FACTORS INFLUENCING ACCESS TO MICROCREDIT BY MICROENTERPRISES IN NIGERIA: A QUALITATIVE STUDY OF MICROFINANCE BANKS

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ABSTRACT
This is a qualitative study of microcredit supply from the microfinance banks (MFBs) to microenterprises in the three senatorial zones of Kano state that involved interviews with eight staff selected from the MFBs' branches in the study area, using a purposive sampling technique. It intended to investigate how borrower's attributes and that of his business influence MFB's decision to approve credit application. Nvivo 10 software was used to analyse the information gathered from the interviews. Age of borrower, his family size, location of his business, initial investment and his business size (in terms number of employees) were found to be important factors that influence the supply/approval of credit application. It is recommended based on the findings that, policy should be designed to reduce the influence of these factors in credit lending and to provide rural areas with facilities to further stimulate credit demand that will subsequently enhance credit supply in the country.

Keywords: Microfinance, microenterprise, microcredit.
JEL Codes: A11, D82, G51

1. INTRODUCTION

Microenterprises in Nigeria constitute economically active poor individuals and firms such as farmers, artisans, service providers, petty traders, etc. whose demand for credit to finance their economic activities is constrained from formal banking system due to their attributes and that of their enterprises and thus compelling them to rely either on their meagre capital or resort to informal credit sources that are riskier and more costly (Aga & Reilly, 2011). They are referred to as small scale enterprises whose survival depends on small number of employees (less than 10 people) with small amount of working capital (less than N5m) equivalent to $9,900 (N505-current official rate). Total number of small and medium enterprises (SMEs) in Nigeria is 22,918 and about 21,264 of them are small enterprises, while 1,654 are medium enterprises accounting for 93 percent small enterprises and 7 percent medium enterprises that contribute 25 percent and 47 percent to employment and GDP of the country respectively (SMEDAN, 2012; 2020). Therefore, microenterprises in this study are all small enterprises whose owners do not have or have few assets that can be used as collateral to secure loans.

Microcredit is a provision of microfinance to the microenterprises in form of small loan. Therefore, access to microcredit in this study means that an individual is both able to borrow and can satisfy the bank lending requirements regardless of whether he borrows or not (Doan, et al., 2010). Likewise, Diagne (1999) differentiated between credit participation and credit access. In credit participation, the borrower's choice for credit is on the demand side while in the credit access, the lender's choice is on the supply-side. This study adopts credit access definition which is the supply-side of credit as postulated by Diagne (1999) and Doan, et al., (2010).

Microfinance program got a global acceptance before 1990 and became an international highest-profile for community development and funded for poverty alleviation and eradication policy in many developing countries including the Sub-Saharan Africa (Otero & Rhyne, 1994). The program varies among countries, institutions and regions. It consists of organizations and agents that engage in small financial transactions using specialized character-based methodologies to serve the low-income households, small firms and rural farmers who lack access to formal financial banking system (Hulme and Arun, 2009; Atmadja, et al., 2016). Microfinance program has been used as a tool to raise the living standard of the poor to boost the economy of people with low-income level by lifting them out of poverty in developing countries. It provides access to finance to those who have few or no valuable assets to be used as collateral in securing credit. Even though existing evidence shows that the microfinance impacts significantly not only at individual household levels (Littlefield et al., 2003), but also at country level (Khandker, 2005).

Surprisingly, microfinance has made a considerable progress in making financial resources available to the financially excluded segments of the society by offering them an opportunity to improve their living standards. It also has a long history in Nigeria and it has been active in providing credit to the poor, yet major problem confronting microenterprises in the country as in many developing countries, is inadequate credit to finance their activities despite their contributions to employment and GDP in the economy (Yauri, Koko and Bankanu, 2008; Christopher and Nkiru, 2020). In the light of the above, this study intended to provide an in-depth understanding of the influence of borrower's attributes and that of his business on the bank decision to approve his credit application.

2. LITERATURE REVIEW

2.1 Conceptual Review

Credit as a resource is scarce by its nature and the availability of it differs among borrowers because of the risk evaluation by lenders. Stiglitz and Weiss (1981) made first attempt to explain the analysis of financial gap in their pioneering work. Several authors described credit market as being characterized by asymmetric information and poor contract enforcement mechanism in the study of credit supply which brings about credit gap, thus constraining those borrowers who cannot access credit formal banking system (Cassar et al., 2007).

2.2 Theoretical Literature

Theoretical literature provides an insight and focus that organizes and connects the study with the existing ones. Therefore, theory of credit supply, theory of credit demand and information asymmetric theory were reviewed. The credit supply theory is suitable for explaining the variables used in this study such as credit access, individual and firm characteristics. This theory states that factors that prevent economy to produce and supply more goods to market are related to the negligence of authorities to make policies, good governance, and physical and financial infrastructure development (Rogers and Pontius, 2009). Similarly, credit demand theory shows that insufficient finance is a major problem hindering the SMEs` growth (Beck, et al., 2008). Financial institutions are said to have excess liquidity to lend than the SMEs are willing to borrow (Osei-Assibey, 2011). The slow growth in the industry is attributed to the inability of SMEs to get necessary information about financial lenders like MFBs and hence retarding their credit demand (Berger & Udell, 1998, 2006). This makes it difficult for them to have access to external credit which forces them to resort to informal credit sources such as ROSCAs, personal saving, friends and family, etc. However, information asymmetric theory explains that financial markets in developing economies are lacking relevant information to provide financial services due to two problems they face regarding the information about borrowers. First is the adverse selection and the second is moral hazard. Adverse selection arises when lenders do not have full information about the characteristics of prospective borrower. By moral hazard, the lender lacks incentive guard against risk of repayment default by the borrower as such risk is not protected by the insurance. As a result, lender may decide to reduce the amount to be lent out leading to the low investment in the economy World Bank (2008). Therefore, theory of credit supply served as the framework upon which issues discussed during the interviews and used in the thematic analysis as applied in others studies (Burnard, 2003; Creswell, 2014).

2.3 Empirical Literature

A number of studies applied theoretical models to deal with moral hazard and monitoring problems focusing on group lending such as (Stiglitz, 1990; Chowdhury, 2005). Others that focused on adverse selection and screening include (Ghatak, 2000; Gangopadhyay et al., 2005). Studies conducted on microcredit supply focusing on group lending are (Hermers et al., 2006; Ahlin and Townsend, 2007). This shows that existing literature on microcredit supply initially hardly pays attention on individual-based lending and hence it is scarce (Lensink & Hermes, 2007).

Cull et al., (2007) are the first to conduct a comparison study on individual-based lending and group-based lending, using microfinance institution's performance in terms of profitability. They found monitoring and screening by peers in the group-based lending to help reduce the problem of adverse selection and moral hazard suggesting that as individual-based lending grows larger, they focus more on wealthier clients presenting a mission drift and focus less on group-based lending institutions. Similar comparison study that supported above argument was conducted in Philippines by Gine and Karlan (2009) using a Randomised Controlled Trials (RCT).

Very few studies applied behavioural models in measuring the relationship between above factors and the supply of microcredit (Umoh, 2006; Rahji & Apata, 2008). The study of credit supply by Umoh (2006) was based on the pioneering work of Stiglitz and Weiss (1981) of credit rationing. Umoh (2006) applied credit rationing approach to estimate factors that determine credit supply by lending institution in Nigeria using amount of loan as dependent variable and interest, collateral, repayment period, loan processing period, maximum loan amount and minimum balance as independent variable. Similar study was conducted by Rahji and Apata (2008) in Nigeria on small and medium enterprises, finding interest rate, loan maturity, profit, type of business and education of entrepreneur as determinants of loans supply by the lending institutions.

Although a considerable amount of research has been made on credit supply, but very few applied a qualitative approach in Nigeria (Tomola, 2009; Edioma-Ubong & Iboro, 2010; Tarhini et al., 2015). Therefore, this study employed a qualitative approach to further investigate how the borrower's attributes and that of his business have influence on the bank decision to approve his credit application in Nigeria.

3. METHODOLOGY

3.1 Sampling Technique

As in Engel & Schutt (2014), a purposive sampling which is a non-probability sampling technique was applied to select interview participants from the microfinance banks in the study areas. The reason for selecting this sampling technique is that study areas are distinct with respect to the type of small business borrowers they deal with. Polit & Beck (2014) regarded a purposive sampling as a way that a researcher intentionally chooses participants that can best provide him with information he needs in the study. In qualitative studies, a researcher may use purposive sampling in order to learn or understand a central phenomenon. In this regard, only credit and marketing heads were considered in the interview and they responded to questions regarding their financial outreach/services since they are involved in bank's decision-making process (Jose and Chacko, 2017).

32. Sample Size

In qualitative research, the sample size is typically smaller compared to quantitative research (Nieswiadomy, 1998). For instant, Ray (1994) recognized a single person or group of 8 to 12 participants to be enough for sample size in phenomenological studies aiming to explore the experience. Similarly, Walker (2007) opined that a qualitative research sample size should be smaller than that of quantitative research and suggested a sample size of between 8 and 12. In line with a Walker (2007), therefore, this study adopted 8 sample size for the study.

3.4 Data Collection

Following Jose and Chacko (2017), an interview protocol was used to gather information using semi-structured questions from the MFBs' credit and marketing heads that allowed respondents to freely express their idea or perception without being guided by the questions or interviewer. Following the pattern applied by Aborampah (2012), 11 sub-questions were designed to explore the central question in detail. Interviews were conducted for 30 to 45 minutes between April and May, 2021 and was recorded using a tape with the permission of the interview participants. After the interviews, the recordings were transcribed into computer files. Care was taken to assure that respondents and their place of work would not be identifiable in any subsequent report. After the final report was written, the tapes from the interviews were destroyed.

3.4 Data Analysis

All interview transcripts were read and properly coded for the analysis (Creswell, 2014). Two independent researchers were asked to verify the accuracy of the data and after the discussion with them, minor modifications were made. A hand strategy was used to analyse the interpretation based on the perception of the interviewees using Nvivo 10 software that include; arrangement of raw data, classification of divergent perspective, analyzing emerging themes to find meanings of the data and preparation of final report. Following Neuman (2003), the raw data was coded and reduced into manageable size thereby organizing it into categories to create themes that helped to interpret the data in the conclusion.

As mentioned in Section 2.2, theoretical framework was adopted and the specification was made for the analysis. Borrower's attributes are specified as age, gender, education level and family size while that of his business include; business location, initial investment, employment and sector enterprise respectively. Application of these attributes in this study follows that of Aga & Reilly (2011).

4. RESULTS AND DISCUSSION OF FINDINGS

Based on the study objective, participants were asked about their perceptions on the factors that influence microcredit supply. As suggested by Burnard (2003), responses gathered were linked with findings and results of other studies. In discussing the findings, P1, P2….Pn, was used to refer to Participants during the interviews.

4.1 Factors Influencing Microcredit Supply

Factors normally used to assess credit-worthiness of borrowers are numerous but using Nvivo 10 software, theme one and two were clustered with four sub-themes each.

4.1.1 Theme One: Borrower's Attributes

The potential borrower's attributes are construed as age, gender, education level and family size that MFBs consider before approving his credit application.

4.1.1.1 Age

Age is interpreted to mean the age of a borrower. It was found to be important factor that influence decision to approve credit application. This is consistent with a study that found age to positively correlate with personal savings implying that amount of loan secured increases as the individual's age advances (Kristiansen et al; 2003). Corroborating the above with participants' opinion on possibility of borrower's age to affect his credit application, P1 revealed that:

> *Borrower's age is very important because we only consider borrower who is 18 years and above before accepting his application and borrower below 18 is not qualified and in some cases, those that are above 65 years (P1).*

The remaining participants (P2-P8) agreed with P1 and they added that borrower who is above 65 (deemed to be retired) is not qualified to apply. This corresponds with two findings. Firstly, as individuals advance in age they become more economically active and hence applying for more credit to finance their economic activities e.g. Bendig et al (2009). Secondly, Hoque et al (2016) found age to negatively affect credit demand that as age increases individual becomes economically inactive which affects his ability to repay loan.

4.1.1.2 Education

Education is generally conceived as a way of acquiring knowledge, experience, skills or training either through formal or informal method. Okobia et al (2013) opined that education is the machinery for not only transmitting cultural heritage but also a mean through which the entire life of individual is developed in the society to live successfully. In the context of this study, therefore, education is the process that individual acquires knowledge from formal school system or informal school system through apprenticeship which is common in developing countries. During the interview all participants revealed that "Borrower's education level is not an issue when it comes to borrowing but the business he engages in. This is because there are borrowers with low or no education qualification but have a viable business idea". Though P8 made a contrary statement,

> *Borrower who is not educated receives an orientation on how to manage the loan so that he will not misuse it and can repay in due time. But we do not waste much time on educated borrowers because they can read the loan conditions from our leaflet and they sign forms that prescribe penalty in case of repayment default. Still if he (educated) needs some advice we give him (P8).*

All participants opined that education level of borrower is not important in approving his credit application. This concurs with findings that found education to have negative impact because money lenders only advance credit to people whom they trust irrespective of their education level (Crook, 2001; Barsland & Tarp, 2008). Though, Aga and Reilly (2011); Sekyi et al. (2014) found education important for it exposes entrepreneur to many opportunities and consequently improves his life through more income generation and poverty reduction.

4.1.1.3 Gender

Gender is construed to mean either male or female in relation to sociocultural differences rather than biological ones. In this context, it is used to refer to a male or female loan beneficiary from banks. Responding to the gender difference regarding credit approval, P1 said that "borrower's gender is not a problem to us and we don't discriminate between our customers, lamenting that female borrowers tend to patronize them less than the male borrowers". P8 succinctly added that;

> *According to law, 60% of MFBs loans ought to go to female and 40% to male borrowers, but gender plays a role here because male borrowers tend to patronize us more and we give them about 80% of the loans and their repayment ability is more than the women due to their engagement in economic activities.*

As revealed by all participants, female borrowers tend to patronize them less and this habit undermines the objective of banking the unbankables (Hulme and Arun, 2009). Evidence that agrees with this assertion shows that firm owned by male has lower access to credit than the female-owned firm due to the fact that most microfinance programs target firms owned by females (Aga & Reilly, 2011). Therefore, the financial institutions prefer the ability to repay to the borrower's gender (Cox & Jappelli, 1993; Crook, 2001).

4.1.1.4 Family Size

Family size was interpreted as number of dependent(s) in borrower's household including himself. P1, P2, P3 and P4 narrated that "Family size is important factor considered before approving credit application. If borrower has large family size, his ability to repay is low due to his spending on the needs of that family. Mostly, we consider this issue to avoid repayment default". P5, P6 and P7 made similar narration but added that "borrower with large family size feels indebted to his family and is careful with the money he collects". P8 elaborated further;

> *Borrower with large family size tends to default repayment of loan he spends more on his family members. We have cases of borrowers who defaulted and ran away from their family. So consider family size before approving loan application (P8).*

Apparently, lenders view a potential borrower with large family size to have higher expenditure and limited income to save, thus unable to repay the credit on time. This result is consistent with finding of Okurut and Schoobee (2007) who found household expenditure to have positive effects on his credit rationing in Uganda.

4.1.2 Theme Two: Business Attributes

Business attributes are construed to include location, initial investment, sector (enterprise) and business size that influence decision of MFBs to approve credit application.

4.1.2.1 Location

Location of business is simply the place where business is located or operated. Mpuga (2008) used business location to explain the effect of the location on possibility to get loan from bank. In responding to this; P1, P2, P4 and P7 emphasized on the borrower's business location to be closer to the bank for easy monitoring of his activities. Similarly, P3, P5, and P6 revealed that they don't go to the far places for monitoring due to the bad roads and don't have branches in remote places as well due to lack of electricity supply. This concurs with Alo and Adeyemo (2021) who found distorted electricity supply to negatively affect potential borrowers in Nigeria. P8 said that,

> *Location is vital for loan approval. Due to understaffing and limited resources we restrict our services to only borrowers whose businesses are located in our locality. Any borrower from far location will find it difficult to secure loan from us. So business location is important before approving loans (P8).*

This is in line with findings of Ijeoma, Ignatius and Victor (2021) who linked business location to the possibility of securing bank credit. This is confirmed that people staying far away from the urban center get low chance of getting credits and other financial services (Mpuga, 2008).

4.1.2.2 Initial Investment

Initial investment is construed as the amount of money a business started with that shows its financial strength. Existing evidence shows that investment is part of business security which reduces risk that exposes lender to repayment default (Tadesse, 2014). P3, P1, P4, P2, P6 and P5 disclosed that "There is a positive relationship between the initial investment and credit lending for it shows a financial strength of the business". Moreover, P8 and P7 elaborated on that;

> *For example, if borrower has N10,000 as capital and applies for N1,000,000 loan, we cannot approve his application because it is beyond his capability to repay, but if he has N100,000 and makes a lot of transactions, we can consider his application of N1,000,000 based on his turnover. So the higher the capital in form of initial investment, the higher the possibility of loan application being approved and vice versa.*

All participants agreed that initial investment of borrower plays an important role in approving his credit application. The higher the initial investment, the higher the chance of a borrower to secure loan that eventually increases his working capital. This is consistent with findings of (Tadesse, 2014; Magboul, 2016).

4.1.2.3 Employment

The size of enterprise is measured in terms of number of people it employs. Size of business affects its demand for money to meet certain needs in form of employment, production and the purchase of raw materials. Responding to this, P1 said that "we cannot compare small enterprise to medium or large business enterprises. Normally business with large number of employees tends to be more responsible and have a higher chance of getting credit from us than the small business. In fact, we look at the business productivity (profit) and employment (size) that indicate its ability to employ, produce and generate profit". P8 made the following assertion;

> *Borrowers with big business get their application approved. But those with small business are asked to bring some security such as landed property so in case of repayment default, we can use that security to recover the money. And if the money is small we only accept two persons to stand for them as guarantors (P8).*

The size of business enterprise determines its ability to access credit since it can produce more, employs more and earns more. This coincides with Fatoki and Asah (2011) who found that the more the employees of an enterprise the higher the likelihood of that enterprise to get loan.

4.1.2.4 Enterprise

The enterprise is interpreted as the type of sector that borrower engages in. Four different sector enterprises are specified in this study which include agriculture, manufacturing, trade and services. Participants show no prejudice regarding credit allocation to the sector type. P3 opined that "actually, we don't have any sector biasness in credit allocation and we only look at the performance of the sector and its viability". P8 said that,

> *We only consider borrowers from manufacturing and trade sectors mostly traders and small factory owners who operate in the urban and suburban areas. Our loans go to small producers and traders in these two sectors. Therefore, we do not give agricultural loans because most of the activities are carried out at rural areas.*

Based on the responses gathered, the enterprise in which borrower operates does not matter to the lender, but his ability to fulfil credit requirements and meet the repayment conditions. This finding corroborates with the result of Aga & Reilly (2011) who found sector enterprise to have no statistical significant effect on credit access.

5. CONCLUSION AND POLICY RECOMMENDATIONS

Microcredit has made considerable progress in providing financial supports and resources available to the bottom segments of the society especially the microenterprises by offering them the opportunity to improve their living standards in Nigeria. This study provided an in-depth understanding of the influence of borrower's attributes and that of his business on approval of his credit application by gathering information through semi-structured interviews from eight MFBs staff selected in Kano state.

Some factors were found to be important in influencing credit application approval while others are not. Age, family size, business location, initial investment and business size were found to be important factors while education, borrower's gender and business type he engages in were not important factors. Information gathered was analysed using Nvivo 10 software.

It is recommended that government and stakeholders should address financial challengesby reducing the influence of these factors in credit lending and to provide infrastructural facilities in rural areas to enhance credit supply in the country. In addition, future studies should include both formal and informal money lenders with a view to resolve issues and challenges facing credit market. Also, more heterogeneous sample size should be added to explore credit demand side to further investigate the issue in the country.

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