

ABSTRACT

The Loan Repayment Problem of Development
Banks with special reference to the
St. Lucia Development Bank

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Loan repayment is a serious problem for many development banks. In the long run, it can affect their viability. The main objective of this study is to explore this problem of these special credit institutions. Empirical reference is made to the St. Lucia Development Bank.

In this thesis, dichotomous choice models (in particular the linear probability and the probit) are utilized to isolate a subset of characteristics of a cross-section of borrowers from the St. Lucia Development Bank which best allows one to predict the probability of default. The initial choice of variables used are on the basis of their (i) popularity in the literature, (ii) relevance to the study, (iii) availability. In order to arrive at a final profile of variables, observation of statistical significance including determinants of the relevant contribution of each independent variable and observation of the predictive accuracy of the various variables is used. The variables are grouped into those representing the socio-economic profile of the borrower and those representing the financial status of his enterprise. The linear probability

model is then used to estimate a linear specification of the model. This method shows that the financial status of a borrower's enterprise is a better predictor of default than his socio-economic status. The significant variables are then used in probit analysis. The results of this analysis are consistent with those derived using the linear probability model.

The significance of these results is that, since the financial status of the enterprise which the bank finances seems to be a better predictor of default than the socio-economic status of the borrower, then the St. Lucia Development Bank should pay attention to the financial expectations of a proposed project. Also, the bank should continuously appraise the financial status of bank financial projects and offer technical advice and assistance where necessary, particularly to start-up projects. Although reference is made to the St. Lucia Development Bank, the methodology has wider applicability to other banks in the region.