Loan Characteristics, Loan Repayment and Performance of Small and Medium Enterprises in Kano Metropolitan: A Mediating Model

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Abstract
Small and Medium Enterprises contributes to the development of both developed and developing Nations. This contribution depends on the performance of Small and Medium Enterprises. In Nigeria, there are many credit facilities provided by financial institutions for Small and Medium Enterprises; the facilities are meant to promote Small and Medium Enterprises' activities. Most of these credit facilities are granted to Small and Medium Enterprises without collateral, as such, some Small and Medium Enterprises default in repayment of the loan facilities. Therefore, this study examines Loan Characteristics, Loan Repayment and Performance of small and medium enterprises in Kano city: A mediating model. Loan characteristics was proxied by loan size and loan tenure. Data were collected from 108 respondents through structured questionnaire and a simple random sampling technique was applied. The data were analyzed using correlation and multiple regression analysis. The study revealed that loan size and loan tenure have Positive significant relationship with loan repayment. The study further revealed that, Small and Medium Enterprises performance partially mediate the relationship between loan size, loan tenure and loan repayment. Therefore, the study recommends that an average loan size and loan tenure should be maintain when granting loan and where adjustment becomes necessary, the financial institution should set loan size and loan tenure based on cash pattern (income) of the borrower in order to increase loan repayment performance of the Small and Medium Enterprises.

Keywords: loan characteristics, *loan repayment, loan size, loan tenure, Small and Medium Enterprises performance.*

1. Introduction

Small Medium Enterprises (SMEs) are the back bone of any modern society; they are contributing, immensely, to the development of the economy. The contribution ranges from providing employment opportunities, goods and services, play complementary role to large enterprises which translate to economic growth and made SMEs a powerful force (Cabbar, 2000). Yet, SMEs are

facing serious challenges which include: lack of access to finance their operations, inadequate managerial capabilities, low level of productivity, insufficient skills to exploit technology and regulatory burdens including registration of business. Finance is a major factor that supports the smooth operations of SMEs. Madura, Njati, Thianie and Huka (2014) State that accessible and affordable credit support gives SMEs opportunity to expand or start new business. Peter (2001) opined that access to external finance could improve the growth of SMEs across the sub-Saharan African countries.

However, in order to tackle the financial problem face by SMEs in Nigeria, the CBN in 2006 introduced the microfinance policy which leads to the spread of microfinance institutions across the country. Moreover, the provisional data for microfinance institutions (MFIs) indicate an increment in total assets fromN356.03 billion to N361.04 billion (1.41%)at end-December2015. Paid-up capital raised by 2.73%, though shareholders' funds dropped by 1.72 %. The decrease in shareholders' funds was attributed to increased loan loss provisioning and high operating costs (CBN, 2016).

In addition, the total loan provided by Bank of Industry's (BOI) to Small, Medium Scale Enterprises (SMEs) stood at over N112.5 billion in the 2017 financial period (Dikko, 2018). This shows the commitment of government in trying to promote SMEs activities in Nigeria. According to Managing Director of Bank of Industry (BOI) Olukayode (2018), BOI gives out loans that are secured by bank guarantees. In the SMEs' space, their repayment has been good. The Director further states that BOI is working very closely with the Central Bank of Nigeria and the ministry of finance to ensure that loans to SMEs are guaranteed in order to reduce the risks of loan default. Indeed, the repayment of loan by SMEs is a major concern of MFIs. This concern results from the fact that most SMEs acquired such loans without collaterals which makes repayment prone to default.

However, loan characteristic (tenure & Size) are determinants of loan repayment, the duration and the size of a loan can lead to good or poor repayment performance. Another most important factor that can determine loan repayment is SMEs performance, SMEs that are performing well tend to repay loan within stipulated time than SMEs that are not performing well. Therefore, there are many theoretical and empirical literature on the relationship between loan characteristic and loan repayment. Shu-Teng, Zariyawat, Hamim and Annur (2015) and Osman and Ramakrishna (2017)

documented positive relationship between loan characteristic and loan repayment performance while Nawai and Shariff (2012) document insignificant relationship between loan size, loan tenure and loan repayment performance.

Loan characteristics such as repayment period, loan type (in cash or in kind), and loan size influence loan repayment performances. If the payback period is too short, the possibility of returns on investment is low in that period. If the repayment time is too long, then borrowers may divert to use extra money on non-productive uses, especially on consumption (Chaudhary, Ali & Ishfaq 2003). Borrowers who receive loans in kind (such as seeds, fertilizers, equipment, etc.) have better loan repayment compared to borrowers who receive loans in cash. This happens mainly because borrowers may use the loans in cash for non-business related purposes (Okorie, 1986). Larger loan size increases the expected profit of a borrower. This happens because the net return is an increasing function of the size of the loan, and borrower always prefers larger loans (Godquin, 2004). Godquin (2004) further claims that larger loan size is more difficult to be repaid within a certain period of time. Fremier and Gordon (1965) demonstrated that by increasing the loan size, the loan repayment deteriorates. However, Matin (1997) finds that loan size has no influence on the loan repayment performance.

Loan tenure also determined the repayment performance. Woolcock (2008) observed that if the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows. Woolcock (2008) further observed that if physical collateral were a requirement for borrowing, most MFIs clientele would be unable to collect the loan for reason of lack of physical collateral. Since borrowers do not have physical collateral, MFIs focus on using social collateral via group lending. Group lending entails the principle of joint liability by the borrowers. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution. Against this background this study examined Loan Characteristics, Loan Repayment and Performance of small and medium enterprises in Kano city: A mediating model

2. Literature review

2. 1 Empirical review

Osman and Ramakrishna (2017) investigated the determinants of loan repayment performance in ACSI. The study employed descriptive statistics and multinomial logit model for the analysis. While loan repayment performance served as dependent variable, sex, age, education level, loan size, interest rate, loan tenure, training and monthly sale serve as the independent variables. The study revealed that loan size and loan tenure is statistically significant with loan repayment performance. Similarly, Welderufael, Tesfatsion and Gedifew (2015) studied the factors influencing MFIs Group Loan Repayment Performance of MSEs' Service Sector in Mekelle City, Ethiopia. The study uses cross-sectional primary data, stratified sampling techniques, and finally employed chi-square test to test the association of the independent variables and loan repayment performance. A total of eleven explanatory variables were included in the chi-square. According to the chi-square test, group formation (screening), peer monitoring, loan size, loan term and supervision have significant association with loan repayment performance. Shu-Teng, Zariyawat, Hamim and Annur (2015) examined determinants of microfinance repayment performance among Small Medium Enterprises in Malaysia. The result documented that educational level, business experience, amount of loan and loan tenure have significant relationship with loan repayment.

Firafis (2015) studied the determinants of loan repayments performance of Hirari microfinance institutions. The study employed descriptive statistics and logistic regression (binary logit) to analysis the data. The study revealed that loan size significantly influenced loan repayment performance. In the same vein, Seyedmehrdad, Andrea, Giorgio, Emanuele and Paolo (2015) found that loan size has significant relationship with loan repayment performance of Indian Institute for Mother and Child. Similarly, Tesfaye, Tesfatsion and Kiros (2014) also studied the determinants of loan repayments performance of Dedebit Credit and Saving Institution (DECSI), Ethiopia. The study employed binary logistic regression to analysis the data. The study revealed that loan size significantly influenced loan repayment performance. Al-Sharafat, Qtaishat and Majdalawi (2013) assessed the loan-repayment performance of public agricultural credit agencies in Jordan. The result of this study further revealed that size of loan size, size of loans repaid number of borrowers and numbers of credit agency staff and borrower experience have positive effects on loan repayment.

Ibeleme, Okpara and Odionye (2013) studied the loan size and repayment performance of smallholder oil palm producers and processors in Abia State of Nigeria. The study find out loan size is positively significant with loan repayment performance. Kibrom (2010) studied determinants of successful loan repayment performance of private borrowers in development bank of Ethiopia, North region. The study found that loan tenure is positively significant with loan repayment performance. Earlier, Pasha and Tolosa (2014) also reports significant relationship for loan tenure and loan repayment performance.

Tijani, Zakiya, Arifur Rahman and Mohammed (2018) examined the determinants of loan repayment performance of SMEs in Ghana. The study revealed loan size and interest rate put forth significantly negative influence on loan repayment performance. Ojiako, Idowu and Ogbukwa (2014) examined the loan repayment performances of smallholder farmers in Ogun State of Nigeria. The study findings revealed that loan size has negative effect loan repayment performance. Another study was conducted by Onyeagocha, Chidebelu, Okorji, Ada-Henri, Osuji and Korie (2012) on an examination of determinants of loan repayment of microfinance institutions in southeast states of Nigeria reveal that out of nine explanatory variables, five variables were found to be significant for the probability of being defaulter; that is group size, shocks, training duration, loan size and credit officers experience were significantly influencing loan repayment performance of MFIs.

Roslan and Mohd (2009) undertook a study on the determinants of loan repayment among microcredit borrowers in Malaysia by dividing determinants into three categories- characteristics of borrowers, characteristics of the project or business and the characteristics of the loan. Their result indicated that the probability for loan repayment default was influenced by the gender of the borrower, type of business activity, amount of loan, repayment period and training. Godquin (2004) tested the explanatory power of models that attribute the performances of MFIs in terms of repayment rate to the use of group lending, social intermediation and dynamic incentives. Age, loan size, and duration showed a significant negative impact on the repayment rate. The finding is the same with Sharma and Zeller (1997).

An investigation on the microfinance repayment performance of Oromia Credit and Saving Institution (OCSI) in Kuyu has been carried out by Abafita (2003). According to his finding; sex, loan size and number of dependants are negatively related to loan repayment.

Zeller (1996) assessed repayment performance in group-based credit programs in Bangladesh. Their hypothesis was that the bigger the group, the more imperfect are flows of information likely to be between members. Hence, problems arising out of asymmetric information make monitoring and enforcing costly and less effective. Rates of default are therefore expected to increase with group size (+). The sign of the coefficient is positive as expected; however, it is marginally insignificant at the 10-percent level. They found that the greater the loan size, the greater the probability of the default (+).

Similarly, Nawai and Shariff (2012), Pasha and Tolosa (2014) report insignificant influence of loan size and loan repayment performance. An empirical study was conducted by Amare (2005) on the determinants of loan repayment performance of small-holder farmers in North Gondar, Ethiopia. A total of 15 explanatory variables, including loan size, were considered in the econometric model. Loan size was found to have insignificant effect on loan repayment performance.

2.2   Theoretical perspective

Moral hazard refers to the inability of the lender to ascertain whether the loan granted to borrowers are used for its intended purpose, or that the borrower applies the expected amounts of complementary inputs, especially effort and entrepreneurial skill, that are the basis for the agreement in order to get the loan provided. The borrower may then be less able to repay if these inputs are less than expected (Ghatak & Guinnane, 1999). Most business loans are given for the sake of business growth only and to improve the business enterprise's working capital. However, sometimes it happens that some of the loan borrowers are not trustworthy in honoring the agreement made with the financial institutions (Makorere, 2014). Loan diversion leads to moral hazards, which may in turn, affect loan repayment by small and medium enterprises since the loan was diverted from its intended business purpose.

The theorist, Lysander Spooner stated that the historical initiation of Micro financing service was traced back in the middle of 1800's. Consequently he wrote the impact of the credit schemes on the target entrepreneurs and farmers while targeting the poor people to get out of the poverty. Meanwhile, the modern industry of microfinance service has been initiated since 1970 by Grameen Bank of Bangladish and pioneer Mohammed Yunus. Shore bank was the first microfinance and community development bank founded 1974 in Chicago. According to Prof. Mohammed Yunus

and Grameen Banks phrases, an improvement in the economy and social welfare could partly realized through delivering micro-credits to the poor people (Microfinance & Micro-credit, 2016).

Figure 1 Conceptual framework

From the theoretical and empirical literature reviews, the conceptual framework is authored
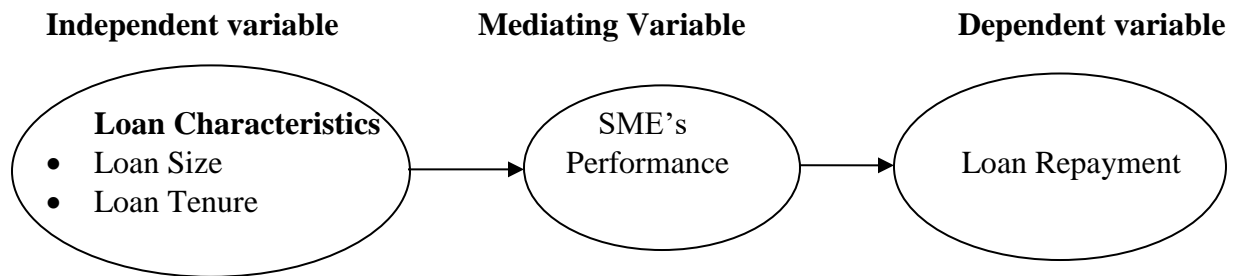
Source: Authors' model (2019)

3. Methodology

This study uses cross sectional survey design. The population of the study is one hundred and forty eight (148) SMEs spread across Kano city that collected loan from Bank of Industry, Kano State Branch. The sample size is one hundred and eight (108) SMEs that were selected through simple random sampling. The study gathered data through structured questionnaire after which the data were analyzed using correlation and multiple regression analysis. SPSS version 21 was used for the analyses.

Reliability of the Instrument

In order to determine the reliability of the instrument a pilot test was administered to ten (10) SMEs in Kano City. Data from the questionnaire were collected and tested to determine the reliability of the instrument using the Cronbach Alpha which is a method provided by Statistical Package for Social Sciences (SPSS 21). Thus, a content validity index of 0.673 makes the instrument valid (John & Reve, 1982). The result of the reliability test for the entire instrument is presented in table 1.

Table 1 Reliability Test

Variables	Anchor	Number of Items	Cronbach Alpha
Loan Size	5 point	06	0.749
Loan Tenure	5 point	06	0.723
SMEs Perf	5 point	07	0.509
Loan Rep	5 point	07	0.711
Cronbach alpha (Mean)			0.673

Source: SPSS output (2019)

4. Results and Discussion

Regression Analysis

Table 2

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	8.650	.502		17.234	.000	7.647	9.653
	Lsz	-1.354	.117	-.825	-11.606	.000	-1.587	-1.121

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.825ª	.681	.676	.36431	.681	134.705	1	63	.000	2.835

a. Predictors: (Constant), Lsz

b. Dependent Variable: Lrpymnt

Table 3

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.014	.208		4.867	.000	.598	1.431
	Ltnr	.627	.069	.753	9.096	.000	.490	.765

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.753ª	.568	.561	.42432	.568	82.742	1	63	.000	3.492

a. Predictors: (Constant), Ltnr

b. Dependent Variable: Lrpymnt

From tables 2 and 3, we can see that IVs are significantly related with DV at (β= -1.354 P<.000& β= -.627 p<000) which indicate step one was fulfilled. This is indicating that predictors are significantly related with criterion variable.

Table 4

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-1.381	.522		-2.646	.010	-2.424	-.338
	LS	1.138	.121	.763	9.384	.000	.896	1.380

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.763ª	.583	.576	.37883	.583	88.054	1	63	.000	2.294

a. Predictors: (Constant), Lsz

b. Dependent Variable: Perfmnc

Table 5

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.537	.254		17.846	.000	4.029	5.045
	Ltnr	-.356	.084	-.470	-4.230	.000	-.524	-.188

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.470ª	.221	.209	.51768	.221	17.890	1	63	.000	2.741

a. Predictors: (Constant), Ltnr

b. Dependent Variable: Perfmnc

From tables 4 and 5, the result shows that theIVs (loan size & loan tenure) are significantly related with MV (SMEs performance) at (β=1.138 p<.000 & β=-.356 p<.000) which also indicate step two was fulfilled.

Table 6

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.187	.500		16.379	.000
	Lsz	-.972	.171	-.593	-5.697	.000
	Perfmnc	-.335	.114	-.305	-2.930	.005

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.849ᵃ	.720	.711	.34418	.720	79.755	2	62	.000	2.392

a. Predictors: (Constant), Perfmnc, Lsz

a.   Dependent Variable: Lrpymnt

Table 7

Coefficients and Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.597	.372		9.673	.000
	Ltnr	.425	.057	.510	7.494	.000
	Perfmnc	-.569	.075	-.517	-7.602	.000

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.881ᵃ	.776	.769	.30771	.776	107.560	2	62	.000	2.681

a. Predictors: (Constant), Perfmnc, Ltnr

b. Dependent Variable: Lrpymnt

From tables 6 and 7 (step three) the IVs and MV were regressed together against the DV, the result shows that the MV (β=-.681 p<000) is significant. As suggested by Baron and Kenny (1986) there is need to go to step four to ascertain whether full mediation or partial mediation has occurred. However to ascertain whether full or partial mediation has occurred, we have to look at IVs. When IVs, MV and DV regressed together the values against loan size and loan tenure (β=.370 p<.312 & β=.549 p<000) is still significant but the beta has decreased as such we can conclude that the partial mediation taken place.

Discussions of Findings

From tables 2 and 3, we can see that loan size and loan tenure have significant relationship with loan repayment with a values of (β= -1.354 P<.000 & β= -.627 p<000) respectively. The finding is consistent with earlier findings of Osman and Ramakrishna (2017); Welderufael, Tesfatsion and

Gedifew (2015) and Shu-Teng, Zariyawat, Hamim and Annur (2015). This compels the study to go further to step two where the finds significant relationship between loan size, loan tenure and SMEs performance which from tables 4 and 5 show the values of (β=1.138 p<.000 & β=-.356 p<.000) respectively. The finding is in line with Ibeleme, Okpara and Odionye (2013); Al-Sharafat, Qtaishat and Majdalawi (2013); Pasha and Tolosa (2014); Tesfaye, Tesfatsion and Kiros (2014); Seyedmehrdad, Andrea, Giorgio, Emanuele and Paolo (2015) and Firafis (2015). Furthermore, tables 6 and 7 discovers a significant relationship when both IVs and MV against the DV (loan size, loan tenure and SMEs performance against loan repayment) were regressed with values (β=.370 p<.312, β=.549 p<000 & β=-.681 p<000) respectively. This shows that SMEs performance partially mediate the relationship between loan size, loan tenure and loan repayment.

5. Conclusion and Recommendations

This study analyzed the relationship between Loan Characteristics, Loan Repayment and Performance of small and medium enterprises in Kano city through mediating model. Based on the analysis carried out the study concludes that there is partial mediation between the variables of the study. Therefore, the study recommends that an average loan size and loan tenure should be maintain when granting loan and where adjustment becomes necessary, the financial institution should set loan size and loan tenure based on cash pattern (income) of the borrower in order to increase loan repayment performance of the SMEs.

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