

The Influence of Socio-economic Characteristics of Loan Beneficiaries on the Performance of Community Banks in Ogbomoso Area, Nigeria

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Abstract: This study investigates the influences of socio-economic characteristics of loan beneficiaries on the performance of the Community Banks in Ogbomoso Area, Nigeria. Eight Community Banks were purposively selected for the study. Data were collected from 200 loan beneficiaries using stratified sampling techniques. Descriptive statistics such as percentages, frequency distribution and chi square measure of association in analyzing the data. The results showed sex, age, marital status, family size and level of education of loan beneficiaries influence loan repayment ability of the respondents.

Key words: Community bank, loan performance, Ogbomoso area, Nigeria

INTRODUCTION

Community Banks in Nigeria are institutions whose achievements could not be dismissed with a wave of the hand as far as achieving the objectives of their establishment is concerned. As a matter of fact, it is one of the most successful of all grassroots programmes of the Federal Government. The existing ones have been able to better the lots of many rural programmes in the areas of project financing through Group Lending Systems (GLS) where Self Help Groups (SHGS) such as Cooperative Societies and Trade Associations were given loans to set up cottage industries such as cane basket factory, gari and other similar factories.

Community Banks have succeeded in serving as credit mobilization and provision mechanisms to a people who have been marginalized by modern banking. With the emphasis on assets, collateral and security and promotion of trust, character witnessing and social mobilization; people at the grassroots have been brought into the wealth creation directed at improving the quality of lives and ultimately creating the bedrock for more sustainable development (Yunusa, 1998).

Although primarily designed to deliver credit to the rural population, Nigeria's community banking program has been launched in urban areas with large numbers of poor persons whose livelihoods depend on informal jobs as customers. More than 35% of Nigeria's community banks are in urban areas with one fifth of these in the Lagos metropolitan area. Most urban community banks

are located close to urban markets, where they cater largely for the credit needs of market women, food sellers and whole sellers, drivers and mechanics, many of whom, are not well-to-do but own some small shares in the bank (Mabogunje, 2005).

Other unique products of the banks are Equipment Leasing and Hire Purchase system where a trades man is only required to have a fraction of his trades equipment, the Community Bank will assist in procuring it while the beneficiary pays in bits, until he liquidates the principal and interest.

In safe keeping of valuables and LPO (Local Purchasing Order) financing, they also reduce psychosocial stress of their customers by helping them plan for their social and cultural obligations in their products such as Christmas and Ileya special accounts. Some of the banks also provide educational financing scheme aimed at paying school fees and similar recurrent bills. These are by no means insignificant achievement especially as such have contributed in no small measure not only to the economic upliftment of the rural dwellers but also the low-income earners have also been given the right access with little or no bottleneck to loans and other relieve they would not have got in bigger banks even when they have collaterals.

Community Banks have thus silently helped in reducing the level of unemployment and illiteracy. Community Banks have also helped in increasing grassroots capacity-utilization and encouraged creativity in product formulation which enhanced job creation. The

psychological reliefs that the soft loans guarantee reduce poverty, diseases and stressful living that could result in death.

Against the above background, there is increasing need to enhance the performance of Community banks to meet the needs of target groups. An understanding of the Socio-economic Characteristics of their clients is essential for such a policy planning. Hence, the study examines the loan performance and the relationship which exists between loan performance and the socio characteristics of the respondents.

Abdulkadir (1989) remarked that, Community Bank is established as a special financial economic sector and to improve credit facilities to the rural people. The credit facilities to be rendered are expected to be on basis of self-recognition and credit-worthiness of their customers in contrast to the traditional banking practice of placing emphasis on negotiable collateral securities which has retarded rural development.

Ojo (2001) observed that, a properly set up community banking system represents a major category of financial institution that is closest to the grassroots and thus able to acquaint itself with the real problems of the local and rural poor people. By virtue of this closeness, it was considered a good avenue through which poverty alleviation programmes could be channeled to serve the target low-income groups.

Yunusa (1998) in his view believed that, community banks have succeeded in serving as a credit-mobilization and provision mechanism to a people who have been marginalized by modern banking. Petty traders, hawkers, artisans and small-scale processors have benefited and have improved living standard for individuals, families and even whole countries.

Community Banks have been set up by local private sector investors in several part of the country. These banks provide benefits to the domestic economics and at the same time, present risks, because many suffered financial distress and bank failure as a result of non-performing loans. The severity of bad debt problems was attributable to moral hazard on bank owners and the adverse selection of bank borrowers, with many banks pursuing improvement lending strategies, in some cases involving insider lending (Brown bridge, 1998).

Moral hazard becomes even acute when the bank lends to projects connected to its own directors or managers (insider lending). In this situation, the incentives for imprudent (and fraudulent) bank management are greatly increased because all profits arising from the project are internalized (in the case of loans to unconnected borrowers, the project returns are split between lender and borrower), whereas the burden

of losses is on the depositors and this is externalized. It is therefore not surprising, that insider lending is a major cause of bank failure around the world (Caprio, 1998).

Stiglitz and Andrew (1981) testified that, higher lending rates and a greater volatility in expected rates of return to borrower's projection can lead to a decline in the average quality (i.e. credit worthiness) of the pool of loan applicants willing to borrow from the bank. In other words, the more creditworthy applicants are driven out of the market by higher lending rates. For a prudently managed bank to survive distress, it would therefore be wary of raising real lending rates too high because of the likely adverse impact on loan quality. Instead it would ration credit in order to generate profits and if not, the bank may be trapped in a cycle of high deposit and high lending rates which will lead to high defaults rates, which in turn further encourages distress.

MATERIALS AND METHODS

The study was carried out in Ogbomoso Area of Oyo State, Nigeria. All the Community banks customers in the area constituted the population of the study. A well structured questionnaire was designed to obtain relevant information from 200 loan beneficiaries chosen through stratified sampling techniques.

The primary data were analyzed using such as descriptive statistics analysis percentage, frequency distributions and table presentation. The method is employed to analyze the socio-economic characteristics of the respondents *visa-a-viz*, the status, educational status and family size, nature of accounts and total annual income of the respondents. In order to examine the association between the socio-economics characteristics and loan performance, chi-square analysis was employed because of the qualitative nature of most of the variables.

RESULTS AND DISCUSSION

A summary of the distribution of these variables among the beneficiaries is presented in Table 1. About 75% of the respondents were males while 25% were females. The need to encourage women to seek credit facilities is still very expedient in the study area.

The table also shows that 2.5% of the respondents were between the age of 20 and 30, years. 17.5% were within 31-40 age group, while 45% were between 41-50 years age cohort, 25% were between 51-60 years of age, just about 10% were more than 60 years old (Table 1). This shows that the population sampled was predominantly middle aged. These age-groups are known to be energetic and strong and they are therefore

expected to be entrepreneurial and economically active in exploring avenue for business opportunities.

In respect of their marital status about 80% were married. The loan beneficiaries were predominantly married people in the area. The need to provide for their

Table 1: Frequency and Percentage Distribution of Respondents by their Socio-economic characteristics N = 200

| Socio economic characteristics | Frequency | (%) | Cumulative (%) |
|--------------------------------|-----------|-------|----------------|
| Sex | | | |
| Male | 150 | 75.0 | 75.0 |
| Female | 50 | 25.0 | 100.0 |
| Marital status | | | |
| Married | 160 | 80.0 | 80.0 |
| Single | 35 | 17.5 | 97.5 |
| Divorced | 5 | 2.5 | 100.0 |
| Age | | | |
| ≤30 | 5 | 2.5 | 2.5 |
| 31-40 | 35 | 17.5 | 20.0 |
| 41-50 | 90 | 45.0 | 65.0 |
| 51-60 | 50 | 25.0 | 90.0 |
| 61 above | 20 | 10.0 | 100.0 |
| Educational status | | | |
| Pre-primary | 20 | 10.0 | 10.0 |
| Primary | 45 | 22.5 | 32.5 |
| Vocational/Technical | 85 | 42.5 | 75.0 |
| Tertiary | 50 | 25.0 | 100.0 |
| Family Size | | | |
| Two | 20 | 10.0 | 10.0 |
| Three | 45 | 22.5 | 32.5 |
| Four | 68 | 34.0 | 66.5 |
| Five | 42 | 21.0 | 87.5 |
| Six above | 25 | 12.5 | 100.0 |
| Nature of Account | | | |
| Savings | - | - | - |
| Current | 200 | 200.0 | 100.0 |
| Others | - | - | 100.0 |
| Total Annual Income | | | |
| Less than N10,000.00 | 40 | 20.0 | 20.0 |
| ₦10,000.00-N20,000.00 | 25 | 12.5 | 32.5 |
| ₦21,000.00-N30,000.00 | 80 | 40.0 | 72.5 |
| ₦31,000.00- 40,000.00 | 30 | 15.0 | 87.5 |
| ₦41,000.00-N50,000.00 | 15 | 7.5 | 95.0 |
| Greater than N50,000.00 | 10 | 5 | 100.0 |
| Percentage of Interest Charged | | | |
| 25% | 52 | 26 | 26 |
| 30% | 60 | 30 | 56 |
| 40% | 88 | 44 | 100 |
| 45% | - | - | - |

Source: Field survey, 2005

families by increasing their economic base might have necessitated their request for loans from their banks.

Table 1 also shows the distribution of the respondent by their household. About 10.0% of the loan beneficiaries had household size of two 34.0% had household size of four, while 12.5% had household of 6 above. Ikhide (1986) reported that household members constituted an important source of entrepreneurial work force in a typical labour intensive, highly unskilled and averagely educated population in structure in developing countries such as Nigeria. This could be true of these respondents.

The results of the educational status of the respondent is in Table 1. Ten percent had pre-primary education, 22.5% had Primary education, 42.5% had Vocational/Technical education while the remaining 25.0% had attended either Polytechnics or Universities. The distribution clearly reveals that, all the respondents (100%) had acquired one level of education or the other. This presupposes that they were generally able to appreciate the need to make use of Community Banks' credit facilities as well as to evaluate information for business improvement and productivity. The predominance of educated respondents shows that the policy of encouraging self-employment is actually yielding fruit.

Furthermore, all the loan beneficiaries operated current accounts and this had afforded them the opportunity of credit facilities.

Moreso, the result revealed that 20% had total profit below this ₦10,000.00, while 5% had total profit greater than ₦50,000.00.

Table 1 this justifies the need for their credit facilities from Community Banks. This implies that almost all the loan beneficiaries were small-scale enterprises. NBCB (1992) remarked that small-scale and informal sector enterprises produce largely non-tradable goods and services and to grow, would require that they have access to larger amount of credit.

The result of the chi-square analysis to test for the significant relationship between level of performance and

Table 2 Chi-square result of association between income and age

| | | Age | | | | Total |
|-----------------------|----------------|-------|-------|-------|------|-------|
| | | 20-30 | 31-40 | 41-50 | >50 | |
| Income | Count | 13 | 18 | 36 | 17 | 84 |
| <₦10,000.00 | Expected count | 8.0 | 21.9 | 40.7 | 13.4 | 84.0 |
| | Count | 3 | 9 | 30 | 4 | 46 |
| ₦10,000.00-N20,000.00 | Expected count | 4.4 | 10.8 | 23.2 | 7.4 | 46.0 |
| | Count | 2 | 14 | 29 | 5 | 50 |
| ₦20,000.00-N30,000.00 | Expected count | 4.4 | 14.1 | 23.2 | 8.0 | 50.0 |
| | Count | 1 | 11 | 2 | 6 | 20 |
| >₦30,000.00 | Expected count | 1.9 | 5.2 | 9.7 | 3.2 | 20.0 |
| Total | Count | 19 | 52 | 97 | 32 | 200 |
| | Expected count | 19.0 | 52.0 | 97.0 | 32.0 | 200.0 |

Chi-square = 36.67**, ** Indicates significant at 1% level, Source: Data analysis, 2005

Table 3: Chi-square result of association between income and marital status

| | | Marital status | | | | |
|-----------------------|----------------|----------------|--------|----------|---------|-------|
| | | Married | Single | Divorced | Widowed | Total |
| Income | Count | 45 | 22 | 15 | 2 | 84 |
| <₦10,000.00 | Expected count | 26.0 | 22.3 | 25.2 | 10.5 | 84.0 |
| | Count | 10 | 11 | 18 | 7 | 46 |
| ₦10,000.00-₦20,000.00 | Expected count | 14.3 | 12.2 | 13.8 | 5.8 | 46.0 |
| | Count | 2 | 15 | 17 | 16 | 50 |
| ₦20,000.00-₦30,000.00 | Expected count | 15.5 | 13.3 | 15.0 | 6.3 | 50.0 |
| | Count | 5 | 5 | 10 | 0 | 20 |
| >₦30,000.00 | Expected count | 6.2 | 5.3 | 6.0 | 2.5 | 20.0 |
| Total | Count | 62 | 53 | 60 | 25 | 200 |
| | Expected Count | 62.0 | 53.0 | 60.0 | 25.0 | 200.0 |

Chi-square = 60.638**, ** Indicates significant at 1% level, Source: Data analysis, 2005

Table 4: Chi-square result of association between income and family size

| | | Family size | | | | |
|-----------------------|----------------|-------------|------|------|------|-------|
| | | 2 | 3 | 4 | 5 | Total |
| Income | Count | 25 | 19 | 34 | 6 | 84 |
| <₦10,000.00 | Expected count | 48.7 | 10.5 | 20.2 | 4.6 | 84.0 |
| | Count | 34 | 4 | 6 | 2 | 46 |
| ₦10,000.00-₦20,000.00 | Expected count | 26.7 | 5.8 | 11.0 | 2.5 | 46.0 |
| | Count | 42 | 2 | 4 | 2 | 50 |
| ₦20,000.00-₦30,000.00 | Expected count | 29.0 | 6.3 | 12.0 | 2.8 | 50.0 |
| | Count | 15 | 0 | 4 | 1 | 20 |
| >₦30,000.00 | Expected count | 11.6 | 2.5 | 4.8 | 1.1 | 20.0 |
| Total | Count | 116 | 25 | 48 | 11 | 200 |
| | Expected count | 116.0 | 25.0 | 48.0 | 11.0 | 200.0 |

Chi-square = 51.190**, ** Indicates significant at 1% level, Source: Data analysis, 2005

Table 5: Chi-square result of association between income and education

| | | Education | | | | |
|-----------------------|----------------|-------------|---------|----------------------|----------|-------|
| | | Pre-primary | Primary | Vocational technical | Tertiary | Total |
| Income | Count | 24 | 20 | 28 | 12 | 84 |
| <₦10,000.00 | Expected count | 31.5 | 22.3 | 19.7 | 10.5 | 84.0 |
| | Count | 26 | 10 | 9 | 1 | 46 |
| ₦10,000.00-₦20,000.00 | Expected count | 17.3 | 12.2 | 10.8 | 5.8 | 46.0 |
| | Count | 25 | 9 | 5 | 11 | 50 |
| ₦20,000.00-₦30,000.00 | Expected count | 18.8 | 13.3 | 11.8 | 6.3 | 50.0 |
| | Count | 0 | 14 | 5 | 1 | 20 |
| >₦30,000.00 | Expected count | 7.5 | 5.3 | 4.7 | 2.5 | 20.0 |
| Total | Count | 75 | 53 | 47 | 25 | 200 |
| | Expected count | 75.0 | 53.0 | 47.0 | 25.0 | 200.0 |

Chi-square = 48.379**, ** Indicates significant at 1% level, Source: Data analysis, 2005

Table 6: Chi-square result of association between income and sex

| | | Sex | | |
|-----------------------|----------------|-------|--------|-------|
| | | Male | Female | Total |
| Income | Count | 56 | 28 | 84 |
| <₦10,000.00 | Expected count | 60.0 | 24 | 84.0 |
| | Count | 40 | 6 | 46 |
| ₦10,000.00-₦20,000.00 | Expected count | 32.9 | 13.1 | 46.0 |
| | Count | 33 | 17 | 50 |
| ₦20,000.00-₦30,000.00 | Expected count | 35.8 | 14.2 | 50.0 |
| | Count | 14 | 6 | 20 |
| >₦30,000.00 | Expected Count | 14.3 | 5.7 | 20.0 |
| Total | Count | 143 | 57 | 200 |
| | Expected count | 143.0 | 57.0 | 200.0 |

Chi-square = 66.275**, ** indicates significant at 1% level, Source: Data analysis, 2005

socio-economic characteristics of the respondents is shown in Table 2-6. The chi-square values were all statistically significant at 1%. This implies that all the

variables namely sex, marital status family size education and age should be taken into consideration by the banks before approval of loan application to ensure that,

approval is given only to people that will use the loan judiciously, improve their well being and payback at when due.

CONCLUSION

The study showed that majority of the loan beneficiaries were within their productive age, married, Christian and Muslim, educated and have family size between 3 and 4. Also, there exist positive and significant relationship between loan performance and socio economic characteristics of the respondents.

It is against this background that these recommendations were made that, women should be encouraged to seek credit facilities from the community Banks.

Also, the banks should disburse loan to customers on time and at the right time and the loan repayment period should be extended to enable the beneficiaries make use of the loan efficiently and effectively.

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