

DETERMINANTS OF LOAN REPAYMENT: A STUDY OF RURAL WOMEN FISH TRADERS IN AKWA IBOM STATE, NIGERIA.

ABSTRACT

The paper estimated the loan repayment index and examines the determinants of loan repayment from a sample of 80 rural women fish traders obtained through a multi stage sampling in four selected markets in Akwa Ibom State, Nigeria. Data was analyzed using descriptive and inferential statistics. Findings revealed that informal sources of credit were popular among the respondents. The result of the Probit model revealed that educational level, interest rate charged, spouse income, marketing experience, personal income of traders, non fish marketing income and household size were the major determinants of loan repayment in the study area. The reasons for loan default in order of importance were; family commitment, untimely loan disbursement, high interest rate charged as well as unforeseen circumstances. The study further revealed that only 63 percent of the total loan accessed by respondents was repaid. The paper recommended the evolution of a more proactive loan monitoring procedure by lenders, verification of the credit worthiness and previous loan repayment history of borrowers before granting loans as well as encouraging the patronage of formal credit sources in spite of its stringent conditions as the way out.

Keywords: Fish traders, rural women, loan repayment

1.0 INTRODUCTION

Credit provision have been advocated and used increasingly by government and donor agencies as an important tool for raising the income of the rural farming population (Karla & Stiglitz, 1983). Other studies such as FAO,(1988); Zeller et al (1997); NACB(1994), Afolabi (2010), Bassey and Okon(2008) have also highlighted the importance of credit in promoting economic development and improving household income. Unarguably, women are integral part of agricultural production in Nigeria, performing task which ranges from land cultivation, processing of agricultural produce to marketing of processed products, including rearing and marketing of fishery and other livestock products. Hence, they contribute a great deal towards the reduction of global hunger and poverty to the barest minimum. Of recent, research on the need to ensure credit availability to rural women has increased tremendously, owing to several reasons. First, more than 2/3 of all farm activities are carried out by women (Ani, 2009). Secondly, female farmers are poorer than their male counterpart (Agarwal, 2002). Also, access to loan by small scale farmers in general has been limited due to frequent discrimination. Lastly, apart from being physically vulnerable to male force (Daley, 2011), most agricultural workers in most farming regions of the world are women (Jiggins,2010), carrying out activities like planting

to post harvest processing on their immediate and extended family's land (Behman, Meinzen-Dick and Quisumbing 2011, citing Doss 2009).

Undoubtedly, the fishery subsector remains one of the key sectors that require prompt attention by financial stakeholders. This arises as a result of the relative importance of fish in promoting economic development, generating foreign exchange and employment opportunities as well as minimizing incident of protein deficiency among rural households. For instance, Ojo, and Fagbenro (2004) and Eyo (1992) documented that 40% of annual protein in the diets of Nigerian in 2003 was attributed to the fishery subsector. Also, FAO (1990) attributed 18% of total average annual protein intake of animal protein in 1988 to fish.

In realization of the enormous potential of the fishery subsector in addressing rural hunger, successive government of Nigeria had evolved several financial programmes and established specialized formal financial Institutions, all aimed at ensuring credit availability to the fishery subsector. Example of such Institutions include but not limited to, establishment of Agricultural Credit Guarantee Scheme Fund (ACGSF), Nigerian Agricultural Cooperative development bank (NACB) which later became the Agricultural Cooperative and Rural Development bank (NACRDB) as well as the creation of several Micro Finance Banks (MFB) across the country.

In spite of these laudable efforts of the government, the fish marketing subsector continued to be plagued by capital inadequacy due to high rate of loan default. There is rampant incidence of diversion of loan able funds to other uses. This informed the continuous demand for collateral by banks and other formal financial Institutions. This justifies the increased patronage of informal lenders, whose interest rates are higher with short loan gestation period by our rural women. Studies such as Ojo (1985), Njoku and Nzenwa (1990), Adegbite (2009), Afolabi (2010), Oni et al (2005), Njoku (1986), Alade et al (2003), Oboh, & Kushwaha (2009), documented that small holder loan schemes in Nigeria are characterized by high rate of loan default. Varying factors have been identified by researchers as being liable for this high rate of loan default. For instance, Arene (1990) and Arene, (1993) attributed it to fund diversion, poor marketing opportunities, low pricing of products, low yield and negative attitude of farmers towards government owned credit system. Njoku and Obasi (1991) attributed it to interest rate problem, inadequate loan volume, loan diversion as well as unprofitable interest rate.

Against this backdrop, this study seek to estimate the loan repayment index and examine the various determinants of loan default among rural women fish traders in Akwa Ibom State, Nigeria, with a view to ensuring efficiency in loan repayment.

2.0 METHODOLOGY

2.1 The Study Area:

The study was conducted in Akwa Ibom State which lies between Latitude 4° 31' and 5° 53' North and Longitude 7° 25' and 8° 25' East of the Greenwich Meridian. It has a total population of 3,920,208 and land mass of 6,900 sq km (NPC, 2006) and comprises of 31 Local Government Areas with Uyo as the State capital. The people are predominantly farmers, fishermen and traders, respectively.

2.2 Data Collection and Analysis

Data for the study were primary data collected through a multi stage sampling procedure from 80 fish traders. The first stage involves selecting four local Government Areas from the existing thirty one, these were; Uyo, Itu, Mbo and Ikot Abasi respectively. The second stage involves the selection of one market from each of the Local Government Area making a total of four markets. Utaewa market was chosen from Ikot Abasi, Itu market from Itu, Ibaka market from Mbo and Ishiet market in Uruan Local Government Areas respectively. The third stage involves choosing 20 respondents in each market making a total of 80 respondents through which a well structured questionnaire was administered. Data were analyzed using both descriptive and inferential statistics. Apart from mean and simple percentages, the inferential statistics used was the probit model.

Probit Model: This was expressed as;

$$Y = b_0 + b_i X_i + e_i \dots\dots\dots(1)$$

Where Y = dependent variable which takes the value of 1 if marketer default and 0 if they do not default.

b_0 is the intercept

b_i are the regression coefficient to be estimated

e_i = the error term and

X_i = the independent variables ($i = 1,2,3,\dots\dots\dots 11$).

The explicit form of the model is given as;

$$Y = b_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 \dots\dots\dots \beta_{11} X_{11} + e_i \dots\dots\dots(2)$$

X_1 = Educational level of marketers (years)

X_2 = Age of respondents (years)

X_3 = Household size (number)

- 104 X_4 = Proximity to loan size (Kilometer)
 105 X_5 = Interest rate charged (percentage)
 106 X_6 = Personal income of traders (naira)
 107 X_7 = Marital status (Dummy: Married 1, single 0)
 108 X_8 = Spouse income (naira)
 109 X_9 = Loan amount granted (naira)
 110 X_{10} = marketing experience (years)
 111 X_{11} = Non fish income (naira).

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113 **3.0 FINDINGS AND DISCUSSION**

114 **3.1 Socio Economic Characteristics of Respondents**

115 From Table 1 which presents the socioeconomic characteristics of respondents, the dominant
 116 household size was 5-8 persons with mean of 6.5 persons. This is an indication that a greater part
 117 of the borrowed fund might be spent on household domestic needs rather than loan repayment.
 118 This justifies the positive and significant value of household size obtained in the study area. Age
 119 wise, a higher percentage of respondents (45%) were in the age bracket of 31-40 years, followed
 120 by 41 years and above, the least being 0-20 years. This is an indication that traders were in their
 121 youthful and matured stage. In terms of marketing experience, traders were quite experienced
 122 with 56.25 percent having between 6-10 years experience. 25% had between 0-5 years
 123 experience while 12.5% and 6.25% had 11-15 and above 15 years of marketing experiences
 124 respectively. This high year of experience is likely to increase fish marketing efficiency and
 125 income, thereby reducing loan default rate because more money would be left at the disposal of
 126 traders to offset and service debts. This justifies the negative significant relationship between
 127 experience and loan default as revealed by the study. Also, about 75 percent of traders were
 128 literate. 40% attended secondary school, 30% attended primary school, 5% attended post
 129 secondary school while 25% did not have formal education. This high percentage of literate
 130 respondents would impact positively on fish marketing by enhancing efficiency and income,
 131 which invariably enhances loan repayment.

132 Table 1 further revealed that about 56.3 percent of respondents were married while 20% and
 133 23.7% were divorcee and widowers respectively. The high percentage of married respondents is
 134 capable of reducing loan default because extra funds can be sought from spouse income and use
 135 to either service or offset loans. Udoh (2005) documented that women married to spouses with
 136 high income status rarely take up loans.

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3.2 Sources of Obtaining Credit

Table 2 revealed that majority of respondents (67.5%) obtained their credit from informal sources, 3.75% received theirs from formal sources like money banks while 8.75% patronizes both formal and informal sources. In terms of the informal sources 37.5% borrowed from friends and relatives, 31.25% borrowed from cooperative societies, 12.5% and 6.25% borrowed from money lenders and Osusu respectively. The implication of this high patronage given to informal sources of credit is likely to encourage loan default. This is possible because informal lenders are noted for charging high interest rates. Also, this high patronage of informal sources may be due to the less stringent loan conditions such as non requirement of tangible collateral as well as flexibility in loan procedure that are associated with informal lending. This finding is consistent with Afolabi (2010).

3.3 Reasons for loan default

Table 3 which presents the reason for loan default revealed that 50% of respondents likened their inability to repay their loans to family commitment, 31.25% attributed it to high interest rate charged by debt providers, and 12.5% attributed it to untimely loan disbursement while 6.25% attributed theirs to unforeseen circumstances such as accident, business losses and theft. High family commitments imply that a sizeable proportion of loan able funds would be diverted to carter for domestic responsibilities. Untimely disbursement of loan would equally encourage diversion. In Oyo State, Nigeria, Afolabi (2010) reported that about 46.7% and 17.31% of small scale farmers attributed their inability to repay loan to family commitment and untimely disbursement of loan respectively. Untimely loan disbursement may lead to diversion of loan to other uses other than fish marketing. Unforeseen circumstances such as accident, business losses and theft will reduce the marketing income accruing to fish marketers, hence, constraining their loan repayment ability. High interest rate would absorbed a greater portion of respondent's profit and in most cases capital (during periods of unfavorable businesses) leaving them with little to service and offset their loans.\

Table 1: Socio-economic Characteristics of Respondents

Variable	Frequency	Percentage
N=80		
Household size		
0-4	23	28.7
5-8	42	52.5
9-12	10	12.5
Above 12	5	6.3

172 **Age of Respondents**

173	0-20	2	2.5
174	21-30	14	17.5
175	31-40	36	45.0
176	41 and	28	35.0

177 **Marketing Experience**

178	0-5	20	25.00
179	6-10	45	56.25
180	11-15	10	12.50
181	Above 15	5	6.25

182 **Educational Level**

183	No Formal Education	20	25
184	Primary School	24	30
185	Secondary School	32	40
186	Post Secondary School	4	5

187 **Marital Status**

188	Married	45	56.3
189	Divorced	16	20
190	Widow	19	23.7

191 **Source:** Computed from Field survey data, 2013.

192 Table 2 Distribution of respondents based on sources of obtaining credits

193	Sources of Credit	Frequency	Percentage
194	Formal Sources	3	3.75
195	Informal Sources		
196	Friends and Relatives	30	37.5
197	Cooperatives	25	31.25
198	Money Lenders	10	12.50

199	Osusu	5	6.25
200	Both Sources	7	8.75
201	Total	80	100

202 Source: Computed from field survey data, 2013.

203

204 Table 3: Distribution of Respondents according to reason of loan default

205	Causes of loan default	Frequency	Percentage
206	Family Engagement	40	50.00
207	Untimely loan disbursement	10	12.50
208	High interest rate charged	25	31.25
209	Unforeseen circumstances	5	6.25
210	Total	80	100

211 Source: Computed from field survey data, 2013.

212

213 3.4 Repayment Performance of Beneficiaries

214 Table 4 revealed that of the total sum of # 7,355,036 accessed by beneficiaries in the study area,
 215 only #4,497,853 translating to 61.15 percent was repaid. Traders in Ibaka market had the least
 216 repayment index of 0.46, Ibeno and Utaewa had a repayment index of 0.62 while Ishiet traders
 217 had the highest repayment index of 0.81. The high repayment index associated with Ishiet can be
 218 attributed to good attitude of fish marketers towards loan repayment as well as proper monitoring
 219 by credit providers, the reverse being the case in Ibaka market, Ibeno and Utaewa markets
 220 respectively. It is also an indication that loans are given to productive traders. On the average, a
 221 repayment index of 0.63 was recorded in the study area, implying that only 63 percent of the
 222 total loan accessed by beneficiaries was repaid. This finding agreed with Adegbite (2009), Ojo
 223 (1985) and Alade et al (2003) that small holders loan schemes in Nigeria is characterized by high
 224 rate of default.

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Table 4: Marketers Repayment Index

Market	Amount Accessed	Amount Repaid	Repayment Index
Ukpenekang	1,795,250	1,121,150	0.62
Ibaka	2,023,120	929,780	0.46
Ishiet	1,311,565	1,057,230	0.81
Utaewa	2,225,101	1,389,693	0.62
Average	1,838,709	1,124,463.2	0.63

Computed from Field survey data, 2013.

3.5 PROBIT RESULT

Table 5 presents the probit result for the determinants of loan default among rural women fish traders. The estimated equation shows goodness of fit and significance at 10 percent level of probability, with autonomous level of loan default of 1.74132. The entire estimated coefficients were significant except age, proximity to loan source, sex, marital status and loan amount given.

From the result, household size had a positive and significant relationship with loan default at the 10% level. Implying that increase in household size would increase loan default. This is true since a greater chunk of the loaned amount would be channeled towards satisfying domestic obligations rather than the purpose to which the loan was granted. Hence, increase expenditure on family needs would increase the default rate. This finding is in agreement with Afolabi (2010) who reported that 46.2 % of small scale farmers in loan default were attributed to family commitment. This finding contradicts that of Oni et al (2005) who reported a negative insignificant relationship. Okerenta et al (2005) also reported a negative significant relationship.

Women educational level was negative and significant at 1 % probability level, implying that increase in years of schooling will reduce loan default. Educational marketers are often in a position to better understand and process marketing and pricing information provided by various sources regarding fish marketing, hence, increasing income which can be used to service debts. This finding is in agreement with apriori expectation and supports the findings of Oni et al (2005) and Okerenta et al (2005)

The age variable was positive but insignificant meaning that age was not a major determinant of loan default. Oni et al 2005 and Okerenta (2005) and Adegbite (2009) all reported a [positive significant relationship between age and loan default.

The interest rate charged was positive and significant at 10% probability level, implying that the higher the interest rate charged, the higher the loan default rate. This result is in conflict with the findings of Oni et al (2005) and Afolabi (2010) who reported a negative insignificant relationship between interest rate and loan default.

The coefficient of personal income of traders was negative and significant at 10%. The implication for this is that increase in the personal income of traders will decrease loan default, reason being that such traders would have enough liquidity with which to upset loan. This result corroborates Udoh (2005).

Spouse income was negative and significant at 10%. This means that women married to spouse within the high income group would invariably pay off their debts because additional funds can be source from the spouse. This finding support Udoh (2005), who reported that a woman married to a man with high income status, will seldom collect a loan from informal sources.

Loan amount collected was positive and insignificant. This is surprising, given that large loan volumes can foster investment in marketing research as well as the adoption of of other marketing innovations that can enhance marketer's income. Okerenta et al (2005) and Afolabi (2010) reports a positive and significant relationship between loan amount and repayment.

The coefficient for marketing experience was negative and significant thereby conforming to apriori expectation. This implies that loan default reduces with increasing marketing experience. This result corroborates Afolabi (2010), who reported that experienced marketers are knowledgeable in fish marketing and, hence, increase their income and enhances their loan repayment capacity. Similar result was also reported by Oladeebo and Oladeebo (2008) in Oyo State.

The coefficient for non fish marketing income was negative and significant at the noe percent level of significance. This is not surprising because respondents with additional income from other sources would rarely take on loan or default. This shows the importance of additional income in reducing loan default in the study area. This finding is consistent with Afolabi (2010) in Oyo State, Nigeria.

Table 5: Result of Probit Model

Variable	Reg. coefficient	Standard error	t-statistics
Constant	-1.741	-1.692	-1.029
Education	-0.140	0.062	-2.258*

292	Age	0.065	0.0513	1.2670
293	Household Size	0.147	0.061	2.4098*
294	Proximity to loan Source	0.0011	0.051	0.0216
295	Interest Rate Charged	0.086	0.023	3.739***
296	Personal Income of Traders	-0.063	0.0081	-7.778***
297	Marital Status	0.516	0.428	1.2056
298	Spouse Income	-0.034	0.0071	-4.7887***
299	Loan Amount given	7.286E-06	8.60E-06	0.8472
300	Marketing Experience	-0.785	-0.237	-3.3122***
301	Non Fish Income	-0.898	-0.516	-1.7403*

302 Mean dependent variable = 0.317858 Standard error of regression = 0.441716

303 L.R = -44.60973 Restr. Log Likelihood = -49.15775

304 Probability (LR stat) = 0.018608 S.D of dependent variable = 0.471163

305 * = significant at 1%, ** = significant at 5%, *** = Significant at 10%

306 Source: Output of probit result analysis

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