

**TITLE PAGE**

**ANALYSIS OF THE CAUSES AND EFFECTS OF LOAN DEFAULT IN  
THRIFTH AND CREDIT COOPERATIVE SOCIETY  
(A STUDY OF ADEYEMO COLEGE COOPERATIVE SOCIETY  
LIMITED KADUNA NORTH L.G.A)**

**BY**

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**BEING A PROJECT SUBMITTED  
TO THE DEPARTMENT OF COOPERATIVE ECONOMICS AND  
MANAGEMENT, SCHOOL OF BUSINESS AND MANAGEMENT STUDIES,  
KADUNA POLYTECHNIC IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA  
IN COOPERATIVE ECONOMICS AND MANAGEMENT, KADUNA  
POLYTECHNIC, KADUNA**

**JUNE, 2022**

## DECLARATION

I solely declare that this research work has been undertaken and conducted by me under the supervision of **Mr. Sunny Ogbu** of the Department of Cooperative Economics and Management, Kaduna polytechnic.

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## APPROVAL PAGE

This is to certify that this research work is an original work undertaken and written by **PRINCE ONO OKPONE KPT/CBMS/19/55935** and has been prepared in accordance with the rules and regulations governing the presentation of research projects in Kaduna Polytechnic and approved as meeting the requirement for the award of National Diploma in Cooperative Economics and Management.

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## **DEDICATION**

This research work is dedicated to God Almighty

## **ACKNOWLEDGEMENT**

The success of this project does not lie on the mere fact that it was put together by an individual; many have made notable influence and contribution to it.

I wish to acknowledge God Almighty for His countless blessings and providential care, and for making it possible for me to have journey in this part of academic pursuit.

My profound gratitude goes to my beloved parents for their financial and moral support, you are wonderful.

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And to all who's words of encouragement have helped in ensuring the success of this research. I truly love you all from the bottom of my heart. Thank you and God bless you all.

## ABSTRACT

*This study examines the analysis of the causes and effects of loan default in thrift and credit cooperative society. A survey method was used for the study. 175 respondents (130 males, 45 females) were included in the study. They were members of Adeyemo College Cooperative Society Ltd located in Kaduna North Local Government Area. A 22 – item questionnaire was used for the study. The questionnaire was based on Likert Scale. Three (3) research questions were developed to guide the study. What are the debtor-based causes of loan default in thrift and credit cooperative societies? What are the creditor-based causes of loan default in thrift and credit cooperative societies? What are the effects of credit default on the performance of thrift and credit cooperative societies? Frequencies and mean score were used as statistical analysis. Research findings shows that thrift and credit cooperative helps members to pay their loans on installments over a specific period of time also that thrift and credit helps members to know the amount of capital to be paid in accordance to the contract. It was recommended among others that members should be encouraged to attend meeting regularly and thereby create an enabling environment to realize the proposed objectives of the society, members that don't pay their loan and show act of dishonest should be properly control and also be sanctioned and penalize in accordance with the stipulations of the cooperative laws.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Thrift and investment cooperative societies have been credited with a measure of success in financial intermediation though beset with some challenges. It is one of the earlier financial institutions reckoned with for the assistance to the poor and for low income earners to accumulate savings in the economy that provide loans and credit to the people at much easier environmental conditions than the traditional banking system would (Otto, 2012). The cooperatives are spawned in virtually every community where interested members can be found. With its simple operations, thrift and investment cooperative societies have been known to be assistance to members in achievement of goals and fulfillment of dreams (Aribaba, 2013). Otto & Ukpere (2011) allude to the usefulness of the thrift and investment cooperative societies in the household capital formation process in particular and generally for the economy in addition to the significant impact on poverty alleviation in the country.

According to Momoh & Oso (2012), thrift and credit society is defined as “a financial self-help cooperative which encourages members to save money together and pooled resources and then used to provide low cost credits to

members.” They stated that, thrift and credit society operates within a clearly defined area of location and mutual link must exist between all members. This link is known as the common bond of the cooperative thrift and credit society. The common bond may be based on all members living in the same locality or all members working for the same employer.” Berthoud &Hinton (2011) also defined thrift and credit society as being cooperative societies that offer credits to their members out of the pool of savings that are built up by the members themselves. This is a descriptive definition that does not refer to the purpose of cooperative thrift and credit society. However, it does describe them as being together and pooled resources and then used to provide low-cost credits to members. They stated that, thrift and credit society operates Within a clearly defined area of location and a mutual link must exist between all members This link is known as the common bond of the cooperative thrift and credit society. The common bond may be based on all members living in the same locality or all members working for the same employer". Berthoud and Hinton (2011) also defined thrift and credit society as being cooperative societies that offer credits to their members out of the pool of savings that are built up by the members themselves. This is a descriptive definition that does not refer to the purpose of cooperative thrift and credit society.



However, it does describe them as being cooperatives; therefore cooperative principles could be inferred as being the purpose of thrift and credit society. The unique ownership status implicit in this definition (member run, owned and used) led to them being described by Croteau (2014) as being the purest form of co-operative. Not only are trading transactions restricted to members, restrictions are also placed on the membership by requiring that members belong to a common bond. This common bond or interest is usually multiple, associational, occupational or residential. The requirement to belong to a common bond is seen as a cornerstone in the success of these usually high-risk credit cooperatives, as the social pressure that is created by the members knowing each other, lessens the risk of default. Thrift and credit cooperatives are basically mutual enterprise which mobilize savings through the encouragement of savings among their members and use the funds to give credits to members for productive or personal purpose (Fonteyne, 2013). Promotion of thrift and credit culture is the main feature of cooperative credit and investment society. People regardless of how low their income are capable of setting apart savings small amounts of their earnings when they are given incentive to save do so and with a convenient savings device. Thrift and credit society is a safe and profitable saving institution. It encourages savings by making people realize the economic and

social benefit of thrift and credit society and the cooperative organizations societies emerged as self help entities to combat economic and social inadequacies.

## **1.2 Statement of the Problem**

The life span of every credit union is solely dependent on her members ability to reliably pay their credits on time. This simply means that every credit union or association views her credit repayment as a major source to her lifeline, at most 100% credit repayment or a marginal default. Berthoud and Hinton (2013), thrift and credit cooperative societies focus their attention to offer credits to their members out of the pool of savings that are built up by the members themselves. Thrift and credit cooperative societies offer a full range of financial services, giving members greater flexibility to meet their individual needs.

Unfortunately, credit unions all over the country are worried and complain bitterly about members' credit default, which is at the moment exceeding the international accepted standard for credit portfolio, pegged at a rate of 3%. This actually has turn to be one of the most major concerns and worries of the unions concern and worries to credit unions because the consequences of credit default to businesses, individuals and the economy as a whole is unbearable. Aside credit unions been a risky business, other dangers involve

fraudulent in operations and opportunistic behaviours, hence has entangled credit unions rather to depend mostly on credit repayment to enable a financial sustainability in this respect and hence meet their objective of poverty alleviations.

### **1.3 Objectives of the Study**

The objectives of the study are as follows:

To identity the debtor-based causes of loan default in thrift and credit Cooperative societies.

To find out creditor-based causes of loan default in thrift and credit cooperative societies.

To assess the effect of loan default on the performance of thrift and credit cooperative societies.

### **1.4 Research Questions**

The following research questions were raised for the study:

What are the debtor-based causes of loan default in thrift and credit cooperative societies?

What are the creditor-based causes of loan default in thrift and credit cooperative societies?

What are the effects of loan default on the performance of thrift and credit cooperative societies?

### **1.5 Significance of the Study**

The study finds out the analysis of the causes and effects of credit default in thrift and credit cooperative societies. The significant of a study of the magnitude cannot be overemphasized. The government Cooperative Department, Corporate organizations involved in cooperative activities cooperative enterprises in particular.

To the government Cooperative Department and of course Corporate organizations engage in cooperative venture, the findings of this study will be used as basis for enacting policies that will effectively regulate the activities of investment and credit cooperative societies on member so that the essence of forming such society cannot be defeated.

Furthermore, members of the public who are interesting in cooperatives will use the results of this study as an insight into the formation of new societies especially cooperatives venture or joining existing ones.

Besides, the study is of scholarly importance for students undergoing research works of similar type and other researchers can also use this research work as a reference material for their own work.

## **1.6 Scope of the Study**

The study is on the analysis of the causes and effects of credit default in thrift and credit cooperative society. This study is restricted to Adeyemo College Cooperative Society Ltd located in Kaduna North Local Government Area. The study equally covers an in depth examination on the extents of credit default in thrift and credit cooperative society, borrower-based causes of credit default in thrift and credit cooperative society, non-borrowed based causes of credit in thrift and credit cooperative society and effect of credit default on the performance of thrift, credit cooperative society and also the possible problems that could be militating against the analysis of the causes and effects of credit default in thrift and credit cooperative society.

## **1.7 Definition of Terms**

The terms below have been defined in accordance to the content in which they appear in the study.

**Cooperative:** Voluntary association of individual who came together due to felt needs for natural interest to form a society.

**Cooperative Society:** A cooperative is an association of person united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

**Loan Default Rate:** Is the percentage of all outstanding credits that lender has written off after a prolonged period of missed payments.

**Member:** This refers to a registered person in a cooperative Society, joining through the application of membership of which the person becomes member after the registration based on the regulation of bye-laws.

**Thrift:** This is the saving been made by a member to a Cooperative Society.

**Thrift and Credit:** this is the type of cooperative which spend or invest money to generate further money. Or this is the types of cooperative which give credits to its members.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter review related literature on the analysis of the causes and effects of loan default in thrift and credit cooperative society. The chapter highlights experts opinion established concepts, factual statements on the subject matters of this study.

The chapter is segmented into the following sub theme:

- i. The Concept of Loan Default
- ii. The Concept of Cooperative 1Thrift and Credit Society
- iii. Concept of Business Performance
- iv. Debtor-Based Causes of Loan Default in Thrift and Credit
- v. Cooperative Societies
- vi. Creditor-Based Causes of Loan Default in Thrift and Credit Cooperative Societies
- vii. Effect of Loan Default on the Performance of Thrift and Credit Cooperative Societies
- viii. Summary of the Literature Review

## **2.2 The Concept of Credit Default**

Loan default can be defined as the inability of a borrower to fulfill his or her credit obligation as at when due (Balogun and Alimi, 2014). High default rates in SMEs lending should be of major concern to policy makers in developing countries, because of its unintended negative impacts on SMES financing. Von-Pischke (2014) states that some of the impacts associated with default include: the inability to recycle funds to other borrowers, unwillingness of other financial intermediaries to serve the needs of small borrowers, and the creation of distrust.

As noted by Baku and Smith (2015), the costs of credit delinquencies would be felt by both the lenders and the borrowers. The lender has costs in delinquency situations, including lost interest, opportunity cost of principal, legal fees and related costs. For the borrower, the decision to default is a trade-off between the penalties in lost reputation from default versus the opportunity cost of forgoing investments due to working out the current credit.

A debt also known as a loan is termed delinquent when loan recovery is not made on due time (Consultative Group to Assist the Poor, 2014). Delinquent loan is also considered default loan when its ability for recovery becomes difficult. Delinquency is considered very important as it serve as an indicator



to an increased risk of loss, warnings of operational flaws, and may help to also predict how much of the loan portfolio will eventually be lost or becomes a bad debt.

Out of the lot of forms of default indicators, only three major forms will be considered: the ratio of collected rates of amounts paid actually to expected amount; the ratio of debtors amounts delinquent to the outstanding amounts, and risk portfolio which rates overdue amounts to that of total debt outstanding.

Murray (2014) defines a loan default as a borrower, who fails to fulfill his or her obligation according to the loan contract or when one party that is the debtor does not observe his or her part as started in the agreement of the loan documentation. For instance when an individual or a group fails to meet their expectance loan schedule repayment plan, such a borrower is said to have not abide by the by-laws of the loan contract (Ameyaw-Amankwah, 2016). From the above, loan default is defined as failure to meet loan repayment plan on time. This happens when a borrower or debtor consciously or unconsciously decides not to meet up with a loan as scheduled. Failure on the part of a borrower or debtor to keep to loan repayment plan as documented is referred to as loan default (Murray, 2014).

Moreover, when a three to four installment payment within twenty-four (24) months period is missed, such a risk threshold as described by Pearson and Greeff is a default of loan. Pearson and Greeff (2011). This implies and indicates that such a signal throws more light on the fact the borrower by all standards will default in the loan repayment if all other repayments are ceased. This is a global accepted standard and is considered vital due to the fact that a general description was needed for loan default. This also does not refer to debtors who by all standards have ceased servicing the loan and hence necessary measures taken against the borrower or financially as described, as the loan has been written off as bad debt. That is the whenever a borrower is not able to meet the amount required on stipulated time is loan default (Balogun and Alimi, 2014).

### **2.3 The Concept of Cooperative Thrift and Credit Society**

According to Olesin (2012), Thrift and credit cooperative society is a type of cooperative where what everybody saves is pooled together and members can take credits either to buy household items, vehicles, lands, houses or do business, but there is a bond that the borrowers must benefit from the pool. By this, credit and investment cooperative therefore have contributed to wealth creation and poverty reduction Thrift and credit cooperative society

is often regarded as of the micro institution (MFI) that promotes entrepreneurship and finance industrialization desirable for economic development. These types of cooperative provides members the opportunity to conveniently save their money and collect credits at cheaper interest rates without unnecessary collaterals and complex bureaucratic process as seen in the case of commercial bank where the borrower is colonized and turned to a slave based on terms of repayment. Germany used these types of cooperative to revive their economy (Amahalu 2006 in Ogbu 2009).

Momoh and Oso (2012), Cooperative thrift and credit society is defined as a financial self-help cooperative which encourages members to save money together and pooled resources and then used to provide low-cost credits to members. They again stated that, "Cooperative Thrift and Credit Society operates within a clearly defined area of location and a mutual link must exist between all members. This link is known as the common bond of the Cooperative Thrift and Credit Society. Thrift and credit cooperatives society aim at establishing a sound system of credit to cater to productive and provident needs of the members cooperators (Buden 2002). Promotion of thrift is the main feature of the credit cooperative movement. People regardless of how low their income are capable of settling apart in savings small amount of their meager earnings, when they are given incentive to

save, and provided with a safe and convenient savings device and educated in the advantage of savings.

According to Buden (2002), maintains that a credit cooperative is a safe and profitable saving institution. It encourages savings by making people realize the economic and social benefit of thrift and the advantage excessive and unproductive. Financial cooperative enables members to meet their needs for financial services, such as savings and credit at low cost and with easy access through pooling of limited capital. The members' mandatory purchase of ownership shares as the final base to enable the cooperative extend credit to members. (Fonteyne, 2012), asserts that this type of cooperative is often known as credit unions, savings and credit cooperative or cooperative banks. Membership is typically based on a common bond that helps to establish trust between net savers and borrowers.

Financial cooperative operates a different set of values and objective than invest owned banks and are based on a model driven not only profit motives but also by social objective that focus on service and responsiveness of member needs. (Ayanwale and Bamire, 2017). Thrift and credit society provide members the opportunity to own their own financial institution and help them create opportunities such as starting small businesses, building family homes and educating their children. In some countries, members

encounter their first taste of democratic decision making through their cooperative thrift and credit society.

Cooperative thrift and credit societies are safe, convenient places to access affordable financial services. Cooperative Thrift and Credit Society offer a full range of financial services, giving members greater flexibility to meet their individual needs. In some countries, Cooperative Thrift and Credit Society are known by different names to better express those services.

## **2.4 Concept of Business Performance**

Nowadays economic environment represents a challenge at all levels, including the issues related to the concept of performance in business organizations worldwide. In this matter, the economic recession generated by the world financial crisis, with all its implications on funding, economic actors interactions, economic and social environment, technological progress and knowledge development, imposes today, more than ever, the rethinking of the concept of performance in business organizations worldwide.

Performance is considered to be a construction (Quinn and Rohrbaugh, 2010; Venkatraman and Ramanujam, 2008, Henri, 2014) and the purpose of defining this concept is to determine its properties and dimensions. The notion of performance has an abstract character and its definition is made by

reference to other concepts, on which we believe that performance is built. A concept is itself an abstraction of observable or measurable facts; certain concepts are at a high level of abstraction, and their explanation is achieved through other concepts, so they are called constructions (Quinn and Rohrbaugh, 2013).

Since 1950, studies in organizational theory are based on the concept of effectiveness, and the terms of efficiency and performance are considered interchangeable (Venkatraman and Ramanujam, 2008), because issues related to defining, measuring and explaining them are identical (Dalton 2013, Thomson and Abernethy, 2010; Henri, 2014).

In addition, early studies on firms did not analyzing performance, but organizational behavior (Dalton 2013), which demonstrates, on the one hand, the dynamic nature of the concept, and on the other hand, all the variables related to organizational behavior. Moreover, performance is difficult to define, but it can have at least three meanings or connotations

- (1) a successful outcome of an action or the action itself;
- (2) performance shows the ability to move, thanks to the constant efforts;
- (3) the word performance is the carrier of an ideology of progress, effort, always make better (Bourguignon, 2013).

## **2.5 Debtor-Based Causes of Loan Default in Thrift and Loan Cooperative Societies**

Lawfully, a credit facility is defined to mean a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who in turn promises to return the said amount to the creditor either in one lump or in installments over a specified period of time. The stipulated time may be spread over a particular period, where by the debtor will be required to make the financial assistant available in installments or whole depending on the said contract. Other charges referred to as rentals may be added to the debtor as an advanced payment for the financial assistant given to the debtor for such periods, others also include processing fees, loan application form cost, insurance cost are a few of the lots listed are also added to the financial assistant also known as the capital to be paid in accordance to the contract. All these sum up to the income of the creditor.

Loans are said to be a good loan when both the loan capital and other extra charges are paid duly on time as described in the loan agreement by both parties by the debtor. A healthy loan portfolio is described as an up to date loans in terms of both capital and interest settled duly as per the contract on time or Supply good loans as identified by the Bank of Ghana's (BOG) classification, which also refer to the latter as current loans. (BOG, 2012).

## **2.6 Creditor-Based Causes of Loan in Thrift and Loan Cooperative Societies**

The word delinquent can also be known as non-performing loans as stated in Fofack (2015). Berger and De young (2011) explains this forms of debt as problematic debts in a wider option when both the capital and interest charges when a loan is unpaid with a speculated period in the loan agreement form, that debt or loan is regarded delinquent or due payment.

Some literature or books describe various forms of delinquency, some use quantities that is the total number of days the loan pass due, while other groups use qualities to determine delinquency. For example, the clients or borrowers' faithfulness (Bloem and Gorter, 2011).

Three months or long overdue debts that are no more adding interest are considered as default debts by Alton and Hazen (2021). Caprio and Klingebiel (2011) deduced from Fofack (2015), as delinquent 1loans being non yielding income in at least three months and over.

## **2.7 Effect of Loan Default on the Performance of Thrift and Credit Cooperative Societies**

Ahmad, (2010), mentioned some important factors that cause loan defaults which include; lack of willingness to pay loans coupled with diversion of



funds by borrowers, willful negligence and improper appraisal by Credit Officers. In addition, Hurt and Fesolvalyi (1998), cited by Kwakwa, (2016) found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directly affects the repayment ability of borrowers. Balogun and Alimi (2014) also identified the major causes of loan default as loan shortages, delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, non-profitability of farm enterprises and undue government intervention with the operations of government sponsored credit program.

Moreover, Akinwumi and Ajayi (2014) found out that farm size, family size, scale of operation, family giving expenses and exposure to sound management techniques were some of the factors that can influence the repayment capacity of farmers. According to Olomola (2016), loan disbursement lag and high interest rate can significantly increase borrowing transaction cost and can also adversely affect repayment performance Berger and De Young, (2011) indicated that, one major problem which the banks in Nigeria are facing is the problem of recovery and overdue of loans The reasons behind this may vary for different financial institutions as it depends upon the respective nature of loans. Here an attempt is made to find out some of the causes of default of loans due to which financial institutions are

facing the problems of overdue of loans. The recovery officers of different banks are interviewed for finding out the causes of defaults. These reasons may be useful for the Banks for the better recovery of loans in future. After surveying different banks, the following were identified to be the main causes of default of loans from industrial sector: improper selection of an entrepreneur, deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and schedule of repayment, lack of follow up measures and default due to natural calamities. Many factors have been identified as major determinants of loan defaults. Okorie (2017) shows that the nature, time of disbursement, supervision and profitability of enterprises which benefited from small holder loan scheme in Ondo State, contributed to the repayment ability and consequently high default rates. Other critical factors associated with loan delinquencies are: type of the loan, term of the loan, interest rate on the loan, poor credit history; borrowers income and transaction cost of the loans Poor academic performance is the number one reason for student departure and departure before degree completion is the number one reason for student loan default (Volkwein and Cabrera, 2011).

Moreover, in a recent study of Mortgage loan defaults, the most frequently cited causes of defaults were curtailment of income (36%), excessive

obligations (19%), and unemployment (8%), illness of principal mortgagor or family member (66) and marital difficulties (3%). (Meritt, 2009) Okpugie (2017) also indicated that, high interest charged by the microfinance banks has been discovered to be the reason behind the alarming default. A microfinance loan is a facility granted by a microfinance bank to an individual or a group of borrowers, whose principal source of income is derived from business activities involving the production or sale of goods and services. This was also confirmed by Vandel (2014), who also found that high interest rates charged by Banks tend to facilitate default by borrowers.

According to Gorter and Bloem (2012) non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance.

The problem of non-performing loans is widespread. Nishimura, Kazuhito, and Yukiko, (2011) state that one of the underlying causes of Nigeria prolonged economic stagnation is the non-performing or bad loan problem.

They explain that some of the loans made to companies and industries by financial institutions during the bubble era became non-performing when the bubble burst. This delayed structural reforms and prevented the financial intermediary system from functioning properly.

## **2.8 Summary of the Literature Review**

This chapter discussed about the review of related literature, about the concept of loan default, the concept of cooperative thrift and credit society, concept of business performance, extent of loan default in thrift and credit cooperative society, borrower-based causes of loan default in thrift and credit cooperative society, non borrowed-based causes of loan in thrift and credit cooperative society as well as effect of loan default on the performance of thrift and credit cooperative society. Literature indicates that Thrift and credit cooperative society is often regarded as of the micro finance institution (MFI) that promotes entrepreneurship and industrialization desirable for economic development. These types of cooperative provides members the opportunity to conveniently save their money and collect credits at cheaper interest rates without unnecessary collaterals and complex bureaucratic process as seen in the case of commercial bank where the borrower is colonized and turned to a slave

based on terms of repayment. Also literature indicates that some of the impacts associated with default include: the inability to recycle funds to other borrowers; unwillingness of other financial intermediaries to serve the needs of small borrowers, and the creation of distrust.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This study examines the analysis of the causes and effects of loan default in thrift and credit cooperative society. To this end, this chapter describes and discusses the design and procedure for the study, the population and the sample used. A description is also made of the instrument for data collection as well as its validity and reliability. Also discussed in this chapter are the procedures for the administration of the instrument, statistical analysis as well as the limitation of the study.

#### **3.2 Research Design**

A survey method was used for this study. This method involves gathering data about the target population from a selected sample and generalizing the finding obtained from the analysis of the sample to the entire population (Afolabi 1993). This method was adopted because it enabled the researcher to discover relative incidences and distribution on the characteristic of the population. Besides, it facilitated the researcher to find out the analysis of the causes and effects of loan default in thrift and credit cooperative society

### **3.3 Population of the Study**

The target population for this study consisted of all the male and female members of Adeyemo College Cooperative Society Ltd located in Kaduna North Local Government Area. They totaled 327 (Adeyemo College Cooperative Society Limited 2019). The rationale behind restricting the population to the members of Adeyemo College Cooperative Society Ltd was because the members are directly involved in the activities of the Society and know the analysis of the causes and effects of loan default in thrift and credit cooperative society either individually or collectively.

### **3.4 Sample and Sampling Procedure**

Out of a total population of 327 members of Adeyemo College Cooperative Society Ltd, 175 members were involved in the study. To determine the sample size for the study, Krejcie and Morgan (1970) sample size table in Mertens (2010) was used. Simple random sampling method in form of the Hat drawn method was used to select the respondents in order to give every member of the population an equal chance of being selected. Pieces of paper were numbers were selected of 175 was obtained. The process ensured adequate randomization in the selection was necessary in the conduct.

### **3.5 Research Instrument**

The instrument used for this study was the questionnaire. The questionnaire was developed by the researcher. Questionnaire was appropriate because the members of the cooperative society under study were literate. Besides, the questionnaire method facilitated easy coverage and is more appropriate in survey studies of the nature (Nwana, 1982). The questionnaire was tagged Analysis of the Causes and Effects of Loan Default in Thrift and Credit Cooperative Society (CELDTCCSQ).

The instrument was designed on 5-point Likert Scale of strongly agree, Agree, Undecided, Disagree and strongly disagree. The items in the questionnaire were generated through a view of previous studies. In scoring the items related to the Likert type 5-point scale, respondents had a respondent's opinion. The higher the score, the more influenced the respondent was by the scale. The design of the questionnaire was clustered around five sections. Section A consists of items related to the personal data of the respondents such as sex, age while section B to D contained information dealing with the subject matter of the investigation.



### **3.5.1 Validity**

According to Kerlinger (1973), in Nwana, (2010), Validation of research instrument by others is an effective method for content validation. Consequently, the questionnaire was validated by three experts in the Department of Cooperative Economic and Management, Kaduna Polytechnic.

They were requested to judge the appropriateness, comprehensiveness and clarity of items in the questionnaire. Their contributions in form of suggestions and constructive criticism were used in the final draft.

### **3.5.2 Reliability**

To obtain reliability for factual questions, Oppenheim (1966) in Uzoagulu (2008) suggests that internal checks in the form of logical test in the questionnaire should be included", In line with this, a number of questions were built into the questionnaire to give a clue to the respondents consistency of responses.

A pilot was also carried out with 10 respondents in Adeyemo College Cooperative Society to pre-test the efficacy of the questionnaire. The choice of a small sample for the pilot study is in agreement with the view held by Nworgu (1991) who opines that pilot testing is usually done on a smaller 28

Scale than the main study but under similar conditions. The 175 respondents did not form part of the main investigation. The respondents were requested to indicate their responses to each statement by ticking one of the responses built on the Likert type 5-point scale. This was to ensure that individual opinion about the analysis of the causes and effects of loan default in thrift and credit cooperative society was adequately expressed.

### **3.6 Procedure for the Administration of the Instrument**

The instrument was aimed at gathering information on the analysis of the causes and effects of loan default in thrift and credit cooperative society. The instrument carefully designed in simple language to help the respondents to easily interpret and fill appropriately.

A letter was prepared to accompany the instrument and addressed to the members of Adeyemo College Cooperative Society. This was meant to introduce the researcher to the respondents and to state the purpose and significance of the study. Beside, the letter earned the cooperation of the members of the cooperative society to fill the questionnaire.

In the administration of the instrument, the researcher, with the help of the Secretary of the cooperative society and the Assistant President administered and collect the filled out questionnaire. The respondents were given five

days to fill out the questionnaire. The five days enable the respondents to reflect on the instrument and fill them properly.

### **3.7 Method of Data Presentation and Statistical Analysis**

Available data was presented using table simply constructed in rows and columns facilitate the presentation of the data obtained with the use of the 5-point Likert scale questionnaire. The study made use of a number of statistical techniques to help in the organization, analysis and interpretation of the data. The statistical techniques are summarized as follows:

- i. Frequency counts and simple mean were used to determine the responses of the respondents on the personal data asked. Tables were used to summarize the frequencies.
- ii. The frequencies and mean were used to analyze the data based on the research questions.

### **3.8 Decision Role**

A mean score from 3,00 and above will be agree while a mean score from 2.99 and below will be disagree.

### **3.9 Limitations of the Study**

This study finds out the analysis of the causes and effects of loan default in thrift and credit cooperative society. The study is limited to Adeyemo College Cooperative Society Ltd. For the fact that the study is restricted to Adeyemo College Cooperative Society Ltd it will be difficult to generalize the finding to other cooperative societies.

For the fact that a survey method was used as the research design as well as Questionnaire as research instrument, it is not really certain if the same result could be achieved if other designs and instruments like ex-post facto design, interview schedule respectively could yield the same results.

Besides, another limitation is that the respondents could have either over exaggerated or understated their responses while scoring the items in the questionnaire. Also the nonchalant attitude of some of the respondents could affect the validity of their responses to the questionnaire. These limitations should be taken cognizance of by other researchers conducting similar studies.

## CHAPTER FOUR

### DATA PRESENTATION AND STATISTICAL ANALYSIS

#### 4.1 Introduction

This chapter presents the data on the analysis of the causes and effects of loan default in thrift and credit cooperative society. The data generated is presented using tables. The demographic variables of the respondents involved in the study are presented in tables of frequencies and percentages.

The responses to the individual items in the questionnaire were scored in means and standard deviations and are presented along the research questions in the study. In the course of scoring the items, the magnitude of the respondents' responses to the option in the five-point Likert scale was used to determine the direction of the respondents' opinion

| <b>Sex</b>   | <b>Frequency</b> | <b>Percentage (%)</b> |
|--------------|------------------|-----------------------|
| Male         | 130              | 74                    |
| Female       | 45               | 26                    |
| <b>Total</b> | <b>175</b>       | <b>100%</b>           |

**Source:** Fieldwork, (2022)

Table 4.1 shows the sex distribution of the respondents used for the study. From the table, 130 (74%) of the respondents were male while 45 (26%) were female. This brings the total number of respondents to 175 (100%). The data therefore reveals that there was more male participant in the study (74 %) than female participate (26%) this indeed shows that the area

understudy, men are more business oriented than the women and as a result would get more involved in cooperative business activities than the females.

**Table 4.2: Age Distribution of the Respondents**

| <b>Age</b>   | <b>Frequency</b> | <b>Percentage (%)</b> |
|--------------|------------------|-----------------------|
| 18-25        | 30               | 17                    |
| 26-35        | 50               | 29                    |
| 36-45        | 55               | 31                    |
| 46 and above | 40               | 23                    |
| <b>Total</b> | <b>175</b>       | <b>100%</b>           |

**Source:** Fieldwork, (2022)

Table 4.2 shows the age distribution of the respondents used for the study. From the table, 30 (17%) of the respondents are between the age of 18-25, while 50 (29%) and 55 (31%) respondents are between the age of 26-35 and 36-45 respectively, and 40 (23%) are 46 years above.

**Table 4.3: Educational Level of the Respondents**

| <b>Level of Education</b> | <b>Frequency</b> | <b>Percentage (%)</b> |
|---------------------------|------------------|-----------------------|
| Secondary Education       | 52               | 30                    |
| Tertiary                  | 100              | 57                    |
| Others                    | 23               | 13                    |
| <b>Total</b>              | <b>175</b>       | <b>100%</b>           |

**Source:** Fieldwork, (2022)

Table 4.3: shows the educational level of the respondents. From the table, 55 of the respondents representing (30%) are secondary education. While 100 (57%) are those who attended tertiary education and other 23 representing (13%). These indicate that most of the respondents do have high level of education.

### 4.3 Answering the Research Questions

**Research Question 1:** What are the debtor-based causes of loan default in thrift and credit cooperative societies?

To generate the needed data for this question, 4 items were used to elicit responses from the respondents. The frequencies and percentage scores of their responses are presented in table 4.4.

**Table 4.4: Debtor-Based Causes of Loan Default in Thrift and Credit Cooperative Societies**

| S/No. | Statement  | SA | A  | U | SD | D  | $\bar{X}$ | Remark |
|-------|--|----|----|---|----|----|-----------|--------|
| 4     | I have access to farm machines as I joined agricultural cooperatives.                        | 35 | 25 | - | 20 | 10 | 3.61      | agree  |
| 5     | Agricultural cooperative helps me in mechanical irrigation without the use of manual labour. | 45 | 20 | - | 16 | 9  | 3.84      | Agree  |
| 6     | I market my agricultural produce easier since I joined agricultural cooperative.             | 50 | 15 | - | 18 | 12 | 3.97      | Agree  |
| 7     | Agricultural cooperative has increased my farm knowledge through extension services.         | 40 | 35 | - | 9  | 6  | 4.0       | Agree  |
| 8     | I have access to farm inputs through my membership of Agricultural cooperative.              | 60 | 20 | - | 5  | 5  | 4.38      | Agree  |
| 9     | Agricultural cooperative provides me with credit facilities for farm expansion.              | 50 | 30 | - | 6  | 4  | 4.28      | agree  |

**Source:** Fieldwork, (2020).



Table 4:4 display the data on the debtor-based causes of loan default in thrift and credit cooperative societies. Item 4 shows that a larger number of respondents (N=175;  $x = 3.86$ ); agree that higher rate of interest causes credit default in thrift and credit cooperative society. Item 5, shows that a larger number of respondents (N=175;  $x = 3.34$ ); agree that mismanagement of debts causes credit default in thrift and credit cooperative Society. In item 6, shows that a larger number of respondents (N=175;  $x = 3.60$ ); agree that insufficient loan amount causes credit default in thrift and credit cooperative society. Finally, in item 7, shows that a larger number of respondents (N=175;  $x = 3.54$ ); agree that improper utilization of loan causes credit default in thrift and credit cooperative society.

**Research Question 2:** What are the creditor-based causes of loan default in thrift and credit cooperative societies?

For this question, 4 items were used to elicit responses from the respondents. The frequencies and percentage scores of their responses are presented in table 4.5.

**Table 4.5: Creditor-Based Causes of Loan Default in Thrift and Credit Cooperative Societies**

SD

X Remark

S/No

SA A U U D

Statement

61

74

20

20 3.78

Agree

8

Leniency in recovery causes of  
loan default in thrift and credit  
cooperative society.

50 22 3.53 Agree

Higher

monthly installment 83 20

9

causes of loan default in thrift

and credit cooperative society.

20

24 3.59 Agree

10

Political influence causes of 60 51 20

loan default in thrift and credit

cooperative society.

18

20 3.81 Agree

11

Unexpected financial problem 63 74

causes of loan default in thrift

and credit cooperative society.

Source: Fieldwork, (2019)

Table 4:5 display the data on the creditor-based causes of loan default in thrift and credit cooperative societies. Item 8 shows that a larger number of respondents (N=175;  $x = 3.78$ ); agree that leniency in recovery causes of loan default in thrift and credit cooperative society. Also in item 9, shows that a larger number of respondents (N=175,  $x = 3.53$ ); agree that higher monthly installment causes of loan default in thrift and credit cooperative society. In item 10, shows that a larger number of respondents (N=175,  $x = 3.59$ ); agree that political influence causes of loan default in thrift and credit cooperative society. Finally, in item 11, shows that a larger number of respondents (N=175;  $x = 3.81$ ); agree that unexpected financial problem causes of loan default in thrift and credit cooperative society.

Research Question 3: What are the effects of loan default on the performance of thrift and credit cooperative societies?

For this question, 4 items were used to elicit responses from the respondents.

The frequencies and percentage scores of their responses are presented in table 4.6.

**Table 4.6: Effects of Loan Default on the Performance of Thrift and Credit Cooperative Societies**

S/No Statement

SA

A

UD

SD

X

Remark

12

Reduced

profit affects the 61 74

20

20 3.78

Agree

performance of thrift

and

credit cooperative societies.

13

Inability to grant more loans 55 83

17

20

3.78

Agree

-

affects the performance of  
thrift and credit cooperative  
societies.

14

Negative

growth

of

60 51

20

20 24 3.59

Agree

shareholders wealth affects the  
performance of thrift  
and  
credit cooperative societies.

15

Loss of investors' confidence 63 74 18 20 3.81 Agree  
affects the performance of  
thrift and credit cooperative  
societies.

Source: Fieldwork, (2020).

Table 4:6 display the data on the effects of loan default on the performance of thrift and credit cooperative societies. Item 12 shows that a larger number of respondents (N=175;  $x = 3.78$ ); agree that reduced profit affects the performance of thrift and credit cooperative societies. Also in tem 1, shows that a larger number of respondents (N=175,  $x = 3.78$ ), agree that inability to grant more loans affects the performance of thrift and credit cooperative societies. In item 14, shows that a larger number of respondents (N=175,  $x = 3.59$ ); agree that negative growth of shareholders wealth affects the performance of thrift and credit cooperative societies. Finally, in item 15, shows that a larger number of respondents (N=175; x

= 3.81); agree that loss of investors' confidence affects the performance of thrift and credit cooperative societies

#### **4.4 Summary of the Findings**

Based on the responses of the respondents to the research questions as contained in the tables, the following are the findings of the study.

1. That Thrift and Credit Cooperative helps members to pay their loans on installments over a specified period of time also that thrift and credit cooperative helps members to know the amount of capital to be paid in accordance to the contract.
2. That higher rate of interest causes credit default in thrift and credit cooperative society, mismanagement of debts causes credit default in thrift and credit cooperative society and improper utilization of loan causes credit default in thrift and credit cooperative society.
3. Problems that affect the performance of thrift and credit cooperative society include lack of willingness to pay loans, delay in time of loan delivery, interest rate ceilings usually imposed by the government and poor supervision e.t.c.



## **4.5 Discussion of Findings**

This study examines the analysis of the causes and effects of loan default in thrift and credit cooperative society. This result is based on the views of members of the cooperative society under study. Result shows that majority members of thrift and credit cooperative fail to credit the institution as duly scheduled. This result is in agreement with the views of Von-Pischke (2014) who mention that some of the impacts associated with default include: the inability to recycle funds to other borrowers, unwillingness of other financial intermediaries to serve the needs of small borrowers, and the creation of distrust. This result corroborates the opinion of (Consultative Group to Assist the Poor, 2014) who mentions that delinquent loan is also considered default loan when its ability for recovery becomes difficult.

Finally, the fact that different problems affect the affect the performance of thrift and credit cooperative society is in agreement with the findings of Olomola (2016), who mention that loan disbursement lag and high interest rate can significantly increase borrowing transaction cost and can also adversely affect repayment performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of this research report, conclusion drawn from the findings of the study and recommendations that could lead to the analysis of the causes and effects of loan default in thrift and credit cooperative societies.

#### **5.2 Summary**

The study the analysis of the causes and effects of loan default in thrift and credit cooperative society with reference to Adeyemo College Cooperative Society Ltd located in Kaduna North Local Government Area. A survey method was used for the study. The population consisted of all the male and female members of the Adeyemo College Cooperative Society Limited. Out of the total population of 327 members, a sample size of 175 was involved in the study.

The research question that guided the study was. What are the creditor-based causes of credit in thrift and credit cooperative society? What are the creditor-based causes of loan default in thrift and credit cooperative societies? What are the effects of loan default on the performance of thrift

and credit cooperative societies? A questionnaire developed by the researcher based on Likert 5-point Scale was used for the study. Frequencies Counts and simple percentages scores were used to analyze the data based on the research questions. Research results show that majority members of thrift and credit cooperative fail to credit the institution as duly scheduled also that failure of members of paying back their loans on time in thrift and credit cooperatives delinquency lead to bad debt.

Finally, that there are factors affecting the performance of thrift and credit cooperative society include lack of willingness to pay loans, delay in time of loan delivery, interest rate ceilings usually imposed by the government and poor supervision e.t.c. It was based on this therefore that recommendations were made.

### **5.3 Conclusions**

In view of the research findings, it is concluded that, majority members of thrift and credit cooperative fail to credit the institution as duly scheduled also that failure of members of paying back their loans on time in thrift and credit cooperatives delinquency lead to bad debt, also it shows that higher rate of interest causes credit default in thrift and credit cooperative society, mismanagement of debts causes credit default in thrift and credit cooperative

society and improper utilization of loan causes credit default in thrift and credit cooperative society.

Finally, the results show that lack of willingness to pay loans, delay in time of loan delivery, interest rate ceilings usually imposed by the government and poor supervision has shown as a challenges associated with the causes and effects of loan default in thrift and credit cooperative society such factors can be minimized and controlled if the recommendations herein are strictly adhered to.

#### **5.4 Recommendations**

The following recommendations are made based on the research findings so as to facilitate the impact of thrift and credit cooperatives on members economic empowerment.

- i. Members should be encouraged to attend meeting regularly and thereby create an enabling environment to realize the proposed objectives of the society, members that don't pay their loan and show act of dishonest should be properly control and also be sanctioned and penalize in accordance with the stipulations of the cooperative laws.
2. Loan repayments should be monitored and whenever a customer defaults action should be taken.

3. Cooperative society leaders organize seminar for cooperators on how to use the loan in order to yield returns in the investment at end of the business
4. The length of repayment period should be increased in a way that the institution will not lose value for their money advanced but at the same time reduces the probability to default because of short repayment period.

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## **APPENDIX 1**

Department of cooperative, Economics and  
management  
College of business and management studies  
Kaduna polytechnic,  
Kaduna.  
14<sup>th</sup> March, 2022

Dear Respondent,

**ANALYSIS OF THE CAUSES AND EFFECTS OF LOAN DEFAULT IN  
THRIFT AND CREDIT COOEPRATIVE SOCIETY (A STUDY OF  
ADEYEMO COLLEGE COOPERATIVE SOCEITY LIMITED KADUNA  
NORTH LGA)**

I am a Higher National Diploma (HND) student in my final year in the Department of Cooperative Economics and management, Kaduna polytechnic. I am currently carrying out a research work on the above topic as part of the requirements for the award of Higher National Diploma in Cooperative Economics Management.

I am appealing to you to please complete the questionnaire attached for the purpose. I promise you that your response to the questionnaire will be treated confidentially and will be used only for the purpose of this study.

Your cooperation will be appreciated.

Yours faithfully,

**Prince Ono Okpone**

**APPENDIX 11**  
**QUESTIONNAIRE**  
**ANALYSIS OF THE CAUSES AND EFFECTS OF LOAN DEFAULT IN**  
**THRIFT AND CREDIT COOEPRATIVE SOCIETY**

Instruction: please tick the option that best represents your opinion.

Key: SA (strongly agree), A (agree), U(undecided), SD(strongly disagree) and D(disagree)

**SECTION A**

**RESPONDENT BIO-DATA**

1. **Sex**  
male ☐  
female ☐
2. **Age:**  
25-34 ☐  
35-44 ☐  
45-and above ☐
3. **Educational Qualification**  
Primary certificate ☐  
Secondary certificate ☐
4. **Years in the Cooperative Society**  
5-9 ☐  
10-14 ☐  
15 and above ☐

## SECTION B

### Debtor-Based Causes of Loan Default in Thrift and Credit Cooperative Societies.

| S/NO | STATEMENTS  | SA | A | U | A | D | SD |
|------|---|----|---|---|---|---|----|
| 5    | Thrift and credit Cooperative helps members to pay their loans on installments over a specific period of time.      |    |   |   |   |   |    |
| 6    | Member pay whole of their loans depending on the said contract.   |    |   |   |   |   |    |
| 7    | Members pay advanced payment of loans in thrift and credit cooperative.   |    |   |   |   |   |    |
| 8    | Thrift and credit cooperative helps members to know the amount of capital to be paid in accordance to the contract. |    |   |   |   |   |    |

## SECTION C

### Creditor-Based Causes of Loans Default in Thrift and Credit Cooperative Societies

| S/NO | STATEMENTS   | SA | A | U | A | D | SD |
|------|--|----|---|---|---|---|----|
| 9    | Members are delinquent for nonperforming loans duties.   |    |   |   |   |   |    |
| 10   | Capital and interest charges when a loan is unpaid with a speculated period in the loan agreement form |    |   |   |   |   |    |
| 11   | Politicization of cooperative activities affects thrift and credit cooperatives.                       |    |   |   |   |   |    |
| 12   | Corruption affects loans in thrift and credit cooperatives   |    |   |   |   |   |    |