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Bank Specific Factors and Loan Repayments Culture of Credit Takers of Microfinance Banks in Kwara State

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Abstract

The loan repayment culture in instrumental to the sustainability and effectiveness of the microfinance banks but overtime, the microfinance banks in Nigeria have been recording high default rates and over-indebtedness from the loans disbursed to credit takers at various categories. Hence, this study investigates the effect of bank specific factors on the loan repayment culture of the credit takers of microfinance banks in Kwara State. Primary data was collected from the loan officers, account officers and marketers of the 33 microfinance banks in Kwara State as at 2023 and multi-stage sampling technique was utilized in selecting appropriate sample size of 160 staff of microfinance banks across all the 3 senatorial districts in Kwara State. OLS regression model was used to analyze the model and the study found that bank specific factors such as funding adequacy, interest rate, credit appraisal process and loan tenure do not impact on the repayment culture of the credit takers of microfinance banks in Kwara State. However, the distance to MFBs appears to be significant indicating the credit takers feel less committed to the repayment of loan due to the distance of the MFBs. This study recommends that microfinance banks should ensure proximity to the credit takers for effective monitoring and loan utilization.

Keywords: *loan repayment culture, credit appraisal process, loan tenure, Microfinance Banks*

Introduction

Microfinance banking portends a reliable platform for extending financial services to low-income category as an aide to contributing their fair share towards socio-economic development and growth (Umar, 2022). The platform operates through microfinance banks (MFBs) serve as a major pulley in any financial system, having been mandated to occupy a huge vacuum in the financial services sector by catering for low-income households and microenterprises in terms of providing for them a wide variety of financial services, including deposits, loans, payments, and insurance (Kiros, 2022; Dmitry, 2021).

Essentially, granting loans is one of the key financial services rendered by the microfinance banks as they primarily serve the rural populace who do not have access to the conventional banking; hence, the capacity of microfinance banks to continue granting of loans pivots on the steady

repayment of loans by the borrowers as the repayment of loans granted is crucial for credit creation, sustainability of the bank and stability of the entire financial system (Ogunleye, et al., 2022). The loan repayment culture of credit takers in microfinance banks is prejudiced on an innumerable factor among which are the customers' related factors, loan product design, social capital and group lending, institutional factors, economic environments among others (Osei-Assibey, 2020; Ahmed & Yusuf, 2020; Adeoye & Ojo, 2021; Bashir & Hassan, 2021). The borrowers' repayment philosophy is influenced by a combination of these prominent factors which later culminate into the credit risks faced by microfinance banks ultimately shaping the financial viability of microfinance banks.

Obviously, one of the key issues that can lead to microfinance failure is loan non-repayment (Kiros, 2022), and needs to be addressed. This is because the formal sector all around the world has been hesitant to lend credit to low-income individuals and micro-enterprises as clients in such category are considered overwhelmingly impoverished (Armah et al., 2021). Not only are they underprivileged, but they also lack the collectible assets needed to encourage repayment and lower credit risk—the risk of loss to investors caused by borrowers' failure to make the agreed-upon payments and promptly (Ofori & Mensah, 2020). Another dimension to the loan repayment culture challenges is the moral hazard and adverse selection of the borrower. Most often than not, borrowers do not usually feel obligated to pay back their debt due to their over-indebtedness, lack of financial literacy, economic instability, weak loan monitoring and follow-up, fluctuations in their income flows, unexpected and imminent expenses among others (Adeoye & Ojo, 2021; Ogunleye et al., 2022).

Explicitly, the problem of bank specific factors on loan repayment culture of credit takers cannot be overemphasized as the operational characteristics, internal practices and policies of microfinance banks impact directly or indirectly on the borrower's willingness and ability to repay loans borrowed. The inability of the microfinance banks to painstakingly assess the creditworthiness of the borrowers prior the loan approval has led to granting of loan to high-risk borrowers (Adeoye & Ojo, 2021). In addition, the loan tenure, interest rates and loan terms in some aspects have led to difficulties in repayment of loan due to the inflexibility of the loan repayment schedule and fluctuating nature of the interest rates (Ahmed & Yusuf, 2020).

Furthermore, inadequate funding poses a major problem to the loan repayment culture of credit takers in the microfinance banks as the loan monitoring process and follow-up is weakened thereby making the microfinance banks to struggle in allocating enough staff and technology in tracking the repayments of the borrowers (Olowu & Taiwo, 2022). The moratorium on loan repayments which was designed to give a momentary relief to borrowers has been abused thereby affecting the loan repayment culture of the credit takers. With moratorium on loan repayment, borrowers are subsequently accustomed to delaying payment by having a sense of complacency which usually becomes difficult for microfinance banks to re-establish the steady and consistent repayment habits after the end of the moratorium (Adeoye & Ojo, 2021).

From the foregoing and given the important roles of microfinance banks in nation building, it is essential to investigate the nexus of banks' specific factors on the loan repayment culture of credit takers from microfinance banks in Kwara State. To achieve this objective and in consonance with the identified research problems, the following hypotheses are formulated in null form:

H_{O1}: Loan tenure does not significantly affect the loan repayment culture of credit takers of microfinance banks in Kwara State;

H_{O2}: funding adequacy does not significantly impact on the loan repayment culture of credit takers of microfinance banks in Kwara State;

H_{O3}: Appraisal process has no significant effect on the loan repayment culture of credit takers of microfinance banks in Kwara State;

H_{O4}: Distance to bank does not significantly affect the loan repayment culture of credit takers of microfinance banks in Kwara State;

Literature Review

Microfinance

Microfinance is a group of financial products and services that caters for people and small enterprises without access to traditional banking and related services. In addition to other services (Caramela, 2018; Kgan, 2018). Microfinance includes microcredit, which gives small loans to underprivileged customers, savings and checking accounts, microinsurance, and payment systems. The goal of microfinance services is to assist socially or geographically isolated or excluded consumers in becoming self-sufficient as these clients are typically from disadvantaged population segments. (Christen et al., 2004). Feigenberg et al. (2010) defined microfinance as the supply of microloans to underprivileged business owners and small enterprises without access to credit. The two primary methods for providing financial services to these clients were relationship-based banking for sole proprietors and small enterprises; and group-based models, in which a number of business owners band together to apply for loans and other services together. Microfinance has grown into a larger movement over time, with the goal of creating a society where everyone, especially the poor and socially marginalized people and households, have access to a variety of high-quality, reasonably priced financial products and services, such as savings, insurance, payment services, and fund transfers (Arp et al., 2017).

Bank Specific Factors and Loan Repayment Culture

A number of bank specific factors as identified in the literature may provide an explanation for loan repayment culture among borrowers. Prominent among these include the loan tenure, interest rate, credit appraisal process, funding adequacy and distance to the lender (Agarwal and Hauswald, 2010; Krni,2014; Nyamarebvu, 2013; Obadeyi *et al*., 2020).

Loan Tenure

Feigenberg et al. (2010) described loan tenure as the length of time a loan must be repaid is referred to as its tenure i.e. the amount of time the loan will endure until it is repaid in full through consistent payments. According to Krni (2014), longer loan repayment terms resulted in lower loan repayment since borrowers were more likely to default. More specifically, the amount of time (credit period) that credit is granted for has a significant impact on loan repayment. Given the borrowers' cash flows, loans are designed so that they can be paid back in a lump sum at the conclusion or over the course of the loan in recurring installments. According to Feigenberg et al. (2010), loan tenure has a negative and significant impact on how well loans are repaid, showing that shorter loan repayment terms result in greater loan repayment rates. To ensure that loans are

paid back on time and in full, loan terms should be tailored to the clients' cash flow patterns and loans with shorter repayment terms typically have lower repayment rates than loans with longer repayment terms (Ledgerwood et al., 2013; Banerjee et al., 2014).

Interest Rate

According to Kagan (2018), interest is the percentage of the principal amount that the lender charges for the use of its funds. The amount of interest due each period expressed as a percentage of the amount lent, deposited, or borrowed is another way to look at it. As a result, interest rates play a significant role in both the supply and demand for loans and credit. According to Mankiw (2021) interest rate is described as the percentage charged on the principal amount of a loan or paid on deposits, representing the cost of borrowing or the reward for saving; it is typically expressed on an annual basis, often referred to as the annual percentage rate (APR) and are influenced by various factors, including monetary policy, inflation, and credit risk

Funding Adequacy

Funding adequacy is critical to the sustainability and effectiveness of microfinance banks (MFBs) in Nigeria as adequate funding enables MFBs to expand their outreach, meet regulatory requirements, and enhance their operational efficiency (Kazeem et al., 2023).The operational sustainability and MFB's ability to meet their primary objectives of financial inclusion and poverty alleviation have been impacted by the funding adequacy thereby necessitating the recapitalization mandates by the CBN to increase the minimum capital requirements and strengthen the financial base of MFBs (Sasa, et al., 2022). Moreso, several intervention programmes such as Anchor Borrower's programme have been initiated by the CBN to bolster the financial resources of MFBs but these interventions resultantly highlight the dependency of MFBs on external funding rather than self-sustained capital adequacy (BusinessDay, 2019).

Appraisal Process

Adeoye and Ojo (2021) described approval process as a methodical sequence of activities that microfinance banks undertake to scrutinize loan application before granting permission for the loan disbursement. The activities entail different stages ranging from loan application, verification, assessment of repayment capacity, assignment of loan officer and approval of loan disbursement to the credit taker. This process takes into account the client's business, collateral, and financial performance. The financial institution should also be familiar with its clients and fully inform them of the credit application process. The rules shouldn't be overly lax or rigid. The "5Cs of credit," as they are commonly known, are a number of variables that should be taken into account when making a loan decision. Although they differ from lender to lender, they are frequently employed. Character, capacity, collateral, condition, and credit history make up the five Cs.

Distance

The geographical distance between loan takers and microfinance banks (MFBs) is a major factor as the cost and ease of monitoring borrowers as well as frequent interactions between borrowers and credit officers may lead to an increased information asymmetry between the borrowers and the lenders, higher loan defaults due to reduced supervision and increased transaction costs for borrowers traveling to make repayments (Afrogha & Oluleye, 2021). Addressing the challenges posed by distance requires deploying mobile banking technologies, creating branch networks in

underserved areas, and fostering partnerships with community organizations to bridge the gap between borrowers and financial institutions. These measures can help enhance repayment behavior and overall financial inclusion (Sola, 2021)

Theoretical Framework

This study is underpinned by the information asymmetry theory and moral hazard theory.

Information Asymmetry Theory

The economic theory of asymmetric information emerged in the 1970s and 1980s as a credible account for market failures and the idea posits that an asymmetry of information between buyers and sellers might result in market failure. The theory assumes unequal distribution of information, rational behaviour, incentives to conceal information and market failure potentials (Abrahamson & Park, 1994). With respect to financial dealings, information asymmetry suggests that one party (lender) has less information than the other party (borrower) and this disparity usually lead to moral hazard and adverse selection where credit takers who are likely to default usually seek loan more (Stiglitz & Weiss, 1981). In microfinance bank context, specific factors such as poor monitoring systems, inadequate credit assessment, inadequate fundings can aggravate information asymmetry, resulting to adverse loan repayment culture and high default rate of credit takers.

Moral Hazard Theory

Moral hazard dilemma suggests that a borrower may default if there are no repercussions for his subsequent credit applications, according to Alary and Goller (2001). This is because it can be challenging for lenders to determine how much wealth borrowers may have accumulated by the time of repayment, rather than at the time of application. Borrowers may be inclined to renege on the loan if lenders or banks are unable to estimate their wealth. Lenders will raise lending rates to prevent this, which could eventually cause the market to collapse. Additionally, banks with little capital have a tendency to boost profits by increasing the riskiness of their loan portfolios by giving money to subpar borrowers, which leads to an increase in NPLs in the future. Because banks continue to raise the riskiness of their loan portfolio despite being aware of their inadequate capitalization, this conduct falls under the category of moral hazard. When banks have too many time deposits, they frequently lend out those funds, which is referred to as asset mismanagement. As a result, a potential increase in loan defaults may be caused by poor financial capital.

Empirical Review

Ume, Ezeano, and Obiekwe (2018) looked into the factors that affect loan repayment for farmers who raise broilers in Nigeria's Enugu State. To gather data for the study, a structured questionnaire was used. Descriptive and inferential statistics were used to analyze the data collected. The study's findings showed that the sampled farmers were young, married women with large households who had been in farming for more than 11 years. Additionally, commercial banks and microfinance were the main providers of financing to farmers. The study also discovered that household size, access to extension services and organization membership, farming experience, educational attainment, and off-farm income were key determinants of rice farmers' capacity to repay their loans. excessive interest rates, poor loan evaluation, excessive collateral requirements, low output, and changes in bank policy all hampered the farmers' capacity to repay their loans.

In another dimension, Tin (2019) used a case study of proximity financing to analyze the evaluation of the efficacy of loan recovery tactics in Myanmar microfinance organizations. Analytical techniques for the study included both descriptive and inferential statistics. According to this report, insufficient loan size, long loan terms, irregular payments, overlapping loans, and poor customer communication are the primary causes of loan default in Myanmar.

Also, Komitu (2019) investigated the factors that influence the use of financial credit in women-owned self-help group (SHG) initiatives in Kenya's Samburu County. The study was conducted utilizing a survey method for descriptive research. Frequencies, Percentages, Mean, Standard Deviation, Chi Square, and ANOVA were used to examine the data collected. including characteristics such as sociocultural habits, financial literacy abilities, information asymmetries, and education and training. According to the study's findings, financial credit uptake among women-owned Self Help Groups was influenced by the education and training of SHG members.

Additionally, Mutwiri (2021) assessed Kenya's non-deposit taking microfinance institutions' growth factors and interest rate limitation. The study used a descriptive survey research approach, and means, standard deviation, and regression analysis were used to analyze the data that was gathered. the expansion of MFIs that don't accept deposits, the skill of the loan officer, the quality of the products offered, and customer service. The study comes to the conclusion that although the experience of the loan officer, the level of customer care provided, and the products offered all positively and considerably affect the growth of MFUIs that do not require deposits, interest capping regulation dramatically modifies this relationship.

In the Amhara National Regional State of Ethiopia, Semegn and Bishnoi (2021) looked at the analysis of the impact of microfinance on the performance of MSEs. The study investigated survey research design using analytical methods such as descriptive and inferential statistics. using variables such as loan amount, savings, interest rate, entrepreneurial training, loan payback, and loan term. The study came to the conclusion that entrepreneurship training, savings, and loan size all significantly improved MSE performance.

Besides, Sasa, Adebayo and Maurice (2022) evaluated factors influencing amount of loan access by women entrepreneurs in some micro finance banks in Gombe State, Nigeria. The study explored survey research design and employed descriptive and inferential statistics as analytical tools. The study adopted type of enterprise, educational level, total amount saved with the bank before the loan approval, loan amount applied, experience in agro-business, interest on loan, age of the respondent, marital status, membership of cooperative association, household size as variable.

Methodology

This study adopts survey research design to enable the researcher selects a sample of respondents from a larger population in order to make inferences on the subject matter through administering of standardized questionnaire to the sampled respondents. The targeted population consists of staff with experience in loan disbursement such as: loan officers, marketers and account officers of microfinance institutions in Kwara State. As at 31st December, 2023, there were thirty-three (33) microfinance banks in Kwara state. A multi stage sampling technique was used to select the staff of microfinance banks who are the study’s respondents. In the first stage a stratified random sampling method was adopted and the population was grouped into strata with each stratum containing elements with similar characteristics. Afterwards, the second and third stages, elements in each of these strata were purposively selected randomly to allow for equal chance of selection

into the sample. In this sampling technique, all elements of each group have equal chance of being selected, hence, this sampling method provides an unbiased way of selecting the representatives for the study. Therefore, a total of 160 staff of MFBs across all the senatorial district in Kwara State are selected for this study.

Table 1 Sampling Size Selection

S/N	Senatorial District	Local Government Areas	Ten MFB staff selected in each LGAs	MFB staff Selected
1	Kwara Central	Asa, Ilorin East, Ilorin West and Ilorin South	4 LGAs * 10	40
2	Kwara South	Ekiti, Oke-Oro, Offa, Ifelodun, Irepodun, Isin and Oyun	7 LGAs * 10	70
3	Kwara North.	Baruten, Edu, Pategi, Kiama and Moro	5 LGAs * 10	50
	Total Sample Size			**160**

Author's Compilation (2023)

Model Specification

To examine the variables that is responsible for loans repayment in Nigerian microfinance banks, the study adapted the model of Ssekiziyivu *et al*. (2017). The original model is stated as:

$LRP = f(BC, TC)$ ……...……..……..…. (i)

$LRP = \beta_0 + \beta_1 BC + \beta_2 TC + \varepsilon_i$ ……...……..(ii)

Where: LRP = Loans Repayment

BC= Borrowers' Characteristics

TC = Credit Terms

εj = Error Term

From the original model credit terms was remove in line with the objective of this study while bank-specific factors were introduced into the model. Hence, the modified model from Ssekiziyivu *et al*. (2017) is expressed as follows:

$LR = f(\text{INFUND}, \text{IR}, \text{AP}, \text{M}, \text{LT}, \text{D})$ …… (iii)

$LR = \beta_0 + \beta_1 \text{INFUND} + \beta_2 \text{IR} + \beta_3 \text{AP} + \beta_4 \text{LT} + \beta_5 \text{DISTANCE} + \varepsilon_i$ …..…… (iv)

Where:

LR = Loan repayment whether or not client pays their loan. This is the dependent variable

INFUND = Inadequate Funding;

IR = Interest Rate;

AP = Appraisal Process;

LT = Loan Tenor; and

DISTANCE = Distance to MFBs Branch

β_0 = Constant Coefficient

β_{1-6} = Parameters of the estimate

ε_i = Error term (5% significance level)

Measurement of Variables

Two variables were employed in this study which are dependent and independent variables. The dependent variable for this study is loan repayment culture while the independent variable is bank specific factors.

Table 2 Measurement of Variables Table 1: Variable description

Variables	Construct	Definition and Measurement
	Dependent Variables	
LR	Loan Repayment	The repayment status of the borrowers is represented by a binary variable, where a 1 indicates a creditworthy borrower and a 0 indicates a defaulter.
	Independent Variables	
	Bank-Specific Factors (BS)	
INFUND	Inadequate Funding	The failure of MFBs to receive the required funding
IR	Interest Rate	Interest paid on loan
AP	Appraisal Process	Fundamental procedure employed by the bankers to evaluate the technical feasibility, economic viability, and bankability of a potential borrower, encompassing an assessment of their creditworthiness.
LT	Loan Tenor	The length of time until the loan is due
DISTANCE	Distance to MFBs Branch	Distance of accessibility of MFBs branch location to its clients.

Author's Compilation (2023)

Results and Discussions

Reliability of Research Instruments

Table 3: Cronbach's Alpha Reliability Test for the Study

S/N	SECTION	NUMBER OF ITEMS	CROMBACH'S ALPHA	INTERNAL CONSISTENCY
1.	Loan repayment Culture of Credit Takers	5	0.712	Acceptable
2.	Bank-specific Factors	6	0.725	Acceptable

Source: Author's Computation, 2023

Table 3 shows the Cronbach's Alpha for each of the variables of the research instrument. The result reveals that the score for all the variables (loan repayment culture of credit takers and bank specific factors) are above 0.7. These values fall in the acceptance region. Therefore, the study concludes that the research instrument has internal consistency, indicating that the constructs are reliable and can be employed for the purpose of the study.

Normality Test and Correlation Analysis of the Variables

The result of normality test for each of the variables employed in the models of this study are discussed here. The normality test was conducted employing the Jarque Bera normality test in order to examine the nature of distribution of each of the variables used in the regression models. The Jarque Bera test was conducted based on the argument that conventional test such as Jarque-Bera normality test are better measure of testing the distribution of overall model residual.

Table 4: Jarque Bera Normality Test

Variables	Adjusted Chi-squared (χ^2)	p-value
Loan Repayment Culture of Credit Takers	1.46	0.401
Bank-specific Factors	1.43	0.422

Source: Author's Computations, (2023).

The result of the adjusted Chi-squared in Table 4 indicates that all these variables have small Chi-squared values and their respective p-values are higher than even the highest level of significance, i.e. 0.1 which is 10% level of significance. Their high p-values indicate that these Chi-squared values are not significant and provide no evidence for the rejection of the test's hypothesis of normality in all cases. This signifies that all these variables are normally distributed, since evidences suggest no rejection of their hypothesis.

OLS Regression Model to Examine the Bank Specific Factors on Loan Repayment Culture

This sub-section presents the OLS regression model result of the bank specific factors on loan repayment culture among credit takers of microfinance banks in Kwara state. The dependent variable in this model is continuous, which is an index scores generated from factor analysis conducted to reduce the items under the construct and harmonized the dependent variables. An

initial result was generated through the OLS estimation suffer from heteroskedasticity problem when the test was conducted with the Breusch-Pagan/Cook-Weisberg heteroskedasticity test.

Table 9: Robust OLS Regression Result for Loan Repayment Culture

Variables	Coefficient	Robust Std. Err.	t	p-value
Bank Specific Factors (BS)	-			
	0.009	0.164	0.054	0.957
Inadequately funding (over and underfunding)				
Interest rate	0.398	0.240	-1.661	0.099
Credit appraisal process	-0.376	0.294	-1.282	0.202
The loan tenure of MFBs loans	0.076	0.099	0.763	0.447
Distance to MFBs branches	-0.588	0.289	-2.032	0.044**
Constant	-1.569	2.705	-0.580	0.563
R-squared	0.633			
F-statistic	4.264		p-value	= 0.000

Source: Author's Field Computation, 2023.

The result presented in Table 9 shows that R-Squared has a value of 0.633, which indicates that 63.3 percent of variations in loan repayment culture of credit takers in microfinance banks are explained by bank-specific factors. The F-statistic result shows a value of 4.264 with a p-value of 0.000, which implies that it is significant. Based on this result, it can be concluded that the overall model is significant. As regard the variable coefficients as employed in the model, the result revealed that coefficients of bank-specific factors which include inadequate funding (0.009), interest rate (0.398), credit appraisal process (-0.376) and loan tenure (0.075) are not statistically significant at 0.05 significance level. However, coefficient of distance (-0.588) is significant at 0.05 significance level implying that the farther away the branch of microfinance bank to the customers, the lower their repayment culture.

Post Estimation Variance Inflator Test

The result of variance inflation factor conducted to examine if the OLS result presented for loan repayment culture determinant does not suffer from multicollinearity problem.

Table 10: Results of Variance Inflation Factor

Variable	VIF	1/VIF
Bank Specific Factors (BS)	1.55	0.646459
Mean VIF	1.55	

Source: Author's Computation, 2023.

The result shows that the VIFs are very low. The VIF values below 4 is generally acceptable as a sign of no severe multicollinearity (Asteriou & Hall, 2016). This shows that the explanatory variable is a linear combination of others.

Discussion

Empirical evidence was obtained from the regression result that distance to MFBs branches had a significant effect on loan repayment culture of MFBs in Kwara State while inadequate funding, credit appraisal process, loan tenure of MFBs loans is not significant. The conclusion on the three insignificant factors was arrived at based on their p-values which are above the benchmark for rejection of non-significant variables. This signifies that they did not provide sufficient outcome needed to reject their null hypotheses. The implication of the significant variable (distance to MFBs) is that greater distances tend to affect the accessibility of MFBs by the credit takers and also increase the transaction costs of the borrower. Also, this distance may affect the monitoring mechanisms and relationship management of the credit takes and the designated loan officers in the MFBs. These findings align with Kabir and Sarker (2021); Jain and Aggarwal (2021); Akter et al (2020) and Adeola and Evans (2022)

Conclusion and Recommendations

In line with the findings, this study concludes that in overall, the bank specific factors do not impact on the loan repayment culture of the credit takers of the microfinance banks in Kwara State. Specifically, the inadequate funding, credit appraisal process and loan tenure of the MFBs do not significantly affect the loan repayment culture of the credit takers while the distance of the credit takers to the microfinance banks can immensely influence the repayment culture of the credit takers. Consequently, this study recommends that efforts should be made by the microfinance banks in ensuring proximity to the credit takers as this will entrench their monitoring mechanisms, ensure effective loan utilization and avoid the moral hazard that may ensue from ineffective monitoring.

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