

Effects of Socio-Economic factors of Loan Administrators on Recovery Rate among Agricultural Cooperatives in Benue State, Nigeria

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Abstract— This study was undertaken to analyze the effect of socio-economic factors of loan administrators on loan recovery rate among agricultural co-operatives in Benue State of Nigeria. A purposive and simple random sampling technique was used to select 130 respondents. Data were collected using structured questionnaire and was analyzed using descriptive statistics and multiple regression. The result showed that majority of the respondents were male (58.46%), married (67.69%), educated (63.01%), with mean cooperative experience of 14.39 years (86.92%) and household size between 1 - 5 members. The result also showed that respondents were averagely young (36 years) and were relatively low income earners (₦ 2,480,000 per annum). The result shows that loan size was the only variable that significantly and positively affected loan recovery rate. The coefficients of salary, age, years in education, household size, cooperative experience, marital status and sex had no effect on recovery rate. It was recommended that administrators should give higher portfolio size loans as these will trigger them to carefully look at business activities in their coverage areas that are capable of repaying loans from precede of sales and cash flow.

Keywords— Agricultural loan, Agricultural Cooperatives, default prevention, and loan recovery rate, Benue State, Nigeria.

I. INTRODUCTION

Loan recovery is an important service that helps to both maintain clients and free up money for lending again. It is a strategic process that is a key to generating good habits and a payment culture among clients. It is a business activity whose primary objective is to generate returns for the institution, converting losses into income (Teskiewicz, 2007). The process requires significant interaction with the client, beginning with a careful analysis of the client's situation and continuing through timely and frequent contact over the

duration of the loan. A good loan administration requires that the loans be timely released, acquired at least cost and the process less cumbersome. Timely release of loans prevents loan diversion, while low cost and ease of the loan encourage patronage, and help to minimize loan defaults. This study was therefore, specifically designed to examine the socio-economic characteristics of loan administrators of the Agricultural Cooperatives in Benue State, Nigeria and their effects on recovery rate. The knowledge of these factors will provide useful information for lending institutions, as well as for credit policy formulation in Benue State in particular, and Nigeria in general.

Hypotheses

The hypothesis postulated for testing was that the socio-economic factors of loan administrators have no significant effect on loan recovery rate.

II. METHODOLOGY

The study was conducted in Benue State of Nigeria. The study adopted multistage sampling techniques. The first stage involves a purposive selection of one Local Government Area (LGA) each from the three agricultural zones based on the high concentration of Co-operatives, and include Ukum, Makurdi and Otukpo. In the second stage, a sampling frame for each cooperative institution was developed and a sample proportion of 25% across board was respectively used to obtain a sample size of 130 respondents. The data collection instrument was the structured questionnaire. The collected data were analyzed using descriptive statistics and multiple regression analysis.

Multiple regression analysis was used to determine the socio-economic characteristics of loan administrators affecting recovery rate. Four functional forms were tried linear, semi-log, Cobb Douglas and exponential, and the best (semi-log) was chosen based on the highest R^2 and *a priori*

expectation. The a priori expectation was that $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7,$ and $\beta_8 > 0$.

It is expressed as follows:

Y = Loan recovery rate (Ratio of amount recovered over the ration of amount lend of the administrators)

X₁ = Age (years)

X₂ = Sex (1= male, 0= Female)

X₃ = Marital Status (1 = Married, Others = 0)

X₄ = Household size (numbers of dependants)

X₅ = Education (years)

X₆ = Annual salary (₦)

X₇ = Cooperative experience (years)

X₈ = Size of portfolio in terms of amount authorized to give out as loan to borrowers (years)

$\beta_1 - \beta_8$ are parameters to be estimated.

III. RESULTS AND DISCUSSION

Socio-economic characteristics of loan administrators

Analysis of the socio-economic characteristics of loan administrator is presented in Table 1. The result indicates that majority of the respondents (58.46%) were male whereas 41.43% were female. This is attributed to the work life imbalance between male and female in the financial institutions. Females especially married ladies, found it difficult to combine working in financial institution with their family chores and single ladies may not likely to marry as work in financial institution limit their social life. This agrees with the finding of Oliver (2016), that the male dominated financial institutions due to insufficient flexible working options and stigma for using them, insufficient support for family's responsibilities, persistent source of low inclusion in culture such as invisible unconscious biases and traditional assumptions limiting women counterpart.

The mean age of the loan administrators was found to be approximately 36 years. This finding shows that most of the respondents were young people who are energetic enough to withstand the stress involved in lending and recovery. This is in line with the findings of Ikandi (2013) that young people are innovative and active at work as the older ones are weak and no longer in their productive stage.

The results further revealed that majority of the respondents (67.69%) were married. This shows that financial institutions in the study area were dominated by individuals who are married. This result could be attributed to the fact that married people work harder and are more strategic in actions. This is because married people are more responsible, and cater for family needs like hospital bills, school fees, shelter etc. This confirmed with the finding of Bradford (2015) that marriage transforms men's social

worlds, as they spend less time with friends and more time in work places, as well as go to bars less. Thus, activities involving recovering and prevention of default can be effectively undertaken by this group.

The mean household size of the respondents was found to be four. This could be due to the fact that a small family is necessary to keep ecological hazards, economic problems at bay, and essential to guarantee a better quality of life. This finding concurs with Hollander (2001) that a small family promises well-nourished and health family affiliates and more attentions will be given to loan recovery and prevention strategies. Specially, majority of the respondents (81%) had household size of 1 - 5, 18% , 6 - 10. while 1% had a household size of 11 - 15.

The mean number of years spent on formal education by the respondents was 9.78 years. This could be due to the fact that the minimum requirement for any employee in the financial institution is first degree or its equivalence. This gives room for effective communication, and adoption of modern technology. High level of education determines quality of skills of loan administrators (Moyib *et al.*, 2013: Girei *et al.*, 2014). Specifically, 63.1% of the respondents spent 4 - 9 years in formal education, 13.85% spent 10 - 15 years, 22.30% spent 16 - 21 years, while only 0.77% spent 22 to 27 years. The finding shows that respondents are all educated in the study area.

The years of respondents' cooperative experience was found to be 14.39. This implies that most of the respondents are well experienced in financial services. Increase in the years of cooperative experiences can be translated into good loan management by administrators, as well as their ability to manage loan and prevent it from going into default (Osuntogun, 1980 & Okorie *et al*, 2011). Majority of the respondents (86.92%) had about 11 - 19 years of cooperative experience, 10.77% had about 2 - 10 years, while 3.30% had about 20 - 28 years of banking experience.

The mean annual salary of loan administrators was ₦ 2,480,000.07. The annual salaries of the administrators were relatively poor to cater for economic activities despite the small household size of respondents. This could be attributed to cutting cost measures (salary slash) adopted by financial institutions to reduce the impact of the loans loss on the performance and financial health of banks. The financial sector appears to be having its own fair share of the effect of economic recession, as a number of banks are experiencing poor asset quality and increase in non-performing loans, resulting in downsizing of staff, and reduction in staff salary (Umar, 2016).

Table.1: Socio-economic characteristics of loan administrators (n = 130)

Socio-economic variable	Number of Respondents	Percentages	Means
Sex			
Male	76	58.46	
Female	54	41.43	
Age (yrs)			
21-30	44	34.85	
31-40	58	44.62	35.63
41-50	25	19.23	
<50	3	2.30	
Marital Status			
Married	88	67.69	
Single	42	32.30	
Household size			
1-5	105	80.77	
6-10	23	17.69	4.14
11-15	2	1.54	
Formal education (yrs)			
4-9	82	63.07	
10-15	18	13.85	9.78
16-21	29	22.30	
22-27	1	0.77	
Cooperative experience (yrs)			
2-10	14	10.77	
11-19	113	86.92	14.39
20-28	3	2.30	
Annual income (₦'000)			
50-700	5	3.84	
701-1351	10	7.69	
1352-2002	15	11.53	
2003-2653	42	32.30	2,480.07
2654-330	12	9.23	
3305-3955	23	17.69	
3956-4606	19	14.61	

Source: Field survey data, 2017

The effect of socio-economic characteristic of loan administrators on recovery rate

The result of effects of socio-economic characteristics of loan administration on recovery rates is presented on Table 2. The result shows that the coefficient of determination (R^2) was 0.342, indicating that 34.2% of the variations in recovery rate was explained by the explanatory variables in the model. The result also showed that F-statistic (7.84) was statistically significant ($p < 0.05$), indicating the goodness of fit of the model and the overall significant of variables used in the model. The result shows that portfolio size was the only variable that significantly and positively

affected loan recovery rate. The coefficient of portfolio size (1265.63) also increased recovery rate by 1265.63. This could be attributed to the size of client business. The higher the size of business, the higher the chances of loan recovery. Portfolio size of an administrator is depending on the size of borrowers' business in a particular region. This result agrees with the findings of Piet (1995) that the top-down approach to portfolio allocation involves first, the decision as to how much to allocate to each broad asset category; and second, a decision on an optimal strategy within each asset category. The result also showed that the coefficient of salary, age, education, household size, banking experience, marital status

and sex were insignificant, and therefore, have no significant effect on recovery rate.

Table.2: The effect of socio-economic characteristic of loan administrator on recovery Rate.

Variables	Linear	Semi-log+	Double-log	Exponential
Constant	1822.20(3.47)	-5461.45***	4.65(6.19)	7.57(32.29)
Sex	-39.35(-0.38)	-72.71(-0.49)	-0.30(-0.45)	-.01(-0.36)
Marital Status	-37.02(-0.34)	-49.09(-0.31)	-0.16(-0.23)	-0.01 (-0.22)
Salary	0.85(-0.99)	16.48(0.15)	-0.10(-0.20)	-8.62E-005(-0.06)
Age	-6.78(-0.46)	-213.60(-0.87)	-012(-1.11)	-0.004(-1.24)
Numbers of years in education	-4.59(-0.01)	-25.62(-0.26)	-0.01(-0.31)	-0.002(-0.48)
Household Size	-0.46(-0.82)	-7.81(-0.70)	-0.00(-0.06)	0.001(0.05)
Banking Experience	-12.54(-0.82)	-190.54(-0.93)	-0.08(-0.95)	-0.006(-0.83)
Portfolio size	0.75(7.34)	1265.63(7.50)***	0.53(7.06)	0.000(6.79)
R ²	0.330	0.342	0.31	0.30
Adjusted-R ²	0.29	0.298	0.27	0.26
F statistic	7.461	7.847***	7.093	6.533

Source: Data analysis, 2017.

*** significant at 1%, + lead equation, Figures in the parenthesis are t statistic.

IV. CONCLUSION AND RECOMMENDATIONS

The result of this study has shown that portfolio size was the only variable that significantly and positively affected loan recovery rate. The higher the size of business, the higher the chances loan recovery. Portfolio size of an administrator is depending on the size of borrowers' business. The result also find out that the coefficient of salary, age, education, household size, and banking experience marital status and sex had no significant effect on recovery rate.

It is therefore, recommended that loan administrators should be given higher portfolio size loan as these will trigger them to carefully look at business activities in their

coverage areas that are capable of repaying loans from proceeds of their sales and cash flow. If loan are given to viable business ventures with good business fortunes, loan monitoring will be easier and administrators will be more focused.

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