there is a large amount of debt, which is not related to most of the loans granted by the Libyan government to the indivisible economic activity. These reasons are:

c. Based on public administration policy, not the existence of banks;
The respondents and the interviewers agreed that loans that do not operate in Libyan commercial banks have arisen for the following reasons:

- Add more coins according to the instructions of the higher state authorities.
- Allow additional resources for personal relationships.
- Allowing the borrower to use the loan amount before completing the loan file with the required documents.

The part gives participants the choice of "neutral" and "agreed" responses to Libyan banks to repay the loan repayment. On the other hand, states that Libyan commercial banks do not allow their clients to get the full amount of loans immediately.

As mentioned in the previous paragraph, borrowers may, as a result of the use of personal relationships and instructions from the Board of Directors, withdraw all of their loans simultaneously, which may lead to the creation of unpaid loans in Libya. Credit institutions cannot take into account the development of the project.

1. The shortcomings in the follow-up of the loans granted by the follow-up of borrower activity:

The respondents and the interviewers agreed that loans that do not operate in Libyan commercial banks are due to the shortcomings of the next credit rating by continuing their debts.

It can also be deduced that the reasons for the persuasion of some of the state-owned Libyan banks may be due to different types of customers, such as public companies and certain economic activities.

2. Using personal relationships in the process of granting loans:

Talks and interviewers, Libyan commercial banks have been forced to lose their loans by using personal relationships during the loan repayment process. Consequently, social relations can play an important role in the Libyan society with regard to nepotism and sponsorship.

In addition, the use of personal relationships during debt repayment and debt repayment is considered to be one of the main causes of credit losses in Libyan banks.

3. Weakness of control over credit management:

The defendants pointed out those unidentified loans in Libyan commercial banks were due to a weakness in the control of the credit stock. However, the interviewers that they have a disagreement over the lack of loan management.

In addition, due to unlawful loans from Libyan commercial banks may be:

- The right person is unable to choose the right place,
- Vulnerability in clear and written credit policy.

I. Reflecting on the findings through theoretical frameworks

Secondly, due to the similarities between the market situation and financial transactions and lending, the attempt was made to review the possible theoretical bases of microenterprises to communicate with maintenance loans. As mentioned above, asymmetric information is stored in the core of the problem, which means data access and data access. Two theoretical frameworks have been developed: moral hazard and negative selection described

As mentioned, this paper does not seek to examine the existence of these theoretical foundations in loans which Libya does not use. At the same time, the results of these theoretical standards help to understand the problems.

In combining the observations in these theoretical norms, some of the results of this paper indicate that the results are directly related to the results of ethically hazardous and negative selection of asymmetric information. According to the empirical parts, asymmetric information has seriously affected credit losses in the Libyan commercial banks. At the same time, respondents and interviewers have pointed out that the Libyan commercial banks are clearly understood by the reasons for emerging unstable lending with ethical risk and negative choices. Therefore, it provide a number of reasons for the creation of loans that are unrelated to the Libyan commercial banking system to asymmetric information (negative selection and moral threat).

- There is insufficient consideration of the client file.
- Allocate additional funds to the borrower without adequate researches on the results of previous customer’s activity.
- Overestimating the value of the collateral.

J. Moral Hazard Related Reasons

- Lack of documents supporting the mortgage offered by the borrower.
h. Provide misleading information about a project funded by a borrower.

i. Low administrative, financial and technical experience of the borrower.

j. The low level of finance, technical and financial support provided by the loan.

k. Use of a guest for other purposes.

III. SUGGESTIONS FOR FURTHER STUDIES

The paper concludes that, due to the negative effects of suspicious loans, in Libya’s commercial banks. This research offers a number of additional studies to thoroughly analyse the problem. These proposals are as follows:

d. An in-depth study of the reasons for avoiding customer obligations.

e. An in-depth analysis of the factors leading to the disclosure of information by the competent authorities on credit unlawful credits and information.

f. Verify loans outside banks and liabilities.

g. The econometric time series analysis, which defines the sources of unsatisfactory loans for the availability of second-level information, exceeds the respondents' opinion.

h. The critical analysis of the political economy gives us more information about the political and institutional sources of distortion.

REFERENCES


