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Determinants of Loan Delinquency among Micro-Entrepreneurs in Delta State, Nigeria

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Abstract

This study examined the determinants of Loan Delinquency among Microfinance Borrowers in Nigeria. The objective of the study was to determine the factors that affect loan delinquency among micro-entrepreneurs in Delta State, Nigeria. Data were collected with the use of questionnaire which was distributed to 100 micro-entrepreneurs engaged in various businesses across Delta state. The responses were categorised as agree (3), neutral (2), and disagree (1). The responses were analysed descriptively using percentages, and inferentially with ordinary least square (OLS) regression. The findings showed that training, monitoring and marital status were significant variables that affected loan delinquency. It was therefore, recommended that lending institutions should regularly organise training programmes for potential borrowers on how best to utilise borrowed funds for optimum returns which guarantees timely repayment.

Keywords: Borrowers, Delinquency, Interest, Loan, Microfinance, Micro-entrepreneurs.

Introduction

Microfinance banks are established to grant loans to the rural poor and the low income earners among other functions. The bank has the option of lending to a group or an individual based on the approved policy of the bank's board of directors. In the same vein, there can be a combination of both group lending and individual lending. Whichever policy is adopted by the bank will depend upon the peculiarity of the business environment and the customer mix. While some customers may qualify for individual loans, others need a group association to reduce the rate of default and encourage joint liability with a view to increasing repayment rates among borrowers. It has been observed that irrespective of the lending method adopted by the microfinance banks, loan repayment continues to be a running battle between borrowers and the lenders. Several borrowers have been dragged to court on account of non payment of borrowed funds. The objective of the study was to determine the factors that affect loan delinquency among micro-entrepreneurs in Delta State, Nigeria. Questionnaire was distributed to 100 entrepreneurs engaged in various businesses across Delta State. The responses were categorised as agree (3), neutral (2), and disagree (1). The responses were analysed using percentages and ordinary least squares regression.

LITERATURE REVIEW

Conceptual Review

Delinquency

Delinquency refers to a debtor's inability to pay an agreed sum of money at a specified due date. In other words a loan is delinquent when a payment is late. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predict how much of the portfolio will eventually be lost because it never gets repaid. There are three broad types of delinquency indicators, namely collection rates which measures amounts against total loan amounts; and portfolio at risk rates which measures the outstanding balance of loans that are not being paid on time against the outstanding balance of total loans.

Delinquent loans do not necessarily turn into default, but they negatively affect the financial performance of any lending institution especially microfinance banks that face information asymmetry which may lead to adverse selection and moral hazard. It is also of concern as the borrowers also lack collateral which could have been used as a backup in case of default.

Microfinance

Microfinance entails the means of access to finance by the poor people that allow them to utilize their capacities in favour of lasting development (Yunus, 1999). Microfinance is the provision of financial services such as loans, deposits, payment services, money transfers, and insurance to poor and low-income households and the microenterprises. Microfinance services are provided by three types of sources. These are formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernment

organizations; and informal sources.

Microfinance has proved to be effective developmental tool in eradicating poverty, promoting economic development and empowering women. According to Yunus (2004) microfinance is a phenomenon that is characterised by a majority of borrowers who are dominated by women with a potential to honour their obligations while sustaining a living.

History of Microfinance Banks in Nigeria

Micro financing started in Nigeria with the establishment of the National Board for Community Banks in 1992. However in 2005, the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria established Microfinance Banks as a way of formalizing microfinance institutions (MFIs) in Nigeria. The drive behind this policy was the promotion of financial discipline and sustainability, as well as the provision of access to financial services to the unbanked population in the rural areas.

Microfinance banks were licensed either as Unit bank with a minimum capital of N20 million, State-wide banks with a minimum capital of N100 million or national microfinance banks having a minimum capital of N2 billion. As at 31st December,2021 there were over 900 microfinance banks in Nigeria with a total asset base of N948.11 billion (CBN,2022) spread across the 36 states and the federal capital territory

Micro-Entrepreneurs

Micro-entrepreneurs are individuals who start and run small, often informal, businesses or micro-enterprises. They play a vital role in many economies, contributing to job creation, innovation, and community development. In order words, micro-entrepreneurs are major drivers of economic activities in any economy where they exist. However, their businesses typically have limited financial resources leading to generating low revenues. Hence, the need for funding them through microfinance bank loan.

Theoretical Review

Asymmetric information theory provided anchor for this study. Information asymmetry refers to a situation where one party has more or better information than the other party in a in decision making or transaction. The theory involves the existence of imbalance in the value of material knowledge of parties in an economic transaction. This results in information failure as one party has greater or better information than the other party.

According to Auronen (2003), asymmetric information theory suggests that in transactions, the party that has more information about the transaction is in a better position to negotiate optimally compared to the other party. The other party that knows less about the transaction can therefore make a right or wrong decision about the transaction. Bester (1994) believes that the high accumulation of non-performing loans in banks has been caused by adverse selection and moral hazards which could lead to

granting loans to bad borrowers. A moral hazard refers to a situation when a party in a transaction gets very risky with the knowledge and that the consequences of those risks are borne by the other party.

The asymmetric information theory highlights the difficulty in distinguishing good borrowers from bad ones (Auronen, 2003). Adverse selection and moral hazards are both undesired results of asymmetric information. Asymmetric information puts the party with less information at a disadvantage and as such s/he is not able to efficiently price the goods being sold or the service being rendered. While adverse selection happens as a result of asymmetry before the transaction is consummated, moral hazard occurs due to the asymmetry of information between the buyer and seller and change in behaviour after the deal has been consummated.

Empirical Review

Chong (2021) investigated the determining factors of loan delinquencies in Malaysia. A total of 516 questionnaires collected between 2018 and 2019 from borrowers of both the local commercial banks and non-banks in Malaysia were selected for analysis. The sampling technique used is a combination of simple random sampling and snow balling method. Empirical results indicated that the borrower-lender distance factor, collateral, education levels as well as availability of a monthly budget had significant effects on loan delinquencies.

Nwagwu, Durojaiye & Ikhide (2020) studied bank specific practices as determinants of loan default in Nigeria. A survey of two hundred and twenty-eight customers of deposit money banks in Lagos, Nigeria was selected. The key findings of the study showed that size/amount of customer loan; interest rates charged by banks and obtaining loans from multiple sources were the major determinants of customers' loan default. It was recommended that deposit money banks should adopt effective risk management techniques that will enhance the in-depth and proper analysis of loan applications to ensure borrowers do not 'over-borrow'.

Agbemava, Nyarko, Adade, and Bediako (2016) investigated microfinance institutions based in Accra Ghana, using Binomial logistic regression with a sample of 548 customers who were granted credit from January 2013 to December 2014. The results of the study revealed that Type of Collateral or Security; Assessment; Duration; Marital Status; Dependants; and Loan Type were statistically significant in the prediction of loan default.

Haile (2015) carried out a research on factors affecting loan repayment performance of Harari microfinance institution. Cross sectional data for a sample of 120 households were collected, while logit regression was used for analysis. The findings showed that borrower's savings, perception, income, training, experience, loan size, business type, and family size were statistically significant in determining loan performance.

Addae-Korankye (2014) examined the causes and control of loan default in Microfinance institutions of Ghana. Cross sectional data for a sample of 250 clients was used for the study.. The results found high interest rate, inadequate loan size, poor appraisal of clients, and lack of monitoring and improper client selection as the causes of loan default in the study area.

Makorere (2014) examined factors affecting loan repayment behaviour in Tanzania. Convenience sampling technique was used in selection of samples. Descriptive statistics were used in data analysis. The results showed that factors like moral hazard, electricity rationing, interest rate, grace period, profitability, and economic stability had strong effects in stimulating loan repayment behaviour.

Nguta and Huka (2013) carried out a study on factors influencing loan repayment default in Microfinance institutions in Kenya. The findings revealed that there was significant relationship between the type of business, age of business, number of employees, business profit and loan repayment.

Mensah (2013) investigated the relationship between loan default and repayment schedule in Sinapi Microfinance institution in Ghana. Ordinary least square regression results indicated that there were no significant relationships between loan default and repayment schedule.

Fikirte (2011) carried out a study on the determinants of loan repayment performance in Addis Ababa credit and saving institutions in Ethiopia. The results of binary logit model revealed that age, business types, sex and business experience of the respondents were found to be significant in determining loan repayment.

Roslan and Abdkarim (2009) investigated the determinants of loan repayment among microcredit borrowers in Malaysia, using probit and logit model. The results showed that the probability for loan default was influenced by the type of business activity, gender of the borrowers, amount of loan repayment period and training.

Afolabi (2008) studied the loan repayment among small scale farmers in Southwest Nigeria, using linear discriminant function. The results revealed that age, net farm income, interest rate, experience, gross income and non- farm income, were significant in determining defaulters and non- defaulters.

METHODOLOGY

The objective of the study was to determine the factors that affect loan delinquency among micro-entrepreneurs in Delta State, Nigeria using a survey research design. The method of data collection was simple random sampling

Copies of a structured close ended questionnaire were distributed to selected 100 micro-entrepreneurs engaged in various businesses across Delta state. The responses were categorised as agree (3), neutral (2), and disagree (1). The responses to the questionnaire were analysed using percentages and ordinary least squares regression method.

DATA ANALYSIS AND INTERPRETATION

Table 1: Bio-Data of Respondents

ITEM	TOTAL
SEX	
Male	68
Female	32
AGE	
20-40	**30**
41-60	**55**
61-80	**15**
MARITAL STATUS	
Single	**12**
Married	**70**
Divorced	**10**
Widowed	**8**
RELIGION	
Christianity	**92**
Islam	**8**
EDUCATIONAL QUALIFICATIONS	
WASC	**25**
OND/NCE	**45**
HND/BSc	**30**

Source: Researchers Field Survey, 2023

The data from table 1 showed that 68 of the respondents were male while 32 were female. Age distribution showed that 30 were between the age bracket of 21 to 40 years, 55 were between the age brackets of 41 to 60 years while 15 were within the range of 61 to 80 years. As regarding the marital status of respondents,12 of them were single,70 were married,10 divorced while 8 were widowed. As pertaining to religion, 92 were Christians while 8 were Muslims. The educational background showed that 25 of the respondents

had secondary school education, 45 had the OND/NCE certificates while 30 had first degree and above.

Analysis of Questionnaire Items

Table 2: Determinants of Loan Delinquency

	ITEM	Agree	%	Neutral	%	Disagree	%	Total
1	Granting full amount of loan	90	90	6	6	4	4	100
2	Demand For Collateral	60	60	35	35	5	5	100
3	Lending Policy	55	55	0	0	45	45	100
4	Collecting loan from multiple sources	83	83	12	12	5	5	100
5	Training for Borrowers	30	30	60	60	10	10	100
6	Loan Size	70	70	25	25	5	5	100
7	Age of Borrowers	65	65	34	34	1	1	100
8	Marital Status	80	80	16	16	4	4	100
9	High Interest Rate	95	95	5	5	0	0	100
10	Higher Educational Background	75	75	21	21	4	4	100
11	Monitoring Of Loan Usage	85	85	10	10	5	5	100
	Total	788		224		88		

Agree=3, Neutral=2, Disagree=1

Source: Researchers Field Survey, 2023

As shown from table 2, there were 11 determining factors considered as regards loan delinquency. Out of the responses from 100 respondents, 788 ‘agree’ responses were generated. All factors considered except training generated more than 50% agree responses. This means that the respondents considered ten factors out of the eleven as determinants of loan delinquency.

On individual factor ranking, interest rate charged by banks was ranked first among the factors, followed by granting of full amount requested by applicants who took the second position. Monitoring of loan usage by bank officials was ranked third, while collecting loan from multiple sources was next taking the fourth position. Marital status was placed fifth in the ranking by the respondents. The sixth position went to higher educational background while loan size was ranked seventh among the eleven factors. The eighth factor recognised by the respondents as a determinant of loan default was age of the borrower, while demand for collateral was considered as a lesser important factor having being ranked as the ninth factor. The lending policy of the bank came a distant tenth position while training was considered as the least factor that determines loan default among the eleven factors examined.

Results and Discussion

Table 3: Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.168	.162		13.410	.000
Granting Full Amount	.176	.119	.193	1.483	.142
Lack of Collateral	-.002	.053	-.005	-.046	.964
Lack of Training	-.198	.049	-.380	-4.044	.000
Loan Size	-.126	.094	-.177	-1.347	.181
Age of Borrowers	-.032	.067	-.039	-.469	.640
Marital Status	-.512	.049	-.644	-10.371	.000
High Interest	-.148	.164	-.109	-.902	.370
Higher Education	-.028	.076	-.037	-.371	.712
Lack of Monitoring	-.108	.041	-.144	-2.633	.010

Table 4: Model Summary

Model	R	R-Square	Adjusted R-Square	Standard Error of Estimate
1	0.933	0.870	0.857	0.155

a. Dependent Variable: loan repayment

Source: Researchers Field Survey, 2023

A. Predictors: (Constant), Lack of Monitoring, High Interest, Age of Borrowers, Marital Status, Higher Education, Lack of Training, Lack of Collateral, Granting Full Amount , Loan Size

Discussion of Findings

From table 3, it could be seen that training, monitoring and marital status were significant variables that affected loan delinquency. Apart from granting of full amount requested as loan which had a positive relationship with loan delinquency, all other variables had negative relationship with loan delinquency. Granting full amount of loan requested by borrowers will enhance their ability to pay as the loan will fully meet the purpose for which it was obtained.

Lack of training (p=0.00), marital status (p=0.00) and monitoring (p=0.010) were negatively significant in explaining the loan delinquency. Lack of training will increase loan delinquency. Equally, being married increases the rate of delinquency as the borrower

is likely to use part of the loan for family upkeep thereby reducing the available funds for the business.

Inadequate monitoring or total lack of monitoring increases loan delinquency as borrowers tend to repay loans more when monitored by bank officials. This is in line with the findings of Arsyad (2006), which showed that the number of supervisory visits, improves borrowers' repayment ability. Table 4 however showed that 85.7% of loan delinquency was accounted for by all the independent variables.

CONCLUSION

From the above analysis of data collected and interpretation of the results, it could be concluded that training, monitoring and marital status were the major determinants of loan delinquency among micro-entrepreneurs in Delta State, Nigeria.

RECOMMENDATIONS

Based on the findings, it is recommended that:

1. More training should be organised for would be borrowers by the lending institutions to enhance their ability to fully utilise borrowed funds for the intended purposes professionally for maximum returns that can guarantee repayments.
2. Adequate monitoring plans should be put in place and monitoring officers be encouraged to sustain the policy for prompt payment of loans that fall due.

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