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An Assessment of Beneficiaries' Satisfaction of the Management of Loan Contract Components by Farmer Cooperative Societies in Edo State, Nigeria

Grace Oghenerobor Alufohai[1*] and Tosan Jolomi Okorosobo[1]

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Abstract

The study assessed beneficiaries' satisfaction in the management of loag-contract components by cooperatives involved in the farm credit delivery in Edo State. The objective was to identify the components of the farm loan contract, examine the management strategies and rate the beneficiaries' satisfaction of such management strategies. This was done by purposively selecting 40 cooperatives involved in farm credit delivery in Oredo, Egor and Ikpoba-Okha LGAs of Edo State where there is a proliferation of cooperatives who are actively involved in farm credit delivery. Data were analyzed using descriptive statistics, queuing model and satisfaction indices.Results showed the main loan-contract components to be loan volume, repayment regime, interest rates charged, default management, collateral required, timeliness and loan monitoring. Average beneficiaries' index was 4.28 out of 5 indicating high satisfaction originating from good queue management with traffic density of 1.12, moderate interest rate of 9% p.a, active loan monitoring, no physical collateral, timely disbursement of loan and accommodative repayment regime. Only individual loan volumes were low as a result of inadequate loanable fund. Study recommends that co-operative societies should take advantage of external sources of funds to boost the volume of their loanable funds.

Keywords:
Loan, Management, Cooperatives, Nigeria Beneficiaries, Satisfaction

[1] *Department of Agricultural Economics and Extension Services, University of Benin, Nigeria.*
* *Corresponding author's email: ax4grace@yahoo.com*

INTRODUCTION

Every aspect of agriculture from the production point till it gets to the consumer's table requires finance. It is therefore obvious that agricultural enterprises face financial challenges which must be tackled from different angles including farm credit if such enterprise must grow. The credit market though a necessary evil has become one of the fundamental engines of economic and technological advancement in Nigeria. According to Rahji (2002), one of the identified reasons for the decline in the contribution of agriculture to the Nigerian economy is the lack of a stable national credit policy geared towards total development of all subsectors of agriculture. Moreover Ojo (1998) had earlier identified inadequate credit as a major problem confronting the development of the agricultural sector confirming Saito (1994) that lack of capital to hire labour in Nigeria was the main reason cited by 45% of heads of households for not applying fertilizer on their farms for higher production. In order to handle these financial challenges, credit has been identified as the major input in the development of the agricultural sector (Oyaide, 1998). Scheeberg and Osburn (1983) defined credit as the right to incur debts for goods and services and repay the debt over some specified future time while Alufohai (2004) defined farm credit as loans given out to farmers with an agreement to pay at a later date; and equally stated that the credit delivery system constitutes the entire framework of making loans available to clients through recognized institutions including mechanisms for the mobilization and disbursement of funds. The framework includes the institution sourcing for funds, set targets, organize the timely disbursement, monitor the use, retrieve same with stipulated interests and a conscious effort to sustain the lending exercise with stated conditions (which are the loan contract components) to be managed effectively. Though different sources of credit exists, COPAC (2000) has opined that cooperatives have the ability to promote and support entrepreneurial development in farms that are compatible with the principles and objectives of the World Summit for social development held in Copenhagen in 1995. Aryeetey (1996) also recommends cooperatives to tackle loan default problems in farm credit delivery. If this be true for the cooperatives, the question then may be whether the beneficiaries are satisfied with the management of all the loan – contract components by the cooperatives. In line with this the study examined the loan beneficiaries' satisfaction in the management of the loan-contract components of the cooperative societies in Edo State. Specifically, the study identified loan-contract components, assessed the management of such components, examined the management of the queue of loan applications and estimated the beneficiaries' satisfaction indices.

MATERIALS AND METHODS

The study was carried out in Oredo, Egor and Ikpoba-Okha LGAs of Edo State where there is a proliferation of cooperatives that are actively involved in farm credit delivery. A list of registered cooperative societies was obtained from each of the local government secretariats and 40 cooperative societies involved in farm credit delivery were purposively selected. The simple random sampling technique was then employed to select three clients (beneficiaries) from each cooperative society giving a total of 120 beneficiaries.

Data used were both primary and secondary. The primary data were obtained by the use of two sets of questionnaire for the officials of the cooperative societies and their clients respectively while the secondary data were obtained from the Ministry of Commerce and Industry, records of the cooperative societies and journals. The Likert scale was used to measure the beneficiaries' satisfaction indices ranging from 1 – 5 with 5 indicating high satisfaction. Data were analyzed using descriptive statistics, queuing model and satisfaction indices.

The queuing model was used to assess the management of the queue of loan applications by determining the following:

i) Arrival rate (λ) given as

$$\frac{\text{number of arrival of loan applications}}{\text{Time}}$$

ii) Service rate (γ) given as

$$\frac{\text{number of applications attended to}}{\text{Time}}$$

iii) Traffic intensity (ρ) given as

$$\frac{\text{Arrival rate } (\lambda)}{\text{Service rate } (\gamma)}$$

iv) Idle time (I) given as

1- traffic intensity $(1 - \rho)$

RESULTS AND DISCUSSION

The results showed that 39 of the cooperative societies were multi-purpose having credit delivery as one of their functions while only one was solely for credit delivery and the main enterprises covered were poultry, food marketing, crop and goat production. The average membership strength was 35 with the least being 20 and the highest being 39 at the time of the study.

Identified loan-contract components:

The components identified include the following

- Loan volume
- Collaterals required
- Loan monitoring
- Interest rate Repayment regime
- Default management
- Timeliness in loan disbursement
- Delivery method

The range of loan volume given out to individuals is shown in Table I ranging from ₦100,000 to ₦750,000 with about 31% of recipients within ₦100,000 and below. This indicates low individual loan volume which may be due to the volume of their savings since the borrowing condition was not to borrow above twice one's current savings though all cooperatives indicated inadequate loanable funds as one of their problems.

The required collaterals were mild as they just entail one being a member of the cooperative with at least 50% of desired loan volume as savings and two members as guarantors. This confirms Alufohai (2004) that borrowers can only have their loans approved if they are members with a minimum savings of 50% of required loan guaranteed by two internal members.

Table 1: Loan Volume Disbursed

Class of loan	Frequency	Percentage
100.000 and below	30	30.9278
101.000 – 200.000	15	15.46
201.000 – 300.000	11	11.34
301.000 – 400.000	6	6.185
401.000 – 500.000	5	5.15
501.000 – 600.000	10	10.309
601.000 – 700.000	10	10.309
701.000 – 750.000	10	10.309

Loan monitoring was mainly by physical inspection of projects at different time intervals. Others demanded for receipts to prove current use of loans. The monitoring was done to be sure that loans were used for the purpose for which they were obtained and not diverted to irrelevant and frivolous activities. Results also showed that the interest rates charged were according to the type of loan obtained. The main types of loans identified were short term, medium term, long term and tentative loans. The identified interest rates were on the average; about 2% monthly for short term loan while medium and long term loan attracted about 9% per annum which is less than 1% per month. This shows that the interest rates were quite low probably to encourage borrowing. However short term loans were not encouraged except on emergencies because it was observed they were hardly used for farm activities hence the interest rate was higher than the others.

The loan repayment regime was found to be quite liberal and was not tied to maturity of crops. Repayment period for short term loans was within one year, medium term was between one to two years while the long term loans it was up to three years. The analysis showed an average repayment rate of about 95% which indicates good repayment management procedure. The method of loan retrieval was by compulsory payment of the part of the loan due for each month during their monthly meetings and that was strictly adhered to.

Results further showed that default management was made easy as guarantors were made to pay outstanding loans for any defaulter after his/her savings might have been confiscated and as a result there was no record of default at the time of the study. Results equally showed that loan disbursement was timely as waiting period was not more than two weeks while delivery method was either by physical cash at meetings or through bank accounts.

Management of queue of application forms

Table 2 gives a summary of the indices of the queue management as obtained from the analysis.

The results indicate relative good queue man-

Table 2: Queue Management Indices

Item	Value p.a.	Remarks
Average arrival rate λ)	19	Relatively low, probably due to lo membership strength
Average service rate (γ)	17	Relatively low
Estimated traffic intensity(ρ=λ /γ)	1.12	Indicates presence of a short queue which is not explosive
Estimated idle time (1-ρ)	-0.12	Indicates probable voluntary idle time but low

agement by the cooperative societies. This means that customers would not have long waiting periods before being attended to whether their application will be approved or not. It also indicates the possibility of timeliness in loan disbursement if request is approved. These findings are well opposite those of Alufohai and Ahmadu (2005) whereby the queue management in farm credit delivery by NACRDB was found to be inefficient.

Beneficiaries satisfaction indices

The results of the satisfaction indices of beneficiaries are presented in table 3.

Customers were relatively satisfied in the management of most of the components of the loan delivery system. The major area of dissatisfaction was in the sufficiency of loan volume disbursed

Table 3: Customers Satisfaction Indices

Loan Contract Components	Indices
Interest rate charged on the loan	5.0
Time taken to approve loan application	5.0
Collateral demanded before approval	5.0
Grace period granted before repayment	5.0
Number of visits made before payment	5.0
Timeliness in decision making	4.8
Building the saving culture	4.7
Loan retrieval methods	4.7
Availability of information to loan participants	4.6
Transparency in loan processing	4.4
Time taken to disburse loan application	4.3
Supervision to ensure proper use of loan	4.2
Mode of handling defaults	4.0
Manner of disbursement	3.8
Educating beneficiaries on loan usage	3.5
Adequacy of loan disbursed	3.4
Criteria for selecting loan beneficiaries	3.3
Sufficiency of loan disbursed	2.2
Mean	4.28

while criteria for selecting beneficiaries, adequacy of loan disbursed and educating beneficiaries of loan usage where just borderline. However, the mean satisfaction index of 4.28 indicates that beneficiaries were reasonably satisfied with the management of the loan-contract components by the cooperative societies. This result corroborates that of Alufohai (2004) that also indicated beneficiaries satisfaction for Non Governmental Organisations and Cooperatives in Edo and Delta States, Nigeria in the management of their loan delivery systems.

CONCLUSION AND RECOMMENDATIONS

Summarily, the study identified various loan contract components whose management was relatively satisfactory to customers with an average satisfactory index of 4.28 out of 5 points. It could be concluded therefore that cooperative societies are reasonably effective in the management of loan-contract components.

It is therefore recommended that Cooperative Societies should take advantage of external sources of funds to improve their low loan volume. They should also put up programs that would afford the customers opportunities to be educated on loan usage.

The Nigerian Government should endeavour to enact policies that would encourage and support Cooperatives in loan delivery.

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