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*Full Length Research Paper*

# Management by cooperatives and NGOS in Edo and Delta States, Nigeria: A performance rating of farm credit delivery

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Abstract

**The paper examined the performance of credit delivery management by Non- Governmental Organizations and Cooperative Societies of Edo and Delta States of Nigeria according to international best practices standards. Information used for the study was obtained from a sample of twenty NGOs and eighty cooperatives purposively selected from two senatorial districts in Edo and Delta States, using a well structured questionnaire. Descriptive statistics and the CAMEL (Capital, Asset quality, Management quality, Earnings and Liquidity) rating instrument which is a management analytical tool, were adopted to analyze the data. The results showed that the studied organizations applied such management functions as planning, goal setting, organizing, monitoring and control. The CAMEL results rated the five basic areas as they affect farm credit delivery and gave an average final composite rating of 4.48 translating to AA for the Cooperatives which signifies general excellence but the NGOs were rated 3.90 translating to BBB which may be considered very fair but with some serious managerial issues to look into.**

**Keywords:** Credit delivery, Management, Performance, Rating, NGOs, Cooperatives, Comparative.

## INTRODUCTION

The recognition of the importance of credit in agricultural production has prompted governments at all levels to establish several programmes and schemes for a free flow of credit facilities to farmers hence the channeling of institutional finance to agriculture has increasingly become an important policy instrument in the quest for increased agricultural output particularly to the rural people (Agu, 1998). Despite these conscious efforts, small scale farmers are still far from meeting their capital needs. The poor performance of most of these schemes may not be unconnected with poor management of the delivery of the available funds. Management which is the active process of setting objectives and making decisions for the planning and control of human and financial resources is considered a veritable tool in the delivery of credit facilities to farmers. Functionally, management entails planning, organizing, directing and controlling all aspects of the organizations' activities. The development and maintenance of an effective system is conditional upon the systematic implementation of these management functions.

Successful management implies organizational effectiveness and this confers certain strengths on such organizations. The NGOs and Cooperatives have such strengths and weaknesses depending on the rating of their organizational ability. Belsey and Coate (1995) advised that groups that connect people socially such as NGOs and Cooperatives are more likely to be efficient than others and this efficiency depends on their application of management functions. This makes the rating of their managerial ability imperative in order to expose areas that may need some corrective measures to make them fit for the smooth performance of the credit delivery functions.

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### Objectives of the study

The main objective of this study was to rate the performance of NGOs and Cooperatives in credit delivery management while the specific objectives were to examine the application of management functions by NGOs and Cooperatives.

To rate them according to international best practices standards and to compare their managerial ability in farm credit delivery.

The study seems timely as most governments seek more pragmatic rural credit delivery systems that would take cognizance of local conditions and peculiarities of targeted groups particularly at the rural level.

The study would test the hypothesis that there is no significant difference in the managerial abilities of NGOs and Cooperatives in farm credit delivery.

$H_o$: $CDM_0 = CDM_C$

$H_1$: $CDM_0 \neq CDM_C$

Where

$CDM_0$ = credit delivery management by NGOs

$CDM_C$ = credit delivery management by cooperatives

The information provided by the study would be of immense benefit to policy makers for institutional reformation that may lead to the self-sufficiency/self reliance goal in food production as stated by Aryeetey, (1997) that the existing credit gap can be filled only by a reform of institutional structures which are reflected by management inputs. Moreover, Selvavinayagam, (1995) gave the view point that the successful development of rural financial markets is impossible without the long-term financial viability of the intermediary institutions which depends on their ability to apply management functions adequately. Therefore the importance of assessing the managerial ability of these financial institutions cannot be over emphasized, yet not much literature exist in this area hence this study.

## METHODOLOGY

The study covered NGOs and Cooperative Societies involved in agricultural credit delivery in Edo and Delta States of Nigeria, a zone where all aspects of agricultural production/marketing (ranging from crops, snailry, fisheries to livestock) are practised. Two Senatorial districts {one in each state} housing he State capitals were purposively selected due to the high concentration of NGOs in the State capitals. A list of 50 registered NGOs and 320 registered Cooperative Societies in both districts were obtained from the Ministries of Corporate Affairs and Commerce and Industry respectively, out of which 20 NGOs and 80 Cooperatives actively involved in farm credit delivery were purposively selected.

Primary data, obtained through the administration of a well structured, pre-tested questionnaire and secondary data from the records of the organizations as well as the Ministries of Commerce and Industries and Corporate Affairs Commission were used to generate the information for this study. For the measurement of management variables, the questionnaire had several items with options ranging from 5 for the most positive to 1 for the least positive in accordance with the application of CAMEL rating instrument adopted from Saltzman and Salinger (1998) (see appendix ). Major management variables rated included governance, management policies, management processes and control, planning, budgeting, earning capacity, capital adequacy, asset quality, liquidity management, loans' aging schedule, savings and loan request rates, incentive systems, auditing functions, information technology and flow, regular management meetings, loan portfolio, operational efficiency, loan- use monitoring, portfolio at risk and default management.

Descriptive statistics and the CAMEL (Capital, Asset quality, Management quality, Earnings and Liquidity management) rating instrument which is a management analytical tool adopted from Saltzman and Salinger(1998) were used to analyze the data. The CAMEL rating instrument was based on the schedule in Tables 1 and 2.

## RESULTS AND DISCUSION

### Application of management functions

The basic management functions identified in this study included planning/goal setting, organizing, monitoring and control of the credit delivery activities by the Cooperatives and NGOs.

### Goal Setting

The study identified goal setting as one of the major aspects of planning carried out by both organizations every financial year in their credit delivery activities. All (100%) Organizations interviewed had one form of goal setting or the other. Such goals included the following:

- The setting of minimum and maximum credit levels for the clients which guides loan approvals for individuals
- The type of loans to be granted at a particular time to prevent indiscriminate loan approvals
- Pre-determined sources of loanable funds to ensure availability of funds for the credit delivery process
- Fixing disbursement schedule with interest rates to guide the releases of approved loans
- Fixing repayment schedule to guide loan retrieval
- Establishing default management techniques to ensure retrieval of over due loans
- Pre-determine the types of clients/beneficiaries, whether individuals or group responsibility approach to facilitate timely loan approval.

**Table 1.** Camel composite alphabetical rating schedule

| ALPHABETICAL RATING | DESCRIPTION OF INSTITUTION | NUMERICAL RATING |
|---|---|---|
| AAA | An institution that exhibits superior performance in every area examined | 4.6-5.0 |
| AA | An institution that, in general terms, is considered excellent but scored lower in some variables. | 4.3-4.59 |
| A | A good institution with some minor weaknesses that lowered the score. | 4.0-4.29 |
| BBB | An institution that needs to make some adjustments in the management of its resources without which a risk is posed to its long-term financial performance. | 3.67-3.99 |
| BB | An institution that is weak in financial administration and operational efficiency but correctable within normal development of business | 3.33-3.66 |
| B | An institution experiencing basic problems in the management of its financial resources and in its growth and efficiency. | 3.0-3.32 |

**Source:** Adopted from Saltzman and Salinger (1998): ACCION CAMEL Technical Note:

**Table 2.** Translated camel composite rating scale

| Alphabetic Rating | corresponding Numerical Rating | translation |
|---|---|---|
| AAA | 5 | Excellent |
| AA | 4 | Very Good |
| A | 3 | Good |
| BBB | 2 | Quite Fair |
| BB | 1 | Poor |
| B | 0 | Very Poor |

**Source**: Adopted from Saltzman and Salinger (1998): ACCION CAMEL

## Organising

The study also showed that both organizations had clear organograms though relatively similar. These are shown in Figures 1 and 2.

## Monitoring and Control

As regards credit monitoring and control, the study found out that different methods were employed by the different organizations. These included the use of stage-by-stage loan approval, instalmental disbursement and proof of loan use before qualifying for another. With these, the Organizations had good control of the loan delivery activities.

## Performance Rating: {Camel Analysis}

Five (5) areas traditionally considered to be most important in the operation of a financial intermediary were examined using the CAMEL (Capital adequacy, Asset quality, Management, Quality, Earnings, and Liquidity) rating instrument and the results are discussed below.

## Capital Adequacy

The findings indicated high dependence on external sources by the NGOs for their loanable funds as this made up 87% of their total capital. The balance of 13% was accounted for by savings and equity. The Cooperatives however had their funds from internal sources which were mainly members' contributions and savings accounting for about 90% while the balance of 10% came from interest on loans, share capital and other revenue generating activities. This may likely imply that Cooperatives may be more self sustaining than NGOs thereby taking care of unenvisaged capital deficiency which could grind the credit operations to a halt whereas this cannot be ruled out in the case of the

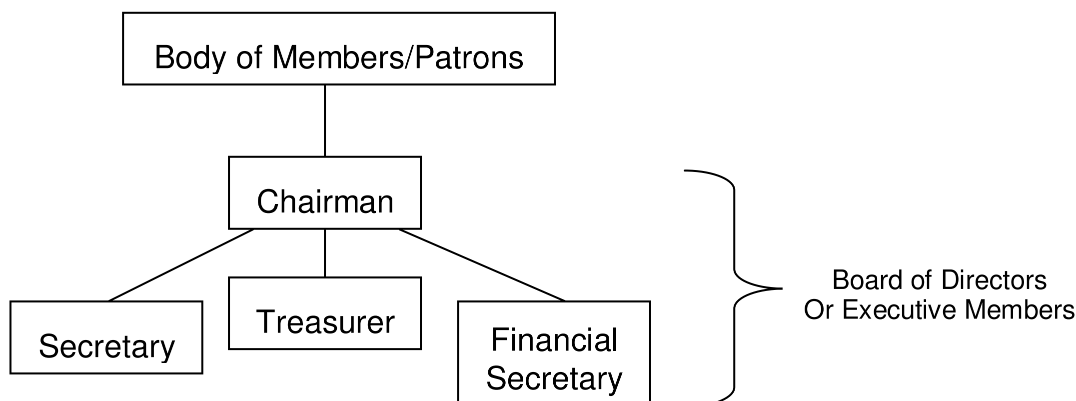


**Figure 1.** A General Organogram for Cooperative Societies.

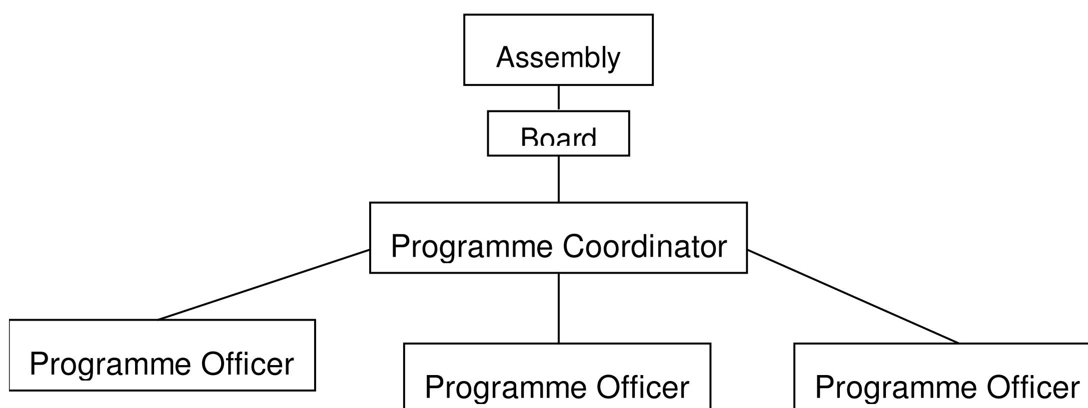


**Figure 2.** A General Organogram for NGOs

NGOs, should external sources fail.

Assessing the adequacy of capital under provision for reserves, provision for loan losses, percentage contribution of saving to total capital, portfolio at risk by percentage distribution of loan according to aging schedule and portfolio classification according to individual borrower's credibility through saving scheme showed a provision for capital reserve of 25% by Cooperatives which by implication places them in a more reliable financial position in case of a drastic drop from expected sources. NGOs had 4% capital reserve provision which seems relatively low and may imply over- reliance on their expected sources. This may be dangerous in terms of unenvisaged disappointments since they act as on-lending institutions. The NGOs however had higher provision (10%) for loan losses compared with 0.5% by Cooperatives. This may probably be due to cases of delay in loan repayment on the part of the NGOs. The Cooperatives' provision for loan losses shows that defaults were not common and as such, not much was required for loan losses. This was also confirmed by the results of the loan aging schedule which showed more cases of delay in loan repayment with the NGOs with about 14% of their loans outstanding compared to Cooperatives with just about 1.5%. Nevertheless, the general picture for both organizations in terms of loan repayment as reflected by their aging schedule is commendable. This is indicative of the fact that loans disbursed by these intermediaries are retrievable. Timely retrieval of loans would boost the capital adequacy position of the institution for continuous credit delivery operations. Findings equally showed that the organizations also ensured capital adequacy through the use of individual borrower's credibility through the saving scheme, with about 87% of Cooperative loans given to those who saved up to 50% and above of the amount of loans required while about 66% of NGO loans went to those who had just a third of the required loans as savings. This may be a contribution to the observed schedule of loans for both organizations. With more than half the loan in the savings account, most default cases may be made up without special loan loss provision. This strategy also appeared commendable in managing capital adequacy which is evidence that both

organizations are capable of managing their level of capital to sustain the credit delivery function.

### Assessing Asset Quality

Assessing the portfolio classification system for both organizations in terms of individual investments, the findings showed that the Cooperative Societies' total investment was from members whereas a very high proportion of the NGOs portfolio was from donors. While Cooperatives assets were owned by member/users and could be used freely, NGOs operated in line with guideline from donors. Nevertheless, the assets classification system for both organizations included the borrower's history/credibility, credibility of guarantors, collectability of guarantee, percentage ownership of assets, repayment of loans as well as loan categorization. These may help to qualify and quantify available assets at any particular time. Table 3, was obtained from rating the asset quality of both organizations.

With 99.7% and 91.6% rating for cooperatives and NGOs respectively, there is the indication that the organizations have reliable assets for the performance of the credit delivery function. The emphasis here is on the availability of loanable funds in terms of required assets. Confirming these results was the analysis of portfolio at risk which indicated the absence of rescheduled loans, no loan write – offs or losses for both organizations. This implies that the organizations have efficient loan recovery techniques thereby bringing their portfolio-at-risk to as near zero as possible. This is a desirable quality for an institution that is to be employed as a channel for credit transfer to farmers.

### Assessing Management Quality

Using the average scores assigned by respondents (with 5 indicating the highest and 1 the lowest score in order of satisfaction), to rate the management quality of both institutions, the results presented in Table 4, were obtained. The assessment was based on plans, policies, objectives and administration of the institutions in credit delivery operations.

An average score of 4.42 for the Cooperative Societies seems to rate their management quality higher than that of the NGOs which was 3.7, however this difference was not significant at 5% level. The critical indices were timely decisions, democratic control, and free flow of information, regular meetings, clear objectives, unbiased plans, timely and accurate information and external auditing. It depicts some adequate governance with specific objectives that are clear to those who are involved in credit operations. The results also show satisfactory free flow of information and open communication among members. This may not be far from the truth as it is in line with the principle of democratic control that guides cooperative activities according to Abrahamsen (1986). The management quality of the NGOs with an average score of 3.7 also falls within a reasonable efficient level within the CAMEL standards, it may however seemed to lack some clear objectives, effective communication, and involvement of all concerned and adequate internal auditing. Their critical indices included documentation, policy updates, regular management meeting and external auditing. This may reflect a true situation for the NGOs as credit delivery is just a sub-section of their main objectives unlike the Cooperatives whose main concern is the economic status of their members.

### Earning and Liquidity Status

The assessment of the earnings status of the institutions which was based on reliable sources of earnings, interest rate policies/and operational efficiency (ratio of operational cost to loan portfolio), indicated diversified sources but within (internal) the society for cooperatives while the NGOs relied mainly on external sources with little contribution from savings.

An assessment of the operational efficiency (O.E) also indicated that the average ratio of operating expenses to total loan disbursed was higher for the NGOs with up to 50% of the NGOs within the O.E of 31-40% while 100% of the Cooperative had O.E less than 10%.

Lower ratios signify higher operational efficiency for the cooperatives than the NGOs. This may be explained by the high sophistication of management tools, with the employment of paid staff, computer services and the linkage services (e-mails, travels etc) to source for funds and the preparation of periodic reports by the NGOs. Moreover, with a wide spread of beneficiaries in terms of geographical coverage, the NGOs were bound to incur more cost on monitoring than the cooperatives whose beneficiaries were just within the same vicinity.

### Liquidity

The ability to meet loan obligations as they came due by the institutions assessed through the calculation of liquidity ratios from the figures obtained from their financial statements (as the ratio of available cash and short term investment to loan portfolio within the given period) gave the results in Table 5.

The results indicate that about 90% of all studied institutions (both Cooperatives and (NGOs) had liquidity ratios above 1, with most of them (about 88% of Cooperatives and 70% of NGOs) within the range of 1-2, while about 4% of Cooperatives and 5% of NGOs had ratios up to 3 and above. This signifies a reasonable ability to raise capital when the need arises for the loan

**Table 3.** Asset quality rating for Ngos and cooperatives

| Item | Rating | |
|---|---|---|
| | **Cooperatives** | **NGOs** |
| % ownership of assets | 100 | 87.28 |
| % collectibility of guarantee | 100 | 85.15 |
| % credibility of guarantors | 100 | 100 |
| % credibility of borrowers (through saving scheme) | 100 | 100 |
| % repayment of loans | 98.5 | 85.55 |
| Average Rating | 99.70 | 91.60 |

**Table 4.** Assessment of management quality

| | ITEM | Scores | |
|---|---|---|---|
| | | **Cooperative** | **NGOs** |
| I | Management decision are made timely | 4.5 | 4.0 |
| Ii | Every one takes part in planning | 4.6 | 3.0 |
| Iii | Information flows freely within the organization | 5.0 | 3.5 |
| Iv | Policies and processes are documented in a manual | 4.5 | 5.0 |
| V | Plans, policies and processes are updated regularly | 4.4 | 4.9 |
| Vi | Management meetings are regular | 4.9 | 4.8 |
| Vii | Objectives are clear to all | 4.8 | 3.5 |
| Viii | Incentive system is encouraging | 4.3 | 3.3 |
| Ix | Plans are not creditors/donors biased | 4.9 | 2.1 |
| X | Required information are generated timely | 4.6 | 3.9 |
| Xi | Generated information are often accurate | 4.5 | 3.2 |
| Xii | Internal audit function is adequate | 3.0 | 3.0 |
| Xiii | External audit function adequate | 5.0 | 5.0 |
| Xiv | Theft and fraud are rare | 3.0 | 3.1 |
| | Average Score | 4.42 | 3.7 |

t= -0.0958 (not significant at 5%)

**Table 5.** Calculated liquidity ratios for the cooperatives and Ngos

| Liquidity Ratio | COOPs | | NGOs | |
|---|---|---|---|---|
| **Range** | **No** | **%** | **No** | **%** |
| Below 1.0 | 5 | 6.25 | 2 | 10 |
| 1.0 -1.5 | 20 | 25 | 10 | 50 |
| 1.51 - 2.0 | 50 | 62.5 | 4 | 20 |
| 2.1 - 2.5 | 2 | 2.5 | 2 | 10 |
| 2.51 - 3.0 | 3 | 3.75 | 1 | 5 |
| Above 3.0 | Nil | Nil | 1 | 5 |

delivery function. This agrees with Selvavinayagam {1995} that institutions that pay greater attention to deposits and savings mobilization are crucial elements of rural financial development.

## Rating the Organisations According to International Practices Standards Using the Camel Composite Rating Instrument

Based on the CAMEL rating schedules in Tables 1 and 2, the institutions were rated in the different areas according to findings. This is presented in Table 6

The CAMEL rating as shown in Table 6 above places Cooperatives in category AA which indicates that they are generally considered excellent but may need to look into some area in credit delivery management for some variables that may need adjustment especially in the area of internal auditing. The NGOs falling into the BBB category may need to make some adjustments in the management of their credit delivery resources to avoid the risk of folding up in their long term financial

**Table 6.** Camel composite rating from findings

| AREAS EXAMINED | | RATING | |
|---|---|---|---|
| | | Cooperatives | NGOs |
| 1. | Capital Adequacy | 4.7 | 4.0 |
| 2. | Asset Quality | 4.6 | 4.3 |
| 3. | Management Quality | 4.0 | 3.9 |
| 4. | Earnings | 4.5 | 3.5 |
| 5. | Liquidity Management | 4.6 | 3.8 |
| Total | | 22.4 | 19.5 |
| Mean Rate | | 4.48 | 3.90 |
| Translated Alphabet | | AA | BBB |

performance. This is especially in the area of earnings with high dependence on external funding.

## SUMMARY, RECOMMENDATIONS AND CONCLUSION

The study found that NGOs and Cooperative Societies apply all major management functions which are planning/goal setting, organizing, monitoring and control in farm credit delivery. Considering international best management practices, the CAMEL instrument rated the Cooperatives to be AA which is quite close to being excellent while the NGOs were rated BBB which is a little above average. Summarily

Cooperatives had higher managerial ability than the NGOs. In the light of these findings, the paper recommends that NGOs should identify other dependable avenues for raising funds in order to reduce their dependence on external sources and equally cut down on their operating costs to guide against collapse should external sources fail. Cooperative societies need to look into their internal auditing system, monitor their loans more closely and raise more funds for capital adequacy.

In conclusion, the managerial ability of both organizations in farm credit delivery is commendable. However, improvement in the areas recommended above would rate them higher.

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