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# MOTIVATION AND NON-FINANCIAL SANCTIONS AMONG INFORMAL GROUPS IN IMO STATE: LESSONS FOR SUCCESS OF GROUP LENDING SCHEMES IN NIGERIA

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## ABSTRACT

In Nigeria, informal groups are invaluable in providing financial services to small operators in the agricultural sector. Some of these groups are involved in joint liability lending schemes across the country and existing literature reveal that these schemes have not been successful in achieving satisfactory levels of loan repayments over time. This study investigated how joint liability lending schemes can do better by assessing the operations of informal groups in Imo state, Nigeria; and bringing to focus what sanctions and motivation practices assist the groups to achieve satisfactory levels of loan repayments. The result shows that, sharing group profit at the end of the year, denying loan defaulters their share of the group profit as well as other privileges, and ensuring that beneficiaries obtain new loans each time the beneficiaries repay would be invaluable in enhancing success of group lending schemes in Nigeria.

## INTRODUCTION

Informal groups have been widely acclaimed (Adams, 1990; Udry 1990; Stiglitz 1990; Olidimu 2000; Aryeety et al 1997) for their ability to resolve the problem of pooling savings, monitoring the borrowers effectively and utilizing group pressure to solve the problem of loan default. In Nigeria these groups have been invaluable in providing financial services to small operators, particularly in the agricultural sector.
They not only help to moblise savings but some go out of their way to offer technical services to members. Perhaps because of these obvious advantages, formal financial institutions now prefer to give uncollateralised loans to small operators in groups, particularly in the agricultural sector. Today two main classifications of groups exist in the informal financial market; namely, those involved in the on-lending activities (Joint Liability Lending) and those not involved in on-lending activities. The difference between the two is that one obtains loans from formal institutions for use of members while the other does not.

The story of joint liability lending has not been all success. Several authors (Eyo, 2002; Olidimu, 1983; Reinke 1998; Adams et al 1979) agree that joint liability lending schemes have not achieved satisfactory levels of loan repayments. Although the concept of group loans has been copiously studied and issues like membership homogeneity, peer selection, peer pressure and social collateral have been identified, among other things, as having effect on group lending schemes, there is no gainsaying the fact that, if a formal financial institution gives proper incentives to on-lending groups, the members are encouraged to use information on one another and apply appropriate non-financial sanctions on delinquent members, (Adams et al 1979). By so doing, they do well.

When groups are not externally motivated to apply non-financial sanctions on erring members the benefit derived in group membership must be sufficiently large for group members to willingly repay loans. The question is: what package of incentive do such groups put in place for members to behave predictably? This paper assesses both the operation of informal

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groups that are not externally motivated in Imo State, Nigeria and the nature of sanctions imposed on members as well as the motivation practices adopted. It also makes some suggestions that can help to improve the performance of joint liability lending schemes in Nigeria. This paper is significant in two ways: First it emphasizes how satisfactory sanctions can assist existing informal financial intermediaries to improve upon loan recovery in the Nigerian agricultural sector; second, it emphasizes the role of membership motivation in ensuring success of group lending schemes involving small farmers.

## METHODOLOGY.

This study was carried out in Imo state, Nigeria. It involved nine autonomous communities, three from each of Ohaji/Egbema, Mbaitoli, and Ikeduru local government areas. The inhabitants of these areas engage in farming and fishing.

A total of 27 farmers' groups were randomly sampled and involved in the study; including 3 from each community and 9 from each local government area. Three members were interviewed in each group and there were 228 respondents in all. Data collection was achieved through the use of questionnaires and oral interviews.

Data analysis utilizes descriptive statistics involving simple analytical tools like tables, percentages and ranking. The composite ranking was used to rank nature of sanctions and motivation strategies of the groups. In each case, nine options were provided. The first option scores nine points; the second scores eight and the last scores one. If out of 100 respondents ten select the first option, the score becomes 90; if eleven respondents select the second option the score becomes 88,etc. The sum of all the totals, gives the ranked values.

## RESULTS AND DISCUSSION.

### OPERATIONAL CHARACTERISTICS OF GROUPS.

Of all the groups studied, 48% were formed in the 1980s whereas 52% were formed in the 1990s. These groups elect officials [president, vice president, secretary, assistant secretary, financial secretary, treasurer, and provost] to direct the affairs of the groups. Group members make periodic contributions for the up-keep of the groups. They conduct meetings periodically. While 15 groups hold meetings once a month, 12 groups hold meetings fortnightly. Twenty groups have common farms; eighteen groups provided members with farm inputs such as fertilizers, seeds, and seedlings at reduced rate, and only eight groups collect farm produce and sell on members' behalf. An interesting aspect of the operation of these groups is that the officials in the majority of the groups [68.86%] supervise the farm operations of members, particularly at planting, purchase of inputs, weeding, harvesting, storage and sales of output. However, 31.14% of the groups do not supervise operation of members because they believe that the members are competent.

Memberships in these groups show heterogeneity in socio economic characteristics such as age, gender, marital status as well as educational attributes. Table 1.0 shows the socio economic characteristics of respondents. According to this table, most of the respondents [36.4%] were aged 31 – 40 years, 27.19% were in the 41 – 50 years age bracket, 23.23% were between 51 – 60years, and only 13.16% were aged between 61 and 70 years. Women constituted 67.11% of the respondents and men were only 32.89%.

Although most of the respondents [92.98%] were married, there was generally no sign of educational homogeneity. Each group included persons with no formal education, primary education, secondary education and higher qualifications.

These groups give members short-term loans. The amount of money given out as loans range from one thousand Naira (N1000.00) to six thousand five hundred Naira. (N6500.00). Although some groups [8] did not charge interest on loans, interest rates on loans were generally between 1.00% and 5.00%.

Loan repayment was generally satisfactory. Table 2, shows the loan repayment performance of the

**TABLE 1.0 SOCIO ECONOMIC CHARACTERISTICS OF RESPONDENTS.**

| S. No. | CHARACTERISTICS | FREQUENCY N = 228 | PERCENTAGE |
|---|---|---|---|
| 1. | AGE | - | - |
| | 31 – 40 | 83 | 36.40 |
| | 41 – 50 | 62 | 27.19 |
| | 51 – 60 | 53 | 23.23 |
| | 61 – 70 | 30 | 13.16 |
| 2. | SEX | | |
| | MALE | 75 | 32.89 |
| | FEMALE | 153 | 67.11 |
| 3. | MARITAL STATUS | | |
| | MARRIED | 212 | 92.98 |
| | SINGLE | 16 | 7.02 |
| 4. | EDUCATION | | |
| | NO EDUCATION | 23 | 10.10 |
| | PRIMARY EDUCATION | 20 | 8.77 |
| | TC II | 33 | 14.47 |
| | WASC/GCE | 35 | 15.35 |
| | NCE | 43 | 18.87 |
| | OND | 30 | 13.16 |
| | HND | 24 | 10.52 |
| | B.SC | 20 | 8.77 |

SOURCE: Field Survey Data, 2000.

**TABLE 2.0; LOAN-REPAYMENT PERFORMANCE OF GROUPS.**

| PERCENTAGE LOANS RE-PAID | NUMBER OF GROUPS | PERCENTAGE - |
|---|---|---|
| 100 | 25 | 92.60 |
| 90 – 99 | 1 | 3.70 |
| 80 – 89 | 1 | 3.70 |
| TOTAL | 27 | 100.00 |

SOURCE: Field Survey Data, 2000.

groups. According to this table, 92.60 % of the groups achieved 100 per cent loan repayment rate, whereas only 3.70% in two consecutive listing achieved 90 – 99% and 80 – 89% of loan repayment, respectively.

## MOTIVATION STRATEGIES AND NATURE OF SANCTIONS.

The success of these groups with regards to loan recovery is attributable to the motivation strategies adopted and the nature of sanctions against loan defaulters. The motivation strategies are particularly important because they add value to the loan services of the groups to members. This study reveals that the groups use five motivation strategies, namely, regular visit to borrowers, price award to non-defaulters, assurance of obtaining fresh loans, qualifying to lead the group and increase in amount of loans given in subsequent rounds. Table 3.0 shows the relative popularity of these strategies.

According to this table the most popular motivation strategy is being assured of obtaining a fresh loan each time loans are repaid with ranked value of 849. This is closely followed by automatic qualification to lead the group with ranked value of 822; thereafter, price award to non-defaulters with ranked value of 740 came next. This was followed by increase in subsequent amount of loans to non – defaulters preference with ranked value of 726, which was closely followed by regular visit to borrowers preference with a ranked value of 712. Invariably, strategies 3 and 4 can be said to add more value to the financial services of groups compared to strategies 2, 5, and 1.

The success of these groups in loan recovery is also attributable to the nature of sanctions applied on erring benefiting members. This study reveals that the combination of sanctions applied by the group include harvesting and sale of farm produce of defaulting members, reporting of defaulter and guarantor to the chief of the village, suspension of defaulter from membership, denying the defaulter all rights and privileges of membership, particularly the exclusion of defaulter from the list of members to whom profits are shared. Table 4.0 shows the most popular sanction and this is not including the loan defaulters among the list of beneficiaries of the group profit when such profits are shared. This table reveals that the most popular sanction has a ranked value of 1417. This is closely followed by denying the defaulter all privileges of membership with a ranked value of 1407, suspending the defaulter from membership had a ranked value of 1333, reporting the defaulter to the village chief, harvesting and sales of produce of defaulting members followed with a ranked value of 876. Use of persuasion had a ranked value of 862, and use of town crier trailed with a ranked value of 417 and use of debt collectors came last with a ranked value of 412. From the above discussion it can be asserted that sanctions 7, 5, 4,and 2 are more popular than sanctions 1, 3, 6, 8, and 9.

## LESSONS FOR GROUP LENDING SCHEMES.

Joint liability lending schemes have over time been widely embraced in extending agricultural credit to operators of the agricultural sector perhaps, because it provides solution to the problems of adverse selection, moral hazard, auditing cost and contract enforcement problems faced by formal lenders in extending financial

TABLE 3. RELATIVE POPULARITY OF MOTIVATION STRATEGY

| S. No. - | MOTIVATION STRATEGIES | RANKED VALUES OF RESPONSES |
|---|---|---|
| 1 | Regular visit to borrowers. | 712 |
| 2 | Price award to non-defaulters. | 740 |
| 3 | Assurance of obtaining new loans. | 849 |
| 4 | Automatic qualification for leadership. | 822 |
| 5 | Increase in the amount of loans given to non-defaulters. | 726 |

SOURCE: Field Survey Data, 2000.

TABLE 4.0 RELATIVE POPULARITY OF NATURE OF SANCTIONS AMONG GROUPS.

| S. No. | NATURE OF SANCTIONS | RANKED VALUE OF RESPONSES |
|---|---|---|
| 1. | Harvest and sell farm produce | 876 |
| 2. | Report to village council chief | 1189 |
| 3. | Report guarantor to chief. | 824 |
| 4. | Suspension from membership | 1333 |
| 5. | Deny defaulter all privileges | 1407 |
| 6. | Not share in the group profit | 1417 |
| 7. | Persuasion | 862 |
| 8. | Use of debt collectors | 412 |
| 9. | Announce names of defaulters using town criers. | 417 |

SOURCE: Field Survey Data, 2000.

services to small borrowers. In particular, Ghatak and Guinnane (1998) show how joint liability affects group formation, induces group members to influence the way other members select projects, helps lender avoid costly audits and encourages borrowers to repay their loans without the lender imposing costly sanctions.

Unfortunately, existing literature (Reinke, 1998; Adams et. al, 1979; Eyo, 2002) reveal that the concepts of joint liability do not easily imply lending operations with satisfactory loan repayment levels. In practice, joint liability means that group members repay erring member's loans. Whether the responsibility to repay rests on the officials or members of the group, it is usually easy to raise enough funds to repay loans when few members default. If several members default, repayment of loans becomes difficult such that the entire group eventually defaults and disbands.

In Nigeria the concept of joint liability does not appear to work well probably due to the collapse of peer pressure among groups. Peer pressure works well in homogeneous groups with strong group solidarity but existing literature (Olomola, 2000; Eyo, 2002) suggest that not many such groups exist in Nigeria.

Where group solidarity is not strong, the nature of sanctions and motivation strategies utilized at the group level can increase the value of financial services in favour of the group members such that they behave predictably.

This study reveals that group members prefer obtaining fresh loans to waiting for non-benefiting members to benefit each time loans are repaid. Other strategies adopted to motivate the members include automatic qualification to lead the group; regular visits to borrowers, price award to non-defaulter and increase in amount of loans to non-defaulters. Surprisingly, increase in volume of subsequent loans to non-defaulters, a motivation strategy common with lending schemes of the erst-while Nigerian Agricultural and Cooperative Bank does not appear to be very popular among lending groups.

This study also reveals that not including the defaulters among those to which profits are shared is the most popular sanction among the groups. Invariably, one way these groups lure their members to repay loans is to share profits at end of the year. Other popular sanctions include denying defaulters all privileges of membership, subsequent suspension from membership and reporting the defaulter to the village council chief.

Given the performance of the groups in this study, it is clear that the popular sanctions and motivation strategies are the most effective. Group lending schemes can greatly be strengthened if efforts are made to ensure that these popular sanctions and motivation strategies are incorporated, at the group level to add impetus to the financial services of the groups.

## CONCLUSION

Despite the adoption of joint liability lending years ago, low loan repayments has continued to be the problem of formal financial institutions lending to small operators in the Nigerian agricultural sector. The truth is that the existing lending schemes involving groups can achieve satisfactory loan repayments if at the group level, appropriate package of incentives are used to lure the members and if satisfactory non-financial sanctions are introduced which can motivate beneficiaries to repay loans. From facts available in this study, joint liability schemes can greatly improve level of loan recovery if they adopt such combination of sanctions and motivation strategies, which include the possibility of sharing the group profit among group members at the end of the year, denying the defaulters their share of profit as well as other privileges of membership and ensuring that beneficiaries obtain new loans each time loans are repaid.

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