

RESEARCH NOTE: 1

AN ANALYSIS OF THE PEOPLES' BANK MICRO-CREDIT
SCHEME IN AKWA-IBOM STATE.

BY

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ABSTRACT

This study analysed the Peoples Bank Micro-Credit Scheme in Akwa-Ibom State of Nigeria. The Study was necessitated by the importance of Micro-credit in the rural economy of the state. Both secondary and primary data were analysed. The result indicates a low recovery rate among the banks. This led to the case of no-disbursement of loans in all the branches between 1995 to 1997. The major problems identified included loan diversion, poor supervision and monitoring of the beneficiaries. It is recommended that for effective recovery of Micro-credits, the beneficiaries should be properly supervised and monitored, otherwise the re-occurring problems besetting conventional banks would continue with the Peoples Bank, thereby defeating the purpose of establishing the peoples oriented bank, especially among the male beneficiaries whose default rates were higher than their female counterparts in all the activities investigated.

INTRODUCTION

The crucial role of micro-credits in economic development in Nigeria can not be over emphasized. Numerous authors (Kuznets, Nurske, Shults, Frankel etc) have noted its indispensability in the process of socio-economic transformation. In this regard micro credit is seen as a catalyst to alleviating the quagmire of the vicious circle of poverty, which requires not only labour, land or

management but and injection of capital to extricate us from that cobweb (Ijere, 1998).

Micro credit can be appreciated from its ability to energise or motivates other factors of production especially as it can make the latent potential or under-used capacities functional. According to Ijere micro credit acts as a catalyst or elixir that activates the engine of growth, enables it

to mobilize its inherent potentials and to advance in the planned or expected direction.

Rural Banking scheme was established in Nigeria in 1977 in order to actively facilitate the transformation of the rural environment by promoting the rapid expansion of banking activities and services, and also to inculcate banking habit into the rural populace. Under this scheme, banks were mandated to establish rural branches and offer more than 50% of their micro credits within their areas of domicile. This programme made appreciable progress initially but was not sustained due to poor performance (Chigbue 1992). This gave rise to the initiation and establishment of peoples Banks in 1989 and Community Banks in 1992. This was necessitated in order to minimize income disparity between the poor and the rich by the provision of micro-credits. According to Lawal (1990), the issue of micro credits or micro soft loans started in Bangladesh by Prof. Mohammed Yunus. He initiated and nurture the first bank for the poor in the world known as Grameen Bank where the real poor was given the opportunity to borrow little amount of money for investment. The facilities provided to the poor are those facilities that were not available from the commercial or merchant banks. The success prompted several other

countries to borrow the idea for implementation, which was the case in Nigeria.

- People's bank was established in Nigeria on 3rd of October, 1989 to cater for the credit needs of the under privileged lowest income group in the society who cannot ordinarily benefit from the services of the commercial banks.

Objectives of the study:

The broad objective of this research is to analyze the people's bank micro credit schemes in Akwa Ibom State. Specifically the study examined:

- Description of the peoples bank micro credit scheme.
- Evaluation of the micro-credits recovery strategy for both male and female beneficiaries.
- Identify the problems of micro-credits
- Make policy recommendation.

METHODOLOGY

The study area is Akwa Ibom State comprising thirty-one Local Government Areas. The 1991 population census put the population at approximately 2 million people with an area of about 14, 986, 648m². The entire population is made up of two ethnic groups namely Ibibios and the Annangs. The majority of the population belongs to the Ibibio tribes.

Agriculture is the major

occupation of the people with about 70% of the population earning their living through Agriculture. There are only three functional and active branches of the people's bank in the state. They are located at Eket, Oron and Abasi. A total of 120 beneficiaries were chosen from a list of beneficiaries randomly taken from the three functional banks. The information was elicited by the use of questionnaires which was divided into two sets, one set was for the bank officials while the other set was used to secure relevant information from the beneficiaries of the micro-credit scheme. Secondary data were also collected from Peoples bank official reports. Beneficiaries were also analysed on gender. Data were analysed mainly by the use of descriptive statistics such as means, tables and percentages.

RESULTS AND DISCUSSION

Description of Peoples bank Micro-credit scheme

People's bank is a specialized bank set up with special reference to the poor. It is designed to assisting the less privileged with micro credits or small loans to start a business or assisting owned enterprise or project. Micro-credit is a small loan designed by the bank for servicing investments at medium and small-scale enterprises. It enables the bank to

provide credit facilities to individuals and groups in both urban and rural areas. The bank operates savings accounts and other specialised accounts aimed at alleviating poverty. The bank only operates short-term micro-credits which may be to groups or individuals.

The loan duration does not exceed one year and there is no deposit of collateral. The bank charges 20% interest rate of the total amount disbursed to individuals or groups as service charge.

Loanable Project

The following activities could attract both group and individual loans, namely:

- a. Petty Trading
- b. Vocational Enterprise
- c. Handicraft
- d. Farming

Recently the borrowing policy has been restricted to thrice the individual or group maximum deposit. The minimum amount required to open account with any people's bank branch is N100 and the interest rate paid on savings vary from time to time depending on the directive of the Central Bank of Nigeria.

Other special Saving Deposits available include:

- a. The peoples' Target Saving Scheme (PTSS)

- b. Worker's Save As you earn scheme
- c. Banking for health scheme
- d. The peoples start-up loan scheme
- e. The people's Development Fund
- f. A new product Developed by the bank to integrate Isusu into micro credit scheme
- g. The mutual support fund scheme

The major trust of this study is to analyse the people's bank micro credit scheme in Akwa Ibom State. This is because micro credit per se does not alleviate poverty, rather it is only when it is properly invested and managed that it yields the expected result, hence the study.

Size of Micro-credits

The result shows that the majority of the beneficiaries received below N1000 to N3000 micro-credits between 1991-1998. The beneficiaries who received between N3001 and N6000 amounting to 17% of the total respondents were next in the State. The trend shows that the lower the amount the higher the number of beneficiaries. It was observed that only 5% of the beneficiaries received above N16, 000, despite the fact that virtually all the respondents applied for more than N20,000 for individual loan. This shows that the total amount disbursed to individuals or groups is very inadequate. This may have given rise to the recent development whereby an applicant can obtain micro credits up to

thrice the amount he or she has saved with the bank for a minimum of six months. This has enhanced the mopping up of capital base by a number of people's bank in the area especially the once located in urban areas. The smallness of the average loan disbursed may give rise to unintended motive. In order words this may lead to credit diversion from the primary motive to a mere consumption. This may have reduced investments in a number of poverty alleviating activities originally intended by the bank. Moreso, it was observed that most of the applicants obtained less than the amount they applied for between 1991 to 1994, before the applicants maximum deposit determines to a great extent the amount of micro-credits disbursed. There was no disbursement between 1995 to 1997 due to micro credit repayment delinquency.

Micro Credit Disbursement and Repayment 1991 – 1998

The nature, structure and focus of the micro-credit system of the peoples bank is such that the would-be beneficiaries are to be self-recognized. This is based on the requirement that customers are suppose to be familiar with the bank so as to alleviate defaults especially as default risk is averted through the policy of repeated lending and group lending arrangement.

Table 1 shows the analysis of the beneficiaries, repayment rate and default between 1991 to 1998.

Table 1: Analysis of Micro-credit Disbursement, Repayment and Default Rates Between 1991 – 98

Activity	Number of Beneficiaries	Amount Disbursed	Amount Repaid	Repayment Rate (%)	Default Rate (%)
Farming	116	479300	240000	50	49
Trading	89	460,000	204,000	40	56
Hoteling	09	23,000	10,000	43	57
Manufc.	32	48,000	22,000	47	53
Owners of Pat. Medici	2	170,000	100,000	59	41
Total	248	1,171,900	576500	49	51

Source: Peoples' Bank Official Report 1999

This analysis is based on data generated between 1991 to 1994 and 1998, as there was no disbursement between 1995 to 1997, due to poor repayment rate.

From the above table a total N1171900 was disbursed by the bank, to a total 248 beneficiaries for five different project activities namely Farming, Trading, Hoteling, Manufacturing and Patent medicine. It was observed that out of this amount only N576500 was repaid which indicated a repayment rate of 49%, as well as a default rate of 51%. This confirms the case of no disbursement by the bank between

1995 to 1997 as a result of high default rate. The high default rate may be attributed to the misconception that micro credit or loans connected with government financial institutions are part of the national cake (Boakye 1980). Again, most of the beneficiaries noted that they were unable to repay due to inadequate incomes, sudden price decline, weak infrastructure or poor technology and inadequate markets. Effort should be made to provide micro credits to those who really need them in order to reduce the high incident of default observed in the state.

Table 2: Micro-credits Analysis by year (1991-1998)

Year	Amount Received	Amount Repaired	Default Rate
1991	156,500.00	63,856.00	59.2
1992	201,500.00	102,000.00	49.4
1993	282,000.00	160,000.00	43.3
1994	155,000.00	71,000.00	54.2
1995	Nil	Nil	Nil
1996	-	-	-
1997	-	-	-
1998	616,000.00	204,000.00	66.98

Source: Peoples Bank Report 1999

From the result it could be observed that a total of 248 beneficiary sought for a minimum of N20000, and on the average N4725 was received is very inadequate. This shows that the amount disbursed is small on the average for any meaningful investment and could lead to diversion, which might have resulted, on the high defaults rate evident from the study.

With regard to activity or project type, it was observed that most beneficiaries were farmers with a total of 116. Each of those engaged in farming obtained on the average the sum of N4054, while those engaged in trading obtained on the average the sum of 5175. Others, on the average received N25556, N1500, and N85000 respectively for Hoteling, Manufacturing and patent stores.

The result indicates that on the average the Patent stores had the highest allocation of micro credits, followed by farming. This may be attributed to low default rate of Patent store owners and farmers. The result shows that the lower the default rate, the more the average amount allocated per activity or project. The Patent stores had the least default rate and had the

highest amount of N85,000 on the average per beneficiary. This suggests the confidence repose by the bank on the ability to repay the loan. This may also be connected to rate of return of the business. Take for instance Patent Stores have much tendencies to recover their investment earlier than the rest of other activities, especially as the loans are not for long period of time; which might have been connected to high default rate evident among the manufacturers when compared to Patent Store owners. This finding is in consonance with Onyebinama (1999) who noted that credit in Nigeria is constrained by high default rate and is attributable to the occurrence of natural hazard. According to Boakye (1980) micro credit delinquency may be attributable to a number of reasons namely: low productivity, structural problems, agricultural credit problems, and the inability of the banks to collect their credits.

It is also pertinent to identify that none of the beneficiaries undertook any insurance scheme, which might have engendered the low repayment rate among the micro credit beneficiaries.

Gender Analysis of the Beneficiaries

Table 3 shows the gender analysis of the micro credit scheme of the people's bank in Akwa Ibom State.

Table 3: Gender Analysis of the Beneficiaries of Peoples Bank Micro credits 1991-1998

Type of Beneficiaries	Male					Female				
	No.	%	Amount received	Amount repaid	Default Rate	No.	%	Amount received	Amount Repaired	Default Rate
Farmers (crop, livestock & fishermen)	96	39%	40662	198621	51%	20	8.0%	72637	41379	43%
Traders	56	22.5%	299438	128360	57.1%	33	13.3%	160784	75640	53%
Owners of Patent Stores	Nil	-	-	Nil	Nil	02	0.8%	170,000	100,000	41%
Hoteliers	7	2.8%	17889	7678	57	02	0.8%	4211	2222	47%
Manufacturers	25	10%	38500	17578	54.3	07	2.8%	9500	4922	48
Total	184	73.3	762489	352237	53.80	64	25.7%	417140	224163	46.20

Source: Derived from Peoples Bank Official Report 1999

The result indicates that out of 248 micro credit beneficiaries only 64 were females representing 25.7% of the total beneficiaries. It was also observed that despite the low number of the female beneficiaries, their default rate is lower than that of their male counterparts, about 46% for the female and 53% for the Males. The low default rate observed among the female beneficiaries would have otherwise increased the number of the female micro-credit beneficiaries which was not the case in this study. The small number of female beneficiaries might be unconnected with the lack of official directive on gender consideration in administering the micro-credits by the bank (Agu, 1998).

The result also showed that Traders had the highest default rate for both male and female beneficiaries. This might be attributed to the tendencies to plow back both the principal and the interest so as enhance their

future turnover.

For the owners of patent medicine stores, only the females were granted micro credits and the default rate was the lowest (41%). This feat by female beneficiaries may be attributed to the high average amount disbursed to each member of this group. The result also shows that women are less delinquent in micro-credit repayment than their male counterpart.

Critical examination of Table 3 will reveal that this study is in line with the general notion that micro-credit default has continued to be high despite government encouragement. Previous empirical studies have shown that on the average, more than 30 percent default are prevalent (Okorie 1998, Ijere 1986).

The high rate of default among both beneficiaries might be attributed mainly to the observed poor micro-credit monitoring and supervision by the banks in Akwa Ibom State. This might be attributable to mismanagement of the credits, which made it difficult for the beneficiaries to repay at the appropriate time.

There should be proper supervision of the beneficiaries to ensure appropriate utilization, which is not the case with the bank. Okorie (1996) noted that supervision and monitoring is very relevant in any form of credit all over the world. According to him a good project can fail if supervision is not effective while a bad project can be turned into good one with good supervision and monitoring. It was identified that most of the bank activities of projects are properly monitored and supervised due to low staff strength which might have resulted in the poor performance of the bank between 1995 to 1997.

Major Problems Confronting The Bank

a. *Untimely disbursement of micro-credits.* It was observed that micro-credits are usually disbursed at the time the beneficiaries are no longer expecting the loan. This ought not to be so, rather it should be disbursed at the appropriate time or period the credit is highly needed. This would minimize the rate of micro credit diversion into unintended areas.

- b. *Poor Exposure and Training of the Staff.* It was also identified that most of the staff are not properly trained and exposed. The staff of the bank should be able to handle difficult task of dealing with numerous would-be micro credit beneficiaries. This would re-ignite the confidence of the entire public on the activities of the bank.
- c. *Poor funding of the Bank.* It was observed that there is no systematic method of funding the bank except as deemed necessary by the government. There is need for government to improve the funding as well as establishing at least one branch in every local government area in the State. This would be in line with the objective for the founding fathers of the bank.

Conclusion

This paper has focused on the performance of the people's bank micro-credits scheme in Akwa Ibom State. Though the default rate was observed to be fairly high there is still the need for the bank to increase its average amount per beneficiary. This will prevent diversion as well as enhancing performance.

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