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EFFECTS OF RISK MANAGEMENT ON ACCESSING CREDITS OF DEVELOPMENT FINANCE BANKS IN NIGERIA

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Abstract

The paper investigated the effects of risk management on accessing credits of development finance banks in Nigeria. The study adopted the cross-sectional survey design. The convenience sampling technique was adopted in selecting the 387

respondents. Descriptive and inferential statistical analytical methods were employed for analyzing the data. Structural Equation Modeling (SEM) technique was used in testing the hypotheses developed for this study. The study established that the patronage of credit facility in development finance banks largely depends on credit risk management strategy. Specifically, the volume of credit offers in the banks signified the rate of credit patronage. This was evident that in most cases, that the customers turned down the idea of seeking banks loan if money made available could not help their situations. People approach the banks for loan to develop their commercial activities significantly, and when amounts likely made available by the banks is too small for their needs, the alternate approach was to source money from any available opportunity. In line with findings and conclusion drawn from the study, it is recommended that the managers in the development finance banks in Nigeria should ensure that they took into consideration; credit volume alongside other factors–tenor of facility, terms and other loan repayment technicalities in order to favour the customer patronage and prevention of credit failures.

Keywords**: Development Finance; Risk Management; Credit Administration; Credit Policy**

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INTRODUCTION

The top managers of organizations are confronted with the task of risk management on accessing credits of development finance banks the world over [1]. Strategic decision from a global prospective in development finance banks in Brazil, China, India, and Russia and other developed and developing nations is institutionalized and set out to accomplishing organizational objectives, mission, goals through implementation of long term policy and programme with regard to organizational mission, objective, vision, organizations reputation/image, risk management, quality management and flexible structure, ensure the human and financial resources are available managing risk,

allocation resources, protecting stakeholder compliance, audits and motivate all manager and employee, communication financial benefit such as sale, profitability, and productivity [2].

Top management of development finance banks make strategic decisions on short and long-term decisions regarding loan disbursements, provider of long-term credit, supported government policy and transformative growth, Provision of medium-term and long-term loans to the industrial sector and to help develop the national economy (Korea Development Bank Act, Law No. 302, promulgated on 30 December 1953) [3-10].

According to the reports Economic Cooperation and Integration among Developing Countries (2016) that the implementation of strategic decision by top management has help Development Bank of China's to providing credit for agricultural production. In accordance with its original mission, Development Bank of China (CDB) provided long-term loans and lines of credit to large-scale infrastructure and industrial projects, including strategic projects such as Three Gorges Dam, Shanghai Pudong International Airport, Beijing Capital Airport, municipal subway systems and much of the nation's high-speed railway network (CDB, 1999; Martin, 2012, Downs, 2011). Through strategic decision the reports also reveal that the sartorial distribution of CDB loans has changed over time between 2001 and 2014, Agriculture increase from 0.0 to 3.1% Coal mining 0.0 to 1.4% and Public infrastructure 9.6% to17.0%. By 2015, the total assets of CDB were estimated at $1,994 billion, against the $548 billion in assets. While Korea development bank were able to builds system on the basis of its set of existing resources, constraints and development strategies and address market failures such as a lack of sufficient provision of long-term finance is important. The national banks analyzed reports have also played a countercyclical role when their countries have faced major financial shocks, such as KDB during the Asian financial crisis and BNDES, CDB and KDB during the global financial crisis. This role not only helped to sustain the levels of economic activity and employment in the national economies, but also to turn the important growth engines of these economies to other crisis-affected countries. Butler [6] explains that strategic decision deals with concerns, which are essential to the livelihood and survival of the organization. Barney [4] posits that superior performance

comes as a result of management strategies decision aimed at enhancing value creation, the quality of products and services.

In Nigeria however, the operations of the Development finance Bank in Nigeria appears to be different; this is so because some of the Banks managing director, Executive Director appears to be accused of irregularity corruption, misappropriation of fund, inconsistence of policies, poor policies formulation, poor image management, poor quality services delivery, non-implementing of organizational strategies in regard to company, Mission, vision objective and plan, poor communication between the executive director and other level manage and employee, political interference poor motivation, mismanagement of risk, poor allocation of resources, non-compliance with the existing law, poor auditing, lack of quality control and management, poor leadership style and abusing of organizational structures and inconsistence in policies formulating and implementation.

It is against this background that this study seeks to investigate the effects of risk management on accessing credit of development finance banks in Nigeria [11-14].

CONCEPTUAL ISSUES

Credit Risk Management

Credit management is one of the most critical activities in any company and cannot be overlooked by any economic enterprise that engage in credit irrespective of its business nature. It is the process to ensure that customers pay for the products delivered or the services rendered to them. In financial institutions, credit risk management includes the various activities undertaken by a bank to identify measures to control and minimize threats associated with credit risk. Kolapo [15] defines credit risk management as strategies adopt by institution engaging in a loan to avoid or minimize the adverse effect of credit risk. The fundamental principles of credit risk management process according to Kolapo [15], is for strategic managers to the establishment of a clear structure, allocation of responsibility, methods have to be privatized and disciplined, responsibilities should be communicated and accountability assigned. It should be a

proactively adopted and continuous process and procedures that enable the bank's review, study and analyze the financial health and liquidity status of borrowers assess counterparties' solvency and advance funds adeptly [12]. An essential requirement for efficient credit management is the ability to intelligently and efficiently manage customer credit lines [16-20].

Also, Nnanna cited in Abdullahi [1] submit that credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies tocontrol it, and mitigation of risk using managerial resources. Furthermore, Ibrahim [11] opined that credit risk management could, therefore, be put the central to banking business; this is because banks engage in intermediations of funds and hence they carry risk. Credit risk management is measure using Credit Standards (Collateral and Capacity), Credit Policy, (Credit Insurance and Credit Administration) Credit Terms (Cost of loan and Maturity of borrowing) and Collection Policy (Court litigation). Myers and Brealey [8] depict credit management as techniques and procedures received by a firm to guarantee that they keep up an ideal level of credit and its viable management. It is a part of financial management including credit examination, credit classifications, credit score and credit reporting. Nzotta [18] opined that credit administration significantly impacts the achievement or disappointment of business banks and other money-related institutions. This is on account of the disappointment of deposit money banks is influenced to a vast degree by the nature of credit choices and thus the quality of the risky assets.

Credit Administration

According to Muriuki (1998), credit administration is a critical element in maintaining the safety and soundness of credit risk management of developmental finance bank. Once a credit is granted, it is the responsibility of the business unit, often in conjunction with a credit administration support team, to ensure that the credits properly maintained. This includes keeping the credit file up to date, obtaining current financial information, sending out renewal notices and preparing various documents such as loan agreements (Muriuki 1998). Given the full range of responsibilities of the credit administration

function, its organizational structure varies with the size and sophistication of the bank. In larger banks, responsibilities for the various components of credit administration are usually assigned to different departments. In smaller banks, a few individuals might handle several of the functional areas. Where individuals perform such sensitive functions as custody of key documents, wiring out funds, or entering limits into the computer database, they should report to managers who are independent of the business origination and credit approval processes (Tirapat 1999).

Credit Policy

Credit policy refers to a combination of three decision variables namely; collection efforts, credit standards, and credit terms. They include credit standards, credit terms and collection efforts on which the financial manager has influence. Credit standards in advancing loans, credit standard must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Anderson, Williams and Sweeney, 2009).

Empirical Review

Alice and Jaya (2016) carried out a study to determine the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. TheSpecific Objectives were to assess the impact of credit appraisal on economic performance, to determine the impact of credit risk control on financial performance and to determine the effect of collection policy on business performance in Equity bank. The population of study consists of 57 employees of Equity bank in the credit department. Entire populationswere used as the sample giving a sample size of the size of 57 employees. Purposive sampling technique was used in sampling wherepopulation as the wholewas included in the study. Primary data was collected using questionnaires. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control, and collection

policyaffectedthefinancial performance of Equity Bank. The study established that there was a substantial relationship between economic performance and client appraisal, credit risk control and collection policy, that client appraisal, credit risk control and collection policy significantly influence financial performance. The study there concluded that Collection policy was found to have a higher effect on businessperformance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that Equity bank should enhance their collection policy by adopting a more strictpolicy to a lenientsystem for efficient debt recovery.

Kurui and Aquilars [16] investigated the effect of credit risk management practices on loan performance in MFIs in Baringo County. The study employed a descriptive research design. The population in this study was managers and credit officer's bank. The questionnaire was used to collect data. Descriptive and inferential statistics were used in data analysis. Descriptive statistics including percentages and frequencies while inferential statistics used included Pearson correlation and regression analysis. The study found out that there was a healthy relationship between client appraisals and loan performance in the bank that an increase in client appraisal led to the rise in loan performance. The study concluded that credit risk management practices significantly influenced loan performance. The study recommends adoption of a more stringent policy on credit risk management practices in the bank to improve their financial performance. David [9] carried outs study to examined the effects of Credit Risk Management Practices on Financial Performance of Commercial banks in Kenya. The primary objective of the study was to establish the effects that credit risk identification has on the financial performance of commercial banks. The study adopted a disruptive survey design. The specific objective was to find out the effects of credit risk insurance on financial Performance; the effects of credit risk monitoring on financial performance and the effects of credit appraisal analysis on financial performance. The population of the study consisted of credit risk managers, credit analysts and debt recovery managers from any branch of all commercial banks in Nairobi licensed by the Central Bank of Kenya. The study used a census method to select the sample size since the population is manageable. The study used Primary and Secondary sources of Data collection using a semi-structured questionnaire which was rated on a five Liker scale and

textbooks and journals. The Data were analyzed with Multiple Regressions and paired samples correlations co-efficient using Statistical Package for Social Sciences (SPSS) version 20. The study found out that a unit increase in credit risk monitoring would lead to increase in financial performance, that there is a definite association between credit appraisal and financial performance that a unit increase in credit risk monitoring result to increase in fiscal performance and that a unit increase in credit risk assurance would lead to increase in economic performance. The study concluded that credit risk management procedures are used to influence the profitability of the bank positively. The study there recommended that bank should consider risk identification as a process in credit risk management and focus on interest rate risks and foreign exchange risks to a great extent in the risk identification map, banks should also try to keep their operational cost low as this negates their profits margin thus leading to weak financial performance and Commercial banks should try to keep their operational cost low as this negates their profits margin thus leading to weak financial performance [21].

James [13] carried out a study to examine the relationship between credit risk management and profitability of commercial banks in Kenya The objective of the study was to establish the relationship between credit risk management and profitability in commercial banks in Kenya. The study used both qualitative and quantitative methods. The datewas sourced both primary and secondary. The primary data were collected through a structured questionnaire, while the secondary data were obtainedfrom the published annual reports for the commercial banks for ten years. A regression model was used to analysis Data. In the model, ROE was defined as the profitability indicator while NPLR as credit risk management indicator. The study found out that credit risk management affects profitability in all the commercial banks analyzed. NPLR is having a significant impact on profitability indicator (ROE), that there is an effect of credit risk management on profitability at a reasonable level and that the impact of credit risk management on the profitability of banks is not the same. The study concluded that credit management affects' profitability. The study recommended that Banks should therefore prudently manage credit risk to bolster their profitability levels, that there should be a continuous financial innovation by commercial banks in Kenya to minimize

credit risk and boost profitability, in an extension, this will strengthen the financial system and create more wealth for the shareholders.

Rosemary [22] carried out a study to determine the effect of credit management on the financial performance of Microfinance Institutions in Kenya. The study adopted a descriptive survey design. The population of the study consisted of 59 MFIs in Kenya. Data were sources primarily through questionnaires. Data collected through questionnaires were tabulated and analyzed using the Statistical Package for the Social Sciences (SPSS) software package these includes mean, Regression Analysis and standard deviations. The study found that client appraisal, credit risk control, and collection policy had an effect on financial performance, that there was a strong relationship between the financial performance of MFIs and client appraisal, credit risk control and collection policy, that client appraisal, credit risk control and collection policy significantly influence financial performance, Collection policy was found to have a higher effect on financial performance and that a stringent strategy is more effective in debt recovery than a lenient policy. The study concluded that MFI proper credit management enhanced business performance. The study, therefore, recommended that MFIs should improve their collection policy by adopting a more stringent policy to a lenient policy for efficient debt recovery, that MFIs should enhance their credit risk control this will help in decreasing default levels as well as their non-performing loans.

Kurui and Aquilars [16] investigated the effect of credit risk management practices on loan performance in MFIs in Baringo County. The study makes use of a descriptive research design survey. The populations the study were managers and credit officers in MFIs in Baringo County. Census sampling techniques were used because all branch managers and credit officers were directly targeted in this study. Primary sources Date were utilized through the administering a questionnaire to the targeted respondent. Descriptive and inferential statistics were used in Data analysis. Descriptive statistics including percentages and frequencies while inferential statistics used included Pearson correlation and regression analysis. The study found out a strong relationship between client appraisals and loan performance in MFIs and that increase in client appraisal led to the rise in loan performance in MFIs in Baringo County. The study concluded that credit risk management practices significantly influenced loan performance of MFIs in

Baringo County. The study, therefore, recommended adoption of a more stringent policy on credit risk management practices in MFIs in Baringo County to improve their financial performance, that MFIs should improve their client appraisal techniques to improve their financial performance and that MFIs should upgrade their credit risk control.

METHODOLOGY OF THE STUDY

Sources of Data

The data for this study were explicitly obtained from primary and secondary sources, notably from the management staff of the development finance institutions operating in Nigeria whose headquarters are located in Abuja, Federal Capital Territory. These institutions include Bank of Agriculture (BOA), Bank of Industry (BOI), Federal Mortgage Bank of Nigeria, Development Bank, Nigeria Export-Import Bank, and The Infrastructure Bank.

Population of the Study

The population consists of the management team of the six (6) development finance Banks specified above specifically, Members of the Board, Middle and Lower level managers of the banks (Table 1a). The population for this work is made up of 387 persons (managers and Board members).

Table 1a: The Staff Strength of these selected banks.

Names of the Development Financial Institutions DFBs	Board Members	Middle Level Managers	Low Level Manager
Bank of Agriculture (BOA)	35	44	56
Bank of Industry (BOI)	16	25	38
Federal Mortgage Bank of Nigeria	11	8	17

Development Bank of Nigeria	8	12	26
Nigeria Export-Import Bank	8	10	21
The Infrastructure Bank	9	15	28
Total	87	114	186

Source: Fieldwork, 2018.

Research Instrumentation

The instrument that was used in the studyfor Data collection was structured questionnaire. The scales and items contained in the questionnaire were adapted from the studies.5-point Likert scale was adopted for each item. This includes-Strongly Agree (SA), Agree (A), Indifferent (I), Disagreed (D) and Strongly Disagree and other format like Very High, high, averagely high, below Average and Poor**.**
The study adopted the cross-sectional survey design. The population of the study 387 staff from the only six existing development finance bank in Nigeria. The population was spread across the organizations that make up development finance banks: Bank of Agriculture 135 (BOA), Bank of Industry (BOI), 79 Federal Mortgage Bank of Nigeria, 36 Nigeria Export-Import Bank, 46 development bank, 39 and development bank 52.

Sample Size Determination

Considering the staff strength of each of the banks, it would be noted that the populations of the Board members, middle and lower level managers are so small that they can be adopted as the sample size for this study. In other words, there won't be any necessity for determining sample size. Therefore, the sample size for this study is 387 comprising of Board members, Middle level, and low-level managers.

Sampling Technique

Convenience sampling technique was adopted for selecting the respondents. The justification for choosing this method is because it allows the study to reach out to the

respondents with ease. The Board members, as well as the middle and low-level managers, are not easily seen in office due to one meeting or the other. Therefore, choosing this method though has its own inherent statistical flaws but is more suitable for this study.

Methods of Data Analysis

Both descriptive and inferential statistical analytical methods were employed for analyzing the Data for this study. The descriptive methods include the use tables, frequencies, and percentages while the inferential statistical methods will involve the use of appropriate Test of Significance method. Specifically, Structural Equation Modeling (SEM) was used for testing the hypotheses developed for this study. The test was run on Amos version 25.0 with maximum likelihood.

Empirical Results

In order to ascertain the effect credit risk management on credit patronage level of development finance banks in Nigeria, data relating to this were collected and the results are presented in Table 1b.

Table 1b: Effect of Credit Risk Management on Credit Patronage Level of Development finance banks in Nigeria.

S/n	Items	SA Fx (%)	A Fx (%)	I Fx (%)	D Fx (%)	SD Fx (%)	Avg	Rmk
1	The worth of credit usually make available for the borrower in your banks is encouraging patronages	34 (9%)	254 (68%)	36 (10%)	35 (9%)	12 (3%)	3.71	A

2	To ensure meeting the target, banks are releasing the fund for the borrowers at the right time	189 (51%)	56 (15%)	2 (1%)	34 (9%)	90 (24%)	3.59	A
3	Various type of credits facilities in your banks gives room for patronage from various kinds of borrowers	221(60%)	78 (21%)	21(6%)	31(8%)	20 (5%)	4.21	A
4	The terms and conditions for borrowing from your banks suit the nature of business activities in the environ	199 (54%)	100 (27%)	6 (2%)	32 (9%)	34 (9%)	4.07	A
5	Your bank is offering technical advices and monitoring services for the borrower, to facilitate prompt loan refunding rate	56 (15%)	259 (70%)	31 (8%)	21 (6%)	4 (1%)	3.92	A

SA: Strongly Agree, A: Agree, I: Indifferent, D: Disagree, SD: Strongly Disagree, Avg: Average, Rmk: Remark.

The results on Table 1 revealed the perception of respondents (board members, middle level managers and low level mangers) on effect of credit risk management on credit patronage level of development finance banks. The results showed that 68% of respondents expressed that the worth of the credit usually make available for the borrowers in in their respective banks huge enough to encourage patronages (average=3.71). More so, 51% of the sampled staff from participating DFB, strongly agreed that their respective banks is promptly releasing funds for the borrowers for

them to meet target (average=3.59). Most respondents (60%) unanimously agreed that their bank has various loan scheme to cater for various category of borrowers (average=4.21). Likewise, 54% of sampled staff from development finance banks in Abuja expressed that the terms and conditions for seeking loan from their banks were made to suit the condition in the operating environment (average=4.07). Also, majority of sample staff (70%) from development finance banks in Abuja reaffirmed that their banks have technical team to offer advises and monitoring services for the borrowers with aim to facilitate prompt loan refunding (average=3.92).

The results from this research question showed that the development finance banks are intensifying their efforts of credit risk management to facilitate more credit patronage among their customers. Likewise, it is evident from the results of this section that level of development finance banks volume of credit, the period of offer, nature of credit, returning rate and technical advices are the strategies employed by the development finance banks to get more customer patronage of their credit facilities.

H_{O1}: Credit risk management affects credit patronage level.

Table 2a: Descriptive analysis of credit risk management variables**.**

	Mean	Std. Deviation	Analysis N
Credit Volume	3.12	1.469	371
Collection Period	2.98	1.435	371
Credit Type	3.02	1.394	371

Table 2b: Results of SEM Analysis on Effects of Credit Risk Management on Credit Patronage Level.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.100	36.668	36.668	1.100	36.668	36.668
2	0.979	32.627	69.295			
3	0.921	30.705	100.000			

Extraction Method: Principal Component Analysis.

The result on Table 2a revealed the descriptive analysis of variables on credit risk management of development finance banks. The results showed that no value above 5 or below 1, which implies reasonable results since items were measure on 5-point Likert Scale. Likewise, the standard deviations are all similar which suggesting that there are no outliers for any of the items. More so, the result of SEM analysis for the first hypothesis presented in Table 2b revealed that the first factor is meaningful with an Eigenvalues>1, whereas, Factors 2 and 3 has an eigenvalue lesser than 1 which explains 32.63% and 30.70% of the variance respectively. The Extraction Sums of Squared Loadings provides similar information based only on the extracted factors.

DISCUSSION OF FINDINGS AND POLICY IMPLICATIONS

The findings from this study showed that the development finance banks are intensifying their efforts of credit risk management to facilitate more credit patronage among their customers. Likewise, it is evident from the findings of study that level of development finance banks volume of credit, the period of offer, nature of credit, returning rate and technical advices are the strategies employed by the development finance banks to get more customer patronage of their credit facilities. This finding concurs with that made by Kolapo [15] that found that institution with a standard approach toward credit risk management do encourage patronage. The findings by Kolapo [15] specifically identified organizational strategy such as clear structure, allocation of responsibility, privatization, employees disciplined, responsibilities as well as effective communication and accountability as tools to achieve more credit patronage among customers. Likewise, the current findings agreed with the conclusion made by Abdullahi [1] that credit risk management remain a structured approach to managing uncertainties through risk assessment to propelling more patronage.

Also, the finding from tested hypothesis established that in the development finance banks, the credit volume is the most significant strategy accounted for about 36.67% variability on the credit patronage. This may not be unconnected with the fact that in

most cases, the borrowers that approach banks are doing so, for business development and may decide against seeking loan from banks if the money will not cater for their business needs. This concurs with the submission made by Martin and Christain [17] that the SMEs operators that seeking loan from banks or some other financial institution may have to look into another direction when the volume of money make available by the financial institution could not meet their business needs. The beauty of seeking loan from financial institutions is to boost the business horizon either small and medium scale or larger enterprises. However, acquiring loan of no significant to the business may become a business burden and retarded the overall organizational activities [23].

Above all, this study identified that credit risk management strategy has to be put in place to avert the risk of loan repayment defaulters. However, to attract more credit patronage the development finance banks has to intensify in allocating enough credit volume to bring more credit seekers onboard. This agreed with the conclusion drawn by Pallavi and Leonardo [21] that credit volume generated a one-percentage point increase in loan patronage and in the long run, it is expected to turn-in the patronage of 4.3 per cent, with chances of been more if credit volume expansion is attain by the banks. However, the current finding disagreed with that of Mwafag [19] that indicated credit volume as independent to banks credit management strategies. Mwafag [19] argues further that the expansion of credit volume depend greatly on economic growth. Likewise, the findings made by Sharma and Gounder [24] when examined the change in the bank credit provided to the private sector in six economies in the South Pacific during the period 1982-2009, revealed a significant relationship between the economic growth and credit volume. Similar conclusion was drawn by Chernykh and Theodossiou [7] that other factors that may make credit volume an exclusive strategy for banks include higher average interest rates on loans, the higher inflation rate may and economic growth. Whereas, the findings and conclusion made by Olokoyo [20] from assessment of bank lending for the commercial banks in Nigeria during the period 1980-2005, established that the deposits of the commercial banks have the biggest impact on the behavior of lending by the Nigerian banks. This finding also agreed with that made by Guo and Stepanyan [10] that the domestic and foreign financing contributes

positively to the growth of credit provided by banks. The study also found that the strong economic growth leads to an increase in credit growth.

CONCLUSION

This study has established that the patronage of credit facility in development finance banks largely depends on credit risk management strategy and specifically, the volume of credit offer in the banks signified the rate of credit patronage. This evident that in most cases, the customers may turn-down the idea of seeking banks loan if money made available could not help their situation. This has also proved that people approach the banks for loan to develop their commercial activities significantly, and when amount likely made available by the banks is too small for their needs other approach may be considered to source money aside the financial institution.

In line with findings and conclusion drawn in this study, it is recommended that the management in the development finance banks in Abuja, should ensure that the credit risk management in their banks looked into aspect of credit volume alongside with other factors like, period, terms and other loan repayment technicalities in such a way to favour the customers patronage and prevent credit risks in the banks.

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