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EFFECT OF CREDIT ADMINISTRATION AND CONTROL ON THE DEVELOPMENT OF COOPERATIVE SOCIETIES IN NNEWI NORTH LOCAL GOVERNMENT AREA, ANAMBRA STATE

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Abstract

The study examined the effect of credit administration and control on the development of credit and thrift cooperatives societies in Nnewi North Local Government Area of Anambra state. Hence, this study sought to specifically determine the credit recovery process credit an cooperative can use to recover credit on due date from members and identify the control measures to be used to ensure effective utilization of credit administered to members. A simple random sampling technique was employed to select 4 cooperative societies in the study area and a sample size was determined using Taro Yamane's Formula. Data obtained was analyzed using descriptive statistics and percentages as well as z-test statistic. The results of the study revealed that credit recovery process used by credit cooperative societies to recover credit on due dates and the control measures used by credit cooperatives ensure productive utilization of credit administered with a z-value of 0.785. The major challenge faced by cooperatives is poor financial analysis and monitoring of credit (39.53%), and it was recommended that cooperatives should enforce strict discipline through its credit committee on the monitoring of cooperative credit and make proper analysis as to the ability of members to repay credit and using it as a medium to know if credit should be issued or not. The paper recommends that Cooperative should adhere to strict business guidelines in running their lending activities and avoid favoritism and the idea of cooperatives as personal enterprise. Finally, they should adhere to the professional advice of the Area Officer in the local government.

Keywords: Cooperative, Credit, Administration, Control and Developme

INTRODUCTION

One of the major problems hindering policies formulated towards poverty reduction is that poor people are excluded from formal financial system in most daily activities. Exclusion of the poor ranges from partial exclusion in developed countries to full or nearly full exclusion in less developed countries. Due to the inadequate access to formal financial services, government engineered various micro-financing schemes to meet the financial needs of those at the grassroots. The poor also developed a wide variety of informal community based arrangements to meet their financial needs (Tella &Alimi, 2016). Grassroots development and poverty reduction programmes through micro credit finance and empowerment has proven that access to and efficient provision of microcredit can enable the poor smoothen consumption, better manage risks, gradually build assets, develop micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

Thrift and Credit cooperative societies are member-based organizations that help members to address economic problems. They are not banking institutions because of their goal. The ultimate goal is to encourage thrift among the members and to meet credit needs of people who might otherwise fall prey to loan sharks and other predatory lenders. These societies mobilize local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. ((Ezekiel, O.A., Sherif, A. A., 2018) Financial cooperatives are typical models that disprove the traditional assumption that the poor are neither creditworthy nor able to save. Credit cooperatives use relatively unsophisticated administrative practices, such that the costs are very small and most interest income from loans may either be distributed to the members or reinvested in the credit cooperative within a capitalization programme.

Among the most essential functions of credit cooperative is to provide loans to members and ensure the repayment of the loans given to them, it is therefore important to develop policies that will ensure the security of loans extended to members. Due to lack of credit administration and control, credit facilities made available is spread among members of the cooperative societies and considered more of gift than loans to be paid within a specific period of time and therefore cooperatives find themselves crippled economically. (ResearchClue, 2021)

Credit administration and credit controls are the two key components in the active management support of the frontline credit processes of making individual loans and client management. Credit administration (organizing and managing credit processes) and credit controls (tools for minimizing and managing risks) are both essential to manage portfolio quality and to operate efficiently. As financial institutions as cooperative row in terms of volume, diversity, and complexity; risks increase disproportionately and it becomes increasingly challenging to analyse and manage credit portfolios. Institutions grow in terms of the number and size of loans, diverse products and clients, multiple locations and more employees, and more complex processes and procedures. (Odele & Dressen, 2017)

Therefore, the implementation of credit administration and control by the management committee is a necessary condition for the credit cooperative to achieve its objectives, to serve the members in an efficient manner and more importantly ensure safety for themselves. This management committee (to whom the management of the affairs of the society is entrusted to) is responsible for managing the entire credit process. It is in this light that this study looks at the effects of credit administration and control, the disbursement of loans and its recovery, credit administration and control and how it can be utilized for the development of members' credit access through credit cooperative societies in Nnewi North Local Government Area, Anambra state.

Problem Associated with Effect of Credit Administration

The sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on the repayment rates. High repayment rates allow the institutions to lower the interest rates and processing costs and consequently increase patronage of loans. Repayment performance thus serves as a positive signal for increasing the volume of credit availability to various sectors of the economy. In Nigeria, the acclaimed importance of credits for business promotion and development, notwithstanding their acquisition, management and repayment have been burdened with numerous challenges. (Uguru, 2017)

It is against this background that this study will venture into finding out the effects of the credit administration and control in the development of members access to credit in Nnewi North Local Government Area, Anambra state.

OBJECTIVE OF STUDY

The broad objective is to examine the Effect of Credit Administration and Control on the Development of Cooperative Societies in Newi North Local Government Area, Anambra State.

The study has the following as objectives:

- Determine the credit recovery process credit cooperative societies can use to recover credit on due dates from members in Nnewi North LGA.
- Identify the control measures credit cooperatives can use to ensure productive utilization of the credit administered to the members in Nnewi North LGA.

Research Questions

The following questions were raised to guide the study:

- What are the credit recovery processes cooperatives use to recover credit on due dates from members in Nnewi North LGA?

- What are the control measures credit cooperatives use to ensure productive utilization of the credit administered to the members in Nnewi North LGA?

STATEMENT OF HYPOTHESIS

H_{O1}: Credit recovery process used by credit cooperative societies does not guarantee credit recovery on due dates from members in the study area.

H_{02}: Control measures used by credit cooperative societies do not ensure productive utilization of the credit administered to the members in Nnewi North L.G.A.

Concept of Cooperative

A cooperative society is an autonomous and duly registered association of persons with a common bond of interest, who have voluntarily joined themselves together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles. (https://slideplayer.com/slide/3912023) The International Cooperative Alliance (ICA) viewed cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly- owned and democratically controlled enterprises. This definition emphasizes that cooperatives are based on the values of self-help, self-responsibility, democracy and equality (ICA, 2019)

A cooperative is a private business organization that is owned and controlled by the people who use its products, supplies or services. Although cooperatives vary in type, membership size, all were formed to meet the specific objectives of members, and are structured to adapt to member's changing needs. They are formed among individuals who coordinate among themselves (horizontal coordination) to achieve vertical integration in their business activities. (Koller, E. F. 1950)

Credit and Thrift Cooperative

Credit and thrift cooperatives had their beginning in Germany in the 19th century. Generally, Germany is referred to as the father of credit cooperatives because two of its prominent citizens were responsible for both rural and urban credit cooperatives. One of them is known as Frendrich Raiffesin evolved in the rural credit cooperative while the other Schulz Delisch evolved the urban credit cooperative. Both rural and urban credit cooperatives therefore started in Germany and eventually spread over to Europe, America, Asia and Africa.

Cooperative Credit/ Loans

Credit is a critical factor in development of agriculture in the rural areas and small business in general. This is because it derives capital formation and technology upgrade. Onugu, Taiwo, Agbasi and Lawal (2015) as cited in Adigwe, (2007)

Concept of Credit Administration

Credit administration involves a department in lending institution that is tasked with managing the entire credit process. The function of selecting and vetting borrowers is the role of the credit department, and the department is required to ascertain the borrower's competency to utilize the funds to generate an income, and their ability to pay back the principal amount and interest. (Corporate finance institute, 2021)

Credit administration refers to the overall procedure of loaning beginning from inquisitive about the prospective debtors up to recuperating the sum approved (both principal and interest). In the investment (finance) sector, the management of credit facility gets crucial with critical actions for example, accepting credit requests, credit appraisal, its approval, monitoring, and of-course, recovery of non-performing loans if it goes bad (Shekhar in Adedeji, Taiwo, Ikumakpayi and Akpevwe, 2018)

Processes of Credit Recovery from Members. Credit recovery is a means in which a creditor attempts to collect an unpaid debt, usually through a third party known as a debt collection service, to focus on collecting the money. (Fay,2020) The process through which cooperative recover credit includes:

- Direct Debit /Remita: These refer to a mandate or an instruction from you to your bank which authorizes someone to collect payments from your account when they are due. This authorization is given by completing a Direct Debit Mandate form – this can be a paper form or a web page that you complete online. Once authorized, the organization can automatically take payment from you (provided that they comply with the scheme rules)
- Standing Order: These is an instruction a bank account holder gives to their bank to pay a set amount at regular intervals to another account. This instruction is sometimes called a bank order
- Salary deduction: These refer to an agreement between an employee and an employer to deduct a specific amount from his salary on a monthly basis with the reason of offsetting a debt.
- Demand draft: It's a method used by an individual to make a transfer payment from one bank account to another with the reason of paying off a debt.

Credit Control Measures credit cooperative can use

When a Credit Cooperatives grants credit to its customers it incurs the risk of non-payment. Credit management, or more precisely credit risk management, refers to the systems, procedures and controls which a society has in place to ensure the efficient collection of customer payments minimize the risk of non- payment.

There are five internal control components according to the Committee of Sponsoring Organization (COSO) in Rachman (2017) namely:

- Control Environment- a condition that reflects the attitude, awareness, and actions of management of internal control. The control environment becomes the basis of all internal control components.
- Risk Assessment- an activity of identification and analysis of risks that potentially hinder the achievement of corporate objectives. The results of this identification and analysis will be used as a basis for controlling those risks.
- Control Activities- policies and procedures being implemented by management.
- Information and communication- a system that supports the process of identification, recording, dissemination, and the use of information in a timely manner in order to support the implementation of the duties and responsibilities of management and employees.

- Monitoring- a process of monitoring the quality of internal controls performed from time to time.

Theoretical Framework

This study adopted the theory of asymmetric information and Agency theory. Joseph Stieglitz (1961), George Akerlof (1970) and Michael Spence (1973) are the three proponents' economists who developed theory of asymmetric information which was formalized in 2001.

Akochi (2019) analyzed credit risk management and financial performance of deposit taking savings and credit co-operative societies in Nairobi City. The study objectives focus on the relationship that exists between credit monitoring, credit appraisal and credit risk control in terms of financial savings and credit cooperatives performance in Nairobi County. Data collection was facilitated by using a questionnaire as the instrument of data collection.

Onugu, Taiwo, Agbasi and Lawal (2015) the credit officers of Microfinance Banks (MFBs) are key players in rural finance intermediation for economic development. The paper assessed their extension service needs in Anambra State. Thirty-six (36) credit officers drawn from eleven (11) rural based MFBs in Anambra State were the respondents. Data was collected and analyzed using descriptive statistics of simple percentage, frequency table and mean. Three (3) hypotheses were tested with the use of Chi square (x2). The findings of the study revealed that the credit officers are sufficiently knowledgeable about credit extension services delivery. However, they were found not involved in designing and implementation of effective credit policies for their clients. Also, they are not adequately motivated to carry out their duties.

RESEARCH METHOD

The researcher adopted a descriptive research design through a survey with a view of making generalizations based on the findings of the study. The area of the study is Newi, it is one of the (21) twenty-one Local Government Area in Anambra State. Covering an area of 72.52km^2. Nnewi is bounded in the north by Nnobi, to the south by Utuh, east by Amichi and to the west by Ojoto.Nnewi is comprised of four sub town/villages: Otolo, Uruagu, Umudim and Nnewi-Ichi. four (4) cooperative societies were selected judgmentally, because they are active with a population strength of 117. The sample size is 90, Questionnaire was the instrument for data collection, and it was subjected to validity and reliability test before distribution. The validity was done using the content method while the reliability was ascertained using test re-test method within an interval of 7 days, and analyzed using the correlation method, which returned a coefficient of 0.879, indicating 88% reliability. The data collected were analyzed using simple descriptive statistical tools and z-test method.

DATA PRESENTATION ANALYSIS

Credit Recovery process for the recovery of credit on due date.

Table 1: Distribution According to the Credit Recovery process for the recovery of credit on due date.

S/N	ITEMS	SA (5)	A (4)	UN (3)	D (2)	SD (1)	Total	Mean (x)	Decision
i.	**Direct debit**	19 (95)	30 (120)	11 (33)	17 (34)	9 (9)	86 (291)	3.38	Accepted
ii.	**Standing order**	24 (120)	26 (104)	8 (24)	17 (34)	11 (11)	86 (293)	3.41	Accepted
iii.	**Salary deduction**	31 (155)	33 (132)	6 (18)	9 (18)	8 (8)	86 (331)	3.85	Accepted
iv.	**Demand**	39 (195)	25 (100)	2 (6)	7 (14)	13 (13)	86 (328)	3.81	Accepted
	Grand mean							**3.61**	

Source: Researchers Computation, May 2021

Table 1 reveals the assessment of the Credit Recovery process for the recovery of credit on due dates with the adoption of a five-point Likert scale. With a grand mean score of 3.61the items are regarded as accepted.

4.3 What are the control measures credit cooperatives can use to ensure productive utilization of credit administered to members.

Table 2: Distribution According to the control measures credit cooperatives can use to ensure productive utilization of credit administered to members.

S/N	ITEMS	SA (5)	A (4)	UN (3)	D (2)	SD (1)	Total	Mean (x)	Decision
i.	Monitoring of credit by the management officers	36 (180)	27 (108)	5 (15)	12 (24)	6 (6)	86 (333)	3.87	Accepted
ii.	Ensure risk assessment is carried out before issuing credit.	33 (165)	29 (116)	3 (9)	13 (26)	8 (8)	86 (324)	3.76	Accepted
iii.	Control activities such as policies and procedures are implemented.	31 (155)	23 (92)	12 (36)	9 (18)	11 (11)	86 (312)	3.62	Accepted
iv.	Ensure effective control environment	21 (105)	27 (108)	9 (27)	19 (38)	10 (10)	86 (288)	3.34	Accepted

is maintained	
Grand mean	**3.64**

Source: Researchers Computation, May 2021

Table 2 reveals the assessment of the control measures credit cooperatives can use to ensure productive utilization of credit administered to members with the adoption of a five-point Likert scale. With a grand mean score of 3.64 the items are regarded as accepted.

Testing Hypothesis I

Table 3: Information Obtained from Table 4 To Summarize the Hypothesis Test.

OPTIONS	Frequency (n=86)	Percentage (%)
Strongly Agree	113	32.76
Agree	114	33.04
Undecided	27	7.83
Disagree	50	14.49
Strongly Disagree	41	11.88
Total	**345**	**100**

Source: Field Survey, May 2021

b. Level of significance is 0.05

Critical value at 0.05 for two tailed test, take 2 =-1.96 to 1.96

c. **Decision rule:** If computed value is within -1.96 to1.96 of table value, we reject the null hypothesis and accept the alternate hypothesis and vice versa.

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Critical Decision: since the computed value for Z (0.785) falls within -1.96and1.96 of the table value, we reject the null hypothesis and accept the alternate hypothesis.
Statistical Decision: we reject the null hypothesis and accept the alternate hypothesis which state that credit recovery process used by credit cooperative societies recovers credit on the due dates from members in the study area.

Testing Hypothesis II

Table 4: Information Obtained from Table 5 To Summarize the Hypothesis Test.

OPTIONS	Frequency (n=86)	Percentage (%)
Strongly Agree	121	35.17
Agree	106	30.82
Undecided	29	8.43
Disagree	53	15.41
Strongly Disagree	35	10.17
Total	**345**	**100**

Source: Field Survey, May 2021

b. Level of significance is 0.05
Critical value at 0.05 for two tailed test, take 2 =-1.96 to 1.96
c. **Decision rule:** If computed value is within -1.96 to1.96 of table value, we reject the null hypothesis and accept the alternate hypothesis and vice versa.
Critical Decision: since the computed value for Z (0.785) falls within -1.96 and 1.96 of the table value, we reject the null hypothesis and accept the alternate hypothesis.

Statistical Decision: we reject the null hypothesis and accept the alternate hypothesis which state that control measures used by credit cooperatives ensures productive utilization of the credit administered to the members.

DISCUSSIONS AND FINDINGS

- The analysis revealed that cooperative societies gender are more of female to male, majority fell within the age bracket of 41 - 50 years(40.70%). Most members are married, also majority of the members educational qualification are FSLC certificate.
- The analysis also reveals that majority of members are married (56.98%), age (36.05%) and have years of cooperative experience between 1-5 years (46.51%).
- The respondent accepted the entire questions rose as regards credit recovery process for the recovery of credit on due date with the mean of 3.38, 3.41, 3.85 and 3.81 with a grand mean of 3.61 in the study area.
- The respondent accepted all the questions rose as regards control measures credit cooperatives can use to ensure productive utilization of credit administered to members with the mean of 3.87, 3.76, 3.62 and 3.34 with a grand mean of 3.64 in the study area.
- The analysis revealed that 34(39.53%) of members agree that poor financial analysis and monitoring of credit is the major challenge faced by credit administrators in managing the credit process in the study area.

- The hypothesis of the study was tested using Z-test statistics of analysis which revealed that credit recovery process used by credit cooperative societies recovers credit on the due dates from members, and control measures used by credit cooperatives ensures productive utilization of the credit administered to the members in the study area. In agreement with Montana (2012).

CONCLUSION

From the discussion of findings, it was observed that control measures used by credit cooperatives ensure productive utilization of the credit administered to the members. The researcher therefore concludes that credit administration and control contributes to development of the members of cooperatives in Nnewi North Local Government Area, Anambra State.

Recommendations

Having discussed the findings and drawn some conclusions therein, the following recommendations were made;

- The cooperatives should enforce stricter discipline through its credit committee on the monitoring of cooperative credit and make proper

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analysis as to ability of member to repay credit and using it in assessing if credit should be issued or not

- The cooperative society should always adhere to strict business guidelines in running its lending effort and avoid favoritism and the idea that the cooperative as personal enterprise.
- It is important that the cooperatives, employ the directions and advice of an area officer in the local government, this is because of the wealth of credit experience they possess and to serve the interest of the members who are not part of the management committee

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