

CREDIT RECOVERY AS A PANACEA FOR SUSTAINABLE BANK PERFORMANCE

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Abstract

The paper assessed credit recovery as a panacea for sustainable bank performance, using the Bank of Agriculture, Kaduna, as the basis for investigation. The theoretical basis for the study was obtained through review of related literature. A survey design method was employed in this study and data for the study were generated from primary source using questionnaire as the instrument. Data were presented in tables and Likert's 5 points rating scale and analyzed quantitatively using the arithmetic mean. For the purpose of this analysis, 4 research questions were formulated to generate answers. After analyzing the data from various sources, the result of the study showed that good credit management strategy has a positive impact on the profitability of the bank, increases the level of patronage by the bank's customers thereby contributing to increase in its profit margin. The study therefore came to conclusion that good credit recovery measures have a significant effect on sustainable organizational performance. Based on the findings of this study, it was strongly recommended that the risk covered under the scheme should be purely farmers loss due to natural calamities and other accidents such as bush fire BOA should insist that a farmer seeking large loan on long term basis should insure his farm under the scheme.

Key Words: Loan portfolio, credit recovery, profitability, performance, risk.

Introduction

A core role of the banking system is to facilitate fund transfers from entities with excess capital to those needing financial support. The form of lending chosen by any investment company is determined by the borrower's intentions and the specific transaction details. Regardless of the loan structure, an inevitable debt relationship is established between the investment company and its clients (Steven, 2011).

Credit extension is a fundamental bank function, with management aiming to meet the legitimate credit needs of the community it serves. Banks, acting as debtors to depositors, must carefully manage depositor funds. In 1990, the Central Bank of Nigeria introduced a credit act



mandating banks to report all customers with aggregate outstanding debit balances of one million naira or more to the credit risk management system (Clement & Dyer, 2011). This act led Nigerian banks to universally upgrade their control and risk management systems, addressing the industry's vulnerability to financial risk. A New York-based researcher noted that 40% of Nigerian banks, which significantly influence West African exchange rates, had to reduce lending due to over \$10 billion in bad debts by 2009, impacting nearly half of Nigerian banks with tied-up assets (Armstrong, 2009). In response, the Central Bank of Nigeria dismissed eight CEOs and allocated \$4.1 billion to bail out nearly 10 banks. The CBN's 2010 reform enabled Nigerian banks to resume lending, establish asset management companies, and set requirements for full provisioning for bad debts, which has strengthened the market (Mather, 2010).

In this context, the investment company assumes the role of creditor and the client, debtor. According to Olashore (2013), loan facility reviews progress from the request stage through repayment and include strategies for handling non-performing loans. This study aims to outline the prerequisites for loans, indicators of potential issues, management of problem loans, and debt recovery tactics, emphasizing the role of the credit and debt recovery department in recovering debts.

A review of debt recovery frameworks should be linked to evaluating credit facility analysis tools for restructuring, devising effective repayment plans, and creating actionable recovery strategies. This study focuses on preventing problem debts and exploring various strategies for recovering credit facilities.

Statement of the Problem

It is essential to clearly outline some of the key issues affecting loan and debt recovery, including delays in repayment, extended collection periods, bad debts written off, inadequate creditworthiness, and the diversion of loans to other ventures. These challenges disrupt the smooth operations of financial institutions, thereby limiting the banking sector's ability to achieve its goals. The purpose here is to understand the scale and importance of the role that investment companies play as key drivers of the economy, being central to its stability (Bio, 2015). Recognizing these critical functions, the researcher has undertaken a thorough investigation into the impact of credit and debt recovery departments within investment companies. The goal is to identify not only the issues surrounding loans but also the underlying causes of loans turning into bad debts, with recommendations aimed at eliminating or mitigating these challenges.

The main aim of this study is to assess credit recovery as a panacea for sustainable organizational performance (BOA). The specific objectives are: -

- i. To examine how feasibility study affect loan repayment in the banking industry.
- ii. To highlight the extent in which diversion of bank loans to unprofitable ventures affect loan repayment.
- iii. To examine how distribution of loans affect banks performance if banks give proper attention.

Literature Review

Concept of Credit Recovery

The safety and stability of a bank largely depend on the effectiveness of its credit recovery and credit management functions. Credit recovery performance refers to the process of recouping part or all of a debt from a loan or credit line that has been written off as bad debt. While a written-off debt represents a loss, any recovery of this debt is recorded as income. Evaluating credit recovery performance involves examining the measures taken by bank management to identify and manage risks throughout the loan process (Pandey, 2009). This assessment focuses on the steps taken to anticipate and address challenges within the recovery process (Anom, 2012).

Recovery is central to every lending institution, with its success largely relying on effective control of the recovery process. Thus, any study of a credit institution's recovery processes should consider the financial characteristics of clients, as well as sector-specific, economic, and competitive factors, alongside standard lending practices regulated by law (Madura et al., 1992). Experienced credit recovery managers have long prioritized careful monitoring of loan structures and stringent approval processes (Handson & Crediman, 2018).

Lending Policies of BOA

It is a policy of BOA to use the indirect routine to reach the small-scale farmers. Under this scheme the bank lends to establish institutions which in turn lend to small scale farmers. According to Babakoya (2013), these institutions include state government and their agencies, cooperation and agricultural development projects.

The on-lending institutions are referred to have an organizational structure capable of carrying the functions efficiently on lending loans are granted against adequate and acceptable security.

Loan Decision Processes

An issue discussed by Handson (2016) in this section includes RAAC, industry study, credit structuring and the approval process. The Risk Asset Acceptance Criteria (RAAC) defined the type of risk the finance company is willing to take, on whom, for how long, at what price and on what terms. It also sets the obligor limits for sectors and defines the pricing mechanism in credit decision process.

The need for industry studies and KYC (Know Your Customers) issues before approval of credit were highly emphasized.

The remedial sanction in case of default includes Restructuring, Litigation, receivership, bankruptcy and recoveries desks.

The watchword in Loan/ Credit decision process is said to be "Give the size of loan you can afford to lose".

Loans are disbursed on installment in cash and in kinds

The bank reserves the right to withheld further disbursements have not been judiciously used.

Generally, loans are not disbursed after the loan periods have expired (Miknes, 2016)

Loan Recovery Policies

Accelerated repayment of loan is allowed. Due amount shall be collected within 14 days. All legal and reasonable means shall be employed to recover amount since default including the use of auctioneers, debt collectors, special tribunals and litigation. Loans may be called on proven diversion of funds. Only the board of directors can write off a debt as bad (Donaldson, 2012).

Debts can be rescheduled to facilities repayment of Nigerian rural population in carrying out these objectives, the bank finance mainly direct agricultural production.

Theoretical Review

Research study was guided by two theories, Resource Based View of the dominant premise that firms need to address of underlying question for firms being different and ways by which firms can achieve and sustain a competitive edge over their by deploying their scarce resources in an optimal manner while the agency theory where the argument is that incentives to take benefit of other parties are so strong that organization will often resolve to integrating vertically even at the cost of efficiency to avoid the un-recommendable consequences of depending on contractual dealings (Mamman, 2008).

Resource Based Theory

Strong evidence supports the Resource-Based View (RBV) (Pandey, 2009), which asserts that firms operate within an ever-evolving and dynamic business landscape. Organizations can achieve a sustainable competitive advantage through their human capital (Gradion, 2014). This advantage arises when a firm possesses a unique, non-substitutable pool of human resources that competitors cannot replicate, forming a core competency. To establish a competitive edge, the RBV emphasizes the optimal use of valuable and scarce resources available to an organization. Consequently, a firm must identify critical resources that are rare, valuable, non-substitutable, and challenging for competitors to imitate within their industry (Daniel, 2014).

A firm's resources must exhibit scarcity, value, inimitability, and non-substitutability to serve as a foundation for a sustained competitive advantage (Mamman, 2008). In her 2014 paper, Olasole outlines four conditions for a lasting competitive advantage: superior, heterogeneous resources within an industry; ex-post barriers to competition; imperfect resource mobility; and ex-ante limitations on competition. Additionally, resource-based theory advocates for dynamic capabilities and a real options approach, which may become integral to strategic management, making a significant contribution to organizational science. Further research is needed to understand how dynamic capabilities impact and foster sustainable competitive advantage, as these capabilities are particularly valuable in dynamic business environments requiring strategic and operational flexibility.

Agency Theory

According to Ndagi, (1996), firms often tend to integrate vertically to pursue the incentives of taking advantages of other parties even at the expense of efficiency in avoiding the un-recommendable results of depending on contractual associations. This theory proposes the necessity for strategy makers and tax administrators to being cautious of any hypothesis that suppliers and un-compelled agents poorly will represent the state and accumulate the repayment. However, this isn't an assurance that firms poorly never be in compliance with this

request in imparting the community is actually, a significant indication of firm's corporate social responsibility (Dyer,2017).

A common scenario exists where officer's behavior imparts the good of an association or organization entirely on voluntary basis. Though only moderately rewarded for their deeds, religious organizations they impart positively. In agency models' government pre-commits to an audit strategy in order to motivate maximum compliance by tax payers. For instance, Clement and Dyer (2011) model the tax payer as a risk-neutral agent of the government who has private knowledge of his own income. The government, whose role is to maximize tax revenues net of audit costs, cannot observe actual income without costly investigation (Anom,2012).

Clement and Dyer (2011) use this setting to compare a random audit strategy of the type implied in early models with a cut-off audit strategy in which an agent trigger an audit by reporting below a certain level of income. They show that the use of a cut-off strategy weekly dominates a random audit strategy since it poorly induces truthful reporting at the least cost. In addition to the desirable effect of compliance, they argue that such a strategy would enhance horizontal equity expose over random auditing since those with equal incomes poorly be audited with equal certainty (Donaldson,2012).

Methodology

The design adopted for this research work is descriptive design. This design is considered more appropriate because it can be generally used to investigate problems in a realistic with a more accurate description of the responds of the respondents' opinion (Kerlinger, 2010). Also the design helped the researcher on how the data needed for the study should be collected and analyzed (Nworgu, 2010).

The population for this study consists of all staff and management of Bank of Agriculture, with an estimated population of 120 persons comprising of management, senior and junior staff. Sampling was an intentional decision of number of officers to issue the data from which conclusions was drawn on several larger categories, of those officers represented. Those records were stored separate in the sampling frame and from that the subsamples were chosen at random. The researcher adopted the stratified sampling technique. Each sampling unit or population member belonged to exactly one stratum. There was no that belonged to none of the strata and no sampling units belonged to more than one stratum (Nwana, 2013).

The method of analysis of the study was based on descriptive analysis that is gotten from the answers and opinions of respondents in the questionnaire administered to the staff of BOA, Kaduna. The percentage method was used in interpreting the response of the respondent, which were in tabular form.



Presentation of Results

Table.4.1 Rejoinder Rate

Category	Questionnaires		Percentage
	Administered	Returned	
Managers	10	10	100%
Credit recovery department	15	14	93%
Human resource department	7	6	86%
Finance & accounting department	15	14	93%
Risk management	12	11	92%
Administration department	6	5	83%
Total	65	60	92%

Source: Authors’ Computation (2025)

However, only 60 questionnaires were returned duly filled in making a rejoinder rate of 92%, which is an adequate rejoinder rate for enumeration reporting. Clement and Dyer (2011) stated that a rejoinder rate of 50% & above is a good rejoinder rate. This commendable rejoinder rate was made possible after Researcher personally administered the questionnaires & made further visits to remind the respondents to fill in the questionnaires. This study made use of frequencies (absolute & relative) on single rejoinder enquiries. On multiple rejoinder enquiries, the study utilized Likert scale in collecting & analyzing the data whereby a scale of 5 points were utilized in computing the means & SDs. These were then presented in tables, graphs & charts as appropriate with explanations being given in prose.

Table 4.2: Level of Unrecovered Loan

Level of unrecovered loan	Frequency	Percentage
1- 100,000	2	5
100,000–200,000	3	5
200,000–300,000	5	8
300,000–400,000	20	33
4,000,000-1,000,000	30	50
Total	60	100

Source: Authors’ Computation (2025)



The respondents were asked on unrecovered loan & on to what extent does it affects BOA management. Most of the respondents 50% indicated that there are unrecovered loans of N400,000–1,000,000. This implied that most of the defaulters are not repaying their large amounts of loans hence hindering the level of the recovery. Whilst the least unrecovered loans scoped from N1-100,000. This implied that the unrecovered loans affects BOA management to a large extent in the way it rendered its service to the country at large.

Table 4.3: Effectiveness of Threats & Penalties on Credit Recovery

Effectiveness of Threats & Penalties on CREDIT RECOVERY	Frequency	Percentage
Very effective	20	33%
Effective	25	42%
Neutral	1	2%
Not effective	2	3%
Very ineffective	12	21%
Total	60	100%

Source: Field Survey, 2025.

On the level of awareness, (69%) of the respondents are aware of the threats (of court action) & penalties BOA imposes on loan defaulters. (20%) of the respondents were not aware of threats of court action or penalties as contained in BOA Act. An interesting result was that (11%) of the respondents were indifferent on these penalties. The respondents were also asked about the effectiveness of these threats & penalties. Table 4.3 above shows the level of effectiveness of threats as a way of dealing with loan defaulters. Among the loanees, (33%) say the threats/penalties are very effective, 42%ofthe respondents say that threats are effective, 24% say threats are ineffective & 2% are neutral on the effectiveness of threats.

Table 4.4: Awareness of BOA Loan Repayment Incentives

BOA loan repayment incentives	Frequency	Percentage (%)
Grace period	17	28
Low interest rate	2	35
Long repayment period	5	8
Flexible installments	5	8
None	1	21
Total	60	100

Source: Authors' Computation (2025)



The level of awareness of incentives offered to loan beneficiaries is given in table 4.4 above. The table shows that, 21 respondents know about the low interest rate, 17 respondents know about the grace period and 12 did not know any of the incentives. However, 21% of the respondents interviewed claim that they are not aware of any incentives offered by BOA to motivate loan repayment.

Table 4.5: Penalties Levied by Other Lending Institutions on Loan Default

BOA loan repayment incentives	Frequency	Percentage (%)
Penalty interest	2	38%
Commercial interest rate	1	29%
Capitalization of interest arrears	1	25%
Reduction of loan repayment period	5	8%
Total	6	100%

Source: Authors' Computation (2025)

BOA loan beneficiaries were also asked if they knew the penalties levied by banks on loan defaulters. The table 4.5 shows that 38% of the respondents knew about penalty interest, 29% know about the charging of commercial interest rates, 25% know about the capitalization of interest arrears & 8% know about the reduction of the loan repayment period. loanees are there for every aware of the penalties applicable to default to bank loans.

Table 4.6: Credit characteristics

Loan Characteristics	N	Mean	Std. Dvn
Fixed rates	60	3.7143	.95119
Small loan	60	2.8571	1.21499
High interest rate	60	2.5714	1.71825
Security required	60	3.5714	1.13389

. Source: Authors' Computation (2025)

From the findings, SD is a measurement of spread of observations set and the variance square root. Greater SD implies High interest rate, SD prospected 1.71825 insinuating majority of respondents were not in agreement instead existed a spread of ideas, whilst lowest SD implied small market size 0.95119. Whilst other SD are showed in table 4.6. Mean is the

average of the observations: a calculated central value of a set of observations. It's the most widely utilized measure of central tendency in table the means are above value 2.5 which is 50 percent of the scale therefore showing all the indicators of loan characteristics affect credit recovery.

Conclusion and Recommendations

The study has come to conclusion that non-recovery of agricultural loans is caused mainly by two broadly related problems as farmers problem and bank/government related problem. Among the behaviours of farmers which includes; Absentee farmers who abandoned their farm for contract work or urban job. Some farmers regard loans as their own shares of the national cake when such person/borrowers deliberately direct the funds to other non-agricultural activities and avoid meeting officials of the agricultural loan in by small scale farm, it is however, worth to make some specific recommendation aimed at reducing the effects of this problems on the bank operations, farmers loss and ensuring sustained supply of loanable fund to the sector.

The study therefore, made the following recommendations based on the findings.

1. Education of Farmers/Borrowers: Education here is not basically to teach the farmer to read and write, but to educate the on the techniques of good farm management including the keeping and use of good farm records. It should also enlighten them on the use of fullness of adoption and the use of an improved farming technique and explain the wise use of credit.
2. The farmers should also be enlightened about the importance of BOA's agricultural insurance scheme so that they will see the need to ensure their farms against unforeseen occurrences, which are likely to come in the future.
3. The risk covered under the scheme should be purely farmer's loss due to natural calamities and other accidents such as bush fire BOA should insist that a farmer seeking a big loan on long term basis should insure his farm under the scheme.
4. The bank should intensify and encourage the formation of agricultural cooperative societies, if possible, the bank should make it a rule.

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