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# **The Effectiveness of Loan Recovery Strategies in Cooperative Societies, Study Of Selected Thrift Cooperative Societies in Lagos State**

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## **ABSTRACT**

*This study examines the effectiveness of loan recovery strategies and the impact thereof on cooperative members. Two hundred co-operators were sampled with one eighty three found useful. the sample covers five co-operatives coordinating area of Lagos state. Pearson correlation co-efficient was used to analyze the hypothesis. Results show that strict collateral, loan interest charge and favoritism affects loan repayment both possibly and negatively. However, it was observed that educating members will to large extent impact positively on the performance of co-operative members.*

**Keywords: Co-operative Society, Strategy, Loan, Effectiveness.**

## **INTRODUCTION**

The cooperative movement has been in existence since the early days of civilization. Historical research or account suggests various forms of co-operative activities since Babylonian era, and some said it is as old as human society. Modern day cooperative societies are often traced to the Rockdale Equitable Society of 1844 in England Ihimodu (1988). The present day cooperatives in Nigeria derived their origin from the traditional informal financial organization variously referred to as "Adashi" or "Esusu" is a widespread indigenous system of thrift and credit which seems to be well-managed and successful (Seibel, 2004). Cooperative,

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where people working together for mutual benefits has been the era of industrial revolution (Adetunji 2002).

The importance of economic obligation of members of cooperative society is saving. Co-operative societies are enterprises that put people at the center of their businesses and not capital. Thus, Cooperative societies as business enterprises can be defined in terms of terms of three basic factors: interest ownership, control and beneficiary. Only in the co-operative enterprises are all the three interests are directly in the hands of the user (Enikanselu et.al 2002). People come together not only for fellow feelings but also to help one another, the individuals that come together form group in whom a set of interdependence relationships exist in the forms of saving money for productive purpose (Windapo et.al 2006) All over the world, millions of people have chosen the cooperative model of business enterprises to enable them reach their personal and community development goals.

Cooperative creates and maintains employment and also provides income. They are responsible for providing and supplying safe and quality food services to their members, and also to the community in which they operate. Cooperative all over the world are instruments of economic transformation (Ijere, 1992). The relevant social aspects of people from Africa, according to Ijere (1992), are those aspects that deal with their attitudes of life and themselves, their modes of behavior and relationship with one another as well as their modes and customs.

These issues should be typified by such norms as honesty, fairness, equity, democracy and mutual fellow feelings (Ofuoku. Et.al 2006) Cooperative society should be a place where people learn to work together, develop team spirit at work, develop the philosophy of self-help, strengthen the personality of individuals, makes individual aware of his neighbor, and conscious of his community and responsive to the needs of others. Naturally, cooperative society deals with money. Various projects requiring short, medium and long term funding require enough financial

backing for their successful implementations. Therefore loans are given with the purpose of making the borrower achieve certain feet when guarantors who are members of the cooperative society vouch for that member. Among the various ways of getting fund as contained in cooperative by laws (1976) and Adesina (1978) are through entrance fees, loan re-payments, net profits, special deposits, monthly thrift savings, interests on loan etc. In approving loan to any member, forms must be obtained; loan committee scrutinizes such loan form, as loans are meant for only members of the cooperative society. In as much as it expedient for members to get loan, such offer may not be granted if a member is not paying monthly savings as at when due and if a member is indebted to the society Granted loan can also be recalled: if misappropriated, member gives notification of leaving the society and persistent default for a period of over three months.

- It is on record that granting loan is less cumbersome than recovering it.
- The following strategies are common method of recovering loan.
- Monthly deduction in case of staff cooperative society, Installment payment as agreed; making special payments if borrower is financially improving and guarantor paying in case of default.

Inadequate collateral security, membership of more than one cooperative society, granting blanket loan, Exceeding maximum credit limit, using loan for non-productive purpose, partiality etc. makes loan recovery in co-operative societies difficult.

## **STATEMENT OF THE PROBLEM**

In as much it is imperative that debt recovery is very important so as to prolong the life span of any organisation/establishment. The effectiveness of loan recovery will largely depend on strategies adopted. The implementation of some loan recovery strategies poses a lot of threat/ problems for management of co-operative societies due to the credit committee's inability to

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follow loan acquiring procedures. Some loans were usually granted before loan application is written or approved. Some loans are usually without proper examination against the background of the financial creditors. The question now is how effective has these various loan recovery been and how to improve on them.

### **OBJECTIVE OF THE STUDY**

The major objective of this study is to examine how effective are loan recovery methods. Specifically, the study intends to:

- I. Identify if low interest charged on loan encourage repayment
- II. Ascertain members opinion on the relevance of the loan to their progress and how this has translated to re-payment
- III. Determine the extent of members' satisfaction on the methods of loan re-payment methods.
- IV. Determine if strict collateral aids re-payment of loan.

### **HYPOTHESES**

1. H<sub>0</sub>: There is no relationship between strict collateral demanded by co-operative societies and effective loan re-payment by members.
2. H<sub>0</sub>: There is no correlation between low interests charged on loans by co-operative and member's re-payment attitude.
3. H<sub>0</sub>: There is no relationship between the degree of favor offered to members by co-operative society's loan committee and difficulty in loan re-payment.

### **METHODOLOGY**

The study was conducted in Lagos state. Lagos state is one of the states in Nigeria, in the south west, and comprises of 20 local governments decided into 15 cooperative societies coordinating centers for monitoring. Lagos State Co-operative society operates under the ministry of Agriculture and Co-Operative. The research was conducted in five coordinating areas which are: OshodiIsolo,

Ojo/Amuwoodofin, Mushin, Alimosho and Badagry. Random sampling technique was used in the cooperatives societies selected. 200 Co-operative were sampled with each coordinating group having cooperators sampled. Data were collected using structure questionnaire and result analyzed through Karl Pearson coefficient correlation. In the use of the correlation analysis two variables (x and y) have been assumed. The correlation coefficient, indicated as r, is calculated as follow

Where  $R$  = coefficient of correlation  
 $N$  = Number of items in each variable  
 $X$  = Dependent variable  
 $Y$  = Independent variable

## RESULTS AND DISCUSSION

**Table 2.1** MARTIAL STATUS

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
Male	24	30	37	22	17	112	58
Female	15	09	19	18	21	81	42
Total	39	39	18	40	38	193	100

**Source:** Field Survey

The result shows that 112 (58%) male and 81 (42%) female were sampled in this work.

**Table 2.2** Educational Qualifications

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
O/L	10	09	10	07	08	44	22.8
NCE/ND	18	21	17	19	12	87	45.0
B.SC	----	09	10	14	17	60	32.1
M.SC & OTHERS	01	----	----	----	01	02	0.1
TOTAL	39	39	37	40	38	193	100

**Source:** Field Survey

Educationally, O/L 44 (22.8%), NCE/ND 88 (45%), B.SC 60 (32.1%) and M.SC & Other Certificates 02 (0.1%)

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**Table 2.3** years of joining the cooperative society

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
0 – 5 YRS	12	18	10	10	08	58	30.1
6 – 10 YRS	09	08	16	12	12	57	29.5
11 – 15 YRS	09	04	06	08	05	32	16.6
16 – 20 YRS	06	05	02	04	05	22	11.4
20 & Above	03	04	03	06	08	24	12.4
Total	39	39	37	40	38	193	100

**Source:** Field Survey

The result shows that 30.1 % joined in the last five years, 29.5% joined between 6 -10 years, 16% joined between 11 – 15 years, 11.4 % became members 16 -20 years and 12.4% joined 20 years ago and above. It means that members of cooperative society can be bounded for long time if the organizations still do what members appreciate transparently.

**Table 2.4**

S/N	FACTORS	SA	%	A	%	U	%	SD	%	D	%
01	Strict collateral aid loan repayment	64	33	88	46	03	1.2	17	8.9	21	11.1
02	Loan recovery method encourage re-payment	117	61.6	61	31.6	---	---	---	---	13	6.8
03	Favoritism encourage loan re-payment	---	---	40	20.7	06	3.1	83	43	64	33.2
04	Co-operative education aids re-payment of loan	56	29.0	80	41.5	05	2.6	19	9.8	33	17.1
05	Low interest on cooperative loan aids re-payment	86	44.6	75	38.8	02	1	4	2.1	25	13.5

**Source:** Field Survey

Strict collateral aid loan re-payment: Here, the opinion of the majority stands by the fact that if cooperatives executives marshal lending rule properly, recovering of such loan will not be a serious tasks represented by SA – (33%), A- (46%), U-(1.2%), SD- (8.9%), and D- (11.1%) Loan recovery method encourages re-payment: on a large scale, majority believes that the strategies used in revering loan is key to re-payment method adopted by cooperative society as revealed by SA – (61.6%), A- (31.6%), U- (---), SD- (---), and D- (6.8%). Cooperatives societies will do well by using holistically the methods recognized by cooperative act.

Favoritism encourage loan re-payment: in as much that majority believes that favoring people in giving out loan will make re-payment difficult, it is of essence that cooperative societies should as a matter of fact not give out loan on man-know-man rather on merit to ensure prompt re-payment.

The percentages below shows: SA – (--- %), A- (20.7%), U- (3.1%), SD- (43%), and D- (33.2%) Co-operative education aids re-payment of loan: it is clear from the above result that an informed people are performing people, with members understanding of the dangers inherent in not paying loans promptly and as at when due, cooperators will then pay what they borrow from the cooperative. SA – (29%), A- (41.5%), U- (2.6%), SD- (9.8%), and D- (17.1%) Low interest on cooperative loan aids re-payment: this supports the vision and mission of the cooperative society not as a profit making organization but to encourage people to fulfill certain things by coming together. Cooperators agree that the low interest they pay encourages them to re-pay their loan from time-to-time as shown in the result of data collected SA – (44.6%), A- (38.8%), U- (1%), SD- (2.1%), and D- (13.5%)

### **TESTING OF HYPOTHESES**

1. H0: There is no relationship between strict collateral demanded by co-operative societies and effective loan re-payment by members.  
H1: There is relationship between strict collateral demanded by co-operative societies and effective loan re-payment by members.

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**Table 2.5** Strict Collateral Aid Re-payment of Loan

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
SA	20	11	09	18	06	64	33.2
A	13	15	23	13	24	88	45.6
U	--	02	--	01	--	03	1.2
SD	02	07	05	02	01	17	8.9
D	04	04	---	06	07	21	11.1
Total	39	39	37	40	38	193	10.0

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
64	1	4096	1	64
88	2	7744	4	176
03	3	09	9	09
17	4	289	16	68
21	5	441	25	105
193	15	12579	55	422

- 2 H0: There is no correlation between low interests charged on loans by co-operative and member's re-payment attitude.  
H1: There is correlation between low interests charged on loans by co-operative and member's re-payment attitude.

**Table 2.6** Low Interest charge on Loan Cooperative Society Aid Re-payment

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
SA	10	20	16	18	23	86	44.6
A	20	14	15	14	12	75	38.8
U	--	01	---	01	---	02	1.1
SD	02	---	01	01	---	04	2.1
D	07	04	05	06	03	25	13.5
Total	39	39	37	40	38	193	100

Xs	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
86	1	7396	1	56
75	2	5625	4	150
02	3	04	9	06
04	4	16	16	16
25	5	625	25	125
193	15	13666	55	381

- 3 H0: There is no relationship between the degree of favor offered to members by co-operative society's loan committee and difficulty in loan re-payment.  
H1: There is relationship between the degree of favor offered to members by co-operative society's loan committee and difficulty in loan re-payment.



**Table 2.7 FAVORTISM ENCOURAGE RE-PAYMENT OF LOAN**

Respondents	Mushin	Ojo/amuwo	Oshodi/Isola	Badagry	Alimosho	Total	%
SA	---	---	---	---	---	---	---
A	12	08	---	11	09	40	20.7
U	02	04	---	---	---	06	3.1
SD	25	27	13	06	12	83	43.0
D	---	---	24	23	17	64	33.2
Total	39	39	37	40	38	193	100

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
0	1	0	1	0
40	2	1600	4	80
06	3	36	9	18
83	4	6889	16	332
64	5	4096	25	320
193	15	21621	55	750

**RESULT**

The computation of hypothesis one shows calculated correlation coefficient,  $r = 0.480$  and critical or table value as  $0.8783$  which indicates that there is negative correlation between strict collateral demanded by co-operative societies and effective loan re-payment by members. With the degree of freedom of  $0.05$  and critical value of  $3.182$  which is greater than calculated value of  $1.079$  it further reinforces the fact the no matter the collateral before loan is granted, members may not see the urgency in re-paying as enough evidence is no available to prove otherwise.  $H_0$  is accepted.

Hypothesis two show positive correlation as manifested by  $r = 585$  to critical or table value of  $0.8783$  meaning that low interest charged on loans by co-operative society is positive and member’s re-payment attitude is congruent. The calculated value of  $8.636$  is more than the critical valve of  $3.182$  at the degree of freedom of  $5\%$ . Indicative that, there Is the possibility that members from time to time will prefer to be indebted to the cooperative society due to low interest charged on loan and make their re-payment timely and promptly. This is also substantiated by the frequency at which cooperative members obtain loan.  $H_1$  is accepted

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Hypothesis three indicates a negative correlation between the degrees of favor offered to members by co-operative society's loan committee and difficulty in loan re-payment through the result of  $r = 0.5625$  against table value of 0.8783. The calculation also shows that calculated value 2.226 is small than the table value of 3.182 at the degree of freedom 5%. Which means that the degree of favor shown at giving out loan may hamper the re-payments of such loan?

### **CONCLUSION**

The conclusion arrived at from this work makes it expressly clear that for cooperative society to get loan from cooperators, absolute adherence to rules is of paramount importance and the level of information members get will determine to a large extent their commitment and how obtained is recovered.

### **RECOMMENDATIONS**

Following a critical overview of all the factors analyzed it is recommended that:

Education of members should be viewed as critical to the success and survival of cooperative societies and effort at educating members must be step up.

People of proven integrity should be made cooperative executives.

Lending rules should be reviewed from time to time to reflect current economic and social realities.

### **ACKNOWLEDGEMENTS**

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