

Challenges of 21st Century Micro-Credit Firms: Debt Recovery and Clients Attitude to Repayment

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ABSTRACT: *The dual-faced challenge of micro financing has become worrisome among key players in the sector; while microcredit firms are faced with issues relating to debt recovery resulting from clients' poor attitude towards repayment, clients are faced with the challenge of managing the credit. This study is however aimed at evaluating how firm skill is and structure can enhance debt recovery as well as establish the extent to which attitudinal disposition affect credit repayment by clients. It employed a survey of 40 credit officers drawn from 10 selected micro credit firms in Abeokuta metropolis who were purposively selected as well as random selection of 300 clients who obtain microcredit from the microcredit firms. The questionnaires were adapted from ASPIC Adjusted debt attitude survey and John Watson Materialism and Debt constructs. The analytical technique is multiple regressions. Research findings reveal that skills and structure have a direct effect on debt recovery and attitude disposition of client has a direct effect on credit repayment. It is therefore recommended that microcredit firms should investigate and monitor what the micro credit is meant for and if possible help the borrower in procuring the items/goods the credit is meant for as well as provide useful guide to borrowers on better ways to turnover proceeds from loan instead of diverting the loan*

KEYWORDS: microcredit, debt recovery, repayment attitude

INTRODUCTION

Microcredit has gained a wider popularity in recent times especially among petty traders in Abeokuta. The unlicensed microcredit firms have dominated the trading landscape because their credits are considered to be more accessible compared to conventional microfinance institutions. No fewer than 93% of petty traders in the area enjoy the service of one microcredit firm or the other to enhance their socio-economic life (BusinessTrend, 2019). However, the partnership is established and it is designed in such a way that while some invest to earn interest on their investment, others obtain micro-credit to boost their businesses and the microcredit firms reap a return. In spite of the mutual partnership, many of these firms collapse untimely. The work of Awokosile (2019) established that an average of 3of these microcredit firms liquidate every 2 years due to continual decline in capital. Presently these firms find it difficult to pass the test of time as it seems, on daily basis harder to get their clients repay their credit. A lot of factors have been

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attributed to this development. Nwachuckwu (2018) asserts that inability to recover debt might not be unconnected with firm's experience. He posits that some of these microcredit firms lack the required training to manage debt recovery which critical to its success.

Studies showed that interest charged by these MCFs ranges 2-3% (Ademuyiwa, 2017; Dalogun, 2016; Ojuolape, 2015) which is considered to be comparatively low according to Remmota (2018). In fact NACCIMA (2017) rated the mode of repayment as the easiest of all time as it is made flexible such that borrower can choose to pay at an agreed interval.

Despite the flexibility, defaulting rate is relatively high. Studies of Abdullahi, 2018; Ojuolape, 2015, Maliki, 2017 and Thompson; 2018, shows that an average of 65% of micro borrowers are not consistent in credit repayment while about 45% do not pay back at all, However, Hunmari (2017) asserted that skills and structure of the microcredit firms have been responsible for the hiccup. Desmond (2016) opined that most of microcredit firms are not technically equipped enough to handle debt recovery. Ogunmi (2016) found that most of these unlicensed microcredit agencies do not have the required debt recovery skills in managing their clients. Abdullahi (2018) also posits that micro credit firms do not have a working structure to effectively drive credit recovery which differs from business environments. On this note, it is hypothesized that:

H₁1: Skill and structure of the microcredit firms are significantly affect debt recovery

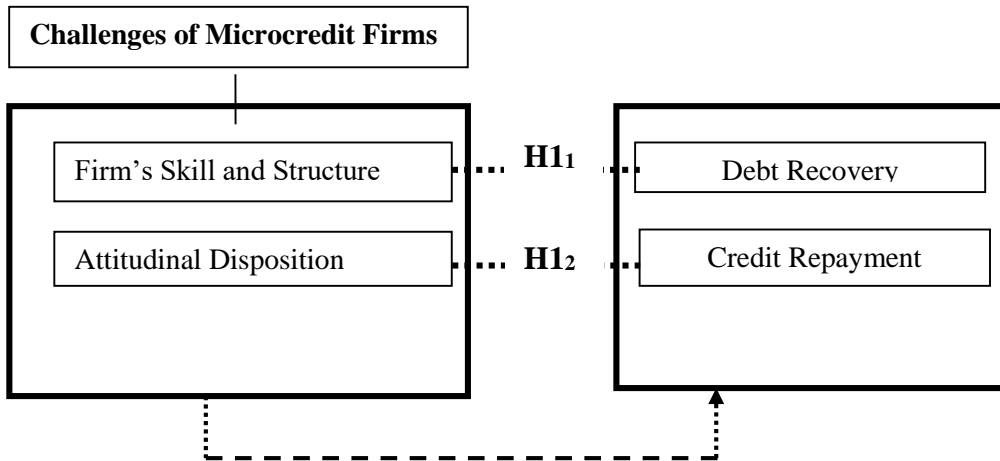
Ordinarily, efforts to recover loan from defaulters usually seem to be difficult. Tremos (2010) claimed that a man would naturally not wants to repay debt especially if what the credit has been for does not yield expected return. The work of Briham (2000) emphasized the role attitude plays in human behaviour. He established that an individual would either act in dictate to their conscience and circumstance. Brandi (2018) asserted that some individually would not want to payback for reasons at their disposal while some would not pay back if they do not make expected profit or lose outrightly. These few studies show that borrower's attitude is one of the major factors affecting credit recovery as these microcredit firms consider it more challenging because it adversely affects the performance of their business. On this note, it is hypothesized that:

H₁2: Attitude disposition of client significantly affect credit repayment

Objectives of the study

The study sought to achieve two objectives. First, to evaluate how firm's skill and structure affect debt recovery and second, to establish the extent to which attitudinal disposition affect credit repayment by clients.

Conceptual Model



Source: Author's model (2021)

1.4 Model specification

$$Y = \alpha + \beta X + \mu$$

X₁ = Firm's Skills and Structure = FSAS

x₁¹ = emotional intelligence

x₁² = Communication & Negotiation

x₁³ = time management)

X₂ = Attitudinal Disposition = ATDIS

x₂¹ = personality,

x₂² = Number of MCFs they patronize

Y₁ = Debt Recovery = DBTRCV

Y₂ = Repayment = CRDRPM

$$DBTRCV = \alpha + \beta FSAS + \mu \dots\dots\dots 1$$

$$CRDRPM = \alpha + \beta ATDIS + \mu \dots\dots\dots 2$$

α₀ = Fixed factor

β₁ = Intercept/slope

μ = Error term

METHODOLOGY

The study is a survey. It obtained a sample of 40 credit officers (CO) from among 10 selected microcredit firms in Abeokuta. A purposive sampling of 4 credit officers was carried out on each of the selected microcredit firms bringing the total to 40 credit officers. The reason is that each of the sampled microcredit firms has an average of 5 credit officers. On the other hand, convenience sampling of 300 micro borrowers was also selected among co-ordinated credit groups in different areas within the metropolis. Adapted self-administered questionnaire was the main instrument. It

made use of questions sourced from ASPIC Adjusted debt attitude survey and John Watson Materialism and Debt constructs. Two set of questionnaires were drafted. The first was drawn to elicit information from credit officers in relation to firm structure/staff skills and client assessment of debt recovery effort. The second set of questionnaire was targeted at obtaining information from micro borrowers on attitudinal disposition (personality) in relation to credit repayment parameters.

Rating scale: Components on firm's structure were rated to assess its adequacy (Adequate = 1, Inadequate =2, Moderate =3, I don't know = 4); Components of credit officers' skills as credit officers' assessment of borrowers attitudes toward debt recovery are rated using (Very High = 1, High = 2, Average = 3, Low = 4, Very Low = 5). Personality components of borrowers' attitude were also measured using (Very High = 1, High = 2, Average = 3, Low = 4, Very Low = 5) while credit repayments parameters are measured using (Strongly Agree = 1, Agree = 2, Disagree = 3, Strongly Disagree = 4 and Undecided = 5). Multiple regressions is the analytical techniques. The variables are contained in the model.

Pilot Test

A pilot test was conducted with a sample of 6 credit officers in 2 selected microfinance firms in Abeokuta (Lavender MFB and Solid Rock MFB). 10 borrowers were also sampled in the areas which the banks are located.

Reliability Test

The estimated Cronbach's alpha coefficient and Composite reliability test for reliability of the data were obtained. Reliability is actualized when the value of the Cronbach's alpha coefficients is above 0.7 and as such indicates an acceptable level. In addition, all Composite reliability values are also found to be above 0.7. This implied that all items measure the latent constructs with reliability as shown in Table 3.1.

Table 3.1 Cronbach's Alpha and Composite Reliability Test for Each Construct

Factors	Cronbach's alpha coefficient	Composite reliability
Firm's structure (FS)	.926	.929
Firm's skill (FSk)	.829	.834
Debt recovery (DBTRCV)	.916	.917
Attitudinal Dispos (ATDIS)	.781	.788
Credit Repayment (CRDRPM)	.905	.906

Author's computation, 2020 (SPSS)

Table 3.2. Convergent Validity Results for Each Construct

Factors	Items	Standardised loadings	AVE	t-value
FS	FS1	0.749	0.748	8.374***
	FS2	0.862		7.131***
FSK	FSK1	0.936	0.828	10.730***
	FSK2	0.883		9.734***
	FSK3	0.854		10.325***
DBT	DBT1	0.824	0.823	8.966***
	DBT2	0.956		11.435***
	DBT3	0.842		14.365***
ATD	ATD1	0.847	0.792	5.213***
	ATD2	0.777		6.117***
	ATD3	0.847		7.459***
	ATD4	0.882		6.882***
CRD	CRD1	0.922	0.806	8.557***
	CRD2	0.769		5.256***
	CRD3	0.957		8.363***
	CRD4	0.855		11.232***
	CRD5	0.900		7.265***
	CRD6	0.856		8.881***
	CRD7	0.755		9.632***
	CRD8	0.758		5.326***

Note: *** $p < 0.001$.

The AVEs and correlations between each construct were used to perform the test. It was observed that the square root of each AVE was greater than its corresponding correlations (Fornell & Larcker, 1981); therefore, discriminant validity was also achieved. Based on the results of the convergent and discriminant validity, construct validity was achieved and validated in the data.

Table 3.3 Discriminant Validity for Each Construct

Index	1	2	3	4	5
FS	.902				
FSK	.512	.792			
DBT	.285	.301	.910		
ATD	.290	.380	.341	.902	
CRD	.231	.315	.365	.227	.792

Note: Bold values in diagonal elements report the AVE and other matrix entries report the squared correlation estimation between them.

Tale 3.4 Construct Validity

Construct validity is used to identify that the selected factors have the required accuracy for measuring the desired constructs. For this purpose, convergent validity and discriminant validity were tested. In order to examine the convergent validity, the Average Variance Extracted (AVE) (Fornell and Larcker, 1981) and the factor loadings were estimated. The AVE and factor loadings for each construct were above the threshold value of 0.7. Results for the AVEs were also all above 0.5; hence, according to Fornell and Larcker (1981), they were at the acceptable level. Also, the

standardised factor loadings for the retained items ranged from .926 to .713 and were all significant at $p < .001$ level (Table 3.2). Based on these findings, convergent validity was achieved.

Data Analysis

Table 4.1: Demographic Characteristics of Credit officers

<i>Age (years)</i>	Frequency	Percentage
18 – 25	26	65%
26 – 34	9	23%
35 and above	5	12%
<i>Gender</i>		
Male	18	45%
Female	22	55%
<i>Belief</i>		
Christianity	23	58%
Islam	16	40%
Others	1	3%

Source: Researcher’s survey, 2021

Table 4.1 shows the demographic distribution of the sampled credit officers (CO). Majority of the credit officers are 25 years or less. This proves their level of agility and committed spirit. Female gender also dominates the workforce as it is presumed that the female gender has a higher tendency for debt recovery. Lastly, majority of the sampled credit officers (58%) are Christians

Table 4.2: Firm’s skills and structure

Structure	Adequate	%	Inadequate	%	Moderate	%	I do not know	%		
Number of credit officers	1	3	9	23	27	68	3	8		
Genuineness of reporting system	6	15	19	48	4	10	1	3		
Skills (credit officer)	V/High		High		Average		Low		V/Low	
Emotional Intelligence skills	-	-	18	45	17	43	5	13	-	-
Communication skill	12	30	12	30	15	38	1	3	-	-
Time management skill	9	23	15	38	6	15	6	15	4	10
Debt Recovery (Clients assessment)	V/High		High		Average		Low		V/Low	

Consistence of repayment	-	-	1	3	9	23	22	55	8	20
Willingness/intention/ sincerity toward repayment	-	-	3	8	6	15	20	50	11	28
General attitude towards repayment	-	-	3	8	6	15	20	50	11	28

Source: Researcher's survey, 2021

Table 4.2 rates credit office management structure and its debt recovery skills. Going by the number of credit officers available in the firm, the respondents claimed the number is moderate for microcredit management. It is also found that the genuinity of reporting system is inadequate. This implies that most of these microcredit firms do not prepare adequate and succinct records of proceedings. Also from the table, the majority of the surveyed credit officers have Emotional Intelligence (EI), Communication Skill (CS) and Time Management Skills (TMS) higher above average.

The table further assessed clients CO experiences with the microborrowers. In terms of consistence of repayment, 55% which represents the highest proportion of borrowers are inconsistent. Sincerity and general attitude toward repayment also occupies a higher proportion (50%).

Table 4.3: Demographic Characteristics of Micro borrower

<i>Age (years)</i>	Frequency	Percentage
20 – 30	18	6
31 – 40	193	64
41 and above	89	30
<i>Gender</i>		
Male	65	22
Female	235	78
<i>Belief</i>		
Christianity	107	36
Islam	190	63
Others	3	1
<i>No of MCF</i>		
1	69	23
2 or more	231	77

Source: Researcher's survey, 2021

Data presented in table 4.3 shows that majority of the sampled micro borrowers are between 31 – 40 years of age which represents moderately matured borrower. About 78% of the respondents are

also female. This suggests that more women are found in the category of micro borrowers because of their prospects for micro businesses. Furthermore, majority of the respondents patronize more than one microcredit firms.

Table 4.4: Attitudinal Disposition (Personality of the micro borrowers)

(Very High = 1, High = 2, Average = 3, Low = 4, Very Low = 5).

Attitudinal Disposition	1	%	2	%	3	%	4	%	5	%
Confidence	9	3	37	12	180	60	46	15	28	9
Goal Driven	66	22	54	18	108	36	42	14	30	10
Desire for materialistic things	79	26	59	19	79	26	76	25	7	2
Willingness to sacrifice	38	12	87	29	68	23	54	18	53	17

Source: Researcher's survey, 2021

Table 4.5 Credit repayment parameters

(Strongly Agree = 1, Agree = 2, Disagree = 3, Strongly Disagree = 4 and Undecided = 5)

Credit repayment parameters	1	%	2	%	3	%	4	%	5	%
I feel comfortable having debt	23	8	69	23	117	39	59	20	32	10
I feel terrible if my closest relation or friend know that I am indebted	29	10	84	28	102	34	54	18	33	11
I feel comfortable discussing a loan matter with people	65	21	84	28	92	30	56	19	3	1
It is acceptable obtain microcredit to start up a micro business even if it not certain you can repay with interest	16	5	89	29	96	32	67	22	32	11
There are times when it is a good idea to borrow money to pay off another debt	20	7	93	31	96	32	71	24	28	9
I consider a loan which I can pay comfortably every month to be appropriate	68	23	87	29	62	21	63	21	20	7
Much longer term mortgages be readily available	16	5	89	29	96	32	67	22	32	11
I know where to look for help when I am indebted	31	10	99	33	86	29	77	26	27	9

Source: Researcher's survey, 2021

From table 4.4, majority of the respondents have average confidence towards borrowing with the mindset that they could repay any micro credit obtained as well as being goal driven in the management of micro businesses. Majority of the respondents also prove to have desire for

material things and high willingness to sacrifice the micro credit for any other unplanned circumstance.

Majority of the sampled micro borrowers disagreed to being indebted. In the same vein, majority of the respondents as shown in the survey also would feel terrible if their closest relation or friend know that they are indebted. As regards discussing a loan matter with people, whether it is acceptable to obtain microcredit to start up a micro business even if it not certain one can repay with interest and whether there are times when it is a good idea to borrow money to pay off another debt. Majority of the respondents disagreed.

Majority of the micro borrower agreed that they consider a loan which they can pay comfortably every month to be appropriate. The majority also claimed that they know where to look for help when they are indebted.

Test of Hypotheses

Hypothesis One

H₁₁: Skill and structure of the microcredit firms are significantly affect debt recovery

Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.692(a)	.782	.708	.813

a. Predictors: (Constant), skills and structures

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.321	.634		3.487	.005
	debt recovery	.208	.253	.658	5.471	.000

b. a. Dependent Variable: debt recovery

ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.500	1	84.500	23.651	.000(a)
	Residual	52.400	298	2.800		
	Total	89.900	299			

a. Predictors: (Constant), skills and structure

b. Dependent Variable: debt recovery

Hypothesis Two

H₁₂: Attitude disposition of client significantly affect credit repayment

Regression Model Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633 (a)	.705	.629	.799

a. Predictors: (Constant), Attitude disposition of client

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.11	.611		3.31	.005
	credit repayment	.203	.231	.641	5.12	.000

b. a. Dependent Variable: credit repayment

ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.210	1	84.500	23.651	.000(a)
	Residual	46.400	298	2.800		
	Total	79.610	299			

a Predictors: (Constant), Attitude disposition of client

b Dependent Variable: credit repayment

FINDINGS AND DISCUSSIONS OF RESULTS

The statistical computations for hypothesis 1 show that the R-squared value is 0.782. This result suggests that skills and structure have a direct effect on debt recovery. From the result also, skills and structure accounted for 78% of debt recovery and the remaining 22% is attributed to factors outside the model. It can therefore be concluded that skills and structure is significantly effective to determine debt recovery for consumer product. The rejection of the null hypothesis however subject to the decision rule.

The statistical computations for hypothesis 2 show that the R-squared value is 0.705. This result suggests that attitude disposition of client has a direct effect on credit repayment. From the result also, attitude disposition of client accounted for 71% of debt recovery and the remaining 29% is attributed to factors outside the model. It can therefore be concluded that attitude disposition of client is significantly effective to determine credit repayment. The rejection of the null hypothesis however subject to the decision rule.

The R-squared value obtained is also in agreement with the F-statistic and t-statistic obtained in a and b above which show a good representation of its data. The residual value above has also helped to overcome the problem of autocorrelation.

Recommendations

- i. Investigating and monitoring what the micro credit is meant for and if possible help the borrower in procuring the items/goods the credit is meant for.
- ii. Provide useful guide to borrowers on better ways to turnover proceeds from loan instead of diverting the loan
- iii. Loan should be given based on financial record and recommendations from notable personality who could guarantee the borrower
- iv. There should be synergy among MCF to track those that have multiple partners. This should be in place to ensure no micro borrower access micro credit from more than credit firm and if it must be, records of financial performance must be consistent.

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