INFLUENCE OF CREDIT ADMINISTRATION ON FINANCIAL CONTROL AMONG CO-OPERATIVE THRIFT AND CREDIT SOCIETIES IN EKITI STATE, NIGERIA

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ABSTRACT: *This study investigated the influence of credit administration on financial control among Cooperative Thrift and Credit Society (CTCS) in Ekiti State, Nigeria. Specifically, the objectives are; to determine the extent to which creditworthiness influence the allocation of credit from cooperative thrift and credit societies in Ekiti State and to explore the extent to which credit selection risk influence usage of credit from cooperative thrift and credit societies in Ekiti State. Data used for the study were obtained using a structured questionnaire administered to 383 respondents who were members of the cooperative thrift and credit society in Ekiti north senatorial district, Ekiti State. A stratified sampling technique was employed in selecting the participating members from each of the local governments and data was analysed. Primary and Secondary data are used. To achieve the stated objectives, t-test and linear regression analyses were adopted to measure the effect of the variations of the independent variable (creditworthiness and credit selection) on the dependent variable (financial control of credit thrift cooperative society). Findings reveal that the t-calculated value of 2.3345 and the p-value of 0.020 implies that creditworthiness has a significant effect on the allocation of credit among Cooperative Thrift and Credit Societies in Ekiti, also with a t-value of 4.0469 and an associated p-value of 0.000. There is a significant influence of credit selection on the usage of funds from CTCS in Ekiti State. Thus, the study concluded that credit administration has a significant effect on financial control among Cooperative Thrift and Credit Society in Ekiti State, Nigeria. It is recommended that CTCS need to disburse credit or loans to members based on their needs and usage of the funds, especially for viable and worthwhile projects.*

KEYWORDS: Credit Administration, Financial Control, Credit Worthiness, Credit Selection, Credit Thrift Cooperative Society.

INTRODUCTION

Cooperative Thrift and Credit Societies (CTCS) are member-based organizations that help members to address economic problems. CTCS are not banking institutions but their ultimate goal is to encourage thrift among the members and to meet the credit needs of people who might otherwise fall prey to loan sharks and other predatory lenders (Adekunle & Hensen, 2007). The motivation behind the formation of Cooperative Thrift and Credit Society (CTCS) is to encourage thrift among their members and to pool these savings into a fund so that members can borrow from this should they need to do so (Adetiloye, Taiwo, Okoye, Achugamonu, 2020). The CTCS mobilize funds for use in the sectors where funds are needed and also create in the members' spirit of savings. With its simple operations, the CTCS has been known to be of assistance to members in the achievement of goals and fulfilment of dreams (Aribaba, 2013).

The main goal of the Cooperative Thrift and Credit Society (CTCS) is to provide credit to its members, as well as to mobilize savings, provide insurance, and provide advice. When credit is distributed in an inefficient manner, it raises costs for successful borrowers, depletes the fund, and limits CTCS flexibility in redirecting funds to alternative uses (Mirach, 2010). The more the credit, the higher the risk associated with it. The Cooperative Thrift and Credit Society's lending capacity is reduced due to a problem of financial control caused by poor credit policies.

There are over 15,673 registered CTCS in Ekiti State, each with its own credit administration, policies, and characteristics that affect its performance (Ministry of Investment, Trade and Industries, 2019). These policies differ due to the numerous loan terms and circumstances associated with their various products. Aside from these credit regulations, there are industry standards on what a good credit administration is and what it is not (Nyawera, 2013). A Cooperative Thrift and Credit Society may be forced to adjust its credit policy to align with other informal sectors in the market that engage in certain behaviours. While market risk is a major business worry for all institutions in Nigeria's financial sector, credit risk is mentioned as a serious concern by 95% of financial institutions (CBN, 2011).

Credit administration and financial control are issues for cooperative thrift and credit societies, as they are for all cooperatives around the world. One of these issues is the insufficient amount of capital that can be raised from CTCS members in comparison to the members' needs. Lack of managerial talent, poor leadership, a lack of mutual training and exposure to modern management techniques, an ambiguous government role in the cooperative movement, and the challenges of a changing world are among the other issues. Other issues include faulty loan policies that focus on borrowers' creditworthiness rather than project viability, a lack of regular monitoring and supervision of loans, inefficient loan management, and insufficiently trained staff, all of which contributed to organizational and management dysfunction, resulting in inefficient loan management for CTCS members. Low levels of education among CTCS members also contributed to the CTCS' ineffectiveness. Due to a lack of proper credit administration, all of these issues have resulted in low welfare packages for members.

Nonetheless, CTCS has benefited members, particularly in terms of unexpected loans and emergencies, as it eliminates the need for unnecessary documentation against financial institutions that may be demanded from members/customers. The CTCS also provides a platform for members to purchase equipment, food supplies, and obtain long-term loans at nil

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or low-interest rates. Despite the numerous benefits of cooperative societies, many cooperators do not appear to gain or reap significant benefits from their membership in various cooperative societies in terms of capital formation and welfare status improvement, raising questions about the credit administration policy.

Despite empirical evidence from Nigeria (Akerele, 2010; Kareem, Arigbabu, Akintaro & Badmus, 2012; Aribaba, 2013; Otaokpukpu, Ogbu & Okonkwo, 2017; Abdullahi, 2018; Aribaba, Ahmodu & Yusuf, 2018; Olaore & Alao, 2019) on the benefits, challenges, and roles of CTCS in promoting SMEs, (more crucially, to the best of the researchers' knowledge) there is no empirical evidence in Ekiti State Senatorial Districts where this research is being conducted in relation to the influence of credit administration and financial control which this study considers quintessential and stands to fill a research gap in the literature. Therefore, the main objective of the study is to investigate the influence of credit administration and financial control among cooperative thrift and credit societies in Ekiti State, Nigeria. The specific objectives of the study would determine the extent to which creditworthiness influences the allocation of credit from cooperative thrift and credit societies in Ekiti State, and explore the extent to which credit selection risk influences usage of credit from cooperative thrift and credit societies in Ekiti State. The remaining section is structured into the literature review, methodology, discussion of result and conclusion.

LITERATURE REVIEW

Credit administration is primarily concerned with making efficient and profitable use of the bank's resources in order to generate more favourable economic growth (Mohammed, 2012). Simultaneously, it seeks a fair distribution of wealth across the various parts of the economy so that the economic fabric can flourish without hindrance, as specified in the national objectives in general and the banking objectives in particular (Mohammed, 2012). Credit administration refers to the process of ensuring that customers will pay for the goods or services that have been given. Due to lax credit standards and inappropriate credit policies, many businesses are experiencing liquidity and working capital issues. A credit policy, according to Scheufler (2019), establishes a consistent set of goals for the business and acknowledges the credit and collection department as a key contributor to the organization's strategies. If credit policy is properly established, implemented, and understood at all levels of the financial system, it enables management to maintain proper bank loan standards in order to avoid unnecessary risks and accurately assess business development opportunities.

Credit administration is discussed in this study in terms of creditworthiness and credit selection. In an ideal world, when extending credit, creditworthiness must be prioritized so that credit suppliers gain an acceptable level of confidence, allowing them to provide the maximum amount of credit at the lowest cost (Mehta) (1972). According to Campsey and Brigham (2015), the 5Cs lending policy, which includes capacity, character, collateral, condition, and capital, can assess an individual's creditworthiness. A credit selection arrangement is one in which a company chooses the best loan applicants for possible payout. Wamasembe (2002) defines it as a contractual stipulation under which a company grants credit to customers; additionally, these choices specify the credit period as well as the credit limit The firm should make selection more appealing to clients as a form of reward without incurring excessively high levels of bad debts or raising the firm's risk. The credit length, interest rate, method of

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calculating interest, and frequency of loan instalments are usually specified during credit selection.

According to Prempeh (2015), organizations operate in an imperfect world where tactics do not always perform as anticipated, and hence control is necessary due to dynamism in the environment and behavioural elements linked with employee motivation. As a result, control measures must be implemented into business strategy in order to achieve the desired results. Financial control is a management tool that allows for the rapid identification and elimination of factors that obstruct the achievement of objectives. Budgetary control, improved financial reporting, administrative cost reduction and efficiency, and eliminating, reducing or managing unnecessary business risk. (Becker, Baltzer & Urlich, 2011; McCrindell, 2015).

Merton's (1974) credit risk theory explains a default incidence as a result of the evolution of a firm's asset as shown by a process of distribution with persistent parameters. The hypothesis underpins a study on the risk of CTCS guaranteeing credit to customers who may default if proper precautions are not taken. As a result, in order for CTCS to reduce loan default, members and fund borrowers should follow technical measures to limit the risk of non-payment. The CTCS earns most of its money through interest on loans taken out by consumers and from investments made with their savings, according to the hypothesis. As a result, credit management systems must be effective and efficient in order to take into account a client's ability to repay a credit facility, benefiting both the institution and the customer. When deciding on a loan facility, time and cash flow are essential aspects to consider. Thus, when CTCS advances credit at a lower interest rate, issues associated with the default rate will not be a major concern of CTCS because the borrowers will be willing to pay back as and when due.

A plethora of studies on credit administration and financial credit in developing nations have been conducted. Sangali (2013), for example, conducted a comparative analysis of the financial performance of Kisarawe District saving and credit cooperative societies from 2008 to 2011. The study's findings demonstrated that ESACCOs utilize economies of scale more efficiently than C-SACCOs, i.e., the former enjoy a greater cost advantage as a result of increased output of total assets than the latter, and hence E-SACCOs do better financially than C-SACCOs. For the years 2010 and 2012, Nyawera (2013) investigated the impact of loan policies on the financial performance of microfinance firms. Secondary data from the Kenyan Central Bank and individual institutions were used to compile the data. Financial performance is proxied by return on assets, while credit policy is proxied by credit standard policy, credit terms, and collection effort. The research was carried out using regression analysis which indicated that credit standard policy, credit terms and collection effort significantly affect financial performance.

In Nigeria, Ayodele (2014) investigated the role of cooperative thrift and credit societies in fund mobilization. Ajayi Crowther University's cooperative thrift and credit society in Oyo State, Nigeria, was used as a case study. The responses were analyzed using simple percentages, and it was determined that cooperative thrift and credit societies in Nigeria are effective at mobilizing funds from the surplus unit (savers) to the deficit unit (borrowers), an activity that has resulted in the co-operators' and their societies' economic development. Njihia and Muturi (2015) looked into factors affecting the financial performance of Savings and Credit Co-operative Societies: Case Study Kiambu County. The study's objectives were loan default, dividend policy, and the size of Sacco's membership. The study found that dividend policy and

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membership had a favourable impact on Sacco's financial success, however, loan default had a negative impact on financial performance.

Iheanacho and Ahaotu (2017) investigated the role of thrift and credit cooperative societies in agricultural financing in the Mbaitolu Local Government Area to determine their contributions to the well-being of members and the host community. The Chi-Square (X2) statistical testing tool was used to determine that the number of loans disbursed was insufficient for business expansion. Aribaba, Ahmodu, and Yusuf (2018) investigated the impact of cooperative thrift and credit societies' funding of small-scale businesses on job creation in Ondo State. According to regression research, an increase in the percentage of cooperative societies that provide lending facilities resulted in a 30 percent increase in job creation in the industry. According to Ohen, Ofem, and Arikpo (2018), the majority of the cooperatives were founded in 2011 with 16-20 members at the time of formation and now have 21-40 members. The benefits derived from society include the provision of input for production, credit accessibility, and product marketing. The majority of the money distributed to members is between 11000 and 31000 naira. It was also discovered that the majority of the funds available to members came from their own contributions. The results also revealed that cooperatives were ineffective and inefficient in queue management since the average idle time (-0.26) and traffic intensity were both more than one (1.26).

Jokka (2019) looked at the elements that affect the profitability of savings and credit cooperatives in the Boloso Sore District, Wolaita Zone, Ethiopia's southern area. The study found that age, educational status, training availability, family size, loan repayment, saving habit, and service delivery all have a substantial impact on savings and credit cooperative profitability. Mishra and Mohapatra (2020) examined the profitability and financial health of Sambalpuri Bastralaya Handloom Co-operative Society Limited in Bargarh district, it was discovered that despite being an apex institution and the largest cooperative society, SBHCSL is still suffering from the effects of a diminishing handloom market, according to the report. Lack of marketing increased credit, low sales at exhibitions and retail showrooms, insufficient budget, the need for greater product customization, and increased operating expenditures are only a few of the reasons for its poor financial health. In Rivers State, Nigeria, Sotonye (2020) investigated the profitability of fish production by co-operative society members. The study found that fishery investment and revenues contribute positively to the profit of cooperative fish farmers in the state and that the major fish production constraints in Rivers State are high fishing input costs, a lack of sufficient capital, poor catch, poor sales, and oil/industrial pollution. In the Remo Division of Ogun State, Nigeria, Dada and Adefulu (2021) investigated the impact of cooperative credit facilities on members' business profitability. The study concluded that cooperative credit facilities had a significant effect on members' business profitability in Remo, Ogun State, Nigeria.

Following a review of the literature, it was discovered that while there are studies on cooperative and profitability, savings and loan advances in microfinance, there are few studies on CTCS, particularly in Ekiti State, Nigeria, which this study investigated. The study investigates the impact of credit administration on financial control among Cooperative Thrift and Credit Society in Ekiti State, Nigeria, based on this theme.

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METHODOLOGY

Research Design, Population, Sample and Sampling Technique, Source of Data

A descriptive research design was employed in the study. The population of the study is made up of the entire cooperative thrift and credit societies and their members in Ekiti State. As of the year-end of 2020, there were 15,673 registered cooperative thrift and credit societies with active members of about 804,525 in the entire local government of Ekiti State. However, the study was concerned with 8 rural local governments namely: Ijero, Otun, Ikole, Aramoko, Ilejemeje, Gbonyin, Omuo and Moba local government which accounts for about 923 cooperative societies with active members of 9,351.

The study applied Taro Yamane (1967) model to determine the sample size.

$$n = \frac{N}{1+N(e)^2} \quad 1$$

Where n = Sample size to be tested =9,351 for members

N = Total population size

e = Acceptable error term (0.05)

Therefore, the total sample size is calculated thus:

CTCS members = $n = \frac{9351}{1+\ 9351(0.05)^2}$ 2

CTSC members = n= 383

Employing the Taro-Yamane formula, it implies that 383 was the sample size for members of cooperative thrift and credit societies in the selected rural areas in Ekiti State. For effective coverage, a proportionate sampling technique was used to select the respondents based on local government settings. The data for the study was primarily sourced through a structured questionnaire. Hence, the questionnaire was administered accurately among the CTCS members in the selected local governments in Ekiti State.

Method of Analysis and Model Specification

A t-test is adopted to measure the effect of the variations of the independent variable (creditworthiness and credit selection) on the dependent variable (financial control of credit thrift cooperative society). In order to determine the relationship between the dependent variable of financial control of credit thrift cooperative society (allocation of credit and usage of credit) and the independent variable of credit administration (creditworthiness and credit selection), the study adapted Nwayera (2013) model. Hence, with modification, the model for the study is stated in line with the objectives as:

Objective I: determine the extent to which credit worthiness affect allocation of fund from Cooperative thrift and credit societies in Ekiti State

CA = f (CW) 3

CA= $\alpha_o + \beta_1$CW + e 4

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Where:

CA = Credit allocation

CW = Credit worthiness

Objective II: explore the extent to which credit selection influences usage of funds from cooperative thrift and credit societies in Ekiti State

UC = f (CS) 5

$UC = \alpha_o + \beta_1 Cs + e$ 6

Where:

UC = Usage of credit

CS = Credit selection

RESULT AND DISCUSSION

Ho_1: Creditworthiness has no significant effect on the allocation of credit from Cooperative thrift and credit societies

H_1: Creditworthiness has a significant effect on the allocation of credit from Cooperative thrift and credit societies

Table 1: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Creditworthiness has no significant effect on the allocation of credit from Cooperative thrift and credit societies	.2564	2.1466	.1108	.0403	.4718	2.3345	382	.020

Source: *Researcher's computation using SPSS version 20, 2021*

Interpretation

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Paired T-test which is appropriate for testing the mean difference between paired observations The paired sample test seals up the relationship that creditworthiness has a significant effect on the allocation of credit from cooperative thrift and credit societies in Ekiti State as indicated by the t-value = 2.3345 and probability value = 0.020 as shown in table 1. This implies that creditworthiness has a significant effect on the allocation of credit from cooperative thrift and credit societies in Ekiti State.

Decision Rule: Accept the null hypothesis if the p-value is greater than 0.05, otherwise, reject.

Decision: Since the p-value is 0.000 which is less than the critical value of 0.05, this study upholds that there exists a significant positive relationship between creditworthiness and allocation of credit from CTCS in Ekiti State at a 5% level of significance.

Ho$_2$: Credit selection risk has no significant effect on usage of funds from cooperative thrift and

credit societies

H$_2$: Credit selection risk has a significant effect on usage of funds from cooperative thrift and

credit societies

Table 2: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Credit selection risk has no significant effect on usage of funds from cooperative thrift and credit societies	.37326	1.80624	.09238	.19247	.55512	4.046	382	.000

Source: *Researcher's computation using SPSS version 20, 2021*

Interpretation

The table above revealed that there is a significant relationship between credit selection and usage of funds from CTCS in Ekiti State as revealed in the t-value = 4.0469 and associated p-value of 0.000 in Table 2, therefore, the null hypothesis is rejected.

Decision

Since the P-value of 0.000 is less than the critical value of 0.05, then, it would be upheld that there is a significant positive relationship between credit selection and usage of funds from CTCS in Ekiti State at a 5% level of significance, thus, H$_1$ is preferred over Ho.

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The finding of this study supports the results of Aribaba (2013), Ayodele (2014), Iheanacho and Ahaotu (2017) and Akerele and Adekunmbi (2018) that credit administration has the capacity to positively influence financial control of Cooperative Thrift and Credit Societies in Nigeria.

CONCLUSION

The influence of credit administration on financial control of cooperative thrift and credit organizations in Ekiti State was investigated in this study. The independent variable (credit administration) was proxied by creditworthiness and credit selection, whereas the dependent variable (financial control) was proxied by credit allocation and credit utilization. The primary data for this study came from a questionnaire that was issued to 383 cooperative members in Ekiti State's eight local government areas. Descriptive statistics were performed using the Statistical Package for Social Sciences (SPSS) version 20, while inferential statistics were performed using the Paired sample T-Test. Creditworthiness has a good and considerable impact on credit allocation among cooperative thrift and credit societies, according to the study. At a 5% level of significance, credit selection has a favourable and significant impact on fund utilisation among Ekiti State's cooperative thrift and credit organizations. As a result, efforts to develop good credit administration and regulations in the state will greatly improve the financial control of Ekiti State's cooperative thrift and credit organizations. According to the study, executives should make an effort to ensure that funds from Cooperative Thrift and Credit Societies (CTCS) are only distributed to creditworthy members with no default records after thorough scrutiny and examination. Furthermore, managers of Cooperative Thrift and Credit Societies (CTCS) must dispense credit or loans to members depending on their needs or money consumption, particularly for feasible and beneficial initiatives.

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