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WOMEN BORROWERS AND THE FINANCIAL SUSTAINABILITY OF MICROFINANCE BANKS IN NIGERIA

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ABSTRACT

The objective of this paper is to ascertain the impact of women borrowers on the financial sustainability of Microfinance Banks (MFBs) in Nigeria using Lagos state as a case study. A quantitative parametric pooled regression was used as technique of analysis. The study was based on eight years (2008-2015) secondary data obtained from MIX and CBN database for twenty (20) selected MFBs in Lagos, Nigeria. Ratio of women borrowers was the independent variable while financial sustainability serves as the dependent variable. The study used cross-sectional data of women borrowers. Result shows that the ratio of women borrowers of microfinance banks in Nigeria do have a positive relationship with the financial sustainability of microfinance banks in Nigeria. This implies that MFBs that focus more on female client tends to be more financially sustainable. The study therefore recommends that MFBs reach out more to female clients as this will increase their level of financial sustainability.

***Key Words**:* Women borrowers, Microfinance Banks, Financial sustainability, Welfarist thought, Institutional thought

INTRODUCTION

Working women world over play significant role in the economic well-being of the family and society at large. Microfinance enables poor women to contribute to their families' economic sustenance. The system involves providing financial succor to the indigent members of society through provision of credit facilities, encouraging savings and risk-bearing micro insurance. Often MFIs favour women borrowers in the process empower them to take decisions and improve their status economically and socially. Daley-Harris (2007) and Microcredit Summit Campaign Report (2007) noted that as at 2006 microfinance services had got to about 80 million very poor women globally. By this token, ILO (2007) pointed at the capacity of microfinance to contribute significantly to gender equality and advance viable living standard and improved work conditions of women.

Marshland and Strom (2008) defined microfinance as providing deposits, savings, microloans plus other financial benefits to the indigent. Poverty eradication is the crux of African development strategy. Microfinance benefit is a major policy instrument for poverty eradication.

Meanwhile, Tehulu (2013) believes that for MFIs to sustain poverty alleviation, they must be financially sustainable. It means that the tendency of MFIs to generate enough income to cover its total costs (Thapa, Chalmers, Taylor & Conroy, 1992), without seeking external intervention. Furthermore, Dunford (2003) saw financial sustainability as the power to remain focused on the objective of microfinance devoid of donor handout/facility. Financial sustainability assists the MFI to remain in business thereby providing financial assistance to the poor (CGAP, 2004).

From an NGO-funding perspective, Leon (2001) defined financial sustainability as its ability to receive required funds to ensure there are no disruption to production, in the end makes a surplus. It should be noted that financial sustainability may be attained at the project, program or organizational level. Financial sustainability implies extending the life span of the company.

Microfinance sustainability is hinged on the financial sustainability of microfinance institutions. By implication, the MFIs are able to meet their expenses from operational income (Thapa, Chalmers, Taylor & Conroy, 1992) while not depending on external funding or support. According to Dunford (2003) financial sustainability is the power to keep moving in the direction of the microfinance objective in the absence of donor backing. As can be seen, these definitions centre on the capacity to be self-dependent. The pointer also indicates the ability of the MFIs survive on revenues from microfinance operations.

Conversely, the above definitions of financial sustainability indicate an MFI making a loss (performing poorly) cannot be said to be financially sustainable. Furthermore, an MFI that is making a profit after receiving subsidies cannot be said to be financially sustainable, either (Kinde, 2012).

A connection has always existed between women and microfinance (Yunus 2002; Mody 2000). (Morduch 1999) attributed the success of microfinance as perceived by the public to targeting women. The Microcredit Summit Campaign (2012) stated that 3,652 finance organisations serviced 205,314,502 customers out of which 137,547,441 were very poor when they received their initial loans. Incidentally, 113,138,652 (about 82 percent) were women which increased from 10.3 million by the close of 1999 to 113.1 million as 2010 ended. These figures reveal the significant place of women in microfinance. Indeed, three arguments stand out in support of focusing on women (Mayoux, 2001); namely the objective of microfinance to reduce poverty, the idea of gender equality and Microfinance Institutions' efficiency.

Women are targeted for microcredit for various reasons. Firstly, three quarters of the poor people worldwide are women (ILO, 2007). Still customarily women are denied credit and other financial aids. Financial institutions concentrate more on men and formal business organisations, ignoring women who dominate the informal sector. Secondly, microfinance however, frequently target women and sometimes particularly alone. Daley-Harris (2007) noted that female customers make up eighty-five percent of the most indigent microfinance customers served. Ideally, lending exclusively to women borrowers is good from a public policy perspective. Businesswise, it is more profitable to focus on women borrowers as it is said that they have higher repayment rates. They also contribute a substantial portion of their income to household upkeep than their menfolk. It is therefore wise from both public policy perspective and business sense to target women borrowers.

In addition, Microfinance has been identified as a means to address poverty by providing essential financial services such as credit, savings, funds transfer and insurance. The purpose of microfinance institutions is to target indigent persons and assist them to receive credit and alleviate poverty. As noted earlier, microfinance which started three decades back on a neutral gender basis (Aboutmicrofinance, 2018), gradually and progressively began to focus on women and valued the ability of women entrepreneurs. A thorough review of literature has indicated extensive study of microfinance and women empowerment, the sustainability of MFIs, SHG and MFIs and related subjects, there is no evidence of a study on how women borrowers relate with sustainability of microfinance banks in Nigeria, hence this study.

This study therefore focuses on the extent to which the number of female borrowers can impact on the financial sustainability of microfinance banks in Nigeria.

In addition to the introductory section, this paper is structured as follows: Literature review that encases the concept of MFBs, Women and microfinance, Financial sustainability of MFBs, Theoretical framework and empirical studies; Methodology; Presentation and interpretation of results; Conclusion.

LITERATURE REVIEW

The concept of MFBs

Microfinance means providing financial services to low income earners who may not be served by banks and related institutions. Microfinance provides small scale financial support to low income and unbanked individuals (Hartarska, 2005). Similarly, microfinance provide a wide array of financial services like loans, money transfers, payment services and micro insurance to indigent people and low-income earners and their businesses (ADB, 2000). Furthermore, Robinson (2001) saw microfinance as small level financial services – basically saving and credit to farmers, small scale businesses, producers, service providers, low income people, the informal sector, rural dwellers and others in developing countries. According to Mwenda and Muuka (2004) microfinance is about providing a broad range of financing activities like money transfers, loans, deposits, insurance and payment services to low income households and the poor and their businesses.

In another vein, proponents of microfinance attribute very important role to Microfinance. UNCFF (2004) averred that research revealed that microfinance perform three important developmental tasks namely assists extremely indigent households meet essential needs and shield against risks; improvement in economic wellbeing of the household and; create environment for women participation in economic activities thereby promote gender equity.

While MBFs are making huge contributions to Asian economies and even African, Olasipo, Afolami, and Shittu (2014) posit that they are not reaching their potentials as instruments of real economic advancement. Result of their study on the outreach and financial sustainability of MBFs show on the overall that the Nigerian microfinance subsector is still at its rudiment and as such requires to be nurtured to mature.

Women borrowers and microfinance

Microfinance started about three decades back as a gender-unbiased economic sector. Over time, MFIs started to focus on women and acknowledged the ability of businesswomen. The microfinance revolution began with countryside women in Bangladesh early 1970s and rapidly moved to other developing nations (IFAD, 2004). Very remarkably, 11 percent of the indigent in South Asia have access to microcredit trailed by 7

percent in Latin America. It is also noted that women who received credit have proved themselves of the trust reposed in them by proper business investment and loan repayment. On that basis, a lot of MFIs have focused on women borrowers. In this regard, Women's World Banking (WWB), a world body of MFIs that is devoted to empowering women, exhibits varieties of microfinance products that are most beneficial to women, plus insurance products that assist them in their responsibility as caretakers and savings; mobile banking facilities that assist in attaining financial inclusion; and micro-health products that assist women save for medical expenditure.

Microfinance programmes have attracted a lot of women into commercial activities hitherto exclusive to men. For instance, The Grameen Foundation identifies how the extension of finance to women has pulled them out of age long cycle of poverty by investing in their kids. Also, (IFAD, 2004) contends that women, who have access to finance, either as savers or borrowers, exhibit high level authority and improved status. Society tends to regard MFIs that target women highly.

Since the founding of Grameen Bank, about 97% of its micro-credit was directed at indigent women. Women have remained the target of its activities since then. Esty (2014) identifies 5 reasons why. They include women make better use of small loans than men; women have a better track record when it comes to repayment; Women are a huge untapped labor pool; women have the right to access capital and women who receive loans adopt healthier lifestyles and are empowered.

Besides, governments have started to pay attention to the capacity of microfinance to empower women. For instance, recently India's minister of finance declared a blueprint to set up a micro-bank for the poor, run by them and mainly for women, partly because of the success recorded by comparable Indian organisations and the appreciation that microfinance is a tool for poverty reduction.

Furthermore, offspring of women microcredit beneficiaries also gain, as they are likely to remain in school without dropping out. Research shows that children of micro entrepreneurs are first the beneficiaries of the income generated, particularly girls. Investment in health, education and nutrition get elevated (Littlefield, Morduch, & Hashemi, 2003).

Inasmuch as there are plausible positive attributes of microfinance in empowering women, operators should be weary of the negative sides. Studies indicate that women sometimes do not have absolute control over their credit, rather their husbands or male family counterpart take all decisions (Goetz & SenGupta, 1996). Besides, social factors affect decisions within and outside the household. Rural dwellers are continuously having difficulties in accessing microcredits.

Women are also fraught with loan repayment. Variability in conditions for accessing funds impact on the allocation of working time between women and men under the same roof and between ventures producing different returns (Hossain & Diaz, 1997). There are indications that given a certain level microfinance increases the workload of girls and women, possibly counterweigh by more parity in household decision-making (Mayoux, 2000).

Wrenn (2007) found that women customers to the three projects expressed their pleasure in their ability to manage a business independent of their husbands, as it used to be before becoming a team member of the projects. Now, they have their own capital outlay, acquired new skills and self-

confidence, following the training they underwent and identify with a social network of the community bank groups.

Kabeer (2015) believes that women should be empowered because they are limited by customers, values, beliefs and norms whereby people discriminate against the womenfolk. She defines empowerment as the "process by which those who have been denied the ability to make strategic life choices acquire such ability", while strategic choices are "critical for people to live the lives they want (such as choice of livelihood, whether and who to marry, whether to have children, etc.)" (Kabeer, 1999, p.437). Consequently, MFIs cannot directly empower women except through ancillary activities such as training and consciousness-raising to interrogate prevailing cultures, values and norms to put them to disadvantage viz-a-viz men and to enable them take more control of resources and their lives.

Littlefield, Murduch and Hashemi (2003) assert that providing microfinance to women is a means to empower them to gain self-confidence, assertive and probably identify with community and family activities and more able to challenge gender inequalities. Although the authors do not believe that access to MFIs automatically empower women. In the same vein, Hulme and Mosley (1996) saw it as naïve to believe that every loan granted to the women will strengthen their social and economic position. To achieve that, there is need for careful design and planning.

In Nigerian studies, Ifelunini and Wosowei (2013) identified technical, economic, managerial and social features that hamper businesswomen's to access microfinance in South-South region of Nigeria. Examples of these features are: distrust, transportation cost, short payback period, misdirection of funds, loan meant for specific businesses; stringent loan process, high interest rate, insistence on collateral, restricted amount of loan, discrimination against women by MFIs in granting women loans, low access to loan, speed of loan delivery, discretionary amount of loan, insistence on opening an account to access loan, distance, educational qualification of the entrepreneur, getting a guarantor and too many applications for MFIs to handle.

Also, Omotayo, Ademola, and Oluwayemi (2017) *examined the role of MFIs on the performance of women entrepreneurs in South-Western Nigeria. The result showed that women entrepreneurs in Nigeria did not have access to majority of the products/services offered by the banks due to conditions attached to them. Result also showed that delay in repayment of loans, lack of business plan, diversion of the loan granted and lack of banking culture are the most challenges confronting microfinance institutions in women entrepreneurship financing in Nigeria. To reverse the trend, the study suggested reduction of interest rate, relaxing loan conditions, accessibility to MFIs, publicity, and preference to rural women.*

Microfinance financial sustainability

Financial sustainability of MFIs remains fundamental to their existence and survival. An organisation is financially sustainable if its core work will not collapse, for reason of funding. Generally, sustainability has been defined as permanence (Navajas, 2000) and the capability to recurrence performance over time (Schreiner, 2000). It means to the ability of MFIs to meet all its costs from its own generated revenue from operations (Thapa, Chalmers, Taylor, & Conroy, 1992) devoid of outside assistance or subvention. Dunford (2003) also describes financial sustainability as the power to continue approaching microfinance goal independent of donor assistance. It makes it possible to for the

microfinance provider to remain business providing the poor financial assistance (CGAP, 2004).

These definitions point at the capacity to depend on one's operations. It also means making profit from operations of MFIs. There are two ways to measure financial sustainability: they are financial self-sufficiency and operational sustainability. Meyer (2002) defines operational sustainability as the capacity of MFIs to meet its operational costs from operational revenue subsidy or no subsidy. Conversely, financial self-sufficiency means the ability of MFIs to cover both operating and financing costs from generated income, plus subsidy valued at market prices. From these definitions of financial sustainability, it implies that an MFI that is making a loss cannot be said to be financially sustainable. Also, an MFI that is making a profit, whose profitability is determined after covering part of operating costs using subsidized funds or resources will not be seen as financially sustainable.

Financial sustainability can be measured in two stages namely operational sustainability and financial self-sufficiency. According to Meyer (2002) operational sustainability refers to the ability of the MFI to cover its operational costs from its operating income regardless of whether it is subsidized or not. On the other hand, MFIs are financially self- sufficient when they are able to cover from their own generated income, both operating and financing costs and other form of subsidy valued at market prices.

Scholars have come up with various interpretations of sustainability. Meanwhile, lately, there is a convergence to recognize two levels of sustainability - operational self-sufficiency (OSS) and financial self-sufficiency (FSS) (Iezza, 2010). FSS measures if an organization makes sufficient revenues from loan to defray operating expenses, financing costs, cost of capital and provision for loan losses which are not included in the OSS. The cost of capital assesses the ability to shield the value of equity from inflation Iezza, 2010). In line with the MIX Market description of sustainability, Bogan, Johnson and Mhlangay (2007) defined an MFI that is operationally sustainable when OSS attains 100% and financially sustainable when OSS attains 110%. Operational sustainability (OSS) is assessed as Total financial revenue/ (Financial expense + Operating expense + Loan loss provision expense).

The main idea of the microfinance concept is the reduction of poverty through access to finance and financial services. This can only happen if MFIs are profitable. In a study with the aim of finding factors affecting financial sustainability of Ethiopian MFIs, Kinde (2012) saw that microfinance coverage, penetration, cost per borrower and dependency ratio impact on the financial sustainability of microfinance organisations in Ethiopia. On the other hand, staff output and the microfinance capital structure impact significantly on financial sustainability of Microfinance Institutions in Ethiopia.

In a study by CGAP (1996) of both poverty impact and financial performance results of MFIs, a positive relationship was found to exist between high financial sustainability and lower arrears rates and subsidy dependence indices than those with lower sustainability. However, financial sustainability seems to relate with notable “best practice” design attributes such as higher interest rates, the availability of voluntary savings facilities, the frequency of loan collection, and the existence of material incentives to borrowers and lending staff to maximize repayment.

THEORETICAL FRAMEWORK

The idea behind Microfinance has been affected by

two broad ideas: the Welfarist Thought and Institutional Thought. Welfarists want an instant improvement of the economic benefits to the poor. Their focus is on making available financial services to the poorest of the poor at subsidized interest rate. This group of MFIs heavily relies on government grants, subsidies and donor support. Mobilizing savings as an aspect of the lending process does not count for this group. Notwithstanding they know and are aware that the MFI sustainability is crucial, they disagree that abstaining from donor subsidies entirely is needed to attain that status of Grameen Bank, Bangladesh and FIINCA in Latin America.

Conversely, adherents of Institutionalize approach are averse to the concept depending on subsidies. As experience on alleviating poverty through subsidized credits by NGO, development agencies and developing countries failed. As such the Institutionalist believes that the way out is MFI being financially self-sufficient and independent from any subsidized fund from government or donor. Under this approach, we have Bank Rakyat Indonesia, Uganda Microfinance Union and SKS Microfinance.

Empirical studies and development of hypothesis

Osmani (1998) examined the effect of credit on the welfare of Grameen Bank female customers. His findings show that the respondents gained some level of autonomy in being able to freely spend family revenue more than non-customers. They became more able to control family planning and access to household resources.

Mayoux (1997) asserts that a little rise in earnings of the women further causes a reduction in men's contribution towards family upkeep while, others think investment in women enables them to make choices that are of value in themselves and ultimately contribute to better economic growth and development.

Maurya (2011) presents another angle to expound the import of empowering women through microfinance. The result indicated that achievement of financial inclusion is possible through adequate supply of well-priced and financial products and services; together with efficient delivery machinery with financial cognizance and a collaboration among government, financial institutions and civil society organisations.

Samuel, Kunnal, and Ashalatha (2011) studied the effect of microfinance on the rural women. They found that most of the Self-Help Group (SHG) partners were married, middle age and nuclear family members from lower social groups. The effect was 45.59; members' asset position grew 53.43 while consumption change of members rose to 25.8 percent. Ordinary least square result showed that income of the members improved by 0.50 percent from a rupee investment, employment appreciated by Rs40.3 and savings increased to Rs4.92. the result also revealed that the main constraints confronting members were conflicts among group members, faulty savings or processes used and lack of training or skill.

The work of D'Espallier, Guerin and Mersland (2009) found gender conflict in relation to payment rates of microfinance employing a large universal dataset featuring 350 MFIs in 70 countries. Their findings show that there are more women customers with lesser credit-loss provisions, lesser portfolio-at-risk and lesser write-offs, all things being equal. The results affirm general beliefs ascribing better credit-risk for MFIs to women in general.

The study by Abdullah and Quayes (2016) involving a group of about 900 MFIs covering 10 years' period found a statistically significant positive relationship between women borrowers on one hand and yield and financial performance of MFIs.

Noreen and Saif (2013) examined the payback issues of female clients of MFIs. The exercise involved interviewing 20 groups of 5 respondents each. Each group was allowed to select members in order to engender consent, trust and a strong degree of promise among members. Two major problems in group loans were identified, namely procedural hurdles and limited amount of loan. Furthermore, findings showed that those groups the borrowers formed have fewer repayment issues. Curiously, group levels of education and income made repayment easier.

In an attempt by Hossain and Mohd (2016) to find out factor impacting financial sustainability of Microfinancial Institutions of Bangladesh they applied an econometric study method that involved 145 observations of an unbalanced panel data from 29 microfinance institutions spanning 2008-2012. Only 4 among the 29 MFIs have less than 100% FSS. It was also found that operating expense, capital assets ratio and write-off ratio affected financial sustainability of Bangladeshi MFIs. However, age of MFI, ratio of savings to total assets, borrower per staff members, outstanding loan to total assets, debt equity ratio, percentage of women borrowers and MFI size showed no significant effect on financial sustainability of Microfinance Institutions in Bangladesh.

H_O: The ratio of women borrowers does not affect financial sustainability of microfinance banks in Nigeria.

METHODOLOGY

This study covers a period of eight (8) years (2008 to 2015).Data required for this research were obtained from the latest database maintained by Microfinance Information Exchange (MIX), The National Bureau of Statistics in Nigeria and from The Central Bank of Nigeria (CBN). The MIX Market database has information on microfinance institutions around the globe and provides microfinance institutions such information private and public funds that invest in microfinance, advisory firms, MFI networks regulatory and governmental agencies. Some data were also collected via statistical bulletin and annual reports from MFB administrators. The population of this research includes all the microfinance banks operating in Lagos Nigeria as at 2015 which are 167. The researchers used filtering techniques to select the MFBs with the available data and that have been in operation for at least seven years. Cross-sectional methodology was used to estimate the relationship among the variables of the study.

Model specification

The model is presented as follows:

$Fs\,(X_w)$

$Fs_{it} = X_{it} + \beta_i X_{wit} + U$

Where:

Fs = Financial Sustainability

X_w = Ratio of women clients

Financial sustainability is the dependent variable.

Financial sustainability = $\frac{\text{Total Assets}}{\text{Total Liabilities}}$

The independent variable is Ratio of Women Clients and is measured as Number of female clients/Number of male clients.

Table 1 indicates that the mean value of RW is closely related to the median values showing that these data are symmetric. The mean is almost the same as the median. The mean value of RW (Ratio of Women Clients) is positive, this indicates that women are mostly served by the majority of the MFBs. Observing the standard deviation on the basis of the assertion that 60% of a normally distributed data set fall within the range of ±1, it is observed that RW satisfies this condition: it has its standard deviation within the range. This is

suggesting that RW is normally distributed. Observing the skewness of RW the value is equal to zero, showing that RW is truly a symmetrical data set. And also the kurtosis of RW is positive indicating a heavier tails than the normal distribution. This shows that on the basis of kurtosis RW is not normally distributed.

Table 1: Summaries of descriptive statistics

	FS	RW
N	160	160
Mean	0.919969	4.530563
Media	0.662000	4.300000
Maximum	2.980000	9.000000
Minimum	0.006000	0.070000
Std. Dev.	0.690462	1.820039
Skewness	0.931735	0.316224
Kurtosis	3.039347	2.461369
Variance	0.473759	3.29184
Range	2.974	8.93
Sum	147.1950	724.8900
Sum Sq. Dev.	75.80139	526.6944

Source: Researcher's computation using EViews 9.5

Table 2: Result

	Random Effect				Fixed Effect			
C	Coefficient	Std Error	t-Statistic	Prob.	Coefficient	Std Error	t-Statistic	Prob.
RW	0.035623	0.029286	1.216385	0.0147**	0.030296	0.031609	0.958455	
0.0396**								
R^2 Square		0.659780					0.147737	
F-Statistic		1.801271					0.929140	
Pro(F-stat)		0.002323					0.565493	
Durbin-Watson		1.500691					1.635609	

** indicates significance at 5% level (i.e. $p<0.05$)

Source: Researcher's computation using EViews 9.5

DISCUSSION OF FINDINGS

H_O: The ratio of women borrowers does not affect financial sustainability of microfinance banks in Nigeria.

H_I: The ratio of women borrowers does affect the financial sustainability of microfinance banks in Nigeria.

Table 2 shows the relationship between the ratio of women clients and financial sustainability of microfinance bank. The coefficient of RW is positive and statistically significant even at 5%. This confirms that for the study period 2008 up to 2015 the ratio of women borrowers of microfinance banks in Nigeria do have a positive relationship with their financial sustainability; holding all other variables constant, increase in ratio of women borrowers will increase the level of financial sustainability of microfinance banks in Nigeria. Therefore, the null hypothesis which states, the ratio of women borrowers does not affect financial sustainability of microfinance banks in Nigeria is rejected because the result of this study did not support the argument.

This result is similar to that of D'Espallier, Guerin and Mersland (2009) where they found that more women clients are associated with lower portfolio-at-risk, lower write-offs, and lower credit-loss provisions, ceteris paribus. The findings from this study corroborates that of Abdullah and Quayes (2016) study which shows that increased proportion of women borrowers has a statistically significant positive impact on yield and financial performance of MFIs. But, Hossain and Mohd (2016) result is not in consonance with the result of this study. They found out that percentage of female borrowers had no significant impact on financial sustainability of MFIs in Bangladesh during the study period.

From the findings it was observed that the ratio of women borrowers has a positive impact on the financial sustainability of microfinance banks in Nigeria. MFBs should focus more on reaching female clients, as this will increase their level of financial sustainability.

Conclusion and recommendations

ILO (2007) cautions, from an institutional standpoint, MFBs may decrease the percentage of women clients as they move upmarket in search of

better financial returns or even transform into commercial banks. But, this study has revealed a proven business case for targeting female borrowers if MFBs must remain financially sustainable. This must be emphasized. MFBs must therefore strengthen strategies for reaching women which may include internal MFBs' deliberate gender mainstreaming, adjusting financial services to better address women's needs, provision of non-financial services (e.g. record keeping, business counseling, etc.), external marketing for community awareness and groups to strengthen women's networks.

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