Effect of Loan Repayment on Micro Businesses' Accessibility to Credit Financing In Gombe Metropolis, Gombe State, Nigeria

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ABSTRACT
The study analyses the effect of loan repayment on micro investors' accessibility to credit financing in Gombe Metropolis, Gombe state, Nigeria. In order to realise this objective, the researchers obtain loan performance documentation from the sampled banks in the study population. This enabled the researcher to identify those micro business operators that accessed bank credit facilities and the level of repayments of the disbursed funds in 2013and 2014 financial years. The researchers administered 140 copies of well-structured questionnaire and elicit relevant data from micro business operators within the study population. Relevant literature gathered from published books, journals, reports, newspapers and magazines were reviewed to conceptualise the study. Resultant data were presented and analysed by the use of Descriptive Statistics, charts, Paired Samples Correlation, Paired Samples t-test and Curve-fit Regression Model. The significant differences of loan repayments were identified and are found to be associated with credit accessibility within the period under review. The study reveals that loan repayment has a positive effect on micro investors' accessibility to credit financing in Gombe Metropolis Nigeria. On this note, recommendations were made to enhance loan expansion by the financial institutions to micro investors as well as modality for prompt repayment of the borrowed funds.
Keywords: Loan Repayment, Credit Accessibility, Micro Businesses, Performance

Introduction

Micro businesses usually operate in informal and semi-formal sectors in Nigeria. It is quite evident that micro businesses constitute the fountain head of vitality for economy growth and development in a country. This is obvious by virtue of their number, diversity, penetration in all sectors of productions and services. Micro businesses contribute enormously to employment and prosperity of the particular areas in which they operate (Adebusuyi, 1997). They constitute a greater percentage of all registered companies in Nigeria, and they have been in existence for a quite long time (Easien, 2001). Majority of the medium and large scale industries developed from cottage industries to small enterprises.

Since micro businesses constitute the bulk of the private sector, economic growth can't be achieved without the active involvement, promotion and development of micro sector of the economy. Indeed, this sector has attracted due attention in recent time, still there are formidable obstacles that inhibit them from growth and expansion. One of the most crucial and leading constraints is access to credit financing from the formal lending institutions. the banking sector have been reluctant to provide loans to micro entrepreneurs; on the one hand, they are unable to fulfil the bank's lending requirements, and on the other hand, banks consider them as involving high risk factor, undependable and involve excessive administrative costs. Hence, they regard them as ineligible for provision of banking services. To solve the financing constraint of micro businesses, there is a need to review the perception and level credit financing that banks have accorded this sector of the economy. It is also very necessary to review currently the loan default problems between the banks and micro entrepreneurs and how this could affect future loan disbursement to the sector.

An understanding of factors affecting loan repayment performance of micro business investors would help policy makers to formulate successful credit policies and programmes that enable them to allocate scarce financial resources to the development of micro sector of the economy. Such review serves as a yardstick for the bank to identify the major characteristics that distinguish credit worthy borrowers and defaulters so that it could act accordingly for future credit accessibility.

The issue of the allocation of credit has profound implications both at the micro and macro levels. When credit is allocated poorly, poor investment projects are undertaken and the business resources are squandered, it raises costs to prospective borrowers, erodes the fund that would be available for future investment, reduces banks flexibility in redirecting available credit for investment purposes. In spite of the importance of loan in micro businesses; its disbursement and repayment are fraught with a number of problems (Alawe, 2004). Lawal (1998) says that the spate of defaults in commercial banks' lending losses is pervasive in developing credit markets.

The problem of loan default reduces the lending capacity of a financial institution. It also denies new applicants accessibility to credit as the bank's cash flow management is directly proportional to the increasing default problem. In other words, it disturbs the normal inflow and outflow of fund a financial institution has to keep staying in sustainable credit market. The study of Kim and Santomero (1993) identified loan shortages, delay in time of loan delivery, poor supervision, non-profitability of small scale enterprises and undue government intervention with the operations of government sponsored programmes as the major causes of loan default. Adding to this truism, Njoku and Odii (1994) linked loan default to inability to recycle funds to other borrowers, determent of other financial intermediaries from serving the needs of investors and the creation of distrust.

As plausible as these facts from available literature, the reality of micro businesses accessibility to credit financing from the purview of loan repayment in Gombe Metropolis cannot be adjudged unless empirically investigated. Against this background, this study examines the effect of loan repayment on micro businesses' accessibility to credit financing in Gombe Metropolis, Gombe State, Nigeria. To achieve this noble study objective, the study hypothesised that loan repayment has no significant effect on micro businesses' accessibility to credit financing in Gombe Metropolis, Gombe State, Nigeria.

Literature Review

In developing countries like Nigeria industrial development is at infant stage. Alawe (2004) argues that the role of micro businesses are significant in terms of their employment generation capacity, quick production response, adaptation to weak infrastructure, use of local resources, developing indigenous entrepreneurial and managerial skills for a sustained growth. Ogujiuba, Ohuche and Adenuga (2004) also observe that apart from increasing per capita income and output, small businesses create employment opportunities, enhance regional economic balance through industrial dispersal and effective resource utilisation considered critical to engineering economic growth and development. For a micro business to grow up to small, medium and large enterprises level, the need for formal credit financing is indispensable. This is because formal financial sector have the financial capacity to meet their growing credit demand, which the informal sector is incapable of supplying (Anyanwu, 2001).

There are indications in Nigeria that the micro businesses account for about 50% of industrial employment (Adebusuyi, 1997) and well over 40% of the gross domestic product (Richard, 2003). Acknowledging the importance micro businesses notwithstanding, they are faced with serious difficulties when trying to obtain loans, especially from the formal financial institutions.

On this note, Alawe (2004) adds that micro businesses do not have sufficient accessibility to credit financing of the formal institutions. This poor credit from formal financial source, based on the experience of some developing countries, arises partly from biased government policy, due to the operational practices and procedures of the formal financial institutions and the internal problems of small scale enterprises themselves (Ogujiuba et al., 2004). Experience from Nigeria and most African countries, showed that micro entrepreneurs are prone to default. Lawal (1998) observes that they make wilful default; managerial ability is poor, they don't keep accounts and it is therefore difficult to monitor their operation by the financial institutions. Loan or overdraft from the banks or lending financial houses, with an agreed periodical repayment is a source of funds for micro business (Anyanwu, 2004). Along this line of argument, Alawe (2004) adds that informal loans are unregistered loans from financial institutions. However, evidence from available literature reported that the default rate of loan recipients from informal financial institutions is even as low as 8% on average (Glen, 1997 & Okpukpara, 2005). Indeed, micro operators are faced with discrimination from formal financial institutions because of their inability to meet with their stringent measures such as asset collateral, long bureaucratic procedures, solid financial base among others. Okpukpara (2005) opines that the informal financial institutions generally have limited outreach due primarily to paucity of loanable funds. In this context, the loan disbursement by the financial institutions it's repayment by the micro enterprises were reviewed. Omorodion (2007) further found that how much to charge in each category of the costs of accessing funds, depends on the level of loan management.

The viability of any financial institution depends critically on selecting applicants who have a high probability of repayment and rejecting those who have a high probability of default. According to Oke, Adeyemo and Agbonlahor (2007), loan as the act of giving money, property or other material goods to another party in exchange for future repayment of the principle amount along with interest or other financial charges. After the credit assessment and disbursement is done, the credit customer is expected to payback as per agreed schedule. Each bank has a different repayment mechanism. Based on the specifics of the bank, customers can pay weekly, bi-weekly or monthly instalments (Alawe, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions. According to CBN (2005), the success of banks depends on its ability to adapt to changing circumstances and the culture of handling funds that must be repaid.

To sustain credit management, financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4% per month. Okpukpara (2005) found that credit institutions charge different interest rates according to market conditions, degree of risks, and goal orientation. Olmola (2001) observes that interest rate is determined by factoring costs such as production costs, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth. Anyanwu (2001) opines that the rate charged financial institution should be able to cover costs and profitability. Oladeepo and Oladeebo (2008) argue that charges can be minor as a late payment of a debt obligation, so that a bank can apply a penalty "default" interest rate between the due date and the actual payment date; or major as a bankruptcy or insolvency where the lender initiates a recovery process to limit loss from a collateralised loan. Iganga (2007) observes that there should be credit insurance that pays some or all of a loan back when certain things happen to the borrower such as unemployment, disability, or death.

According to Ekeng and Efa (2008), high transaction costs are associated with disseminating and recovering a large number of small-sized loans, often to clients in geographically dispersed areas with poor infrastructure and security conditions. Iweala (2005) observes that liquidity risk arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. Afolabi (2010) observes that the policy is purchased by the lender and the premiums are passed along to borrowers as a fee onto the monthly mortgage payment.

Materials and Methods

This study combines survey research and content analysis of cross-sectional data elicited from selected formal financial operators and micro business operators in Gombe Metropolis, Gombe State, Nigeria. The population comprises of all the formal financial operators and all micro business operators within the study area. The scope was narrowed to seven (7) formal financial institutions comprise of five (5) out of the twenty five (25) Deposit Money Banks and two (2) of the nine (9) Micro Finance Banks in Gombe metropolitan city; using ratio 1:5 representing 20% of the existing institutions. The period of the study covers 2012 – 2014 financial years. It sampled one hundred and forty (140) micro investors randomly selected for in-depth scrutiny.

The available data was retrieved from bank's manuals for the total amount credit disbursed and repaid during the period under review; and, primary data elicited through the use of study questionnaire. The study distributed 140 copies of well-structured questionnaire and the resultant data was tested for internal consistency and ninety eight (98) opinions of the micro investors who seek credit financing were screen for this analysis. The data were afterward subjected to statistical tests using cross tabulation, Normal Curved Histogram, Paired Sample Correlations, Paired Sample t-test and Curve fit Regression Models. All data analysis were carried out with SPSS version 16 and the result were presented.

Data Presentation

Micro investors in the zone were asked to indicate their wiliness to seek credit financing and the extent to which they can access formal credit finance facilities. A total of one hundred and forty copies of a well-structured questionnaire were distributed and returned 100% valid for this study. Table 2 presents field data used in this analysis.

Table 1 presents the estimated mean Loan repayments amount by micro investors of the sampled financial institutions for 2013 and 2014 financial year respectively in the zone. The analysis of this data using Paired Sample Correlations and Paired Sample t-test were presented in the table 5, 6 and 7 appropriately. In the interim, the study draws conclusion from facts presented in Table 6 and 7 respectively. A complimentary Regression Model analysis to test the impact loan repayment on accessibility to credit financing were presented in tables 8 – 15 and conclusions were drawn from the resultant findings. The sampled financial institutions were represented with a notation Banks A – G. However, the true identities of the banks were concealed to avoid reporting the strengths of one bank against another, since no permission to that effect was obtained.

Table 1: Available Data

Financial Institutions	Mean Loan Repayment (Estimates in ₦M) 2013	Mean Loan Repayment (Estimates in ₦M) 2014
Bank A	357241.0	384523.0
Bank B	321675.0	333256.0
Bank C	401457.0	412381.0
Bank D	330917.0	332921.0
Bank E	341254.0	351222.0
Bank F	269072.0	271225.0
Bank G	413216.0	420017.0

Source: Extract from secondary data, 2015

Table 2: Field Data Distribution

N	Formal Financial Institutions	Seek Credit Financing	Accessibility to Credit Financing (2013)	Accessibility to Credit Financing (2014)
Valid	140	140	140	140
Missing	0	0	0	0
Total	140.00	98.00	34.00	47.00

Source: Field data, 2015

Data Analysis

The section is multifaceted; it begins with frequency distribution of investors' access to credit financing in Gombe Metropolis among the sampled banks, as shown in Table 3. A simple percentage frequency was used in the preliminary analysis of data reported in 140 copies of questionnaire retrieved valid, as presented. Of this number, ninety eight (98) representing 70% opinions emanates from respondents who seek credit financing in their businesses. However, these opinions were filtered and categorised into two groups; 34 opinions are from those respondents who secured loan financing in 2012 – 2013, whilst 47 secured credit facilities in 2013 – 2014 financial years respectively. The field data statistics is represented in Table 4. A normal curved histogram and linear graph presented in figures 1 and 2 pictured the information clearly.

Table 3: Available Data Statistics

Formal Financial Institutions	Frequency	Percent	Valid Percent	Cumulative Percent
Bank A	12	8.6	8.6	8.6
Bank B	34	24.3	24.3	32.9
Bank C	15	10.7	10.7	43.6
Bank D	21	15.0	15.0	58.6
Bank E	21	15.0	15.0	73.6
Bank F	15	10.7	10.7	84.3
Bank G	22	15.7	15.7	100.0
Total	140	100.0	100.0	

Source: Computed from field data, 2015

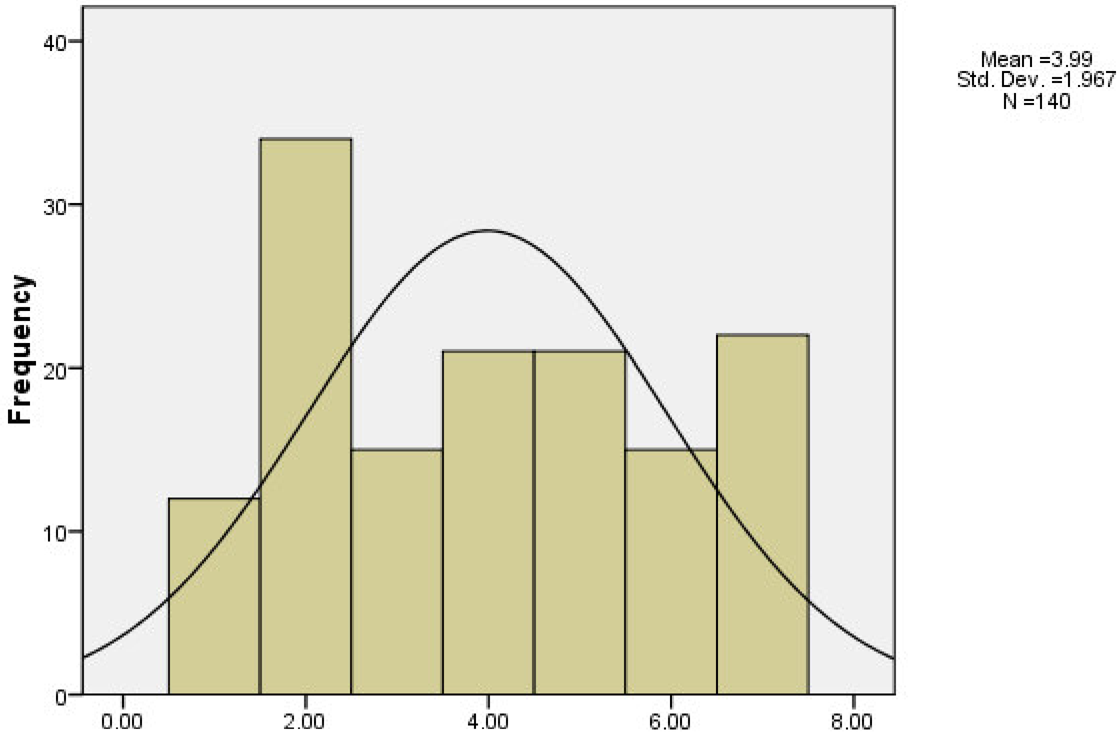
Table 4: Field Data Statistics

Wiliness to seek Credit Financing			Secured Access to Credit Financing			
Responses	2012-2014	%	2012-2013	%	2013-2014	%
Yes	98	70.0	34	34.7	47	48.0
No	42	30.0	64	65.3	51	52.0
Total	140	100	98	100	98	100

Source: Field data, 2015

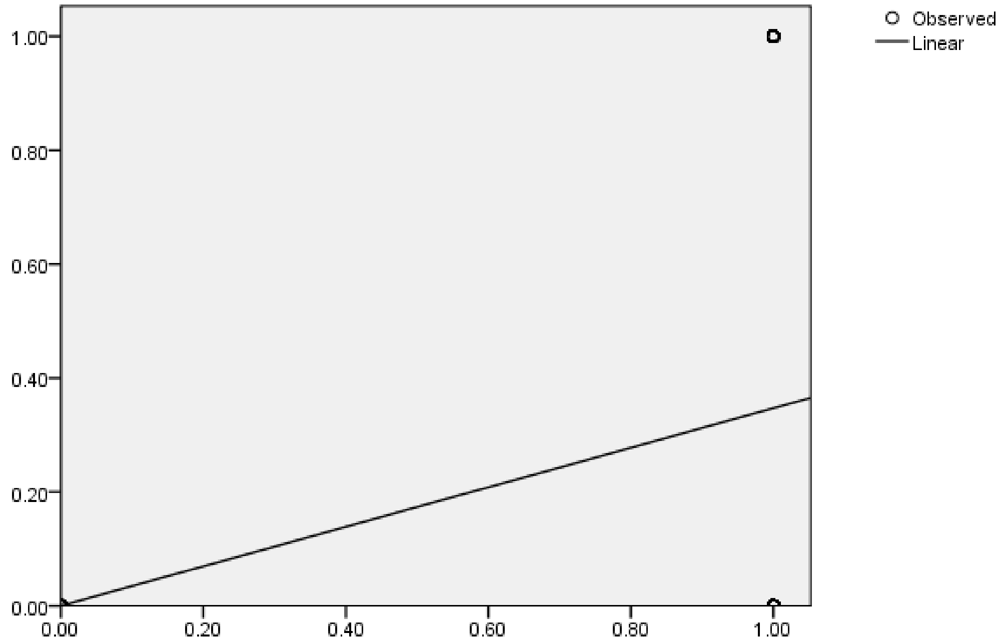
The Histogram in Figure 1 shows a dome shaped curve; which means that the data is normally distributed and convincingly fitted for this analysis. The large area above the linear line of divide in Figure 2 represents the number of micro investors who and/or willing to seek credit financing from formal financial institution in Gombe Metropolis. For avoidance of doubt the area was marked observed. Further analysis put apart, the actual credit accessibilities in 2013 and 2014 respectively.

Figure 1: A Histogram of Normal Distribution of Formal Financial Institutions' Credit Extension to Micro Investors



Source: Computed from Available Data

Figure 2: A Linear graph showing number of investors' wiliness towards loan financing and/or accessed loan facilities from formal financial institutions between 2012 – 2014



Source: Computed from Available Data

Test of Hypothesis 1 (T-Test Analysis)
The t-test statistics was conducted to test hypothesis (H_o1) which states that: there is no significant difference between loan repayments in 2013 and 2014 among the sampled banks in Gombe Metropolis. The results of the t-test statistics are presented in Tables 5 – 7.

Table 5: Paired Samples Statistics

Pair 1	Mean	N	Std. Deviation	Std. Error Mean
Loan Repayment 2013(₦M)	3.48E5	7	49084.877	18552.340
Loan Repayment 2014(₦M)	3.58E5	7	52159.859	19714.573

Table 6: Paired Samples Correlation

Paired Variables	N	Correlation	Sig.
Loan Repayment 2013 & Loan Repayment 2014	7	.988	.000

Table 7: Paired Samples Test

Paired Variables(₦M)	Paired Differences					T	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Loan Repayment 2014 - Loan Repayment 2013	1.010E4	8541.021	3228.203	18000.985	2202.730	3.129	6	.020

Sources: Computed from field Data, 2015 (Tables 5, 6 & 7 respectively)

Table 5 shows that there is a statistical difference between the means and standard deviations of loan repayments in 2013 and 2014. It reported an improvement on the yearly loan repayments of 2014 over that of 2013 financial year. How significant is this variation would be subject to the outcome of the paired samples correlation and t-test in Table 6 and 7 respectively. With the correlation value R = .988 and t-value 3.129; the variation is quite significant at alpha < 0.05 degree of freedom.

Test of Hypothesis 2 (Curve-Fit Regression Model)
The Regression statistics was conducted to test hypothesis (H_o2) which states that: "loan repayments has no significant effect on micro businesses' accessibility to credit financing in Gombe Metropolis, Gombe State, Nigeria." The results of the regression statistics were presented in Tables 8 – 13. The model used an in-built correlations, ANOVA and t-test tools to compute the difference in credit accessibilities of micro investors within the period under review. Hence, results for 2013 financial year were presented in Table 8 – 10, whilst 2014 results are presented in Table 11 – 13 respectively.

Table 8: Accessibility to Credit Financing (2013)

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.371	.137	.131	.401

The independent variable is Seek Credit Financing

Table 9: ANOVA on Accessibility to Credit Financing (2013)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.539	1	3.539	21.994	.000
Residual	22.204	138	.161		
Total	25.743	139			

The independent variable is Seek Credit Financing

Table 10: Coefficients of t-test on Accessibility to Credit Financing (2013)

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Seek Credit Financing	.347	.074	.371	4.690	.000
(Constant)	-9.881E-17	.062		.000	1.000

Sources: Computed from field Data, 2015 (Tables 8, 9& 10 respectively)

The 2013 performance ratio of the investors' accessibility to credit financing depicts a correlation value of R = .371 as presented in Table 8, an ANOVA value of F = 21.994 presented in Table 9 and a t- test value of T= 4.690 in Table 10 respectively. All tests in this experiment passed the statistical significant test at alpha < 0.05. Indeed, this 2013 test statistics when compared with 2014 performance index we will be in sound position to adjudge the actual level of credit accessibility by micro investors in Gombe Metropolis. Thus, the regression analyses of 2014 were presented in Tables 11 – 13.

Table 11: Accessibility to Credit Financing (2014)

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.465	.217	.211	.421

The independent variable is Seek Credit Financing

The performance ratio of the investors' accessibility to credit financing in 2014 depicts a correlation value of R = .465 as presented in Table 11, an ANOVA value of F = 38.153 presented in Table 12 and a t- test value of T= 6.177 in Table 13 respectively. The tests in these experiments also passed the statistical significant test at alpha < 0.05. Thus, the 2014 test statistics show tremendous improvement over the 2013 performance index.

Results and Decisions

Presented in table 3 is the result of simple percentage distribution of 140 respondents (about 70% of sampled population) who indicated wiliness to seek credit financing for expansion and development of their businesses. Of this number, only 34% and 47% investors secured credit financing of the formal financial institutions in 2013 and 2014 respectively. This result shows a low or poor coverage of the population.

The rigorous statistical test conducted shows a Pear samples Correlation value of R = 0.988 at P < 0.005 (Table 6) and t-value = 3.129 at P < 0.005 (Table 7). Thus, we reject the research hypothesis (Ho1) on pure statistical grounds. This means positive correlation exists and there are significant differences in the levels of loan repayments in 2014 against 2013 financial years.

The Curve-fit Regression model is a discriminate test conducted to investigate the variations in level of accessibility to credit financing in 2013 and 2014 financial years. The duo tests show positive correlation and significant differences in the levels of accessibility to credit financing. The differences are presented in table 8 and 11 respectively. Both tests are statistically significant since P < 0.05 (95% confidence level). Hence, the study has sufficient statistical evidence to rejects the null hypothesis (H_o2). This finding is consistent with Ugwumba, Nnabuife and Ike (2008).

Figures 3 and 4 present the relationship between loan repayments and accessibilities to credit financing statistics to anchor the study.

Table 12: ANOVA on Accessibility to Credit Financing (2014)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6.762	1	6.762	38.153	.000
Residual	24.459	138	.177		
Total	31.221	139			

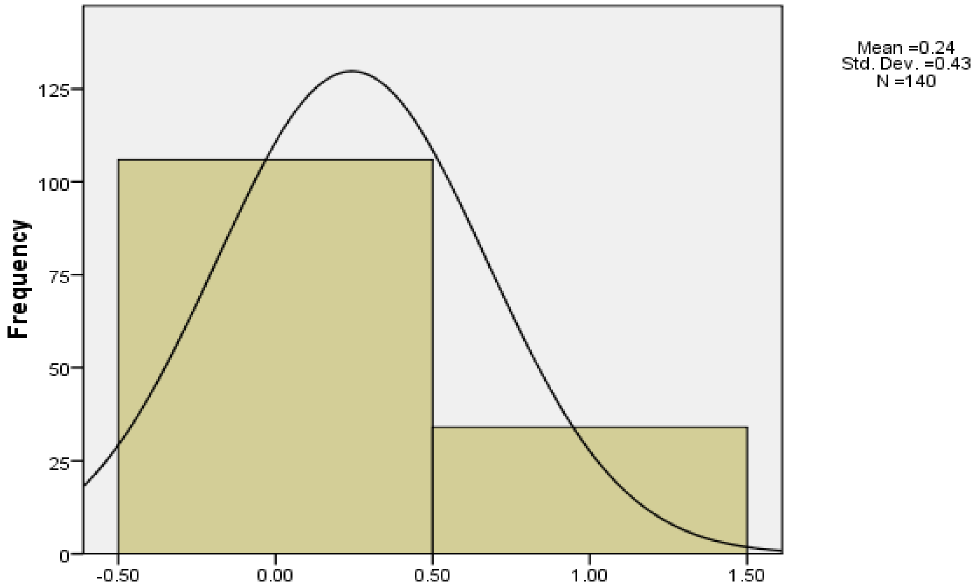
The independent variable is Seek Credit Financing.

Table 13: Coefficients of ANOVA on Accessibility to Credit Financing (2014)

	Unstandardised Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Seek Credit Financing	.480	.078	.465	6.177	.000
(Constant)	2.505E-17	.065		.000	1.000

Sources: Computed from field Data, 2015 (Tables 11, 12& 13 respectively)

Figure 3: Loan Repayments Vs Accessibility to Credit Financing in 2013



Source: Computed from interpolation Data

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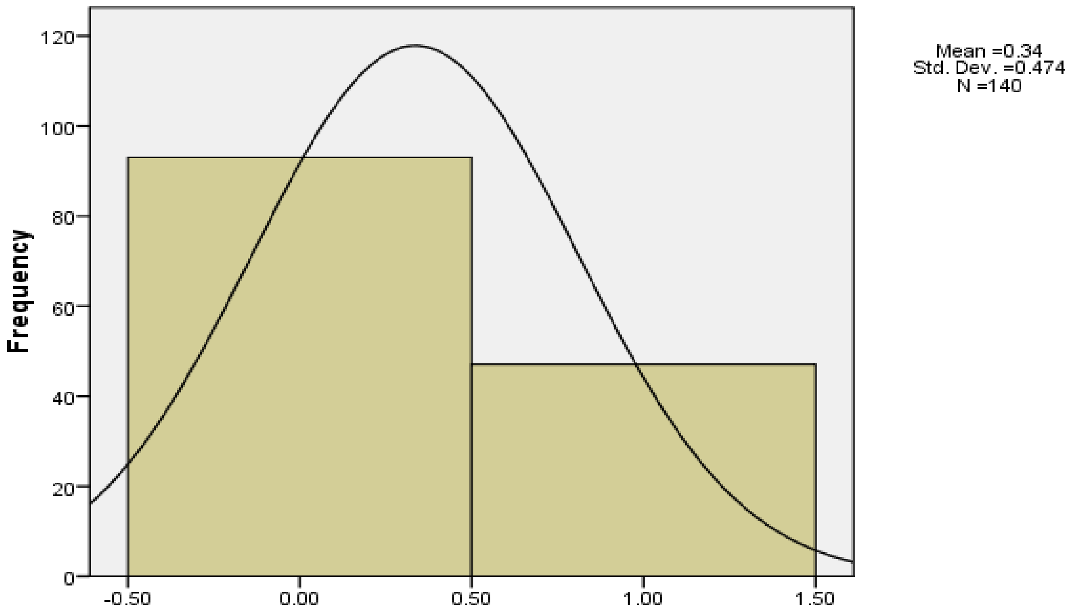
Figure 4: Loan Repayments Vs Accessibility to Credit Financing in 2014



Source: Computed from interpolation Data

Figures 3 and 4 show the relationship between loan repayment and accessibility to credit financing by micro investors in 2013 and 2014 financial year respectively. Both figures presents a histogram with normal distribution curve. In 2013 the accessibility index is 34% whilst in 2014 it rose to 47. The normal curves explain the interpolation of the loan repayments schedules and accessibility indices. The slope of the 2013 curve falls on the edge of the x-axis; whilst in 2014 it falls well above the x-axis.

The slope of the curve is steeper in 2013 and produced a gentle slope in 2014. The implication is it saver for financial institutions to disbursed more credit facilities in 2014 than 2013. On the basis of these statistics, we are confidence to say that loan repayment has a direct effect on micro investors' accessibility to credit financing in Gombe Metropolis, Gombe State, Nigeria.

Conclusions and Recommendations

In view of the above findings, the study concludes as follow:

i. The level of loan repayments correlates positively. This means there is good management of loan disbursement and repayment by the sampled banks in the studied area. The implications hold for expansion strategy for credit financing of existing institutions and strategic widows of opportunities are opened for prospective investors to channels their funds in financing micro businesses in Nigeria.

ii. The study also concludes that loan repayments have significant impact on micro investors' accessibility credit financing in Gombe Metropolis, Nigeria.

It recommends expansion in the capital base of formal financial institutions; reduce administrative costs (interest rate and hiding charges); training and sensitisation campaigns; eliminating administrative bottlenecks; review SME policy (focus on formalisation and openness in business practices); improve monitoring and follow up services; relaxing the conditions on collateral requirements; encourage improve corporate social bonds (encouraging group lending strategy); and, provision of quality business information to micro investors. With these we hope, will revolutionise micro investment practices and attracts Foreign Direct Investments to help Nigeria becomes among the best 20 economy in the world comes year 2020 (God's willing).

Suggestions for further Research

There are opportunities for further research that would give further insight into the area of loan borrowing performance of formal financial institutions. Thus, a longitudinal study of the relationship between cost of borrowing and performance of small scale business enterprises in Nigeria; causes of loan failures - to broadly assess the institutional, behavioural and environmental aspects from both the lenders' and borrowers' perspective; and, borrowers' characteristics and their capacity for credit management.

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