

Loan Performance and Repayment Pattern among Members of Cooperative Societies in Egba Division of Ogun State, Nigeria

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Abstract

This study assessed the loan performance, repayment and default among Cooperative Thrift and Credit Societies in Egba Division of Ogun State, Nigeria. Specifically, the study described the socio-economic characteristics of cooperative members in the study area; examined the amount of loan acquired and repaid among the cooperative members; examined the factors affecting loan repayment performance; examined the determinants of loan default among the cooperative members; and identified the challenges you face in repayment of loan. The methodology of the research was made up of the research design which was descriptive and quantitative data which was collected using open and closed ended questionnaires. A multistage random sampling technique was used to select a sample size of one hundred and forty (140) cooperators. The results revealed that majority 70.7% of the respondents were married. Married respondents have more dependents and reliabilities on their business enterprise motivating them to look for credit in order to increase their working capitals and revenue. Majority (92.9%) of the cooperative members passed through primary, secondary or tertiary educational level or had acquired one level of education or another. The average amount of loan applied for, approved, disbursed and repaid by the applicants was ₦666,618.71, ₦631,594.20, ₦625,072.46 and ₦461,071.22 respectively. The regression analysis on the factors affecting loan repayment among cooperators revealed only age, years of formal education and annual net income had positive significant while household size, marital status and amount of credit received were negatively related. The co-efficient of the variable age, level of education, and marital status are significant and negative in the rate of loan default among the cooperators in the study area. Finally, high interest rate, afraid of default payment and covering long distances to the bank are the major challenges facing the respondents in loan repayment. It is concluded that the financial performance of CTCs has improved through prompt loan repayment. Based on the analysis and findings of this study, it was therefore recommended that Cooperative societies should address the issue of loan repayment performance by monitoring the use that respondents put their loan to as it was revealed in the study that the higher the amount of credit received the lower the loan repayment ability.

Keywords: Loan, Performance, Repayment, Pattern, Cooperative Societies, Acquisition.

JEL Classification: Q14, Q12

Introduction

Cooperative Society is defined 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 enterprise. Cooperative Thrift and Credit Societies (CTCSs) are legal organizations established and regulated by the respective laws of a given country. Thrift and Credit 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 (Akerle and Adekunmbi, 2018). A credit cooperative is also a service cooperative, and allows members to jointly finance their investments or working capital (Agada *et al.*, 2018). Through credit unions, members' pool funds to be loaned to members and at the same time loans can be raised at better interest rates than those offered by commercial banks.

According to Ngure *et al.* (2017) Cooperative Thrift and Credit Societies (CTCSs) is a member-owned financial cooperative whose primary objective is to mobilize savings and afford members access to loans on competitive terms as a way of enhancing their socio-economic well-being. It is

formed by people having a common bond. They are important form of financial intermediary, which over the years has played a vital role in provision of financial services to their members. CTCS's are vital as they marshal member's savings together and in return used to extend credit to members who repays at an interest (Goodluck and Lebitso, 2019).

Credit plays significant role in economic transformation and rural development. Loan is a crucial input required by the cooperators to establish and expand their business with objective of promoting household and national income and increasing the individual borrower's ability to repay borrowed fund (Nwibo and Nwakpu, 2017). It enables the poor household to tap the financial resources and take advantage of the potentially profitable investment opportunities in their immediate environment. Considerable interest have been shown by planners, policy makers, agribusiness managers, agriculturists and financial institutions on the need to give listening ears to cooperators in Nigeria with respect to loan. With these renewed interests in improving the status of the rural households through credit extension, a key issue that has cropped up is the question of loan repayment.

Repayment of borrowed funds has been one of the numerous challenges of developments in the developing world. In a bid to reduce loan defaults and enhancing loan repayment performance among Nigeria cooperators; formations and memberships of groups have been advocated. A group is termed a collection of individuals among whom a set of interdependent relationship exists (Ofuoku and Urang, 2009). The authors further reiterated that groups are characterized by interactions, shared values and beliefs, common goal structure and ideology.

The broad objective of this study is to assess the loan performance, repayment and default among Cooperative Thrift and Credit Societies in Egba Division of Ogun State, Nigeria.

The specific objectives are to: examine the amount of loan acquired and repaid among the members; examine the factors affecting loan repayment performance; examine the determinants of loan default among the cooperative members; and identify the challenges you face in repayment of loan in the study area.

Data Sources and Methodology

The study area is Egba Division of Ogun State, Nigeria. Egba Division is one of the four geographical zones Ogun State is divided into along with Yewa, Ijebu and Remo. Ogun State is located within latitude 7° 0' N and 7° 5' N and longitude 3° 3' E and 3° 37' W (Figure 1). It covers a total land area of 16,409.26 km². The State is bounded in the north by Oyo and Osun States, in the east by Ondo State, in the south by Lagos State and Atlantic Ocean. The State also shares an international border with Benin Republic. It has Abeokuta as its capital. The population of Ogun State according to a

recent estimate from the National population commission is 3,751,140 – male 1,864,907; female 1,886,233.

The soils in the area are dominated by clayey loam developed on underlying granite. There are also laterite soils. Egba area has extensive free forest areas with two gazetted forest reserves of 61.19km² land area. Major timber crops include *Tectonagrandis* and *Gmelinaarborea* with other indigenous species from the free areas (Atanda, 2018).



Figure 1: Map of Ogun State Showing the Study area

The data for this study were obtained using both primary and secondary sources. The primary data were obtained for this study through the use of questionnaire and interview schedules, while the secondary data were collected from journals, publications, statistical bulletin, past projects and internet.

Multi-stage sampling technique was used to select the respondents for the study. The first stage involved purposeful selection of two (2) Local Government Areas in Abeokuta Metropolis (Abeokuta North and Abeokuta South). The second stage however involved in selecting two (2) major multipurpose unions randomly from each Local Government Areas. In the third stage, sampling random selection of five (5) cooperative societies from selected unions while in the last stage, seven (7) cooperative members were selected in each cooperative society making a total of one hundred and forty (140) respondents to be sampled for the study.

Data collected were analyzed using descriptive and inferential statistical tools.

(i) Socio-economic characteristics of the cooperative members

Descriptive statistical tools were used to describe socio-economic characteristics of the cooperative members in the study area. The statistical tools included frequency distribution tables and percentages, charts, measures of central tendency and proportions.

(ii) Amount of loan acquired and repaid among the cooperative members

Descriptive statistical tools were used to examine the amount of loan acquired and repaid among the cooperative

members the study area. The statistical tools included frequency distribution tables and percentages, charts, measures of central tendency and proportions.

(iii) Factors affecting loan repayment performance.

Ordinary Least Square (OLS) regression analytical technique was used to determine the factors affecting the loan repayment performance of the cooperative members. The model in the implicit form is specified as:

$$Q = \alpha_0 + \beta_i X_i + U$$

Where:

Q = Loan Repayment

α_0 = Constant term of the regression

β_i = Coefficient of X_i input

X_i = Independent Variables

U = Error Term

The explicit form of the model is:

$$Q = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + U$$

Where:

Q = Amount Repaid (₦)

X_1 = Borrowers' Age (years)

X_2 = Household Size (number of persons)

X_3 = Interest Rate (percentage)

X_4 = Marital Status (1 = married; 0 = otherwise)

X_5 = Formal Educational (years)

X_6 = Credit Size (₦)

X_7 = Credit Experience (years)

X_8 = Annual Income (₦)

X_9 = Location (1= rural; 0= urban)

X_{10} = Size of society (membership)

U = Error Term

(iv) Determinants of Loan Default among Cooperators

Ordinary Least Square (OLS) regression was used to estimate the loan default rate of the cooperative members.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + U$$

Y = Loan Default (%)

α_0 = Constant term

$\delta_1 \dots \delta_9$ = Coefficients of explanatory variables (i. e $X_1 \dots X_9$)

X_1 = Age of respondents (years)

X_2 = Sex of respondents (Male = 1, Female = 0)

X_3 = Amount of Loan granted (₦)

X_4 = Cooperative size (number)

X_5 = Formal Education (years)

X_6 = Household Size (persons)

X_7 = Marital Status (1 = married; 0 = otherwise)

X_8 = Loan duration (Months)

X_9 = Cooperative Experience (Year)

U = Error term

(v) Challenges facing respondents in loan repayment

Descriptive statistical tools were used to identify the challenges faced by the respondents in repayment of loan. The statistical tools included frequency distribution tables and percentages, charts, measures of central tendency and proportions.

Results and Discussion

Socio-Economic Characteristics of the Respondents

The socio-economic characteristics of owners of the cooperative members in the study area were analyzed in terms of their age, sex, marital status, level of education, religion, household size, primary occupation and monthly income of the cooperators. The observed socio-economic characteristics of respondents which were considered for the study are presented in Table 1.

Cooperative requires the involvement of agile, productive and able-bodied people in most business activities. Younger people are expected to be able to do more work than older ones. All the cooperators were asked to indicate their ages and the results showed that over half (65 percent) of the cooperators were in the age between 31 and 50 years with an average of 44 years. Most members of the cooperators who were in these ages groups were likely to be strong and energetic and eager to work hard in order to fulfill their psychological demands. This in turn can enable the cooperator to achieve high performance. Also, they are expected to be very active and desirous for performance-oriented opportunities (Akerle and Adekunmbi, 2018).

The frequency distribution of respondents according to their sex also revealed that there were 52.1 percent female and 47.9 percent male. This shows that women were more attracted to join cooperative compared to male. This is likely to be the case because women in many African societies are the ones who take care of families particularly the old and youth. This family responsibility forces them to join cooperatives in order to get credit which can be used to invest in small businesses which in turn enables them to generate incomes for taking care of their families. Furthermore, men look for employment outside their families where they can earn more money. This result is consistent with previous study by Goodluck and Lebitso (2019) who found that recently female are more attracted to join cooperative compared to male.

Cooperators were also asked to indicate their marital

status. The findings showed that 70.7% of them were married couples; 17 percent were widows while 5.7 percent, 5 percent and 1.4 percent were Widowed, Divorced and separated respectively. From this result, it shows that majority (71 percent) of the respondents were married couples with family responsibilities and this might be one of the reasons which prompted them to join the cooperative in order to access credit which can be invested in projects for the purpose of generating incomes for their families. This is likely to motivate them to participate actively in the affairs of the cooperatives in order to get income and good services. This if happens, is likely to increase performance of the Cooperatives. On the other hand, those who were widow were also likely to work hard in order to get money for their families knowing that they were single parents.

With education comes the issue of necessary capabilities and skills needed to participate in co-operative organization and their possible impacts. The education extends from giving people information to helping people to develop their own deepest possibilities for building a better world. The findings showed 7 percent had no form of education, 28.6 percent had primary education, 27 percent had secondary education while those with tertiary education were the majority with 37 percent. This is an indication that most of the cooperators are well knowledgeable, highly educated to enhance their cooperative management performance and accessibility to cooperative loan invariably increase their standard of living and welfare.

Household size may determine the family labour at the disposal of a rural household. The results revealed that in terms of respondents' household size, majority (48.6 percent) had household size of 1 - 4 persons while 40.7 percent had household size between 5 - 8 members and 10.7 percent had above 8 household members. The average household size of the cooperative members in the study area was 5 persons per household. This may have a positive effect on business development because there is low tendency of diverting credit to domestic fused.

Religion is a social-cultural system of designated behaviors and practices, morals, worldviews, texts, sanctified places, prophecies, ethics, or organizations that relates humanity to supernatural, transcendental, and spiritual elements. However, there is no scholarly consensus over what precisely constitutes a religion. Findings indicate that as much as 65.7 percent of the cooperative members had Christianity as their religion, 33.6 percent were Muslim while only 0.7 percent practiced traditional religion. This showed that Christianity religion was mostly practiced by the cooperatives members in the study area.

Major occupation of respondents is likely to take more of their time. The occupational distribution of the respondents revealed that majority (31 percent) of the cooperators had trading (buying and selling) as their major occupation, while

20 percent were Government workers, 19 percent had their private jobs, 18 percent were farmers while other cooperative members engaged in other occupations, indicating that the respondents depend heavily on trading for generation of income.

Monthly income is the amount of income you earn in one month, before taxes or deductions are taken out. About 45 percent had monthly income of ₦30,000 – ₦50,000 with the average annual revenue of ₦39,342.86k. It is important to note that over half of the cooperative members earn below ₦50,000 monthly. This implies that majority of the cooperative members' income is low which is the major reason for joining cooperative society.

Amount of loan acquired and repaid

As shown in Table 2, with respect to the range of amount of loan applied for, amount received and amount repaid by the cooperative members, the average amount of loan applied for, approved, disbursed and repaid by the applicants as stated in the table., but the main amount received was ₦625,072.46, while amount of loan default is ₦461,071.22 respectively. This implies that the percentage of loan outstanding is 73.76 percent which is very high. The cooperative management should ensure proper monitoring of the loan disbursed, proper utilization and prompt repayment even before the expiry date of the loan.

Factors affecting Loan Repayment Performance

The result of the regression analysis for the postulated loan repayment is presented in Table 3. It could be deduced that the explanatory power of 65 percent of the variations in the loan repayment by the cooperators is explained by the regression and the remaining 36 percent variation is caused by other independent variables which are not included in the model. Thus, the regression had a good fit implying that the most explanatory variables are included in the model. Also, the F-value of 24.626 was significant at 99 percent level of significance. Thus, it indicates a strong influence of the selected nine variables on the amount repaid.

The coefficient of the variables age, level of formal education and annual net income all statistically significant in relation to loan repayment pattern among the cooperators; this implies that an increase in the unit of these variables will increase the possibility of loan repayment among the cooperators. The coefficient of the household size, marital status, amount of credit received are statistically significant but negative in the loan repayment pattern among the cooperators in the study area; this implies that an increase in the unit of the above mentioned variables will reduce the chance of loan repayment among the cooperators in the study area.

Age is highly statistically significant at 5 percent and has a positive coefficient. Addition of one more year to a cooperators' age has the effect of increasing the amount of

Table 1: Socio-economic characteristics of the cooperative members in the study area

Variables	Frequency	Percentage	Mean
Age			
≤ 30 years	13	9.3	44 years
31 - 40 years	47	33.6	
41 - 50 years	44	31.4	
51 - 60 years	23	16.4	
> 60 years	13	9.3	
Sex			
Male	67	47.9	
Female	73	52.1	
Marital Status			
Single	24	17.1	
Married	99	70.7	
Divorced	7	5.0	
Widow	8	5.7	
Separated	2	1.4	
Educational Status			
No form of education	10	7.1	
Primary education	40	28.6	
Secondary education	38	27.1	
Tertiary education	52	37.1	
Household Size (persons)			
1 – 4	68	48.6	5 members
5 – 8	57	40.7	
> 8	15	10.7	
Religion			
Christianity	92	65.7	
Muslim	47	33.6	
Traditional	1	0.7	
Major Occupation			
Trading	44	31.4	
Transportation	9	6.4	
Artisan	8	5.7	
Farming	24	17.1	
Government Job	28	20.0	
Private Job	26	18.6	
Others	1	0.7	
Monthly Income			
10,000 - 30,000	52	37.1	₦39,342.86k
30,001 - 50,000	63	45.0	
50,001 - 70,000	16	11.4	
TOTAL	140	100	

Source: Field Survey, 2020

loan him/her repays. It means that older cooperators have better loan repayment abilities than young cooperators. This could be due to the many years of cooperative experience that these older cooperators have.

The coefficient of household size and amount of credit received is negatively related to the amount repaid by the cooperator and is highly statistically significant at 5 percent

and 10 percent level respectively. Increasing cooperators household size by one person decreases the amount of loan repaid. This means that the smaller the size of the family, the higher the amount of loan repaid by the cooperator and vice versa. This could have probably resulted from the fact that large household sizes increased the household head's domestic responsibilities and thereby constituted leakage

Table 2: Distribution according to the range of amount of loan applied for, amount received and amount repaid by the cooperative members

Variables	Mean	Standard Deviation
Amount of loan applied for	666,618.71	965,295.29
Amount of loan approved	631,594.20	894,251.10
Amount of loan received	625,072.46	894,826.37
Amount of loan outstanding	461,071.22	455,788.75

Source: Field Survey, 2020

to the household's income stream. As household income depleted, liability of the household increased and there would be greater tendency to divert loans meant for business resulting in default in loan repayment.

The result showed that marital status is highly significant at 1 percent and negatively related to the amount of loan repaid. Single cooperators repaid their loans than married cooperators. This implies that single cooperators will probably have greater loan repayment ability than married cooperators. The results aforementioned might be due the fact that single cooperators have fewer responsibilities than married cooperators. Years of formal education and annual net income are positively and (significantly at 10 percent) associated with amount of loan repaid. This is in line with the expectation that educated borrowers are more efficient in resource allocation and are easily adaptable to changing situations. Also, more net income will result in more loans repaid.

Determinants of Loan Default among Cooperators

The data in Table 4 showed that the co-efficient of the variable age, level of education, and marital status are

significant and negative in the rate of loan default among the cooperators in the study area. This implies that one unit increase in these variables will decrease the loan default rate among the cooperators. The explanatory power of 61 percent of the variations in the rate of loan default among cooperators is explained by these determinants. Also F-value of 36.047 was significant at 99 percent level of confidence. Thus, it indicates a moderate influence of the selected nine variables on the rate of loan default. With respect to age and amount of loan default, the study revealed a negative relationship as indicated in Table 4. Increase in age decreased the amount of loan default.

Years of formal education revealed negative relationship with amount of loan default. That is having no formal education, increases the probability of defaulting in loan repayment compared to having formal education. This could be attributed to the fact that individuals who have no formal education or lower level of education are likely to lack technical and managerial skills for the management of their businesses and hence could affect their revenue and loan repayment. On the other hand, individuals with tertiary

Table 3: Regression analysis on factors affecting loan repayment among cooperators

Variables	Coefficients	t-value
(Constant)	31.727	1.207
Age	0.112**	2.078
Household size	-0.016**	-2.463
Cooperative society interest charged	-0.005	-0.059
Marital status	-0.278***	-3.307
Years of formal education	0.152*	1.771
Amount of credit received	-0.164*	-1.878
Credit Experience	0.013	0.137
Annual net income	0.140*	1.662
Size of society	-0.091	-0.934
R-square value	0.648	
Adjusted R-square value	0.588	
F- statistics	24.626***	

*=Significant at 10 percent; ** =Significant at 5 percent; ***=Significant at 1 percent

Source: Field Survey, 2020

Table 4: Regression Analysis on Determinants of Loan Default among Cooperators

Variables	Coefficients	t-value
Constant	9.679	2.554
Age	-0.051***	-3.426
Sex	-0.128	-1.509
Amount of Loan granted	-0.046	-0.541
Size of society	-0.025	-0.264
Years of Formal Education	-0.313***	-3.755
Household Size	0.091	1.043
Marital Status	-0.214***	-2.652
Loan Duration	-0.116	-1.373
Cooperative Experience	0.070	0.774
R-square Value	0.620	
Adjusted R-square value	0.614	
F- statistics	36.047***	

***=Significant at 1 percent. Source: Field Survey, 2020

education or even higher are likely to have the technical know-how and some managerial skills which could enhance the profit of their business and hence are more likely to repayment their loan on time

Challenges facing respondents in loan repayment

The data in Table 5 presents the challenges facing respondents in loan repayment. Based on the result, High interest rate, Afraid of default payment and Covering long distances to the bank are the major challenges facing the respondents in loan repayment. Others include Inability to produce collateral, Bureaucracy/Protocol, Untimely Disbursement, Delay and difficulty in acquiring credit from

formal institution, Educational level, Unprofitable scale of operations, Bureaucracy of the lenders, Harsh measures of recovery and Previous unsettled debt. The findings revealed that 78 percent of the respondents have challenges of high interest rate, and this discourages them from obtaining loan to enhance their business. Therefore, there should be reduction in interest charge on loan so as to be affordable to their prospective borrowers.

Conclusion and Policy Implications

From the analysis of the study, it was concluded that the females participate more actively than male in cooperative activities in the study area who are still within

Table 5: Distribution by challenges facing respondents in loan repayment (n = 140).

Constraints	Frequency	Percentage
High interest rate	109	77.9
Inability to produce collateral	50	35.7
Bureaucracy/Protocol	35	25.0
Untimely Disbursement	29	20.7
Delay and difficulty in acquiring credit from formal institution	45	32.1
Covering long distances to the bank	57	40.7
Educational level	49	35.0
Unprofitable scale of operations	50	35.7
Afraid of default payment	64	45.7
Bureaucracy of the lenders	42	30.0
Harsh measures of recovery	41	29.3
Previous unsettled debt	44	31.4

Source: Field Survey, 2020

their economically active age with an average age of 44 years. The cooperators were married and had acquired one form of education or were literates with an average household size of 5 persons. The average amount of loan applied for, approved, disbursed and repaid by the applicants was ₦666,618.71, ₦631,594.20, ₦625,072.46 and ₦461,071.22 respectively. With reference to the topic under consideration – Loan performance and repayment pattern among members of cooperative societies in Egba Division of Ogun State, age, household size, marital status, years of formal education, amount of credit received, and annual net income are significant in influencing the loan repayment of the cooperators.

Based on the analysis and findings of this study, it was therefore recommended that: Cooperative societies should address the issue of loan repayment performance by monitoring the use that respondents put their loan to as it was revealed in the study that the higher the amount of credit received the lower the loan repayment ability. There is need for further education among the cooperators as it was revealed that the higher the educational attainment the higher the loan repayment ability. Cooperative societies should ensure that whoever they are lending to meets a minimum threshold in asset value before loans are accessed. This will help to reduce default.

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Received: August 09, 2024 Accepted: November 13, 2024