

Causes and Measures for Controlling Loan Default among Agricultural Cooperatives in Benue State, Nigeria

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Abstract— The studies analyzed the causes and measures for controlling loan default among agricultural cooperatives in Benue State of Nigeria. Data were collected from 130 respondents using structured questionnaire, and was analyzed using descriptive statistics. The result shows that factors responsible for loan default were classified into Institutional, Client-related, Geo-economical, and Market related factors. Late disbursement of (92.31%), lack of loan monitoring (76.92%), inadequate loan appraisals (69.23%), and lack of clear cut policy on lending (69.23) were the institutional factors responsible for loan default. Lack of integrity (80.77%), poor business practice (78.46%), and loan diversion (50.0%) were client-related factors. Death of client (70.77%), economic downturn (55.38%), and natural calamity (52.31%) were geo-economic factors, while, lack of market information (81.54%), market location (49.23%) and wrong economic decision (40.77) were market related factors. The result also showed that obtaining information on borrowers' integrity (92.23%), and training of borrowers on the terms and conditions (82.54%) were main measures to control loan default in the study area. Information on client integrity, and training of borrowers on terms and condition of loan before loan are granted were found to be best measures to control loan default. It was recommended that sound and flexible lending policies measures which must be reviewed frequently by the Central Bank of Nigeria (CBN) and Bank for Agriculture and Agricultural Co-operatives (BAAC) be put in place in order to curtail bureaucracies involved in the management approvals and disbursement of agricultural loan should be formulated. This will ensure early disbursement of funds to co-operative members.

Keywords— Loan, default, Agricultural Cooperatives, Benue State of Nigeria.

I. INTRODUCTION

The importance of agricultural cooperative organizations in Nigeria is a long-standing one. The

cardinal objective of introducing agricultural cooperative was to increase crop production and credit facilities to cultivators. They have been deeply involved in activities that have impacted on the livelihood of members in particular and rural people in general (International Labour Organization (ILO, 2002).

Agricultural cooperatives pool production and resources of farmers and rural entrepreneurs in order to maximize the benefits for its members. Unlike corporations they are focused on services rather than profit. Although members receive a payment for their capital contributions, it is not linked to the profitability of the cooperative; rather it is usually held at a fixed interest rate that can be tied by law to a maximum permitted rate (Yebisi, 2014).

Agricultural cooperatives can be classified into service cooperatives or production cooperatives (Lerman, 2013). Production cooperatives involve farmers who operate the cooperative on jointly owned agricultural plots (Chambo, 2009). The service cooperative members carry out their activities independently, and the cooperative provides them with a range of services which may include machinery, processing, transport, packaging, distribution, marketing and information (Lerman, 2013). A credit cooperative is also a service cooperative, and allows members to jointly finance their investments or working capital. Through credit unions, farmers' pool funds to be loaned to members and at the same time loans can be raised at better interest rates than those offered by commercial banks.

One problem faced by formal and informal lending institutions in Nigeria is loan default among farmers (Okorie and Iheanacho, 1992). Several efforts have been made by lenders and policy makers to deal with the situation. For instance, government at the three tiers of governance have been involved directly or indirectly in providing financial assistance to farmers as a major policy strategy for increased agricultural output in an attempt to cover up the negative effect of nonperforming loans. The

establishment of the Agricultural Credit Guarantee Scheme Fund by the Federal Government in 1988 was one of such efforts (Nwosu *et al.*, 2010). Despite strategies evolved by formal and informal lenders to prevent loan defaults, it is observed that default rates are generally higher among those who borrow from government sponsored sources than those who borrow from moneylenders and other informal lenders (Eyo *et al.*, 2013, Ameh and Iheanacho, 2017)

Afolabi (2010) opined that loan recovery is one of the critical determinants of profitability and viability of a cooperative institution. Poor recovery hampers the cooperatives' capability to recycle funds and adversely affect the effective management of its resources and ultimately its profitability. The incidence of over dues in the agricultural credit system has been increasing over the years and has turned out to be the single most important factor responsible for steady erosion of the financial soundness and fitness of the cooperative institutions.

Unless the over dues are substantially brought down, the impact of various measures to improve viability of banks would not be visible. Strategic defaulting of loan is quite widespread among the opportunist farmers who consider government sponsored loans more as gift than as debt that have to be repaid. It is against this backdrop that this study is designed to analyze the causes of loan default and default prevention strategies of agricultural cooperatives in Benue State of Nigeria.

A numbers of studies have been carried out on causes of loan default (Udoh 2008, Aseyo 2013, Kuye 2015, and Owusu *et al.*, 2015). These studies focused mainly on formal financial institutions. No study has been carried out on causes of loan default and default preventive measures among agricultural co-operatives. This study fills the gap in the literature by analyzing the causes and measures for controlling loan default among agricultural cooperatives in the study area. The study was designed to provide answers to the following questions:

- i. What are the causes of loan default among agricultural cooperatives?
- ii. What are the measures for controlling loan default among agricultural cooperatives?

II. METHODOLOGY

The study was carried out in Benue State of Nigeria. The state was created from the former Benue Plateau State on February 3rd, 1976 when the country was further split from 12 to 19 states (Ajaero (2007)). It lies at the middle-belt region of Nigeria and has a population of 4,219,244 people (National Population Census (NPC, 2006). Benue State occupies a land mass of 30, 955 square

kilometers and is bounded by Nasarawa State to the North, Taraba State to the North East, Cross River State to the South, Enugu State to the southwest and Kogi State to the west. It also shares a small section of the national boundary with Republic of Cameroun to the South East of the State (BNARDA, 1986)

The State lies between latitudes 6°C 25' and 8°C 8' North of the equator, and Longitudes 7°C and 10' East (Ajaero, 2007). The State is endowed with a tropical climate. The rainy season starts from April and lasts until October, while the dry season begins from November and ends in March. The annual rainfall is between 150mm – 180mm. The temperature fluctuates between 23°C to 30°C most of the year. The main occupation of the people of Benue State is farming. Benue State has a vast area of land and produce part of the food which feeds the whole nation. The present Benue State is blessed with agricultural produce, such as yam, cassava, potatoes, rice, millet, guinea corn, groundnut, maize, sesame, soya beans, and a vast range of fruits and vegetable. This earned the State the slogan "Food Basket of the Nation". The State has 23 Local Government Areas (LGAs) and 275 council wards (Ajaero, 2007). For administrative and operational purposes, Benue State is divided into three agricultural zones by Benue State Agricultural and Rural Development Authority (BNARDA, 1986). The three zones are as follows: - North Eastern zone (Zone A):- Katsina-Ala, Kwande, Konshisha, Logo, Ukum, Ushongo and Vandeikya LGAs, North Western Zone (Zone B): - Buruku, Gboko, Guma, Gwer East, Gwer West, Makurdi and Tarka LGAs, Southern Zone (Zone C): - Ado, Agatu, Apa, Obi, Ogbadibo, Ohimini, Oju, Otukpo, Okpokwu LGA. It adopted multistage sampling techniques.

The first stage involved purposive selection of one Local Government Area (LGA) each from the three agricultural zones based on the high concentration of Co-operatives, namely Ukum, Makurdi and Otukpo. In the second stage, a sample proportion of 25% across board was used to obtain a sample of 130 respondents from the selected co-operatives.

Data were collected using structured questionnaire. Information were collected on the causes of loan default, and measures to control default among agricultural cooperatives in the study area. Data collected were analyzed using descriptive statistics.

III. RESULTS AND DISCUSSION

Causes of loan default among agricultural cooperatives

Causes of loan default were categorized into institutional, client related, geo-environmental and market related factors, and presented on table 1.

Institutional factors

The result showed that late disbursement of fund to borrowers was the major (92.31%) cause of loan default. This could be attributed to bureaucratic practices of most lending institutions in the study area. Clients' requests pass from table to table and this prolongs the management appraisals and results to late disbursement of fund. Most affected are those involved in the agricultural sectors because their activities are usually tied to the prevailing weather conditions. Late receipt of loan delays the planting season, and results to reduction in yield. This may result to loan default. This finding concurs with Sheila (2011) that early disbursement of fund is critical to minimize default.

Client-related factors

Lack of integrity of client (80.77%) causes loan default, as farmers no longer adhere to the terms and conditions of loan set up by Agricultural Cooperatives. They diverted funds to unproductive business other than their original request, thereby resulting to their inability to repay loan. This finding agrees with Neininger *at.al* (2011) that lack of integrity in the business environment is a major contributor of organizational cynicism. Organizational cynicism can cost company money in productivity, waste,

injuries, sick calls and inability to repay loan by an organization.

Geo-environmental factor.

Death of client (70.77%) causes loan default. This is an external factor which becomes very difficult for Agricultural Cooperatives to have control over, hence natural phenomenon. Agricultural Cooperatives that take borrowers who did not take life insurance cover stand a chance of losing their investment via loan default. This agrees with Dorfman (2004) that insurance should be part of risk management when starting an agricultural business.

Market-related factor

Lack of market information (81.54%) is related to lack of information about production. For instance, clients keep their produce for a very long period of time because they have limited information on who to buy, where to sale, when to sale to maximize profit and the buyer in other hand have a limited information on whom to buy, where to buy and when to buy to minimize loss thereby resulting to delays in loan repayment and eventually default. This finding agrees with the finding of Chadra (2017) that one of the major problems confronting agricultural marketing in India is lack of market information.

Table.1: Cause of loan default (n = 130)

Causes	frequency	percentage*
Institutional		
Late disbursement of fund to borrowers	120	92.31
Lack of loan monitoring	100	76.92
Inadequate loan appraisal	90	69.23
Lack of clear cut policy on lending	90	69.23
High interest rate on lending	36	27.69
Conflict of interest by loan administrators	33	25.38
Monopoly of power	18	13.85
Others (Gift to client during festivities)	3	2.31
Client related factors		
Lack of integrity	105	80.77
Poor business practice	102	78.46
Loan diversion	65	50.0
Lack of technical skills to keep record	34	26.15
Conflict of interest among administrators family	22	16.92
Geo-environmental factors		
Death of client	92	70.77
Economic downturn	72	55.38
Natural calamity	68	52.31
Market related factors		
Lack of market information	106	81.54
Market location	64	49.23
Wrong economic decision	53	40.77
Proximity of market	36	27.69

Source: Field survey data, 2017. *Multiple responses existed, hence >100%

Measures to control loan default

The result of measures control loan default is shown in table 2, obtaining information on client integrity (92.23%) is the best measure to control loan default. This is an appraisal issue. Customer integrity is a key factor in appraisal process. Lending officers consider borrowing proportion and subsequent repayment in isolation from security. The borrowers are screened based on the future and the past. Lending is based on integrity, liquidity, purpose, profitability, spread, and suitability. This result agrees with Bigambah (1997) that the loan default in Uganda was attributed to loan appraisal as the key factor. Sometimes, information received is not verified, while in some cases the information received is doctored or falsified.

The result further revealed that training of borrowers on terms and condition of loan was indicated by 81.54% of the lenders. Prevention is better than cure. Borrowers are made aware of the condition of loan in the offer letter presented to them by the lending institutions and

this plays an important role in loan default prevention. This concurs with the finding of Teskiewicz (2007) that it is important to stress during the client-education stage, both the benefits received due to punctual payment as well as the cost incurred by the client for late payments.

The result also shows granting loan amount proportionate to business expenses (28.46%) is a measure that is capable of preventing default. This is because if the amount is granted proportionately, there will be no room for wastage and the business will not be under funded. This is in consonance with the finding of Peter (1995) that accurate estimates are the best outcome. Underestimation can impact dependencies and the overall quality of the project.

Overestimation may be wasteful for the resources on a particular task, but it is less likely to impact other tasks or overall quality. Others are monitoring of borrowers business activities, granting loan amount above business expenses and below business expenses.

Table.2: Measure to control loan default among the agricultural cooperatives (n=130)

Measures	Frequency	Percentage*
Obtaining available information on borrowers integrity	120	92.23
Training borrowers on the terms & condition of loan	106	81.54
Granting loan amount proportionate to expenses	37	28.46
Monitoring of borrowers business activities	15	11.54
Granting loan amount above business expenses	14	10.77
Granting loan amount below business expenses.	8	6.15

Source: Field survey data, 2017

*Multiple responses existed, hence >100%

IV. CONCLUSION AND RECOMMENDATIONS

Evidence from the study has shown that late disbursement of fund, lack of monitoring, lack of integrity, poor business practice, death of client, economic downturn, lack of market information, and market location were major factors that cause loan default while, obtaining available information on client integrity, training of borrowers on terms and condition of loan before loan are granted were found to be best measures to control loan default.

It is recommended that Sound and flexible lending flexible policy measures must be reviewed frequently by Central Bank of Nigeria (CBN) and Bank for Agriculture and Agricultural Co-operative (BAAC) in order to curtail bureaucracies involved in the management approvals and disbursement of agricultural facilities. This will ensure early disbursement of funds, and in line with prevailing weather condition. Professional appraisal officers should handle and properly assess the repayment capacity and/or willingness of the client to repay loan, while life insurance cover on

every borrower must be in place by all lending institutions to cushion the effect of loan defaults as a result of client death. Market information is essential for producers, traders, consumers as well as the government. Marketing Boards should be set in all agricultural zones to disseminate the character and the volume of supply of commodity, the present and expected level of consumers demand, current price quotation and future price trend for different type of products and their probable impacts on price market information to the public.

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