

# Reasons for low Patronage of Microfinance Banks by Women Entrepreneurs in Nigeria

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## Abstract

That microfinance banks are established to improve the socio-economic conditions of women especially in rural areas is a well known fact, however in recent times, women entrepreneurs in Nigeria are no longer patronizing Microfinance banks like before. This calls for a research into factors responsible for low patronage of Microfinance banks by women entrepreneurs in South West Nigeria. The study employed Average Gross Turnover, Factor Analysis, Goodman and Kruskal's gamma statistics to evaluate the effect of Microfinance banks on performance of women entrepreneurs and to determine the reasons for low patronage of Microfinance banks by women entrepreneurs. The result showed that weak but positive relationship exist between Microfinance banks and performance of women entrepreneurs. It was also observed that harsh loan recovery methods, high interest rates, short repayment periods and high charges imposed on customers are major reasons for low patronage of Microfinance banks by women entrepreneurs in Nigeria.

**Keywords:** Microfinance, women entrepreneurs, performance, patronage.

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## 1. Introduction

Women play pivotal role in the socio-economic development of their families and communities but certain problems such as poverty, unemployment, low household income and societal discriminations mostly in developing countries have obstructed their performance. The tenacity of the women to break away from the circle of poverty and increase their empowerment makes them resort to entrepreneurship for succor in these times of economic hardship. Women entrepreneurship is regarded as an efficient strategy for poverty reduction and economic development.<sup>[1]</sup> However, in spite of the promising role of women entrepreneurship and several strategies put in place by Federal governments, women entrepreneurs in Nigeria still face certain financial challenges which negate their ability to gain access to loans. Most of them rely on personal funds, family resources moneylenders and informal financial institutions as sources of initial and additional capital.<sup>[2]</sup>

Therefore, in order to address the financial challenges confronting women entrepreneurs in their attempts to vanquish poverty, the Central Bank of Nigeria (CBN) in 2005 introduced Micro-finance banks (MFBs) whose primary target is to empower the poor and lift women out of poverty. Microfinance is known as provision of financial services such as credit, saving, deposit, insurance and repayment services to those who are deprived of accessing conventional financial services because they are poor and they cannot offer collateral.<sup>[3,4]</sup> The underlying logic is that through extending financial services, low income people especially women will have the ability to participate in

the economic market and exploit entrepreneurial opportunities through start-up new businesses extending current business or introducing new activities.

MFBs emerged as a major strategy to solve twin problems of poverty and unemployment which constitute a serious threat to the economic development of developing countries. It has no doubt furnished successful results in a few decades and fetched winning results with respect to poverty alleviation. Furthermore, it has been credited with improving other financial outcomes (including savings and accumulation of assets such as furniture or sewing machines) as well as non-financial outcomes such as health, food security, nutrition, education and women empowerment, job creation and social cohesion.<sup>[5,6]</sup>

Though, MFBs began with a righteous mission of supporting the poor by providing the financial access to them. But, unfortunately, the practice of MFBs moved far away from its main mission with the motive of commercialization coupled with exorbitant interest rates. Therefore, recently most of the evidence of the impact of microfinance interventions around the world remains highly controversial and has been increasingly questioned not only for its lack of proven poverty reduction and development outcomes, but also on ideological terms.<sup>[7,8]</sup> Many researchers are of the opinion that the impact of MFBs is divergent between positive, no impact and even negative impact.<sup>[9,10]</sup> Some even viewed MFBs as incredibly risky and expensive way to support the poor.

Moreover, a lot of criticism on MFBs reveals that they do not reach the poorest of the poor, or that the poorest are deliberately excluded from their programmes.<sup>[11]</sup> As a result of

this, the extreme poor often decide not to participate since they lack confidence or they value the loans to be too risky thus leading to low patronages of MFBs by customers especially women. Ademola <sup>[2]</sup> and Jegede <sup>[12]</sup> corroborated this assertion by reporting that women entrepreneurs now opt for cheap sources of finance that will give them rest of mind.

Owing to the inconsistencies in these reports and the problems stated above, the study seeks to bridge the knowledge gap by evaluating the impact of MFBs on performance of women entrepreneurs and exploring possible reasons for low patronages of MFBs by women entrepreneurs in Nigeria which hitherto has been very scarce in literature despite the fact that one of the cardinal objectives of MFBs is to empower women and lift them out of poverty.

## 2. Literature Review

### 2.1 Microfinance Banks in Nigeria

MFBs have emerged as a rapidly growing financial services industry worldwide as a solution to the crippling effects of the conventional banks interest on the poor and those operating Micro and Small Enterprises (MSEs). It includes various financial services such as savings, insurance and money transfers. Thus, MFBs provide several financial services such as credit, savings, insurance and fund transfers to the poor section of the society. Robinson <sup>[13]</sup> defined 'microfinance as a small-scale financial service primarily credit and savings provided to people who farm, fish, herd or run their enterprises. The objectives of the micro finance scheme are summarized by Anyanwu <sup>[14]</sup> and include:

- improving the socio-economic conditions of women, especially those in the rural areas
- Building community capacities for wealth creation among enterprising poor people
- Promoting sustainable livelihood by strengthening rural responsive banking methodology; and
- Eradicating poverty through the provision of microfinance and skill acquisition development for income generation.

These objectives has become crucial in Nigeria in order to foster the empowerment of women that are deprived of their rights by the formal banking system due largely to high risk and cost associated with serving the poor.

### 2.2 Empirical framework

For more than three decades, the popularity of MFBs has increased at a steady rate and it has become a pivotal innovation in the fight against poverty in the developing world. Hennessey <sup>[15]</sup> concluded that MFBs, in its various adaptable models could render enough assistance to poor people in the world to alleviate poverty and enhance economic development, particularly in developing economies. Moreover, Swain and Wallentin <sup>[16]</sup> in a journal titled "Empowering Women through Microfinance evidence from India" submitted that microfinance programmes have been increasingly promoted in India because of their positive and significant impact on the economy.

Furthermore, in Nigeria, <sup>[17]</sup> studied the "Impact of MFBs on the standard of living on hairdressers in Ogbomosho north local government area of Oyo state and the result was positive. Also <sup>[18]</sup> conducted a study on the "Effectiveness of MFBs in alleviating poverty in Kwara state, Nigeria and found that it established positive impact on the active poor. On his own

part, Okpara <sup>[19]</sup>, carried out a research on "MFBs and poverty alleviation in Nigeria", and found that MFBs lower poverty in Nigeria.

However, on the contrary, some researchers carried out further studies and found out that MFBs activities in Nigeria had negative insignificant effect on poverty index. <sup>[20]</sup>

Bamisile <sup>[21]</sup> and Arogundade <sup>[22]</sup> indicated that a number of micro credit programmes are not making any significant impact with regards to the overall welfare of women and have therefore been far removed from the customary and operational framework of the rural financial intermediation process. Additionally, <sup>[23]</sup> observed that microfinance borrowers have had to sell their household assets or their own food supplies, some even beg for alms around the neighborhood in order to meet up with the short time for repayment of loans..

### 2.3 Theoretical framework

The theoretical framework for this study is hinged on the Welfarist theory. They premised their position on the purpose of microfinance which is improved living standard for the poor. The welfarists are of the position that MFBs can achieve sustainability without achieving financial or economic self-sufficiency. <sup>[24]</sup> The welfarists thought of donations as a form of equity, such that donors can be viewed as social investors who will receive social dividends. Social investors, unlike private investors, do not expect to earn monetary returns but social, or intrinsic, returns. Emphasis is placed on poverty alleviation and institutional evaluation based on social metrics. Evidences available suggest that those MFBs that have achieved true financial self-sufficiency have also tended to loan to borrowers who were either slightly above or slightly below the poverty line in their respective countries. <sup>[25]</sup>

## 3. Methodology

The study covers all the five states in the South West region of Nigeria. This is one of the regions where MSEs exist mostly. It is made up of Oyo, Osun, Ogun, Ondo and Ekiti States. The entire market women, Petty traders, Hairdressers, Fashion designers and Food caterers who are customers of LAPO MFBs in the South West region constitute the population of the study.

LAPO means Lift Above Poverty Organisation. LAPO MFBs was licensed by Central Bank of Nigeria (CBN) in 2012. Since then, LAPO MFB has become one of the foremost microfinance institutions delivering variety of different financial services to over a million people in Nigeria. They have 87 branches in the South West region of Nigeria. For the sample selection, 50 women entrepreneurs who are customers of LAPO MFBs for more than five years were purposively selected from each state in the south west region, making a total of 250 respondents. Moreover, 5 credit officers with more than five years banking experience were purposively selected from each state. Data were obtained from primary sources through well- structured questionnaires. Meanwhile analysis was done by using average gross turnover measurement, factor analysis, Goodman and Kruskal's gamma statistics.

### 3.1 Model Specification

The factor F is not observed; only Y1, Y2, Y3 are observed  $\delta_1$  represent variability in the Y1 NOT explained by F Y1 is a linear function of F and  $\delta_1$

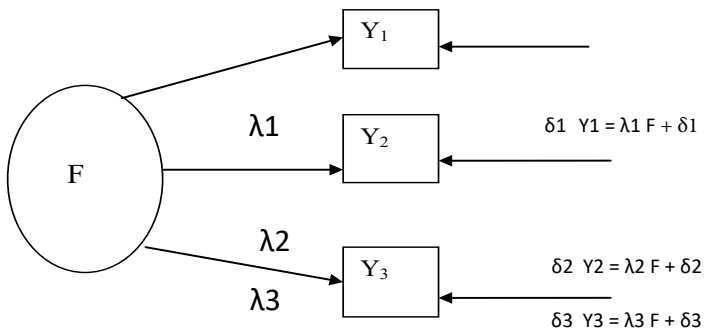


Fig 1: Model specification for factor analysis

**4. Empirical Results and Discussion**

**4.1 Performance of women entrepreneurs patronizing MFBs using average gross turnover**

The performance of the women entrepreneurs patronizing MFBs in the three years preceding this study is highlighted in Table 1. This was done on the basis of yearly averages of the surveyed classes of micro-enterprises. The enterprises surveyed showed a steady rise in gross turnover but when the rate at which the gross earnings rose between 2016 and 2017 was compared with the rate at which they rose between 2017 and 2018, it was discovered that the performance of the enterprises improved slightly despite the injection of micro credit. The respondents asserted that this may be due to high interest rate demanded by MFBs and they also attributed their poor performances to the short repayment period which did not give them enough room to generate futuristic profits and allow the loans to be used judiciously. This result tallies with the findings of Idowu and Salami.<sup>[17]</sup>

**4.2 Relationship between Microfinance banks and performance of women entrepreneurs in Nigeria**

The result in Table 2 showed that MFBs exhibited very weak but positive significant association ( $G = 0.149$ ) with performance of women entrepreneurs. The extent of the relationship is 0.149. However, the weak relationship indicated that MFBs have an inconsequential effect on the performance of women borrowers.

This may be as a result of exorbitant interest rate and other additional charges for insurance, registration, forms, among others deducted from the loans which make MFBs and their services cumbersome. The women entrepreneurs described all these as "killing". The interest rate charged by MFBs in some cases is often higher than rates charged by some commercial banks. Therefore, profits made from the business are used in servicing the loans obtained from MFBs leaving them with little or nothing for their businesses. This is in line with the submissions of Lashley<sup>[26]</sup> and Idowu and Salami.<sup>[17]</sup> Moreover, another factor that may contribute to the weak relationship between MFBs and performance of women entrepreneurs is the repayment period that is so short which makes the loan unprofitable and of no beneficial use.

This finding is supported by<sup>[21]</sup> and<sup>[22]</sup> who reported that significant numbers of MFBs are not making any significant impact with regards to the performance of women.<sup>[20]</sup> Also found that MFBs have no significant effect on poverty alleviation among women

**Table1: Performance of women entrepreneurs who patronized MFBs using Average gross turnover (2016 - 2018)**

Sector	#'000 (2016)	Rate of change (%)	#'000 (2017)	Rate of change (%)	#'000 (2018)	Rate of change (%)
Market women	880	-	920	4.55	962	4.57
Fashion designers	720	-	750	4.17	782	4.27
Hair-dressers	540	-	580	7.40	623	7.41
Petty traders	620	-	650	4.84	682	4.92
Food caterers	520	-	555	6.73	593	6.85

Source: Field survey, 2020

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**4.3 Reasons for low patronage of MFBs by women entrepreneurs**

Factors accounting for low patronage of MFBs by women entrepreneurs were evaluated using Factor Analysis. Kaiser-Meyer-Olkin (KMO) was employed to measure the adequacy of the samples. The KMO measure is 0.699; as indicated in Table 3. This implied that the data are sufficient for the purpose. Also, the significance value  $p < 0.005$  for Sphericity test shows that the variables have strong correlation and this makes it relevant and appropriate to factor analysis. Thus, the values of the test are considered significant.

Moreover, Table 4 showed that four salient factors (Harsh loan recovery methods, high interest rates, short repayment periods and high charges imposed on customers) accounts for

14.758%, 13.600%, 12.188% and 10.995% of the variance respectively. However, the remaining factors like inadequate loans, lack of networks, gender bias, illiteracy, attitude of MFBs workers and inaccessibility of MFBs to customers were insignificant.

Harsh loan recovery methods which account for 14.758% ranked highest. The methods employed by MFBs for recovery of loans are described as "hellish" by the respondents. Some of these include public harassment or molestation of borrowers, involvement of police officers and confiscation of defaulter's goods. Often times, they parade defaulters on streets or lock them up in pit toilets. Sometimes, they drag them to palaces or family heads for intervention."

Boladale Taibat, a hairdresser based in Lalupon, Ibadan, Oyo State, Nigeria reported that she had obtained LAPO loan twice but she has made up her mind never to borrow again from MFBs. She said; "I was a member of Itesiwaju group under LAPO but anytime I borrow from LAPO MFBs, fear always grip my heart and my blood pressure usually become high. As soon as I observed this, I avoid taking loans from MFBs rather I prefer patronising those informal financial institutions. Any time I pass through their office at Oki, around Olodo Area of Ibadan, the sight of defaulters being molested used to scare me". Harsh loan recovery methods have demoralised microfinance clients to a very large extent, therefore customers avoid MFBs like plague.

High interest rates ranked next with variance of 13.600%. Women borrowers fail to patronize MFBs because of the exorbitant interest rates required by MFBs which oftentimes are more than that of commercial banks.<sup>[26]</sup> With these outrageous interest rates, the poor finds it difficult to run a profitable business and pay back the loan in time.

High interest rates have made the poor borrowers unable to pay interest as well as the borrowed amount in time, thus the borrowers are left to wallow in penury.<sup>[17]</sup> Also buttressed this assertion that MFBs interest rates are unreasonably high. Additionally, Okpugie<sup>[27]</sup> also affirmed that exorbitant interest rate on credits by MFBs is the principal cause of outrageous loan default therefore women entrepreneurs now opt for cheap sources of finance that will give them rest of mind.<sup>[2]</sup>

In addition to these, short repayment periods with variance of 12.188% serve as another cogent reason for low patronage of MFBs by women entrepreneurs. Because of the repayment period that is so short, Yoruba people fondly refer to MFBs as "Gb'omulena" which means placing one's breasts on a very hot lantern. This term popularly used by Nigerians today when referring to MFBs verbalise the agonizing pain that accompany repayment of loans collected from MFBs. Borrowers perpetually tremble as they endeavor to meet up with payments of their weekly installments. Short repayment periods do not provide opportunity for loans to yield futuristic gains and allow the loans to be meaningfully utilized.<sup>[17]</sup> asserted that performance of borrowers may not be enhanced after collecting the loan because repayments frequency constitutes a serious problem.

High charges by MFBs accounts for 10.995% of the variance. For a customer to be eligible for micro credit, one of the credit officers interviewed explained that customers must save 10 percent of what they intend to borrow with the MFBs. They also pay for registration, insurance, forms and

so many other fees are deducted from the loans. All these and many more create additional charges which make MFBs and their services cumbersome. One of the MFBs customers Mrs Jaiyeoba explained that she usually obtain #50,000 loan from LAPO, out of which she saves N5,000; pay insurance fees of N300, N1,150 for group registration, N200 for bank form with other deductions. Thereafter, she pays N2, 800 weekly for 23 weeks, which is equal to six months. After deducting all these charges, she is left with very little for her business.

**Table 2: Goodman and Kruskal's gamma test to determine the relationship between Microfinance banks and performance of women entrepreneurs in Nigeria**

Symmetric Measures		Value	Asymp. Std. Error	Approx. Tb	Approx. Sig.
Ordinal by Ordinal	Gamma	.149	.066	2.260	.024
N of Valid Cases		250			

Source: Author's computation, 2020

**Table 3: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.699
Bartlett's Test of Sphericity	Approx. Chi-Square	92.978
	Df	45
	Sig.	.000

Source: Author's computation 2020

#### 4.4 Summary of findings

- Weak but positive correlation exist between MFBs and performance of women entrepreneurs in Nigeria.
- Harsh loan recovery methods, exorbitant interest rates, short repayment periods and high charges imposed on customers are major reasons for low patronage of MFBs by women entrepreneurs in Nigeria.

#### 5.1 Conclusion

This study examined the relationship between MFBs and performance of women entrepreneurs in South West, Nigeria. It analysed the effect of MFBs on performance of women entrepreneurs. In addition, reasons for low patronage of MFBs by women entrepreneurs were evaluated. Primary data collected from two hundred and fifty women borrowers and twenty five credit officers of MFBs in South West Nigeria were analysed using Average Gross Turnover, Factor analysis, Goodman and Kruskal's gamma statistics.

Findings revealed that weak but positive relationship exist between MFBs and performance of women entrepreneurs. It was also observed that harsh loan recovery methods, high interest rates, short repayment periods and high charges imposed on customers are major reasons for low patronage of MFBs by women entrepreneurs in Nigeria.

**Table 4: Extraction method: principal component analysis**

Component	Initial Eigenvalues	Extraction Sums of Squared Loadings				
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Harsh loan Recovery	1.476	14.758	14.758	1.476	14.758	14.758
High interest rate	1.360	13.600	28.358	1.360	13.600	28.358
Short repay. Period	1.219	12.188	40.546	1.219	12.188	40.546
High charges by MFBs	1.099	10.995	51.541	1.099	10.995	51.541
Inadequate Loans	.984	9.840	61.381			
Lack of networks	.963	9.631	71.011			
Inaccessibility to MFBs	.837	8.365	79.376			
MFB workers Attitude	.791	7.912	87.289			
Gender bias	.725	7.250	94.538			
Illiteracy	.546	5.462	100.000			

Source: Author's computation 2020

## 5.2 Recommendation

- i. Interest rates should be reduced drastically so as to encourage poor people especially women to patronize them more.
- ii. Loan repayment period should be made longer so that women borrowers would be able to use the loans judiciously in order to profit more

## 5.3 Limitation of the study

The study focused on South West Nigeria only and may not represent Nigeria as a whole. Further studies should be extended to other regions of Nigeria and also other African countries like South Africa, Mali, Togo and several others.

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