EFFECTS OF INSTITUTIONAL AND BORROWER CHARACTERISTICS ON LOAN RECOVERY: A STUDY OF ONDO STATE AGRICULTURAL CREDIT CORPORATION.

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ABSTRACT

In this empirical study, the role of some selected institutional and borrower characteristics in relation to farm credit repayment was investigated. 135 borrowers representing 30.5% of the total number of individual borrowers from the Ondo State Agricultural credit Corporation in Nigeria were randomly selected and interviewed from 12 of the 17 Local Government Areas of the State. Data were subjected to descriptive statistics in addition to correlation and regression analyses. Findings indicate that most farmers were above average age, possessed low education and obtained small loan sizes. Loans issued cut across social and educational lines. Food crop loans were largest in number. About a third (30%) of the loans were mis-used despite average-level farm supervisory visits by credit agents. Loans were profitably utilized by 59.40% while only 39.85% of borrowers fully repaid their loans. Only the level of loan profitability and size of loan spent on approved enterprises contributed significantly to predicting loan repayment.

KEY WORDS: Predictive factors, loan recovery.

INTRODUCTION

It is now an accepted fact that the introduction of timely and well managed production credit at reasonable rates of interest can accelerate agricultural development. However, to be successfully operated, such credit programme has to be carefully planned, properly administered, understood and accepted by farmers.

According to Ogunfowora, et al, (1972), well organsied agricultural credit schemes by State Institutional sources have been associated with rapid agricultural development in such countries like Belgium, Denmark, Israel, Japan and the United States of America to mention a few. It has been utilized to advantage in many developed countries.

Farmers in developing countries need to adopt improved farm practices recommended to them. However, many of them being small holders, cannot afford the additional cost of adoption without financial assistance from external sources as most of them live below the "poverty datum line". Adoption will, therefore, be hampered.

To enhance adoption, farmers must have access to credit to assist them purchase essential inputs. Credit is needed to hire additional labour, acquire tools, procure improved seeds, agro-chemicals and other farm inputs that may become essential as a result of the adoption of improved practices.

Several attempts have been made by both Federal and State Governments to solve the problem of credit for farmers in Nigeria. Among these are the setting up of various credit institutions for credit delivery service to farmers on soft term bases. One of such credit institutions is the Ondo State Agricultural Credit Corporation (ODSACC) where this study was carried out.

The ODSACC was established in 1976 to grant low interest credit facilities to farmers. Primary among the aims of setting it up was to cause a fall in food prices through a boost in farm output. Since 1976, it has disbursed over N60 million in the State. Disbursements had continued annually.

Inspite of such huge loan disbursements, agricultural production did not improve much in the State. Food scarcity as well as high prices of farm products were reported (Osuntokun, 1980). The repayment of those loans was also said to be poor (ODSACC, 1983). To date (1993), the situation remains unchanged. Could the reasons for the apparent failure of this credit scheme in improving agricultural productivity in Ondo State due to the personal characteristics of the loan beneficiaries or to institutional factors?

The specific objectives of the study include:

1. To describe some selected:
    (i) Institutional (ODSACC),
    (ii) borrowers', and
    (iii) loan characteristics; as well as

2. To determine which of these factors affect loan repayment.

METHODOLOGY

A sampling frame consisting of all the names of the individual farmer-borrowers who benefitted from the Corporation's credit facilities was obtained. Out of the total borrower population, a sample size of 135 borrowers was randomly selected for interview. The study was carried out in 12 of the 17 Local Government Area of the State.

Pre-tested structured interview schedules were used to collect necessary data for the study by a team of trained field interviewers. A total of 133 (98.5%) of the interview schedules were successfully completed. The responses were coded and analysed statistically, using frequencies, percentages, correlation and multiple regression.

Several regression models were considered involving seven independent variables; Age (years), education (years spent in school), social status, loan size (N), and frequency of farm visits (number of credit agents' visits to farmer). Others were percentage of loan spent on approved enterprises and level of profitability.

These were measured against the dependent variable of volume of loan repaid.

The basic specification of the volume of loan repaid is of the form:

$$Y = F(X1, X2, \ldots\ldots X7, U)$$

Where:

Y = Percentage of loan repayment
$X1$ = Frequency of farm visits.
$X2$ = Percentage of loan spent on approved enterprises.
$X3$ = Level of profitability
$X4$ = Age
$X5$ = Education
$X6$ = Social status
$X7$ = Loan size
U = The error term (which is assumed to be normally distributed with zero man and constant variance.)

RESULTS AND DISCUSSION

A. Personal Characteristics of Respondents

Age: The mean age of the respondents was 46.9 years. Most (70.7%) respondents were above 40 years. Only 6.0% were under 30 years and 29.3% under 40 years of age. This finding agrees with assertions by Oyatoye (1981) and Awoyemi (1981) that Nigerian peasant farmers were getting old while the youths were not taking over from them on the farm.

Education: Over half (51.9%) of the borrowers had not attended formal school at all. About a quarter (28.5%) had elementary school education, and only about 20 per cent had above elementary school education.

The clientele were mainly those of low educational status. This has serious implications for extension as different research findings have shown that education significantly affects adoption (Talawar & Hirevenkaragoudar, 1989), even among contact farmers (Reddy & Reddy, 1988); affects perception (Alhimuthu, et. al 1991) and significantly discriminates between big and small farm holders (Somasundaram, 1991).

Social status: Sixty-two percent (62%) of the borrowers were ordinary citizens with no special status of any kind. Twenty-one percent of the borrowers occupied traditional statuses either as Oba or Chief, while 6% were government officials doing part - time farming and 11% were religious leaders.

Occupation: Majority (91%) of the borrower were full-time farmers while only 9% were part-time farmers. ODSACC'S loans were issued to farmers irrespective of their farming status in the locality.

Source of Credit: All the respondents borrowed from ODSACC. Most of them (85.7%) obtained on additional credit from any other sources. While 4.5% obtained additional loans from commercial banks, 9.8% took more loan from informal sources. This finding shows that both formal and informal credits were available to farmers in Ondo State. It also prove that the state credit institution does not fully satisfy the credit needs of their borrowers, hence the demand for more loan elsewhere.

B. Institutional Factors

Size of loans granted by ODSACC: The size of the loans granted by the Credit Corporation varied from N200.00 to N8,400.00 with a mean of N1,582.00 per farmer. About 65% of the borrowers interviewed obtained loans below the mean size while 78.2% of them took 'small' loans of N2,000.00 and below (Table 1). As claimed by ODSACC, loans of N2,000.00 and below required no collateral. So a large majority of the farmers took small loans. This proportion of small loans gives room for concern as large percentage of small loan beneficiaries make loan servicing and recovery difficult.

Enterprises for which loans were given: Loans for food crop production, including grains and tubers formed a total of 73.8% of those issued by ODSACC. This was followed by tree crop maintenance and marketing loans making 18% and 8.3% respectively. The large proportion of loans allocated to food crops shows a greater preference for food crop production in view of

food shortages being experienced all over the country, and the nation's bid to ensure food self-sufficiency.

Loan supervision: Loans supervision was measured by the frequency of credit officer's supervisory visit to borrowers' farms and homes (Extension contact). It was found that 51.8% of the farms were visited between 1 and 3 times within the farming season. Fewer farmers (36.2%) claimed 4 to 6 visits and 1.5% had over 6 visits. Few (10.5%) of the farms were not visited at all either before or after loans were disbursed. A total of 62.3% had a maximum of 3 visits. Level of contact was generally low.

This shows that most of the loans were actually supervised although the content and timing of the supervisory visits were not known. During extension visits, advisory services normally become more effective and needs are usually easily met. Since frequency of contact was found to differentiate between adopters and non-adopters (Olowu, *et. al*, 1988), and low contact resulted in low adoption (Tripathi, *et. al*, 1982), for success of a farm business, three visits or less by the creditor in a cropping season appears inadequate. However, if the supervision had been thorough and more frequent, borrowers who misused part of their loans in this study may not have been as many.

When further investigations were made as to the purpose of farm visits, it was discovered that 37% of the visits were for giving pre-planting advice while 38.7% were for giving pre and post germination advice (Table II). Advice on harvesting and storage was given during 22.7% of the visits.

The pre-planting as well as the pre and post germination advice, for which 75.7% of the visits were made, were for the purpose of giving advice on soil preportion, agronomic and farm management techniques. This implies the need for credit staff to be conversant with improved agricultural technology to enable them advice farmers effectively.

C. LOAN USE FACTORS

Loan Utilisation: Most (97%) of the loans received by borrowers were given in cash

(cheque) with only 3% given in kind. Such a system of giving loans in cash has led to possible use for purposes other than those intended.

In this study, it was found that about 70 percent of the borrowers spent all their loan on approved enterprises while 30 per cent spent all theirs for consumption purposes, which amounted to loan fund mis-use.

This finding compares with that of Nagabhushanam and Helyal (1989) in India where 32% of farmers spent their agricultural loans on unproductive ventures. This suggests inadequate supervision of loan utilisation which calls for more vigilance on the part of credit supervisors to prevent diversion of loans. It also calls for a shift of emphasis from cash to non-cash loan disbursement methods. The need to also officially build in some consumption credit into the programme to take care of pressing non-farm needs will help reduce diversion.

Investigation was made on the non-farm uses to which part of the loans were put. It was discovered that 76.8% was diverted to paying the children's school fees, and 7.7% each was spent on medical expenses and personal house (Table III). Other uses to which part of the loan was put included motor vehicle purchase, debt liquidation and local festivity, each accounting for 2.6%. The study confirms the finding of Murali and Kulkarni (1990) that loans were generally diverted to other uses if given in cash and their use is not properly monitored.

Profitability: About 60 per cent of the borrowers claimed to have made profit from utilization of the loans. About a third (32.33%) incurred losses while 8.27% operated at break even point. This is a pointer to the profitability potential of agricultural loans if properly administered, appropriately utilized and adequately followed-up with advisory services through farm visits.

It is disturbing to note that as large as 32.33% of borrowers operated at a loss. Institutional variable like untimely loan disbursement, cumbersome processing procedure, inappropriate loan sizes, inadequate loan-use supervision with which many formal credit institutions are associated in less developed countries, could be implicated among others. Apart from these, human factors like low credit worthiness, poor farm maintenance, loan diversion, and farmers' attitude could account for losses. Climatic factors like drought and excessive rainfall are also possibilities. Proper and adequate supervisory visits should normally lead to better use of loan fund. This should naturally lead to higher profitability. Greater profitability is expected to correlate with higher loan fund repayment Ceteris paribus.

D   LOAN REPAYMENT

The loan repayment pattern of these farmers was observed to be poor. A total of 53 respondents (39.85%) made full repayment, 69 respondents (51.88%) made partial repayment while 11 respondents (8.27%) made no repayment. Similar poor loan repayment in developing countries was also reported by Adams (1979).

This finding indicates that a total of 91.73% of the respondents either made partial or full repayment. However, from the total borrower population, a total of 60.15% were still owing the institution.

A further analysis of the repayment pattern shows that those who sustained losses constituted 72.73% of those who repaid nothing (Table IV). Farmers who made profit constituted 88.68% of those who made full repayment. Respondents who operated at either the profit or the loss levels made up a large proportion of those in the partial repayment position. Those interviewees who operated at break-even level were nearly evenly distributed among the three repayment groups. This finding suggested an association between profitability and loan repayment pattern.

A correlation analysis was therefore carried out between profitability and loan repayment. The two were found to correlate positively and significantly at the 0.01 level (r = 0.503). Higher degree of profitability with loan- use associated with higher repayment of, farm loans.

Some selected variable were fed into a multiple regression equation to determine which variables had significant impact in predicting loan repayment. The most appropriate model accommodating only 3 intended variables

(frequency of farm visits, percentage of loan spent on approved enterprise and level of profitability) was reported as other variable made poor contribution to loan repayment and were therefore removed. The calculated F was 19.16 and was found significant at the 0.01 level. The multiple R was 0.56, and the R^2 was 0.3083.

$$Y = 6.38 + 0.03X1 + 0.25X2^* + 17.42X3^{**}$$
$$(1.57) \quad (0.12) \quad (2.64)$$

The numbers represent the regression co-efficients.

Figures in parentheses are the standard errors.

* = Co-efficient was found significant at 0.05 level
** = Co-efficient was found significant at 0.01 level

Only two of these variable made significant contribution to loan repayment. These were : profitability level of the farmer's enterprises and percentage of the loan spent on the approved enterprises. These two explained 30.83% of the variation in loan repayment. Age, educational status, social status, loan size and frequency of farm visits made no significant contribution.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study has shown that borrowers come from various age and social classes in Ondo state. Educational level of farmers was low. Most beneficiaries were full-time farmers.

A large percentage of the loans disbursed by ODSACC was small and required no collateral. This could make supervision tedious as credits staff may have a large number of farmers to cope with as against bigger loans. Loans were mostly disbursed in cash. Most borrowers did not take additional loans to what ODSACC offered, implying that they possibly had no access to other loans where conditions were usually more stringent even when their needs were not fully met by ODSACC loans.

Loan fund expenditure was largely on approved farming enterprises. The credit officers did not monitor the loans as frequently as desirable due to the supervisory difficulty of servicing numerous small loans. Loans use for non-farm activities was still common among borrowers. Their use was for such items as payment of school fees and medical expenses among others. Such loan fund mis-use could be further encouraged by cash disbursement, smallness of loan sizes and inadequate monitoring by credit staff.

Most borrowers used loans profitably while some others used them at a loss. Most borrowers repaid in part. Sizeable number repaid fully while a few repaid nothing. Only profitability level of loan and percentage of loan spent on the loan enterprise had significant positive impact on predicting loan repayment.

Since the percentage of loan spent on enterprise as well as profitability are significant determinants of loan repayment, loans sizes need to be increased based on beneficiaries needs and repayment ability rather than giving loans that were too small for profitable use.

Production loan size determination should be done with a small built-in consumption credit to enable farmers tide over difficult period.

While cash disbursement cannot be completely ruled out, it could be reduced through the issuance of a good part of the credit in from of farm inputs.

Increased loan-use supervision and repayment monitoring is essential for effective loan recovery. These should be stepped up by credit staff.

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Table 1: Frequency distribution of size of Loans Granted by ODSAA (N = 133).

Sizes of Loan in (N)	Frequency	Percentage (%)	Cumulative (%)
≤ 1,000	55	41.4	41.4
1,001 - 2,000	49	36.8	78.2
2,001 - 3,000	14	10.5	88.7
3,001 - 4,000	6	4.5	93.2
Above 4,000	9	6.8	100.0
Total	133	100.0	

Source : Field Survey

Table 2: Purpose for which credit Officers Visited Borrowers' Farms (N = 119)

Purpose of visit	Frequency	Percentage (%)
To give pre-planting advice only	44	37.0
To give both pre and post-germination advice	46	38.7
To advise on harvesting and storage	27	22.7
To advise on marketing	1	0.8
Not official	1	0.8
Total	119	100.0

Source: Field survey,

Table 3: Non-Farm Uses of part of Farm Credit Granted (N = 39)

Non - Farm Use	Frequency	Percentage (%)
Paying children schools fees	30	76.8
Paying medical expenses	3	7.7
Spent on personal house	3	7.7
Buying vehicle	1	2.6
Liquidation previous debt	1	2.6
Spent on festival and ceremony	1	2.6
Total	39	100.0

Source:Field Survey,

Table 4:   Loan Repayment Pattern among the Various Profit Levels of Operation.

Loan Repayment Pattern Profit Level	Full- Repayment (N = 53)	Partial Repayment (N = 69)	Nill Repayment (N = 11)
Loss	1.89%	46.27%	72.73%
Break - even point	9.43%	7.25%	9.09%
Profit	88.68%	43.48%	18.18%
Total	100.00	100.00	100.00

Source: Field Survey.