

SELECTED FACTORS AFFECTING LOAN ADMINISTRATION AMONG FARMERS' COOPERATIVE SOCIETIES IN DEGEMA LOCAL GOVERNMENT AREA OF RIVERS STATE, NIGERIA.

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ABSTRACT

The study examined selected factors affecting loan administration among farmers' cooperative societies in Degema Local Government Area of Rivers State, Nigeria. The specific objectives were to; determine the socio-economic characteristics of cooperative members, examine the amount of loan applied for, amount approved, amount disbursed and repaid by the cooperative farmers, determine socioeconomic factors affecting farmers' loan repayment in the area. Purposive and multistage random sampling technique was adopted for the study. Four coefficients (educational qualification, farm size, loan application cost, and collateral value) were significant at 5% 1% respectively. Age, years of membership and income of the farmers were not significant, the regressed result shows a positive relationship with loan repayment. There was a significant difference between the amount of loan received and amount repaid by the cooperative farmers. Based on the findings, the researcher therefore recommended that: farmers should be encouraged to move into farm settlements where they can have access to increased farm lands. Furthermore, loan application cost should be made to be free since it was identified to reduce farmers' repayment ability. Also collateral value should be less, so as to encourage farmers to borrow for agricultural production and repay with ease.

Keywords: Loan, Administration, Farmers, Cooperative Societies, Degema L.G.A.

INTRODUCTION

Loan administration is the means by which financial institutions ensure customers receive credit in the best way possible for their economic needs and make prompt payments as per the loan agreement. According to Afolabi, (2010), credit administration is an aggregate of all methods procedures employed by a firm to ensure effective management of loan and loaned funds to enhance the best performance is achieved and eliminate delinquency in these assets. Loan management is an aspect that involves credit classification, analysing, ranking, and credit reporting. According to Acquah and Addo (2011), credit management means the policies adopted by an entity to manage its credit sales. Loan administration influences the success or failure of financial institutions (Awoke, 2004). Failure of deposit taking banks is influenced by the quality of loan and the credit policy followed and also the quantity of the risky assets thus credit management provides leading indicator of the quality of loan portfolio.

Credit policy creates a common set of principles for the organization and recognizes the credit department as an important stakeholder for the organization's strategies (Scheufler, 2002). According to Ebonyi and Jimoh, (2002), clearly defined lending policies should be well established to enhance effective

supervision by the directors and senior officers for the achievement of the financial organizations objectives. According to Eze and Ibekwe (2007) the largest portion of income generated by financial institutions is contributed by loans granted since loaning is the core business thus forms the back bone of financial institutions like cooperative societies. Such institutions spend enormous resources in the spirit of monitoring and managing credit since loaning is the core business that generates the biggest chunk of revenue for them. This is understandably, a practice that impacts greatly on the lending behaviour of such cooperative societies as large resources are involved. It should be noted that the Cooperatives' credit policies are greatly influenced by economic conditions (Olaguju., 2007). As economic conditions change, the credit policy of the firm may also change (Central Bank Interest Review 2016).

To enhance good governance in credit management, finance institutions must develop effective and operational credit policy (Olaguju., 2007). Since loan is extended to low income individuals, revenue generated in form of interest from these loans fluctuate due to uncertainty in loan repayment (Central Bank Annual Report, 2010). The success of lending out credit depends on the methodology

applied to evaluate and to award the credit and therefore risk conditions and borrower's character should be thoroughly evaluated before forming credit decisions (Dadson, and Awubnyo, 2010). Cooperative society enhances the pooling of resources and creation of capital by members together. This is made through payment of share capital, regular thrift savings and loans from members, government and financial institutions. Members benefit a lot from cooperative societies. Some of the benefits are education, enlightenment of members on new ideas and technologies, government assistance and free technical advice, patronages and dividends. Co-operative societies are recognized by the government as important player in deepening financial access since they mobilize savings for investments in enterprises and personal development. A Cooperative society or movement should be established to be vibrant and dynamic in its operations such that it becomes the strongest and more competitive as compared to other counterparts. Cooperative movement also provide opportunities for self-employment to many of which over three percent of Nigerians are members of cooperative societies. The annual turnover constituted by cooperative movement in Nigeria translates to a good percent of the country's GDP. The movement prompted the need to come together under the common bond and undertake an economic activity for the common benefit of members. The co-operative sector has the ability to generate and accumulate savings for enabling their members start small and medium enterprises which has led to the growth of well-established financial infrastructure in Nigeria. Financial performance is paramount for developing economy (Ekpebu, 2011). Credit has been considered not only as one of the critical inputs, but also is regarded as an effective means of economic transformation and poverty alleviation. Credit plays a crucial role in amplifying the development of agriculture and the rural economy. As Oladeebo and Oladeebo (2008) argued that it acts as a catalyst or elixir that activates the engine of growth, enabling it mobilize its inherent potentials and advance in the planned or expected direction.

It should be noted also that the cooperative society's credit policies are greatly influenced by economic conditions (Pandey, 2008). As economic conditions change, the credit policy of the firm may also change Central Bank Interest Review 2016. To enhance good governance in credit management, finance institutions must develop effective and operational credit policy (Pandey, 2008). Since loan is extended to low income individuals revenue generated in form of interest from these loans fluctuate due to uncertainty in loan repayment (Central Bank Annual Report, 2010). The success of lending out credit depends on the methodology applied to evaluate and to award the credit and therefore risk conditions and

borrower's character should be thoroughly evaluated before forming credit decision (Ditcher, 2003). The specific objectives are to; determine socio-economic characteristics of cooperative members; examine the amount of loan applied for, approved, disbursed and repaid by the cooperative farmers and determine socioeconomic factors affecting farmers' loan repayment in the area.

MATERIALS AND METHODS

Study Area Description

The study was conducted in Degema Local Government Area of Rivers State, South-South geo-political zone of Nigeria. Majority of Degema inhabitants are members of the Degema and Ijaw tribal divisions. Ijaw and Degema dialects are widely spoken in the area. Degema has an area of 1,011km² and a population of 249,773 at the 2006 census. It is located between Latitude 4°76'50" and 4°46'10.23" North of the equator and Longitude 6°76'81.37" and 6°46'10.29" East of the Greenwich meridian. A total of nine (9) registered cooperative societies involved in loan activities in Degema LGA with membership strength of two thousand, four hundred and thirty-one (2431) members, (Cooperative Department Ministry of Commerce and Industry, Degema, Rivers State) were used for the study. Purposive and Multistage random sampling technique was employed in the selection of respondents for the study. Stage one: The Nine (9) cooperative societies were selected. Stage two: eight members each of the cooperative societies were randomly selected making a total sample size of seventy-two (72) respondents. A semi-structured questionnaire was used in soliciting information from the respondents. Objectives i and ii were analysed using descriptive statistics such as frequency, percentages, mean scores and standard deviation. While objective iii was analysed using regression analysis. The model for the study is implicitly specified as follows:

$$Y = f(X_1, X_2, X_3, \dots, X_n) \dots \dots \dots \text{eq. (1)}$$

The linear form of the model is explicitly specified as follow:

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + \beta_7x_7 \dots \dots \dots \text{eq. (2)}$$

The semi log form of the model is specified thus:

$$Y = \alpha + \beta_1\log x_1 + \beta_2\log x_2 + \beta_3\log x_3 + \beta_4\log x_4 + \beta_5\log x_5 + \beta_6\log x_6 + \beta_7\log x_7 \dots \dots \dots \text{eq. (3)}$$

The double log form of the model is specified thus:

$$\log Y = \alpha + \beta_1\log x_1 + \beta_2\log x_2 + \beta_3\log x_3 + \beta_4\log x_4 + \beta_5\log x_5 + \beta_6\log x_6 + \beta_7\log x_7 \dots \dots \dots \text{eq. (4)}$$

The econometric form of the model becomes more realistic with the introduction of the random or scholastic term ε . The econometric form of the model is expressed thus:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon \dots \dots \dots \text{(5)}$$

Where:

a = intercept

Y = Amount of loan repaid (in naira)

B₁ – B₉ = Regression coefficient

ei = Error term designed to capture the effects of unspecified variables in the model.

The a and B_s are the parameters for estimation and ei is the error term.

X₁ = Age (yrs)

X₂ = Level of education (yrs)

X₃ = Family size (number of persons)

X₄ = Membership duration (yrs)

X₅ = Farm size (ha)

X₆ = Income (N)

X₇ = Loan obtained (N)

ei = error term

RESULTS AND DISCUSSION

Table 1 shows the socio-economic characteristics of Respondents. The result indicates that males constituted a fairly good proportion (58.33%) of the respondents while 41.67% are females indicating more active participation of male than females in cooperative activities. The mean age of the respondents was 46.7 years. This is an indication that the respondents were mostly middle aged and would be actively involved in developmental/innovative activities. The findings conform to those of Nwaneri *et al.*, (2018) that most farmers in Nigeria are above 40 years. Age of respondents affect their attitude towards participating in developmental projects.

Since a great proportion of the respondents were young and in their active stage of life, they would have the physical strength to be part of physical developmental work. (Nwaneri *et al.*, 2018). The Table also showed that a good proportion (63.89%) of the respondents were married, this indicates that the married class were more involved in cooperative activities. The involvement of the married class in cooperative activities is in line with Iheke *et al.*, (2019) and Nwaneri, *et al.*, (2017) whose report shows that the married classes are more involved in agriculture because of the need to supplement the family's means of livelihood. The result further revealed that 86.11% of the respondents were literate possessing divers formal educational levels that ranged from primary school education to tertiary school education. Akpabio (2005) reported that education is a major determinant of effective participation in agricultural development ideals, while the mean household size was 5.6 persons. This result implies that the respondents had moderate family sizes thus indicating large household and high level of dependency ratio among the farmers. The Table showed also that over 80% of the respondents had above 10 years of cooperative experience. This implies high innovativeness among the respondents due to influence of group dynamic effects. The Table further revealed that 47.22% of the respondents had farm sizes of between (1-2) hectares, while about 40.28% had the perception that their monthly income fall between N30,100 and N40,000.

Table 1: Characteristics of Respondents in Umuahia South L.G.A, Abia State (N= 72)

Characteristics	Frequency	Percentage
Gender		
Males	42	58.33
Females	30	41.67
Age (years)		
20 – 30	17	9.72
31 – 40	19	26.40
41 – 50	25	34.72
51 - 60	16	22.22
61 – Above	5	6.94
Mean	46.7	
Marital Status		
Single	15	20.83
Married	46	63.89
Widow	9	12.50
Widower	2	2.78
Level of Education		
No formal education	10	13.89
Primary school	22	30.56
Secondary school	31	43.06
Tertiary school	9	12.5
Household size		
1 – 4	25	34.72
5 – 8	33	45.83

9 – Above	14	19.44
Mean	5.6	
Membership (years)		
1 – 5		8.33
6 – 10	6	23.61
11 – 15	17	40.28
16 – 20	29	19.44
21 – Above	14	8.33
	6	
Farm size (Ha)		
1-2	34	47.22
3-5	27	37.50
6-8		12.50
9 – Above		2.78
Monthly Income		
1000 – 10000	2	2.78
10100 – 20000	6	8.33
20100 – 30000	10	13.89
30100 – 40000	29	40.28
40100 – Above	25	34.72
Total		100

Source: Field Survey data, 2021

The distribution of respondents according to range of amount of loan applied for, amount received, amount repaid is shown in Table 2. As shown in the table, with respect to the range of amount of loan applied for, amount received and amount repaid by the cooperative farmers, the minimum amount of money applied for, approved, disbursed and repaid was fifty thousand five hundred naira (N50,500) respectively. The maximum amount of money applied for, approved, disbursed and repaid was four hundred and fifty thousand, five hundred naira (N 450,500). On

the average the amount of money applied for, approved, disbursed and repaid by the applicants was two hundred and one thousand, nine hundred and twenty-seven naira, thirty-five kobo (N 201927.35), two hundred forty eight thousand, five hundred and thirty-four naira, nineteen kobo (N248534.19), two hundred and forty eight thousand, five hundred and thirty-four naira, nineteen kobo (N248534.19) and one hundred and seven seventy four hundred, five hundred and seventy six naira, ninety two kobo (N 173576.92) respectively.

Table 2: Distribution According to the Range of Amount of Loan Applied for, Amount Received and Amount Repaid by the Cooperative Members.

Options	Minimum(N)	Maximum(N)	Mean(N)	Std Dev.
Amount of loan applied	N50,500	N450,500	N201927.35	N95343.404
Amount of Loan approved	N50,500	N450,500	N248534.19	N101139896
Amount of loan received	N50,500	N450,500	N248534.19	N101139896
Amount of loan repaid	N50,500	N450,500	N174576.92	N107175.372

Source: Field survey data, 2021

Socio-economic factors were regressed on the amount of loan repaid as shown in Table 3. The table revealed the joint effect of the explanatory variable in the model account for 91.9% of the variations in the factors affecting the farmers' loan repayment. Four coefficients namely: educational qualification, farm size, loan application cost, and collateral value were significant at 5%, 1% respectively. Age, years of membership and income of the farmers were not significant but showed a positive relationship with loan repayment. Educational qualification, farm size, loan application cost, and collateral value were

significant in influencing the loan repayment of the farmers. Furthermore, the result indicated that, a year increase in the educational qualification of the farmers will bring about N14,254.74 increase in the farmers' repayment ability. An increase in the farmers' farm size by a hectare will bring about N3,765.29 increase in the farmers' repayment ability about N1.00 increase in the farmers' loan application cost will bring about 3.25 reduction in the farmers' repayment ability. A naira increase in the collateral value will bring about N-0.204 reduction in the farmers' repayment ability.

Table 3: Regression Result of Socio-economic Factors Influencing Cooperative Farmers Loan Repayment

Model	B	Std.error	T	Sig
CONSTANT	-101310.445	23721.009	-4.697	0.000
AGE	122.919	683.911	0.179	0.858
EDUQUA	14254.736	2126.529	6.703	0.000
FARMSIZE	3765.288	5074.751	0.742	0.460
YRS OF MEM.	2602.924	2053.858	1.269	0.207
HOUSEHOLDSIZE	15311.937	3878.798	3.948	0.000
LOANAPCOSTINOME	03.254	0.864	-3.768	0.000
INCOME	1.254	1.241	1.368	0.174
LOANOBTAINED	-0.016	0.143	-0.114	0.909
COLLATERAL	0.204	0.090	-2.260	0.026
R	0.959			
R ₂	0.919			
ADJ. R ₂	0.912			
F-STATISTIC	135.160			0.000

Source: Computation from Field survey data, 2021

CONCLUSION AND RECOMMENDATION

The study examined selected factors affecting loan administration among farmers' cooperative societies in Degema LGA of Rivers State, Nigeria. With reference to the topic under consideration – factors affecting loan administration among farmers' cooperative societies in the area, educational qualification, farm size, loan application cost, and collateral value are significant in influencing the loan repayment of the farmers. From the result, a year increase in the educational qualification of the farmers will bring about N14,254.74 increase in the farmers' repayment ability. An increase in the farmers' farm size by a hectare will bring about N3,765.29 increase in the farmers' repayment ability about N1.00 increase in the farmers' loan application cost will bring about 3.25 reduction in the farmers' repayment ability. A naira increase in the collateral value bring about N-0.204 reduction in the farmers' repayment ability. Based on the findings of this study the following recommendations were made: farmers should be encouraged to move into farm settlements where they can have access to increased farm lands; loan application cost should be made to be free since it was identified to reduce farmers' repayment ability; collateral value should be less, so as to encourage farmers to borrow for agricultural production and repay with ease.

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