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Loan Recovery Performance of Group-Based Micro Credit Finance Institutions in Delta State, Nigeria

Enimu Solomon, Eyo O. Emmanuel, Ofem I. Uket
Department of Agricultural Economics, University of Calabar, Nigeria

***Corresponding author**
Enimu Solomon

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Abstract: The study was conducted to evaluate loan recovery performance among group-based micro credit institutions in Delta State, Nigeria using a well-structured questionnaire and oral interview. Respondent groups were selected using stratified random sampling technique. Primary data collected were analyzed using descriptive statistics such as frequency distribution, table, percentage, mean and trend analysis using bar graph and histogram. Inferential statistics such as multiple regression analysis technique was also used. The result revealed that a total of 163,100 group members have been reached with total savings mobilized at N2,560,126,690 and total loan disbursed at N33,851,127,825. The mean loan repayment rate was 91.29%. The trend analysis indicated a steady rise in the amount of savings mobilized and credit extended to groups. The result of the regression analysis indicated that five of the estimated determinants fund size, membership size, duration of group existence, supervision and proportion of credit repaid were positive and statistically significant while interest charge was negative and significant. The major constraints in loan administration by financial institutions include government laws and regulations, lack of infrastructural facilities, diversion of loans, delay in loan repayment, and lack of funds among others. It is therefore recommended that group-based finance institutions should strategies on rural savings mobilization and utilization on the rural economy for sustainable financial inclusion.

Keywords: Loan, Recovery, Group-based, Micro Credit, Institutions

INTRODUCTION

There is no gain saying the fact that Micro finance providers enhanced increased access to credit for many farmers and a well structured financial system serves a major function of offering financial services to people with various levels of needs. A financial system that is inclusive allows wide accessibility to financial products; in the absence of price or no price hindrance for their usage and they are mostly targeted to favour the rural poor farmers and less advantaged people [1]. However, there are clear indications that some of these institutions had limited success [2, 3]. These institutions have been blamed and accused of inefficiency in meeting up with the demand of the small holders which form the bulk of the Micro finance client base.

Many factors have been attributed to the failure of these financial institutions to perform optimally and they are divided into borrower and lender related factors. According to Atieno [4], the factors that are lender based include institutional bottlenecks carried out by regulatory authorities that are perceived as minimum loan amounts (credit inadequacy), procedures of application that are complicated, deliberate withdrawer of credit for particular purposes and delay in disbursement of loans. Adverse selection is also a major issue emanating from the lenders side [5]. On the borrower's side are the issues of diversion of credit for other purpose and the issue of credit worthiness which enables most financial institutions to deny farmers access to credit, low recovery rates emanating from the perennial non-repayment of loans, management procedures that are poor, inadequate loan utilization and problem of information asymmetry [3].

It is well known that non-repayment of loan reduces the viability and vitality of credit institutions as it constitutes a major challenge to the institutions. Where both principal and interest are not repaid, the loan portfolio begins to shrink and eventually this may lead to ineffectiveness and liquidation of the financial [6, 7].

So for effective and efficient working of the credit system, it is important that default in repayment is as low as possible because viability of the agencies is highly dependent on the amount of loan recovered and this has cumulated into the use of various approaches of disbursing loans to beneficiaries including but not only the use of micro credit groups. Unfortunately, several authors such as [8-10] have indicated that formal finance schemes that reach out to their clients in groups do not automatically achieve satisfactory level of performance. Some researchers also query if the achievement of micro credit group credit repayment is as a result of the inherent features in the groups or otherwise.

Articulating these ideas from the activities of Micro Finance Institutions (MFIs) as a good source of financing micro credit finance groups will not only be beneficial to them, but also to the nation in its quest for financial inclusion. The need therefore, to address these issues and to fully understand the rationale, implications and effects of the current emphasis on the group to ease the challenge of poor loan recovery.

OBJECTIVE OF THE STUDY

The broad objective of this study is to evaluate loan recovery performance among group-based micro credit institutions in Delta State, Nigeria. The specific objectives are to:

- ✓ examine the operational characteristics of the micro credit groups in the study area,
- ✓ assess the savings and lending performance of group-based micro credit institutions,
- ✓ determine the trend of savings and credit delivery among group-based micro credit institutions,
- ✓ assess measures adopted by micro credit finance institutions to recover default loans, and
- ✓ determine the determinants of amount of credit recovered by group-based micro credit finance institutions in the study area.

MATERIALS AND METHODS

Study Area, Sampling and Data Collection / Analysis

The study was conducted in Delta State of Nigeria. Delta State is in the South-South of Nigeria and one of the 36 states consisting the Nigeria Federation. The state came into existence on 27th August, 1991 when it was carved out of the defunct Bendel State. Delta State comprises of 25 local government areas and is located between latitudes $5^0 00^1$ and $6^0 30^1$ North and longitude $5^0 00^1$ and $6^0 45^0$ east [11]. The state is bounded by Edo State on the North, on the Northwest by Ondo State, Anambra State on the East and in the South East by Bayelsa State. On the Southern flank is the Bight of Benin, which covers approximately 160 kilometers of the state's coastline. Delta State has a total land mass of about 17,011km^2. It has a population of about 4,098,391 people [12].

The state is divided into three agricultural zones in line with the political senatorial zonal structure of Delta North (Ika, Oshimili and Ukwanis). Delta Central (Urhobos), and Delta South (Ijaw, Ishekiri and Isokos). The state is marked by two seasons as a tropical climate: - The dry and raining seasons. The dry season occurs between November and April, while the raining season begins in April and last till October. There exists a brief dry spell in August commonly referred to as "August Break". The average annual rainfall is about 2667mm in the coastal areas and 1905mm in the Northern areas. Rainfall is heaviest in July. Delta State has a high temperature ranging between 29^{0}C and 44^{0}C with an average of 30C [13].

Delta State is purposely selected to provide empirical information on the loan recovery performance of group based micro credit institutions due to the fact that the state has many formal and informal micro credit institutions and other programmes sponsored by the Federal/State Government and Non-Government Organizations (NGOs) which are devoted toward poverty reduction through micro credit group lending approach. The stratified random sampling technique was used to select 25 micro credit institutions, and 48 micro credit finance groups. The credit officer/manager of the micro credit institutions and the chairperson/secretary of the micro credit groups were interviewed by trained enumerators. Data analysis utilized simple statistical tools such as (table, frequency, percentage and mean). The trend analysis and the multiple linear regression analysis were also adopted.

The Empirical Model

In this study the model was postulated between group design elements and the group performance element of amount of loan recovered by Micro Credit Institutions. It stipulates that the amount of loan recovered is a function of group fund size, membership size, method of fund allocation, duration of group existence, group supervision, distance, disbursement lag, proportion of credit repaid, amount of savings made and interest rate charged. Consequently,

$$CR = \alpha\ (G, M, F, E, S, D, L, P, A, I).$$

The explicit form of the model is given as:

$$CR = \alpha + \beta_1 G + \beta_2 M + \beta_3 F + \beta_4 E + \beta_5 S - \beta_6 D - \beta_7 L + \beta_8 P + \beta_9 A - \beta_{10} I$$

Where:
CR=Amount of Loan recovered by groups (in naira)
G=Group fund size, average amount of loan (in naira)
M=Membership size (in number)
F=method of fund allocation (1 = non-random, 0 = otherwise)
E=Duration of group existence (in years)
S=Group supervision (number of visit by credit officer)
D=Distance from credit source (in kilometer)
L=Disbursement lag (in numbers of days)
P=Proportion of credit repaid (in percentage)
A=Amount of Savings/Deposit made (in naira)
I=Interest charge (in percentage)

Where α is a constant, β_1 - β_{10} are the parameters.

RESULTS AND DISCUSSION

Determination of the Level, Composition and Trend of deposit Mobilization and Credit extended by Micro Finance Institutions

Operating Characteristics: The key initiatives brought by the micro finance institutions into savings mobilization programmes include among others, the offering of forced savings by group and group members which serve as condition for receiving loans, offering reasonable and better rate of interest that draw customers to them of about 2 – 8% on savings deposited, proximity to clients, the graduation of savings to loan represent 20% for first loan and progress cumulatively up to 50%, the group savings and individuals savings deposit serve as collateral for the loans and the deposit mobilized in the rural areas are used in the rural economy by giving them back to rural dwellers without concession but for the growth and development of the rural people.

The major elements of credit delivery under the Micro-Finance Credit Scheme include eligibility criteria, loan application and processing, loan terms and method of loan disbursement. For any group to qualify for loans, the following conditions must held: the group must have savings with the micro-finance institution, the group members must have savings with the institution, the loan amount requested must be at least 20 – 25% of savings deposited, use of domiciliary account is accepted, the institution must have a list and record of group members, their address and financial position, group must attend meeting regularly, groups are trained in record keeping and credit management, simple feasibility report on the proposed project and loan application form that is properly filled.

The application material will pass through the loan committee for scrutiny, pledge of guarantors are looked into, prior to the recommendation, the credit officers have to make an inquiry into the history and performance of the group. The committee must have evidence and satisfied with the conditions above, if the application is further recommended favourably by the credit committee, the loan is finally approved by the Manager/Loan Administrator for onward disbursement.

(b) **Savings, Credit and Loan Recovery Performance of Micro-Finance Banks**: Credit administration and recovery are among the cardinal goals of any financial institution. The number of client reached, amount of savings mobilized, amount disbursed, total amount expected to be recovered, amount recovered, amount defaulted and percentage recovery rate and default rate during the period under study is stated below. Table I showed that, a total of 163,100 group members benefitted from microfinance institution loans in the study area for the period under review. While a total of N2,560,126,690 was mobilized as savings, a total of N33,851,127,825 was disbursed as loan to beneficiaries. A total of N43,502,841,000 was expected to be paid back after interest on loan have been calculated, from this amount, a total of N39,713,787,960 was recovered and N3,789,053,040 was defaulted. The mean percentage recovery rate performance of 91.29% for the period under review was a high recovery performance from the micro credit finance groups compare to rate recorded through individual loan delivery. Olomola [14] reported a repayment performance of 96% among savings and contributory association members in Ondo State.

Table 1: Savings, Credit and Loan recovery characteristics of MFIS:

Year	No. of Farmer Reached	Amount of Savings Mobilized (₦)	Amount Disbursed (₦)	Total amount Expected to be Repaid (₦)	Amount Recovered (₦)	Amount % Defaulted (₦)	% Recovered	% Defaulted
2015	19,310	521,310,065	5,443,100,657	6,350,284,100	5,971,384,196	378,899,904	94.03	5.97
2014	18,711	491,283,031	5,143,886,700	6,001,201,150	5,807,670,384	193,530,766	96.76	3.24
2013	18,320	383,411,100	4,550,663,128	5,309,160,995	5,235,895,245	73,211,750	98.62	1.38
2012	17,250	321,310,450	4,388,708,730	5,120,160,185	4,992,699,700	127,460,485	97.51	2.49
2011	15,781	159,311,100	2,347,500,000	3,130,000,000	2,972,384,182	157,615,818	94.96	5.04
2010	17,050	214,820,115	3,127,972,676	4,170,630,235	3,946,072,793	224,557,442	94.62	5.38
2009	16,675	171,231,820	2,865,157,586	3,820,210,115	3,159,997,583	660,212,532	82.72	17.28
2008	15,817	131,154,630	2,233,894,066	3,350,841,100	3,035,783,767	315,057,333	90.60	9.40
2007	13,789	94,113,182	1,890,121,092	3,150,201,820	2,508,700,635	641,501,185	79.64	20.36
2006	10,397	72,181,197	1,860,123,180	3,100,205,300	2,083,199,475	1,017,005,825	67.20	32.80
Total	**163,100**	**2,560,126,690**	**33,851,127,815**	**43,502,895,000**	**39,713,787,960**	**3,789,053,040**	**91.29**	**8.71**

Source: Field Survey, 2016

(c) **Trends of Savings Mobilization and Credit Disbursement by MFIs:** The graphs below shows the trends of savings mobilization and credit delivery to micro credit groups in the study area for the period under review. The bar graph and the histogram indicate a steady rise in the value of savings mobilization and credit disbursement from micro finance institutions to micro credit group members. It was also observed from the two figures that loan disbursement rate was positively related to amount of savings mobilized, the higher the amount of savings mobilized, the higher the amount of credit disbursed to micro credit groups. It was also observed that the amount of loan recovered improves gradually from 2006 – 2015 and the amount of loan default decreases gradually a situation that may be due to proper management and organization of credit delivery and recovery system and processes.

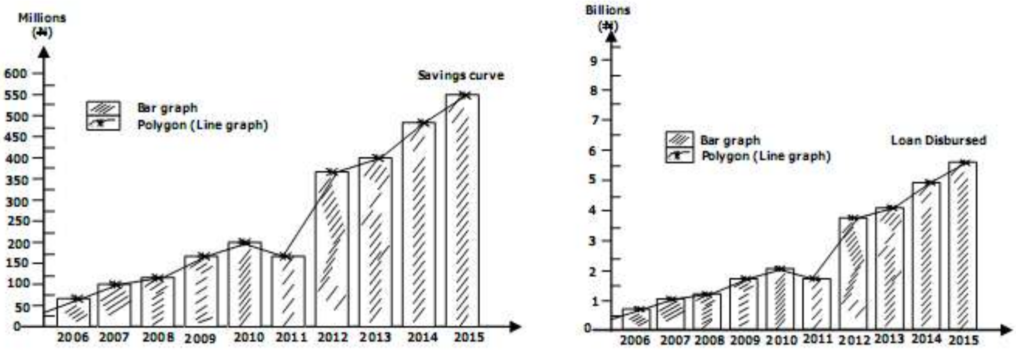

Fig-1: Trend of Savings Mobilization and Credit disbursed for the period under review 2006 – 2015
Source: Field Survey, 2016.

(d) **Group Design Determinants of Amount of Credit Recovered by Micro Finance Institutions:** The multiple regression analysis was used to analyze the effect of group design and other socio – economic determinants of the group on the ability of the group officials and MFIs to recover loans. The result of the multiple regression analysis is as follows:

$$\begin{array}{llllll} CR = 45171.108 + & 952G\ + & 8955.055M\ + & 40239.590F + & 9722.815E\ - \\ \quad (981) & (62.521)^{XXX} & (3.182)^{XX} & (1.537) & (2.456)^{XX} \end{array}$$

$$\begin{array}{llllll} 2827.786S\ - & 389.293D - & 1252.137L + & 20015.243P & + .072A - & 4897.884I \\ (2.235)^{XX} & (.287) & (.782) & (2.560)^{XX} & (1.036) & (1.720)^{X} \end{array}$$

R^2 = 99.8%; Adj. R^2 = 99.2%; F – value = 492.844^{xxx} and standard error = 28
(Figures in bracket are the T – Values, $^{xxx,\ xx,\ x}$ – Significant at 1, 5 and 10 percent level, two – tailed test).

The model shows that the explanatory variables explained 99% of total variation in the amount of loan recovered by group-based micro credit institutions, the F-value was significant at one percent confirming the adequacy of the explanatory variable included in the model and the standard error of estimate was 28%. Using the t-value to determine coefficients of determinants that are statistically significant, six of the ten parameters were accepted which included: fund size, membership size, duration of group existence, supervision, proportion of credit repaid and interest charged.

The coefficient of fund size was significant at one percent and positively related to the amount of credit recovered indicating that an increase in fund size lead to an increase in amount of loan recovered. This was in conformity with Olomola [14] Okorji and Mejeha [15] and Arene [6] that reported a direct relationship between fund size and loan recovery. Membership size which was positively related to amount of credit recovered and significant at one percent indicates that as the membership size increases, the amount recovered also increases. The result contradicts Olomola [14] who reported a no significant relation between membership size and the amount of loan recovered. However, Hossain [16], Huppi and Feeder [17], Ghatak and Guinnane [18] and Eyo, Otu and Sampson [19] reported that membership size of a group is a crucial factor in the effective performance of group. The coefficient of duration of group existence was significant at one percent and positively related to loan recovery which states that the longer the duration of group existence, the higher the possibilities of loan recovery since duration is a good proxy for experience in loan management.

Loan supervision had a positive coefficient and significant at five percent level implying that the more the loan was supervised, the more the groups were able to recover their loans. Proportion of credit repaid had a significant coefficient at one percent level and was positively related to the amount of credit recovered. This is in conformity with a priori expectations and work done by Arene [6], Afolabi [9] and Enimu, Igiri and Uduma [20]. The coefficient of interest charged was significant at five percent and negatively related to amount recovered implying that the more the interest charged on loan, the more the groups were unable to repay their loans.

(e) **Measures adapted to Recover Default Loans and Problems of Credit Administration by MFIs**: Table 2 shows the measures adopted by micro credit institutions in recovering their defaulted loans. The table indicated that 100% of the microfinance institutions make use of the law enforcement agencies, peer group pressure and suspension from further loans as recovery measures, while 92% of the institutions make use of guarantors, 84% and 76% make use of sale of property and use of village/spiritual heads respectively as measures of recovering defaulted loans from micro credit groups.

The general performance of microfinance institutions in the administration of loans to resource constrained micro-credit groups have been hindered by various problems. Table 2 showed that the major problem encountered by micro credit group-based finance institutions was Government Laws and regulations at 100% response rate. Lack of infrastructural facilities, diversion of loans to other uses and delay in loan repayment were at 96%, 92% and 84% respectively. 80% of MFIs see inadequate number of staff and low patronage due to lack of awareness as major problems. Lack of funds, high loan default rate by beneficiaries and high interest rate on loan recorded 76%, 72% and 48% respectively as major problems faced by MFIs in the study area.

Table 2: Measures Adopted to Recover Defaulted Loans and Problems of MFIs.

	Variables	Frequency	Percentage
a.	**Measures Adopted to Recover Loans**		
1.	Use of law enforcement agents	25	100
2.	Use of peer group pressure	25	100
3.	Suspension from further loans	25	100
4.	From guarantors	23	92
5.	Sales of properties	21	84
6.	Use of village / Spiritual heads	19	76
	Maximum responding unit	25*	
b.	**Problems**		
1.	Government laws and regulations	25	100
2.	Lack of Infrastructural facilities	24	96
3.	Diversion of loans	23	92
4.	Delay in loan repayment	21	84
5.	Inadequate number of staff	20	80
6.	Low patronage due to lack of awareness	20	80
7.	Lack of funds	19	76
8.	High loan default rate	18	72
9.	High interest rate	12	48
	Maximum responding unit	25*	

Source: Field Survey, 2016
(Multiple responses was recorded)*

CONCLUSION

The study examined loan recovery performance among group-based micro credit institutions in Delta State, Nigeria. The major contributions of this study was that for the first time in the study area an understanding of rural micro financial system including savings mobilized, credit received and loan recovery have been provided from both the demand-side and the supply-side perspective using group-based micro credit institutions. The use of groups with both homogenous and heterogeneous characteristics provided a basis for policy makers to develop appropriate policy mix that would ensure proper well-functioning micro financial intermediation for the rural poor farmers. The group design and socio-economic determinants of loan recovery that were significant, if well articulated will bring a better understanding on the operations of group loan administration towards financial inclusion of the rural poor household in the study area. It is further recommended that the micro credit group-based financial institutions should strategies on ways to mobilized more savings from the rural areas as there are bountiful potential dormant in those areas and the mobilized savings should be plough back in form of credit to the rural dweller to improve their economic activities thereby creating wealth and redistribution of resources for rural economic growth, development and sustainable financial inclusion.

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