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Factors Influencing the Recovery of Non-Performing Loans in Commercial Banks: The Case of Exim Bank

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Abstract
This study aimed at evaluating different factors that influence the recovery of NPL by analyzing the management of NPL recovery in commercial banks in Tanzania. Using Exim Bank as the case study, the study evaluated NPL ratios, influence of internal management on recovery strategies, influence of third-party activities on NPL recovery and effects of regulatory guidelines on the recovery of NPL. SPSS was used to test the strength of the relationships between the study variables, using the Pearson Correlation Coefficient method. The study concluded that there is a negative strong relationship between NPL and net income, a positive strong relationship between internal management strategies and NPL recovery, a negative strong relationship between third-party recovery activities and NPL recovery and a positive strong relationship between the regulatory guidelines and NPL recovery.
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1. Introduction

The banking industry in Tanzania is dominated by commercial banks (top 5 largest banks) with over 50% of the total banking assets. Historically, the banking industry in Tanzania was characterised by a small banking landscape in the early twentieth century and has evolved into the vibrant industry we see today. An imperative turn occurred in 1967, when the Government of Tanzania nationalised financial institutions, and merged them to a handful of state-owned banks, forming the country's largest banks such as NBC and CRDB. In the 1990s, ideologies of privatisation and liberalisation professionalised Tanzanian banks thus stimulated competition with emphasis pegged on enhancing quality and efficiency of credit distribution. With privatisation, new players such as Exim Bank, Azania Bank, Access Bank, and other regional banks such as UBA, Ecobank, and Stanbic Bank entered the Tanzanian financial sector over time and of late, China Commercial Bank.

Commercial banks are one of the dominant and vital players in the economies and growth of many countries. CBs are becoming increasingly important to various individuals, corporations as well as government agencies, institutions, and departments through the provision of financial support such as awarding credit, mobilising finances from surplus units to deficit units, and making possible the flow of funds to different productive investment segments. CBs mobilise savings (deposit holding), intermediating credit (lending), and performing other corporate activities which assist in setting up a vibrant economy. CBs provide a wide range of commercial and monetary services to different market groups ranging from small, medium, and large businesses. They also assist emerging markets to raise funds, since most of their stakeholders have no access to capital markets (Greuning & Bratanovic, 2009). Therefore, it is important to ensure the wellbeing of CBs as well as other financial institutions because, their failure can critically disrupt the development process of the economy and nation as a whole (Dogan, 2017).

According to Barth et al. (2006), when CBs are operating well and in a healthy economy, they act as stimuli for economic growth. Hence markets that experience relative favourable economic growth with low inflation rates, economic stability, and containment of public sector debt, create a favourable environment for CBs. On the other hand, any slowdown in economic thrust deteriorates CBs' asset quality i.e., falling credit growth, increasing provision needs, and liquidity pressures. The Tanzanian financial sector started experiencing turbulence with 5 community banks shut down by the Bank of Tanzania (BOT) in early 2018, followed by an increase in mergers and acquisitions due to inadequate capital requirements and liquidity pressure, deterioration of asset quality leading to enormous provisions, falling credit growth, etc. Henceforth, in July 2020, the number of licensed banks lessened to 49 indifferent to the 51 licensed banks recorded in 2019. To date, the momentum has improved as banks had to succumb to the deployment of various measures to reduce the uncertainties and a further array of measures to manage non-performing loans, cushion the liquidity level and manage credit risks.

Table 1: Categories of banking institutions in Tanzania

	2015	2016	2017	2018	2019
Commercial Banks	36	38	38	40	38
Development Banks	2	2	2	2	2
Microfinance Banks	3	4	5	5	5
Community Banks	12	12	11	6	6
Financial Institutions1	3	3	3	0	0
Total	56	59	59	53	51

Source: Bank of Tanzania

The study focused on Exim Bank in Tanzania and information was gathered from its credit, finance, special assets management, legal, treasury and global markets, corporate and institutional banking, risk and compliance and retail banking departments. Insights from heads of department who mainly handle formulation and enactment of credit and lending policies to sanctioning of loans were key to the study. Focus also included Exim Bank's financial performance i.e., management and recovery of NPL from 2015 to 2019. Data were thus collected for the said period extracting practical experience and empirical evidence on management processes of NPL. With the involvement of various groups of respondents, the study contributes to knowledge gathering and comprehension of factors influencing the management and recovery of NPL in commercial banks, specifically Exim Bank in Tanzania. Furthermore, the study aids in the formulation of Exim Bank's proper lending and credit policies. The findings of this study are useful in knowledge contribution for further studies on NPL in commercial banks as well as assisting other researchers to review, criticise and identify gaps which would prompt further research in the commercial banks and NPL areas.

2. Statement of the problem

One of the major problems that countries' banking systems face, is the increase of banks' NPL and consequently, reduction of liquidity, disruption of resources' allocation, and reduction of banks' profit (Ghasemi, 2010). In the Tanzanian economy, despite the important role played by CBs, they still experience challenges that impede their operations and proper functioning. Countrywide, the NPL ratio of CBs to total gross loans in the year 2013 was 5.12% and later increased to double digits far exceeding the country's average to 11.9% in 2017 and dropped to 10.4% in 2018 (Mirondo, 2019). The set banking industry benchmark for NPL in Tanzania is 5%; however, in 2019, through unaudited accounts for the third quarter, 19 financial institutions and banks indicated NPL ratio range of 4% and 51% which highly surpassed the benchmark set. The high NPL level resulted into a decrease in profits of many big banks which threatened the performance and growth prospects of some of the banks and some had to close.

A higher NPL ratio means that banks make fewer profits because of the exertions they have in collecting interest and principles from loans. In turn, this causes a significant pull-on banks' general performance by increasing impairment costs, reducing net interest income, more capital requirement for high risk-weighted assets, reduced appetite for new lending, increasing the cost of funding hence affecting equity valuation, time and cost ventured to resolve NPL problems.

Reasons for the increase of Non-Performing Loans in Tanzania mainly include poor credit controls, enormous acquisition strategies and aggressive lending, poor supervision and general governance, relaxed credit underwriting policies and procedures, lending high exposures to sectors impacted by economic changes e.g., real estate, etc. Heightened regulatory requirements for the management of NPL which include harmonization of NPL classification, vigorous asset quality reviews, loan book performance disclosures, and new operational directives have also contributed much to the overall increase in levels of NPL in Tanzania. All these situations have led borrowers into excessive financial difficulties leading to large numbers of defaulters.

To reduce the NPL ratio, the Government of Tanzania through Bank of Tanzania has been issuing numerous circulars as a way to curb potential systemic crises associated with credit risk and imposed measures and restrictions on the proportion of NPL not to exceed 5%. For instance, in Circular No. FA.178/461/01/02 dated 19th February 2018 titled *"Measures to Increase Credit to Private Sector and Contain Non-Performing Loans"*. The circular guided banks and financial institutions in tackling the rising numbers of NPL through specific strategies that banks and financial institutions could develop and deploy; together with the provision of information on regulatory measures and reliefs that banks and financial institutions could apply to NPL and make sure there is a reduction towards the benchmarked ratio i.e., 5%.

Despite vigorous efforts to reduce NPL in CBs pioneered by the regulator and banks themselves, the management of NPL is still a challenge and thus with time, some banks still experience a very slow decrease in NPL. Most banks have failed to prepare effective loan recovery strategies that would address the underlying causes of the problem and resolve the NPL problem desirably. Reason for the failure run from poor management structure, weak credit policies and standard operating procedures, absence of a dedicated department that deals with recovery activities, lack of timely risk assessment recourse, and early alert meetings that monitor banks' assets and ensure they don't fall into the NPL cluster. Also, poor portfolio monitoring and wrong classification are other causes for ineffective NPL management, because most banks tend to use more qualitative rather than quantitative classification, thus compromising the asset grading process and misrepresent the true pictures of their performance.

3. Research Objectives

3.1 General Objective

The study aimed at evaluating the extent of various factors influencing the recovery of NPL in CBs.

3.2 Specific Objectives

The study sought to achieve the followings specific objectives.

i. To examine the extent to which the efficiency of internal management influenced the recovery strategies of NPL in CBs.
ii. To evaluate the extent to which the efficiency of third-party activities influenced the recovery of NPL in CBs.
iii. To assess the influence of regulatory guidelines on the recovery of NPL in CBs.

4. Research Questions

4.1 Main Research Question

What are the factors influencing the recovery of NPL in commercial banks?

4.2 Specific Research Questions

Through the examination of the questions below, the objectives of the study were achieved.

i. What is the influence of internal management on the recovery strategies of NPL?
ii. What is the influence of third-party activities on the recovery of NPL?
iii. What are the effects of regulatory guidelines on the recovery of NPL?

5. Literature Review

5.1 Commercial Banks

CBs are types of financial institutions that receive deposits from customers, give loans, offer and operate cheque services, and provide other essential financial services and products to customers. Haslem (1985) asserted that CBs lie at the heart of the financial system. Apart from their intermediation process, CBs are also involved in the trade of various financial instruments, these include loan certificates, treasury bills, bonds, and repurchase agreements (Bank of Tanzania, 2015). With the increasing complexity and diversity of business development, CBs have gradually put more focus on how to improve the accuracy of risk assessment, especially credit risk (Su et al., 2018). Due to the nature of CBs, bank loans are the largest source of credit risk. Therefore, management and credit risk reduction have gained special importance in the framework of achieving a successful performance in a commercial bank (Siqani et al., 2016)

5.2 Non-Performing Loans

BAFIA defines NPL as any credit accommodation for which contractual obligation for repayment is past due for more than 90 days or is classified as substandard, doubtful, or loss. According to IMF, a non-performing loan is any loan in which interest and principal payments are more than 90 days overdue; or more than 90 days' worth of interest has been refinanced (Khan and Ahmad, 2017). Any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is non-performing (Asmalu 2018). Various literature gives different descriptions of bad loans. Alton and Hazen (2001) described NPL as loans that are ninety days or more past due or no longer accruing interest. (Caprio and Klingebiel 1999), cited in Fofack (2005), considered non-performing loans as loans which for a relatively long period did not generate income, that is, the principal and/or interest on these loans had been left unpaid for at least ninety days. Non-performing loans are deemed to be major determinants of banks' profitability, where, high levels of non-performing loans, negatively affect banks' net profit during provisioning of doubtful debts and bad debts write-offs (Ombaba, 2013). Consequently, when non-performing loans surpass a bank's capital in a comparatively large proportion, the bank experiences operational difficulties, which ultimately lead to a financial crisis (Biabani et al., 2012; Karim et al., 2010).

5.3 Information Asymmetry Theory

Asymmetric theory entails that the party that possesses better information can negotiate a more prime and ideal term in the transaction (Auronen, 2003). During the forecasting of NPL, inadequate and inaccurate information spearheads the exercise, and banks adopt the model of increased interest rates in efforts to compensate for expected losses, thus ultimately leading to further breakdown of the market and more non-performing loans. This scenario in banks is considered as Information Gap. According to Neff et al. (1998), this information gap had led to significant accumulation of NPL in banks due to the lack of information on borrowers, thus increased the chances of wrong and inappropriate credit decisions. Information asymmetry theory sheds light on the difficulties and complexities in the differentiation and classification of good and bad borrowers which may result in adverse selection and hazardous moral setbacks. This presents a need for CBs to evaluate, alter, modify, and transform their current practices of analyzing and assessing the creditworthiness of borrowers.

5.4 Agency Theory

Agency theory is also referred to as the Principal Agency Model. The theory describes the relationship between two or more parties, in which one party is designated as the principal, engages another party, designated as the agent, to perform some tasks on behalf of the principal (Jensen & Meckling, 1976). The theory showcases the difference in interests between the agent (shareholders and management) and the principal (debt holders), which causes management to take high risks at the cost of the debt holders. The management is often involved in risky projects (provision of high-risk loans) in the anticipation of gaining a quick high return, but there is no such balanced consideration to the depositors (Smith & Stulz, 1985). Abu-Tayeh (2007) studied the effects of a centralised decision-making system and discovered that centralised authority related to the performance of tasks assigned employees (hierarchy of authority) increased employees' perceptions of job satisfaction. Formalization and standardization accounted for higher levels of satisfaction with jobs and organizational commitment. The effects of agency theory were reduced in such a system. Employees from branches reported greater perceptions of justice and satisfaction, with little to no insertion of individual motives.

5.5 Empirical Review

Among major challenges on the performance of most CBs today that adversely affects profitability, is the accumulation of huge non-performing assets (NPA). According to IMF's Euro Area Policies issued in July 2015, NPL had reached approximately one trillion euros, an indication that the number had more than doubled since 2009. This highlights that NPL remains to be a challenge in the banking industry across most of Europe. All the same, the volume of NPL is particularly momentous in most parts of South-Eastern and Central Eastern Europe where NPL ratios as a percentage of gross loans were presented in double digits, which far exceeds the European Union set averages. Singh (2013) asserted that the origin of the problem of mushrooming NPA emanated from the credit risk management systems in the banks. Gupta (2012) emphasized in her study titled "*A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks*" that banks should regularly assess and evaluate their clients' financial conditions through credit rating agencies. Chatterjee, Mukherjee and Das (2012) contended in their study of "*Management of non-performing assets - a current scenario*" that banks should seek to find out the original purpose or reasons of the loan required by the borrower. Rai (2012) proclaimed in *"Study on performance of NPAs of Indian commercial banks"* that there was no proper set legal framework that safeguarded the true interest of banks. As such most corporate borrowers even after defaulting unremittingly, they never had the fear of banks taking recovery actions on their dues.

Chaudhary and Sharma (2011) suggested that banks should develop an efficient management information system that aids in loan sanctioning and documentation processes. Lange et al. (2007) further averred that borrowers have the tendency of borrowing and diverting the received credit, investing in businesses or other projects that were not planned for nor presented to the bank in the hopes of gaining an extra and higher return. In doing so, the bank that extended the facility then operates under a credit risk because the interest income anticipated from the borrower has been diverted thus having a high possibility of defaulting or uncollectable loan. Empirical studies regarding the factors that determine the level of NPL show that the real increase in GDP usually translates into higher levels of income, improving the financial capacity of borrowers. However, on the other hand, when the economy is below normal conditions or in a recession, the level of NPL may increase due to the resulting increase in unemployment, with borrowers facing major difficulties to repay their debt (Salas and Suarina, 2002; Ranjan and Dhal, 2003; Fofack, 2005; Jimenez and Saurina, 2005; Thalassinos et al., 2015), cited in Mazreku et al. (2018).

6. Conceptual Framework

Key concepts used in this study were identified as internal management activities, third-party recovery activities and regulatory guidelines.

6.1 Internal Management Activities

Asmalu (2018) observed the presence of an inverse relationship between good internal management and levels of NPL. Where internal management strategies were good, the levels of NPL reduced. The influence of internal management on recovery strategies of NPL was highlighted. Asmalu (2018) further asserted that quality management was key in CBs operations. Canton (1997) defined management quality as the competence of the board of directors and management to determine, assess, and manage risks associated to various activities in an institution and to establish secure, solid, and functional operations under pertinent laws and regulations. Golin (2001) as cited in Asmalu (2018), noted that evaluation of management quality was unpredictable and one of the most challenging measures to ascertain. CBs require experienced and reputable top management personnel such as heads of departments to navigate today's modern complex banking environment and quickly provide solutions to everyday business encounters.

Generally, there are various approaches used on a routine basis by banks to manage NPL. Kaflaoglou (2018) identified two approaches in the management of NPL where one of them was the formulation of internal recovery units within banks for specialized supervision of precarious loans. Kaflaoglou (2018) further avowed that any optimal solution employed to manage NPL was not unique and depended on the economic and political environment of a particular nation, the institutional framework of the bank and the magnitude of the situation. In the banking sphere, recovery units are commonly called Special Assets Management (SAM) departments. According to Johora (2020), SAM is a department established to manage bad loans through monitoring and liquidation. Tasks handled by the SAM department in a bank include preserving a tenable NPL ratio using methods such as rescheduling, restructuring, settlement and write-offs, managing relationships with defaulting borrowers such as analyses, negotiations and persuasion and taking action against defaulting borrowers such engagements with third-party recovery agents. Based on the above discussion the null hypothesis is stated here as:

Ho:1. There is a positive relationship between efficient internal management and NPL recovery strategies.

6.2 Third-party Recovery Activities

Experience has shown that legal support is vital in the management and recovery of NPL. Third-party recovery agents include lawyers, debt collectors and auctioneers. Recovery through legal channels is considered lengthy and costly, with or without security (Tsuma and Karasa, 2016). After judgement or agreement, the recovery amount is dependent on the court’s ruling and not the value of the security. Upadhyay (1994) cited in Pande (2017) noted that legal procedures took a long time and involved high costs. Recourse efforts by lenders were delayed endlessly which was unpleasant due to periodic execution of court decrees. The enforcement process became virtually ridiculed because the legal system allowed defaulters to delay lenders' recovery efforts. During a foreclosure process, the borrower was allowed to reside in a property for 7 or 8 years which made the borrower not see value in paying off the debt.

Banks may choose other alternative means of recovery through private sales instead of court processes. Higher retail value is commonly attained on the free market through a private sale in comparison to imposed auctions. Still, auctions are susceptible to injunctions the defaulters could place against banks in efforts to suspend the sale of their securities. Another option for banks is the use of Asset Management Companies (AMC) whose purpose is to dispose of assets swiftly and lucratively as possible (He et al, 2006). As noted from The Financial Express (2019) that Bangladesh, through its finance minister, disclosed that AMC would soon be established to recover NPL of the banks. The author argued that AMC, managed and invested funds and that recovery of NPL was not part of their functions. The author further stated, perhaps, the finance minister was referring to debt recovery agents, also known as Asset Recovery Companies (ARC) that were employed in many countries for collecting bad loans on behalf of banks for a commission or fee. Based on the above discussion the null hypothesis is stated here as:

Ho:2. There is a positive relationship between the recovery of NPL and efficient third-party recovery activities.

6.3 Regulatory Guidelines

The aspect of monitoring safe banking, assessing financial competence and regulating risks has become one of the crucial attributes in the financial market in recent years intending to make the supervision of banks essentially effective. In particular, the central bank as the regulator has to monitor the trend of effects of the current and issued microeconomic regulations on the macroeconomic stability in the country. Docherty (2018) identified that banks were led into the adoption of various quick ways of assessing their financial competence and performance because of improved international loan accounting standards and new capital regulations set by the Basel Committee. These improved standards and new regulations internationally such as IFRS 9, influenced formulation and improvements of national regulatory guidelines. Tanzania adopted the use of IFRS 9 by banks in early 2018. Banks had to urgently adapt to these sets of strategic adjustments to safeguard short-term shareholder value while managing long-term competitiveness and survival.

Banking regulations aim to afford a safe-and-sound banking industry that protects depositors and promote good investment policies among financial institutions. Since banks represent a special industry, most of the instruments of banking regulation must be specific to the sector (Freixas and Rochet, 1997). Kaflaoglou (2018) suggested that regulatory authorities faced specific challenges in their efforts to curb NPL from both micro and macroprudential perspectives. Interest from a micro-prudential point of view was towards challenges faced and posed by new business models, adequacy of data for credit assessments and layers of supervisory protection. Consideration from a macroprudential point of view went towards the policies for resolution of NPL, toxicity and persistence of NPL, inimical feedback curve in macro-financial interconnections, types of mediation and private debt menace.

It has been a common practice for regulators to issue policies in efforts to curb NPL levels in recent times across many parts of the globe. According to Yap (2016), China issued policy papers in July and August 2016 in efforts to reduced NPL, which stood at RMB 2 trillion (approximately TZS 705 trillion) by the end of March 2016, with another RMB 5 trillion (approximately TZS 1,763 trillion) worth carrying default risks, through debt-to-equity swaps. However, at the central government level, the guidelines did not provide explicit details on how debt-to-equity swaps were to be implemented, but some provinces had issued high-level directions which varied between different provinces. It was evident that there was a mismatch in regulatory guidelines, however, the Chinese authorities viewed debt-to-equity swaps as a less costly strategy to rescue reputable businesses. Based on the above discussion the null hypothesis is stated here as:
Ho:3. There is a positive relationship between regulatory guidelines on NPL and recovery of NPL.

7. Methodology

The study used audited financial statements from 2015 to 2019 for the collection of data such as financial performance i.e., NPL ratios for the quantitative analysis. Data on recovery strategies crafted by internal management was collected through the examination of minutes of MCC and EA meetings from 2015 to 2019. The bank conducts MCC and EA meetings every month, therefore, the researcher collected data from twelve (12) MCC and twelve (12) EA meetings each year from 2015 to 2019. A total of sixty (60) MCC and sixty (60) EA meetings. Data of cases where NPL recovery was done through third parties between 2016 to 2019 was collected from the bank's legal department. Data regarding regulatory guidelines were collected through the examination of Circular No. FA.178/461/01/02 and stratified and analyzed alongside the identified recovery strategies from the minutes of MCC and EA meetings. After the examination of audited financial statements, minutes from MCC and EA meetings, third-party collection activities and Circular No. FA.178/461/01/02, a closed-end questionnaire was designed to collect data for the qualitative analysis. Content analysis technique was applied to the data collected from audited financial statements, legal department and minutes of MCC and EA meetings. *"Content analysis allows for main themes identified by the researcher to be pursued guided by the research questions and objectives"* (Ndambala, 2020).

7.1 Target Population and Sampling Technique

The total population of the study was 700 employees of Exim Bank in Tanzania. The researcher obtained various personnel roasters, stratified them and selected respondents using simple random sampling. The study had a sample size of 25 respondents which comprised of employees from various departments i.e., credit, finance, special assets management, legal, treasury and global markets, corporate and institutional banking, risk and compliance and retail banking. The researcher is a member of the management committee of Exim Bank in Tanzania, which provided both quick access to data and familiarity.

7.2 Data Reliability

The Saunders et al (2009) defined reliability as the degree of consistency in research findings if the same data collection techniques or analysis procedures were used in another study. The tools and techniques used in this study were reliable. Banks generally follow specific guidelines in compliance and disclosure of information; thus, the audited financial statements, information from the legal department, Circular No. FA.178/461/01/02, minutes of MCC and EA meetings and questionnaire administered to the bank's employees were reliable data collection tools. Every employee had equal chances of inclusion in the study, being a randomly selected sample. The selected sample was more than 1% of the target population; thus, the tools and techniques used would yield the same results as suggested by Kotler (2000).

7.3 Data Validity

The Validity was defined as the degree of relevance of the research findings to the context of the research by Saunders et al (2009). As highlighted by Brewerton and Millward (2001), the credibility of findings is the validity of a qualitative research approach. The appropriateness of the data collected, and the link between the study and the conclusions provided by the researcher in this study, are the basis of the credibility of the study.

8. Research Findings

In order to understand more about the characteristics of the respondents, we first of all provide their demographic characteristics. Thereafter, major research findings on the study variables are presented.

8.1 Demographic Characteristics

Demographic characteristics include gender, department, designation and durations of service. The total number of respondents was 25. 64% of the respondents were males while 36% were female. Personnel from credit, finance and risk & compliance departments presented the greatest number of the respondents with 20% from each department. Personnel from special assets management, legal and retail banking departments presented respondents 8% of the respondents respectively. There was a 4% representation from corporate & institutional banking and treasury & global markets departments. 28% of the respondents were heads of departments who sit in the management committee that drives Exim Bank's operations. Deputy heads of departments, cluster heads, senior managers, managers, assistant managers and officers who receive the set strategies for implementation, represented 4%, 4%, 12%, 24%, 16% and 12% of the respondents respectively. 60% of the respondents had worked between 1-5 years in the bank which provided a robust mix of experienced staff and relatively fresh in operations of the bank within the scope of the research i.e., 2016 to 2020. 36% and 4% of the respondents had worked between 6-10 years and 11-15 years in the bank respectively. 80% of the respondents had served in their current roles between 1-5 years and 20% had served between 6-10 years, at the time of the study.

8.2 Findings on NPL Ratios

After the examination of audited financial statements, results show that the bank's NPL ratio is at an average ratio of 13.80% during the study period. The highest NPL ratio was in 2019 at 22.06% and the lowest was in 2015 at 9.60%. The results show an inverse relationship between NPL and net income. As NPL increased, net income of the bank decreased. The table below shows the NPL ratios results.

Table 2: Exim Bank's Net Income and NPL

	2015	**2016**	**2017**	**2018**	**2019**
Net Income (TZS Billions)	29.48	72.41	8.50	-14.00	-17.78
NPL (TZS Billions)	57.08	70.08	105.73	91.34	169.39
NPL Ratio	9.60%	10.61%	14.24%	12.49%	22.06%

Source: Primary Data

Different literature suggested that there was a negative relationship between NPL and net income. The results of the Pearson Correlation Coefficient presented in table 3 below indicate a negative strong relationship between the bank's total NPL (Mean = TZS 98.72 billion, Standard Deviation = TZS 43.74 billion) and net income (Mean = TZS 15.72 billion, Standard Deviation = TZS 36.95 billion) with r = -0.680. The coefficient of determination (r2) indicates a 46.0% shared variance, i.e., the bank's total NPL attributes to 46.0% of the variance in the net income.

Table 3: Bivariate correlation between Net Income and NPL

		NPL	**Net Income**
NPL	Pearson Correlation	1	-.680
	Sig. (2-tailed)		.207
Net Income	Pearson Correlation	-.680	1
	Sig. (2-tailed)	.207	

Source: Primary Data

A comparative analysis on the bank's NPL ratios against Tanzania's average NPL ratios. The comparative analysis on the bank's NPL ratios against Tanzania's average NPL ratios as showcased in table 4 below, reveal that Exim Bank's NPL ratios were above the prevailing national average rations throughout the study period.

Table 4: Exim Bank's NPL ratios and National Average NPL ratios

	2015	**2016**	**2017**	**2018**	**2019**
Exim Bank NPL Ratio (1)	9.60%	10.61%	14.24%	12.49%	22.06%
National Average NPL Ratio (2)	8.58%	9.61%	11.52%	9.93%	9.80%
Difference (1-2)	+1.02%	+1.00%	+2.72%	+2.56%	+12.26%

Source: Primary Data

The results in table 5 below indicate a positive weak relationship between the bank's NPL ratios (Mean = 14.20%, Standard Deviation = 4.90%) and national average NPL ratios (Mean = 9.89%, Standard Deviation = 1.06%) with r = 0.309. The coefficient of determination (r2) indicates a 9.55% shared variance, i.e., the bank's NPL ratios attribute to 9.55% of the variance in the national average NPL ratios.

Table 5: Bivariate correlation between Exim Bank's and National Average NPL ratios

		Exim Bank's NPL Ratios	National Average NPL Ratios
Exim Bank's NPL Ratios	Pearson Correlation	1	.309
	Sig. (2-tailed)		.612
National Average NPL Ratios	Pearson Correlation	.309	1
	Sig. (2-tailed)	.612	

Source: Primary Data

8.3 Findings on the Influence of Internal Management

Different opinions regarding the management of NPL in the bank, revealed that 50% and 36% of the respondents strongly agreed and agreed respectively that the delimitation of NPL could be done through continuous communications with customers. 64% and 24% of the respondents agreed and strongly agreed respectively that the bank did not have an operative market intelligence system. Interestingly, 40% of the respondents chose to stay neutral when asked whether or not the bank had effective staff, processes and systems, whereas 36% of the respondents agreed. 40% of the respondents strongly agreed and 56% agreed that the bank was effective at the reduction of NPL using smooth workout tactics such as part payments and loan restructuring. 24%, 36% and 28% of the respondents strongly agreed, agreed and were neutral respectively that, the bank had developed effective multiple disposition strategies. 50% and 28% of the respondents agreed and were neutral respectively that, the bank had effective corporate governance which facilitated the reduction of NPL. The table below shows the results.

Table 6: Opinions on NPL

Opinions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
NPL delimitation through continuous communications with customers	52.0%	36.0%	12.0%	-	-
Lack of an operative market intelligence	24.0%	64.0%	4.0%	4.0%	4.0%
Effective staff, processes and systems	4.0%	36.0%	40.0%	16.0%	4.0%
Effective NPL reduction by employing smooth workout tactics	40.0%	56.0%	-	-	4.0%
Developed multiple disposition strategies	24.0%	36.0%	28.0%	12.0%	-
Effective corporate governance	4.0%	56.0%	28.0%	8.0%	4.0%

Source: Primary Data

Different tools used in the determination of NPL which were identified during the study and the respondents ranked each tool in efforts to determine which one was the most significant. The results identified early alerts as the most significant tool, followed by a high focus on potential NPL accounts, negotiated settlements and restructuring of dues. The results as presented in the table below, highlight the use of negotiated settlements as a strategy to resolve NPL cases with defaulters.

Table 7: Tools used in the determination of NPL

Identified Tools	Mean
Early Alert System	4.36
Focus on potential NPL Accounts	3.68
Negotiated settlements	3.68
Restructuring of dues	3.24
Compromise settlement in a lawsuit and out of court	2.96
Legal Action	2.72
Property Auction	2.72
Rigorous follow up and Close monitoring	2.44

Source: Primary Data

The results on table 8 below clearly show that 96% of the respondents thought that effective monitoring of loans would reduce the level of NPL. On the other hand, 4% of the respondents thought that effective monitoring of loans would not reduce the level of NPL. 64% of the respondents thought that the processes for maintaining a sound NPL management system in the bank were efficient. On the other hand, 36% of the respondents thought that the processes for maintaining a sound NPL management system in the bank were not efficient.

Table 8: Statements on internal management of NPL

Statements	Yes	No
Effective monitoring of loans would reduce the level of NPL.	96.0%	4.0%
The processes for maintaining a sound NPL management system in the bank are efficient.	64.0%	36.0%
The bank's management conducted Early Alert meetings that sit periodically to discuss loans that are overdue before they become NPL.	80.0%	20.0%

Source: Primary Data

The results in table 9 indicate a positive strong relationship between the recovery of NPL and internal management strategies with r = 0.660. The coefficient of determination (r2) indicates a 43.56% shared variance, i.e., the bank's internal management strategies attribute to 43.56% of the variance in the recovery of NPL.

Table 9: Bivariate correlation between NPL and internal management strategies

		NPL	Internal Management Strategies
NPL	Pearson Correlation	1	.660
	Sig. (2-tailed)		.225
Internal Management Strategies	Pearson Correlation	.660	1
	Sig. (2-tailed)	.225	

Source: Primary Data

8.4 Findings on the Influence of Third-party Activities

There was a total of 54 cases worth TZS 129.93 billion that were assigned to third parties for collection. 11.11% of the total number of cases assigned to third parties were recovered. The total number of cases recovered represented 7.74% of the total value of cases assigned to third parties for recovery. Detailed analysis revealed that, in 2015, 2016, 2017, 2018 and 2019, third parties were assigned recovery of 58.83%, 27.05%, 35.04%, 7.35% and 19.84% of total NPL respectively, and only 16.75%, 0.26% and 0.19% was recovered in 2015, 2016 and 2019 respectively. The results indicate that a significant amount of NPL was recovered in 2015. There was poor performance in the recovery of NPL through third-party activities thereafter. As presented in table 10 below, the rate of recovery was 28.47%, 0.95% and 0.94% in 2015, 2016 and 2018 respectively. There were no successful recoveries in 2017 and 2018.

Table 10: Third-party recovery activities

	2015	2016	2017	2018	2019
Number of cases assigned to third parties	12	3	19	10	10
Value of cases assigned to third parties (TZS Billion)	33.58	18.98	37.05	6.71	33.61
Number of successful cases by third parties	4	1	0	0	1
Value of successful cases by third parties (TZS Billion)	9.56	0.18	0	0	0.32
Rate of Recovery	28.47%	0.95%	0	0	0.94%

Source: Primary Data

The results in table 11 below, show identified recovery by transfer of assets to ARC as the most significant approach, followed by debt collectors, legal action and property auctions. The bank utilized disposal of assets through ARC to dispose especially of unsecured and discounted loans in efforts to reduce NPL and gain quick money.

Table 11: External approaches for NPL reduction

Approaches	Mean
Recovery by transfer of assets to ARC	3.44
Recovery by debt collectors	3.16
Recovery by legal action i.e., filing of a lawsuit in court etc.	2.64
Recovery by selling off properties through auction	2.4
Recovery by way of compromise settlement in court	2.24

Source: Primary Data

The results in table 12 below clearly show that 36% of the respondents thought that the legal machinery was stringent enough on loan-related recoveries. On the other hand, 64% of the respondents thought that the legal machinery was not stringent enough on loan-related recoveries. The bank suffered from defaulters misused the legal and social environments. All respondents agreed that the bank did not get good and timely results through legal recovery because court cases took too long to be decoded. 80% of the respondents agreed that the involvement of auctioneers, courts, regulatory and other representative bodies helped the bank's NPL effectively. On the other hand, 20% of the respondents did not agree. This was an interesting finding to note given the discussions above. Given the respondents' profiles presented in section 7.1 above, the ratio of the respondents who did not agree ought to be higher. The results indicate unawareness within the bank's management regarding the performance of NPL recovery, which may suggest the presence of information asymmetry. 36% of the respondents thought that the government had empowered the bank to take adequate measures for recovery from defaulters. On the other hand, 64% of the respondents thought that the government had not empowered the bank to take adequate measures for recovery from defaulters. These results provide further evidence of the challenging legal environment present.

Table 12: Statements regarding the influence of third-party activities

Statements	Yes	No
The legal machinery is stringent enough on loan-related recoveries.	36.0 %	64.0 %
The bank does not get good and timely results through legal recovery because court cases take too long to be decoded.	100.0 %	0.0%
Involvement of auctioneers, courts, regulatory and other representative bodies help the bank's NPL effectively.	80.0 %	20.0 %
The government has empowered the bank to take adequate measures for recovery from defaulters.	36.0 %	64.0 %

Source: Primary Data

The results presented in table 13 below indicate a negative moderate relationship between the bank's NPL and rate of recovery (Mean = 6.07%, Standard Deviation = 12.53%) with r = -0.523. The coefficient of determination (r2) indicates a 27.35% shared variance, i.e., third-party NPL recovery activities attribute to 27.35% of the variance in the bank's total NPL.

Table 13: Bivariate correlation between NPL and Rate of Recovery

		NPL	Rate of Recovery
NPL	Pearson Correlation	1	-.523
	Sig. (2-tailed)		.366
Rate of Recovery	Pearson Correlation	-.523	1
	Sig. (2-tailed)	.366	

Source: Primary Data

8.5 Findings on the Effects of Regulatory Guidelines

The results indicate a high level of functionality of the regulatory guidelines with the general implementation ratio at 100% and general fulfilment of purpose ratio at 87.50%. The results in table 14 below clearly show that 84% of the respondents thought that the regulatory guidelines for NPL management processes were stringent enough. On the other hand, 16% of the respondents thought that the regulatory guidelines for NPL management processes were not stringent enough. 88% of the respondents thought that the regulatory circulars on NPL had helped in guiding the bank to tackle the level of NPL. On the other hand, 12% of the respondents thought that the regulatory circulars on NPL had not helped in guiding the bank to tackle the level of NPL. 92% of the respondents agreed that the circular helped the bank set up a permanent recovery function with defined responsibilities in controlling the levels of NPL. On the other hand, 8% of the respondents did not agree. 56% of the respondents agreed that the regulatory and political leadership in the country lacked effective management of financial and banking industry reforms and legal structures hence the rise in levels of NPL in the bank. On the other hand, 44% of the respondents did not agree.

Table 14: Statements regarding the effects of regulatory guidelines

Statements	Yes	No
The regulatory guidelines for NPL management processes are stringent enough.	84.0%	16.0%
The regulatory circulars on NPL have helped in guiding the bank to tackle the level of NPL.	88.0%	12.0%
The circular helps the bank set up a permanent recovery function with defined responsibilities in controlling the levels of NPL.	92.0%	8.0%
The regulatory and political leadership in the country lacks effective management of financial and banking industry reforms and legal structures hence the rise in levels of NPL in the bank.	56.0%	44.0%

Source: Primary Data

Different opinions regarding the regulatory guidelines on NPL recovery in the bank are presented in table 15 below. 64% and 28% of the respondents strongly agreed and agreed respectively that the separation of duties in the credit department through the creation of independent units had limited the increase of NPL. 28%, 32% and 28% of the respondents strongly agreed, agreed and were neutral respectively that, outsourcing of collection specialists yielded plentifully in NPL recovery. 52% and 40% of the respondents strongly agreed and agreed respectively that, the establishment of credit policies had helped in guiding the management of NPL. 44% and 40% of the respondents agreed and strongly agreed respectively that the increase in the frequency of restructuring loans helped the bank to control levels on NPL.

Table 15: Different opinions on the regulatory guidelines

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Separation of duties in the credit department	64.0%	28.0%	-	8.0%	-
Outsourcing of collection specialists	28.0%	32.0%	28.0%	12.0%	-
Establishment of credit policies	52.0%	40.0%	4.0%	4.0%	-
Increase in the frequency of restructuring of facilities	40.0%	44.0%	8.0%	8.0%	-

Source: Primary Data

The results presented in table 16 below indicate a positive strong relationship between the recovery of NPL and regulatory guidelines on NPL with r = 0.631. The coefficient of determination (r2) indicates a 39.82% shared variance, i.e., regulatory guidelines attribute to 39.82% of the variance in the recovery of NPL.

Table 16: Bivariate correlation between NPL and regulatory guidelines

		NPL	Regulatory Guidelines
NPL	Pearson Correlation	1	.631
	Sig. (2-tailed)		.253
Regulatory Guidelines	Pearson Correlation	.631	1
	Sig. (2-tailed)	.253	

Source: Primary Data

9. Discussions

In 2018, the NPL ratio decreased by 1.75%, indicating the effects of the measures to curb NPL levels issued by BOT in Circular No. FA.178/461/01/02 of February 2018 and Exim Bank's recovery strategies such as a change in management personnel, improved policies and standard operating procedures and review and formulation of business models. There was a significant increase in the level of NPL by 9.57% in the year 2019, credited to rigorous assessment of the bank's loan book to weed out bad borrowers instead of massaging them. However, during that period, the bank was allowed by BOT to double the number of times it could restructure its NPL to 4, thus, the bank's performance may have remained positive if it had a higher number of good borrowers than bad borrowers. In 2016, both net income and NPL increased but net income was above NPL, which might have been due to the deterioration of the creditworthiness of the bank's debtors that increased the NPL and the possibility of more assets being booked by the bank through lending at higher interest rates, that contributed to the increase in the interest income and resulted in the increase in net income. The decrease in NPL in the year 2018 did not result into an increase in net income, which might have been influenced by an increase in the cost of funding caused by the high level of NPL, which in turn affected profitability. The comparative analysis on the bank's NPL ratios against Tanzania's average NPL ratios reveals that Exim Bank's NPL ratios were above the prevailing national average rations throughout the study period. The fluctuations in the difference were relatively small in the first 4 years of the study period until a significant change of 12.26% occurred in 2019. The change further demonstrated the effects of cleaning the loan book by weeding out bad debtors in that year.

The results on the influence of internal management have clearly demonstrated that internal management strategies are of the utmost importance in the management of NPL in commercial banks. It is essential for internal management strategies to be crafted and closely monitored by management on a regular (monthly) basis especially through MCC and EA meetings. It is also clear that a good mix of experienced and new management personnel has tremendously improved the efficiency of the bank's internal management strategies.

The results on the influence of third-party activities indicate that a significant amount of NPL was recovered in 2015. There was poor performance in the recovery of NPL through third-party activities thereafter. Third-party recovery activities are legal in nature and highly dependent on different legal and social environments. Perhaps, the poor recovery performance might have been a result of a time consuming and resource-draining legal environment at the time. There were occasions where accused loan defaulters filed counter cases against the bank to deliberately delay the recovery petition and others with ill motives of purposely harassing the bank. Other loan defaulters used their political influence to delay legal recovery procedures for an indefinite period. In practice, the current national legal system becomes costly, lengthy and an impediment to NPL recovery through legal means. Delays in the procedures of disposal of cases is a challenge in many circumstances. Courts take longer to hear and dispose of defendants' petitions. Legal bureaucracy in the disposal of cases and flaws in the legal system, spare many defaulters. Lawyers who represent banks are at times negligent and dishonest in management of cases such as poor prioritization of cases (because they represent different banks in different courts) which contributes to slow the disposal of cases and creates an agency problem. Many banks have adopted non-legal measures such as out of court and compromised settlements. It is evident that the third-party activities greatly rely on the political system of the country. The bank greatly suffers from poor NPL recovery due the bureaucracy in the legal systems which makes recovery of NPL through third-parties expensive and time consuming. NPL recovery through transfer of assets to ARC is the most preferred third-party recovery strategy.

The findings on the effects of regulatory guidelines indicate that guidelines presented in Circular No. FA.178/461/01/02 have greatly aided and directed the bank towards effective strategies of NPL recovery. The majority of changes can be attributed to one major guideline i.e., the creation of independent recovery units. The formation of SAM has had a strong positive effect in the reduction of NPL. In addition to the regulatory guidelines, the circular contained reliefs which were valid up to 31 December 2020, in efforts to reduce NPL in the banking industry. The bank applied measures and reliefs presented in the circular through the endorsement of vigorous accommodation of restructuring activities which were sanctioned on a case-to-case basis depending on the rationale for restructuring. The bank also steered internal portfolio assessment programs to identify the reason for default to evaluate the lending practice and appraise the general performance of the bank's assets. The stated evaluation aided the bank in segmenting borrowers with working capital challenges but possessed good repayment track record for them to benefit from the reliefs. The bank as well accommodated several assets using various waivers provided in the circular through loan conversion or rescheduling, revision of loan repayment terms, capitalization interest and other charges and up-gradation of credit accommodations.

10. Conclusions

The study uncovered that the average ratio of NPL in CBs during the study period was higher than the directed threshold of 5% prescribed in the BOT prudential guidelines indicating a profound NPL problem amongst CBs in Tanzania despite the intensified financial prudential regulations and macroprudential policy measures responses, that stipulate various contexts of measures, reliefs and guidelines for monitoring systemic asset risks. Echoing reviewed studies by Ombaba (2013), Demirgüç-Kunt and Huizinga (1998) and Madishetti and Rwechungura (2013), the findings of this study critically demonstrate how the increase in NPL levels results into decrease in net income, which further results into higher interest rates as observed by Nahid (2015) and high loan provisioning as asserted by Kithinji (2010) and (Zaini et al, 2010). Most CBs' asset quality and credit growth are still a challenge that creates adverse liquidity pressure, seizes interest income and bank stability vulnerability. Empirical evidence demonstrates and supports the view that regulatory and macro-economic factors significantly determine the level of NPL but fundamentally CBs' framework, systems and policies that administer the management of credit risk are also critical factors that vitally affect the overall performance of CBs and hence influencing the NPL levels. Comprehending the causes of NPL is critical for designing sound and appropriate plans and measures to address the associated NPL challenges; mainstream bank credit risk and internal activities; aligning the bank's business with regulatory requirements; standardizing work-out, recovery and legal enforcement activities and strengthen asset quality.

Chaudhary and Sharma (2011) proposed that banks should develop efficient management information systems that stipulate measures, systems, processes and people factor as facets to curb the growing NPL. Chaudhary and Sharma (2011), suggested that to eliminate the NPL problem, stringent and suitable measures should be taken by banks such as bank staff involved in the sanctioning of loans should have proper training on matters such as documentation, the charge of securities and credit portfolio assessment and monitoring as means to prevent advances turning to NPL and knowledge and proficiency possession in the proper selection of borrowers, projects and analysis of financial statements. The findings of this study present clear evidence and confirmation on the aforementioned perspectives through the demonstration of the implementation of various strategies such as good corporate governance measures, tough to assess quality management and the use of independent recovery units such as Special Assets Management which were recommended in researches by Canton (1997), Golin (2001) as cited in Asmalu (2018) and Johora (2020) respectively. The study further confirms that good internal management strategies are vital in the reduction of NPL levels and are also dependent on the political environment as previously observed by Asmalu (2018) and Kaflaoglou (2018). There is a strong positive relationship between internal management strategies and NPL recovery. The more efficient internal management strategies become, NPL recovery is improved.

Some studies demonstrate that the presence of developed legal and insolvency systems in a country help to upsurge creditor's recovery rate and hence reduction in NPL. This study concludes that the legal machinery in the country needs further development to improve NPL recovery ratios through auctioneers, lawyers and debt collectors. The findings correspond to conclusions made by Tsuma and Karasa (2016) and Upadhyay (1994) cited in Pande (2017) which stipulated that recovery through legal channels is lengthy and costly, with or without security. The use of ARC as a disposal strategy was reported being established in Bangladesh by The Financial Express (2019) where the author pointed out that ARC was a common practice in many countries, has been observed in this study as a prominent preferred third-party NPL recovery strategy used by CBs in Tanzania. Feebly designed legal systems and inefficient enforcement systems with too many appeals, notifications, hearings and outdated execution laws make the loan recovery process cumbersome, time-consuming and costly while debtors abuse and enjoy the presence inefficient systems. The findings provide evidence that there is a strong negative relationship between the recovery of NPL and third-party NPL recovery activities. The more efficient third-party NPL recovery activities become, the lower the NPL becomes.

Measures, relief programs and strategies stipulated in Circular No. FA.178/461/01/02 provide for a sound and safe banking environment with reduced risks and adverse mitigants that are essential in promoting competence and resolving complex credit risk conditions that are present in the market due to changes in the market and economic conditions. Freixas and Rochet (1997), stipulated that most of the instruments and guidelines of banking regulation are specific to that economic situation and sector. This study shows that the guidelines imposed are specific to Tanzania and have been complied by CBs as demonstrated through the contribution in NPL reduction by most of the strategies, creation of an environment with assured soundness of the banking system and diversion from the credit risk crisis. The circular has boosted the recovery of NPL, thus, demonstrating a strong positive relationship between the two variables. Efficient regulatory guidelines, boost the recovery of NPL. The findings of the study further showcase that the bank has been able to comply and deploy the measures in a short timeframe as previously observed by Docherty (2018). Results from the questionnaire activity demonstrate in detail the positive effect Circular No. FA.178/461/01/02 has had in NPL recovery. However, the NPL ratio still shows a year-on-year increase as a result of continuous vigorous clean-up and weeding of the bank's assets.

11. Recommendations

Appropriate management of NPL requires a focused, proactive and systematic approach that gazes at the three factors that influence NPL recovery i.e., internal management activities, third-party actions and interests and adherence to regulatory guideline and performance. Best practice for CBs to address rising NPL levels is to remodel existing strategies and develop comprehensive systematic plans. These strategies must be aligned and adapted with realistic and achievable plans with elements of sustainable short-term and long-term solutions that are cost-effective and capital efficient. Therefore, the study draws the following recommendations: -

Firstly, BOT should continue with the ongoing regular follow up and quarterly inquiry from banks on the performance of assets. The practice has indeed improved CBs' performance as the measures have been useful in making CBs more diligent and proactive in managing credit risk. Conversely, BOT should set up a prudential strategy for controlling interest and penal rates for banks as well as the provision of guidelines that set thresholds for interest rate across the banking industry because high-interest rates have been repeatedly noted as a significant cause of NPL.

Secondly, relevant authorities in the country and banking industry led by BOT should review and improve national laws, policies, regulations, legal bureaucracies and practices that impede NPL recovery through third-party activities. Most of the backlogs of bank cases of non-performing assets are lying in courts for foreclosure and recovery are defied by procedural delays. Crucial discussions should be held within the country's legal platforms on the formation of a temporary or permanent discrete bench in the High Court Division of The Supreme Court with to steer speedy disposal of bank-related written petitions. This bench will have the duty to only hear and dispose of appeals filed in court and written petitions for and against banks.

Thirdly, CBs in Tanzania should seek to enhance the appropriate use of internal risk alert systems such as Early Warning System (EWS). These systems will help to eliminate postponement or delays in identification of potential NPL, especially on high valued customer accounts. EWS enables a bank to timely and proactively identify borrowers' credits with deterioration signs and accounts with persistence irregularities and initiate timely remedial actions. Internal alerts systems also help in performing other credit activities such as timely classification of accounts, rescheduling or restructuring of accounts and provision of assets credit rating.

Lastly, CBs need to put significant efforts and resources in actioning and aligning to the regulatory requirements and measures such as rigorous identification, categorization and provisioning of NPL, standardizing and improving underwriting, work-out, restructuring and settlement strategies. These strategies accord critical success in the improvement of NPL recovery as well as providing solutions to credit bottlenecks.

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