CREDIT MANAGEMENT AND FINANCIAL PERFORMANCE OF COOPERATIVE THRIFT AND CREDIT SOCIETIES (CTCS) IN NJIKOKA LOCAL GOVERNMENT AREA, ANAMBRA STATE

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Abstract

This study focused on credit management and financial performance of cooperative thrift and credit societies (CTCS) in Njikoka Local Government Area, Anambra State. The study was carried out to; identify the nature of credit management practices in CTCS in the study area, assess the influence of credit standards (collateral) on member loan repayment of CTCS under study and to explore the extent to which debt recovery techniques have on numbers of loan application of CTCS in Njikoka Local Government Area. Descriptive survey research design was used. The population of the study consists of 120 cooperative members of CTCS. 92 members were sampled using Taro Yamene's formula. The data used was a primary data collected through structured questionnaire. The data collected was analysed arithmetic mean and the hypothesis was tested using Z-test with the aid of Statistical Package for Social Sciences (SPSS). The findings revealed that Credit management and financial performance of cooperative thrift and credit societies are effective in Njikoka Local Government Area, Anambra and that Low credit standards (collateral) have significant influence on member loan repayment of CTCS in the study area. The researcher recommends among others that Cooperative thrift and credit societies should enhance their payment reminder process to more advance form so as to help them in their loan recovery.

Key words: *Cooperative management, CTCS, financial performance, Njikoka LGA.*

Introduction

Cooperative Thrift and Credit Societies (CTCS) are the most important players in provision of financial services to members of the cooperative societies in Njikoka Local Government Area. CTCS have deeper and extensive outreach in meeting the needs of cooperators than any other type of financial institution (ICA, 2002). They provide savings, credit and insurance services to a large proportion of cooperative farmers who are faced with the problems of low productivity, inadequate access to logistic support and input, crop infestations, pest and diseases and massive loss of crops and animals.

The term, '"credit" within the financial sector, refers to loans, advances, overdrafts, commercial papers, bankers' acceptance, and bill discounted, whose management encompasses all the activities involved in extending and repayment of credit facility (Hussein & Ohlmer, 2008). According to Ghorbani, Kohansal and Mansoori (2005), credit is defined as the ability to obtain goods and services or money now in exchange for promise of payment in future. CTCS serves as financial institutions for credit lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money (Felix & Claudine, 2008). Among their activities, credit provision is the main product which CTCS provide to potential business entrepreneurs as a main source of generating income. While providing credit as a main source of generating income, CTCS take into account many considerations as a factor of credit management which helps them to minimize the risk of default that results in financial distress and bankruptcy (Funso, Kolapo, Kolade & Ayeni, 2012).

Similarly, credit management is the total process of lending starting from inquiring potential borrowers up to recovering the amount granted (Silikhe, 2008). In the case of CTCS, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring and recovery of non-performing loans (Uwalomwa, Uwuigbe & Oyewo. 2015). The nature of credit management provides guidelines for the lending and repayment of loans to groups or individuals. This nature of credit management enables the CTCS not to go bankrupt or financially incapacitated as a result of non-repayment of credits granted. Taiwo and Abayomi (2013) assert that credit management is extremely important as granting credit is considered to be the equivalent of investing in a customer. It is believed that generally CTCS face credit market, liquidity, operational, compliance to legal regulatory and reputation risks among which credit risk is known to have the adverse impact on financial performance, profitability and growth. Saeed & Zahid (2016) and Ogboi and Unuafe (2013) stress that credit management process deserves special emphasis because proper credit management greatly influence the success or failure of CTCS. This indicates that credit provision should be accompanied by appropriate credit management policies that will enhance financial performance.

Financial performance is the yardstick that is used to measure the success of an organisation. It is the results that are gotten from the activities of an organization that can be used to judge their effectiveness. Common examples of financial performance include profits, number of loan applications, operating income, earnings before interest and taxes, and net asset value (Cole, 2004). It is possible there are two major reasons as to why organizations should have financial performance measurement. The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance, (Johnson & Scholes, 2007). Hence, the financial performance of CTCS lies on the achievements in credit management mitigating risk to the acceptable level. Most of the variable used to measure financial performance include profitability, number of loan application. However and despite the efforts made to address the poor credit management, CTCS still have difficulties resulting from the credit management processes undertaken and changes in customer base leading to decreasing financial performance. Over the years, the growth and financial performance of CTCS has been inhibited by several challenges relating to effective credit management strategies. This lack of stipulated credit management procedures may tend to affect their ability to recover loans issued out to borrowers (Agu & Basil, 2013).

The objectives of the study are to:

1. identify the nature of credit management practices in CTCS in the study area; assess the influence of credit standards (collateral), on member loan repayment of CTCS under study; and explore the extent to which debt recovery techniques have on numbers of loan application of CTCS in Njikoka LGA.

The hypothesis statement to guiding this study ere stated in alternate form:

H_o: Low credit standards (collateral) do not have significant influence on member loan repayment of CTCS in the study area.

H_i: Low credit standards (collateral) have significant influence on member loan repayment of CTCS in the study area.

Review of Related Literatures

Credit Management

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2013) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2012) views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. Guarding the companies" investments in debtors and optimizing operational cash flows. Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments (Bhuyan, 2017). According to Mirach (2014), the process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Though, several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations will also be taken into consideration (Borgens, 2013).

Financial Performance

Nasiri (2016) avers that financial performance involves measuring the results of a firms policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added. Turyahebya (2013), defines financial performance as the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (2015) assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

Ogaranya (2013) believes that many firms' low performance is the result of poorly performing assets. Most firms earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses).

Nature of Credit Management in Cooperative Thrift and Credit Society

Credit management is one of the most important activities in any society and cannot be overlooked by cooperative thrift and credit society irrespective of its business nature. It is the process to ensure that customers will pay for the loan given to them. Myers and Brealey (2013) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2012) views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. The higher the number of accounts receivables and their age, the higher the finance costs incurred to maintain them. If these receivables are not collectible on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid. Nzotta (2004) opines that credit management greatly influences cooperative thrift and credit society. Credit management in cooperative thrift and credit society starts by lending loan to members and does not stop until the full and final payment has been received.

Credit management is the method by which marketers collect and control the payments from their customers. Myers and Brealey (2013) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. A proper credit management will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. The total bank interest is also reduced by the borrowing cost saved by paying bills late. Credit managers can measure this interest cost separately for debtors, and the results can be seen by many as startling because the cost of waiting for payment beyond terms is usually ten times the cost of bad debt losses. Effective management of accounts receivables involves designing and documenting a credit policy. Many entities face liquidity and inadequate working capital problems due to lack of credit standards and inappropriate credit policies. According to Pike and Neale (2015), a sound credit policy is the blueprint for how the company communicates with and treats its most valuable asset, the customers. Scheufler (2012) proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization"s strategies. If the credit policy is correctly formulated, carried out and well understood at all levels of the financial institution, it allows management to maintain proper standards of the bank loans to avoid unnecessary risks and correctly assess the opportunities for business development.

Debt recovery techniques on financial performance of Cooperative Thrift and Credit Society

One of the veritable institutions that is deeply involved in financial activities within the system of the office environments in West Africa is the cooperative. The Cooperative Thrift and Credit Society (CTCS) is grouped among the non-formal institutions of finance in the nomenclature because its activities are not reported to the regulatory authorities. Cooperatives are generally grouped alongside the producer, marketing and consumer lines and with the credit type set up to provide loans to needy members in multiples of their savings (Ukpere, 2011).

Theoretical Framework

This study is anchored on theory of trade credit by George Walton, propounded by George Walton in the year 1977**.** The theory states that when sellers face uncertainty about their customers' creditworthiness and financial health, they cannot reliably make the bestselling decisions. Likewise, when buyers face uncertainty about their suppliers' products/services they cannot confidently make the best purchasing decisions. In such circumstances, trade credit is used to deal with this asymmetric information problem: buyers will have a sufficient period of time to investigate and assess the quality of the product and its value for money and to pay when they are satisfied. So those faced with choices would go for suppliers offering credit as this is a sign that sellers have confidence in the quality of their products/services. Trade credit is seen as an implicit warranty guaranteeing product quality.

On the other hand, sellers will gather valuable information about customers' financial health through their payment patterns and their abilities to take advantage of discounts for early payment when offered, and they will use credit periods as a signal to the market of high and consistent product quality or of long-term presence. This theory is relevant to this study as it explains the importance of credit management and it implication to Cooperative Thrift and Credit Society.

Alice and Jaya (2016) carried out a study on the effect of credit management on performance of commercial banks in Rwanda. The study sought to determine the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. The target population of study consisted of 57 employees of Equity bank in credit department. Entire population was used as the sample giving a sample size of 57 employees. Purposive sampling technique was used. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance 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 adapting a more stringent policy to a lenient policy for effective debt recovery.

Achou and Tenguh (2015) conducted a work on bank performance and credit risk management in Finland. The study was guided by two research questions and descriptive survey design was used. The data used was a primary data collected through structured questionnaire. The data collected was analysed using one way analysis of variance with the aid of statistical package for social science (SPSS, 20). The findings revealed that better credit risk management results in better performance. Thus, it is of crucial importance that financial institutions practice prudent credit risk management and safeguarding the assets of the institutions and protect the investors "interests. The study also revealed that there is a significant relationship between financial institutions performance (in terms of profitability) and credit risk management (in terms of loan performance) in Nigeria.

Morise (2014) carried out a study on credit management and financial performance of cooperative societies in Nigeria. The specific objective of the study is to determine impact of loan application on cooperate profitability. The study was guided by three research questions and descriptive survey design was used. The data used was a primary data collected through structured questionnaire. The data collected was analysed using Z-test with the aid of statistical package for social science (SPSS, version 20). The findings shows that load application has a significant effect on cooperate profitability

Soke and Yusoff (2009), examined the effect of credit risk management strategies and financial performance of commercial banks in Malaysia. The study was guided by three research questions and descriptive survey design was used. The data used was a primary data collected through structured questionnaire. The data collected was analysed using Z-test with the aid of statistical package for social science (SPSS, 20). The findings shows that credit risk management strategies have a great impact of financial performance of commercial banks

Research Design

The researcher adopted a descriptive survey research design.

Table 1 Distribution of Selected Cooperatives

S/N	Name of cooperatives	Address	Membership size
1	Industrial and Investment Cooperative Thrift and Credit Societies	Enugu-Ukwu	22
2	Abagana UNICA CTCS ltd	Abagana	15
3	Young CTCS Abagana ltd	Abagana	20
4	Progressive Nawfia CTCS ltd	Nawfia	28
5	Abba development CTCS ltd	Abba	20
6	Freedom CTCS	Nimo	15
	Total		120

Source: *Divisional cooperative Officer, Njikoka, 2024*

DATA PRESENTATION AND ANALYSIS

Table 1: Distribution based on Nature of Credit Management practices in CTCS

Membership	**Frequency (n=81)**	**Percentages (%)**
Credit analysis	27	33
Credit rating	14	17
Credit classification	11	14
Loan recovery	16	20
Loan approval and disbursement	13	16
Total	81	100

Source: Field survey, 2024.

Table 1 shows that 33 percent of the respondents agreed on credit analysis, 17 percent agreed on credit rating, 14 percent of the respondents agreed on credit classification, 20 percent say loan recovery while 16 percent of the respondents agreed on loan approval and disbursement.

Table 2 Credit standard (collateral) on Members Loan Repayment

ITEMS	**SA (5)**	**A (4)**	**UD (3)**	**D (2)**	**SD (1)**	**FX**	**N**	**MEAN X**	**Remark**
Our CTCS give loan to members without collateral.	32 (160)	29 (145)	3 (9)	11 (22)	6 (6)	342	81	4.22	Accepted
Our cooperative demands that members pay back loan either monthly or weekly.	40 (200)	30 (120)	2 (6)	6 (12)	3 (3)	341	81	4.21	Accepted
In our CTCS basic criteria are maintained for credit extension.	21 (105)	26 (104)	9 (27)	13 (26)	12 (12)	274	81	3.38	Accepted
Due to our cooperative collateral measures, loans are repaid by members.	28 (140)	32 (128)	4 (12)	10 (20)	7 (7)	307	81	3.79	Accepted

Source: Field survey, 2024

Table 2 shows that the mean of all items were above 3.00 which shows that they are all accepted. The item with the highest mean of 4.22 shows that CTCS give loan to members without collateral, followed by the mean of 4.21 which shows that cooperative demands that members pay back loan either monthly or weekly

Table 3: Debt recovery technique on number of loan application

ITEMS	SA (5)	A (4)	UD (3)	D (2)	SD (1)	FX	N	MEAN X	Remark
Our cooperative use payment reminder process to recover loan.	36 (180)	28 (112)	5 (15)	4 (8)	8 (8)	323	88	3.99	Accepted
Our CTCS uses loan rescheduling as a debt recovery technique.	35 (200)	22 (120)	6 (6)	16 (12)	7 (3)	341	88	4.21	Accepted
Our CTCS permits loan extension request by members as a technique.	21 (105)	33 (132)	9 (27)	10 (20)	8 (8)	292	88	3.61	Accepted
Our CTCS uses lending limit as a debt recovery technique.	28 (140)	32 (128)	4 (13)	10 (20)	7 (7)	308	88	3.80	Accepted

Source: Field survey, 2020

Table 3 shows that the mean of all items was above 3.00 which shows that they are all accepted. The item with the highest mean of 4.21 shows that CTCS uses loan rescheduling as a debt recovery technique, followed by the mean of 3.99 which shows that cooperative use payment reminder process to recover loan

Test of Hypothesis

Level of significance =0.05

H_0: Low credit standards (collateral) do not have significant influence on member loan repayment of CTCS in the study area.

H_i: Low credit standards (collateral) have significant influence on member loan repayment of CTCS in the study area.

Table 4 Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Low credit standard/membership loan	5	16.2000	14.000	4.00	36.00

Table 5 One-Sample Kolmogorov-Smirnov (Z-Test)

		Low credit standard/membership loan
N		5
Normal Parameters[a,,b]	Mean	16.2000
	Std. Deviation	14.000
Most Extreme Differences	Absolute	.129
	Positive	.129
	Negative	-.119
Kolmogorov-Smirnov Z		.421
Asymp. Sig. (2-tailed)		.001

a. Test distribution is Normal.

b. Calculated from data.

The analysis above also shows that the probability value (0.001) is less than the alpha value (0.05), the researcher therefore rejects the null hypothesis and accept the alternative which says that Low credit standards (collateral) have significant influence on member loan repayment of CTCS in the study area.

Findings

The study examined the Credit management and financial performance of cooperative thrift and credit societies in Njikoka Local Government Area, Anambra state. CTCS give loan to members without collateral and that cooperative demands that members pay back loan either monthly or weekly. CTCS uses loan rescheduling as a debt recovery technique and that cooperative use payment reminder process to recover loan.

Conclusion and Recommendations

Based on the findings of the study, it shows that Credit management and financial performance of cooperative thrift and credit societies are effective in Njikoka Local Government Area, Anambra. The researcher concludes that Low credit standards (collateral) have significant influence on member loan repayment of CTCS in the study area

Based on the findings, the following were recommended: Cooperative thrift and credit societies should enhance their payment reminder process to more advance form so as to help them in their loan recover. There should be fix lending limit for cooperate members so as to make the loan available for other members to partake Cooperative thrift and credit societies should maintain regular basic criteria so as to have credit extension. That more effort should be on cooperative education through seminars, workshop training programmes so as to carry every one along, Members should possess cooperative spirit to enable them to run their societies and their investments efficiently.

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