



CONSTRAINTS TO MICROFINANCE BANKS' SERVICES AMONG RURAL DWELLERS IN OYO WEST LOCAL GOVERNMENT AREA OF OYO STATE, NIGERIA

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ABSTRACT

Over the years, rural dwellers' access to finance through several rural finance and development programs met with unsatisfactory results due to one constraint or the other, hence poverty is still prevalent among rural dwellers. This study therefore probed factors associated with rural dwellers' benefits derived from microfinance bank's services in Oyo West Local Government Area of Oyo state. Multistage sampling procedure was used to select 105 respondents, interview schedule was used to elicit information on personal characteristics, sources of information, rural dwellers' participation, benefit derived from microfinance banking and constraints faced by rural dwellers in getting microfinance banks' services. Majority (51.4%) of the respondents were between age bracket 40-59 years, male (53.3%) and 46.7% were farmers. They heard about microfinance bank from friends (89.5%) and radio (83.8%) while they participated most in savings plan (61.9%) and business loan (57.1%). They ranked opening of account with very little fund as most important benefit derived with weighted mean score of (132.3). They had low (55.2%) level of benefits while constraints to microfinance banks' services were high interest rate (119.1), short repayment time (116.3) and inadequate fund to save before obtaining loan (113.9) respectively. Although rural dwellers benefited from microfinance banks, amount was generally low due to high interest rate and short repayment time. Therefore, interest rate should be reduced to the minimum level, while grace period for repayment is increased at least to one production year in order to lessen the rural dwellers' rigors of access funds to improve their livelihood.

Keywords: Microfinance bank, Rural poverty, Business loan, Interest rate and Rural dwellers.

INTRODUCTION

Rural communities in Africa are characterized by poverty and low income as a result of low industrial activities. The major preoccupation in such communities is agricultural production, mostly with traditional implements and tools (FAO, 2016). According to World Bank (2016) 60% - 85% of rural populace is living below the poverty line, showing that incidences of poverty are pronounced in the rural than the urban areas. Even, its prevalence in the developing countries has been extremely high such that poverty eradication has become a big issue to tackle.

Poverty is a concept that entails socioeconomics and political deprivation which may affect individual, household or communities and which may result in lack of accesses to the basic necessities of life. World Bank report (1990) as cited in Ogunleye, (2010) defined poverty as hunger, lack of shelter, being sick, not being able to go to school, not knowing how to read, not being able to speak properly, not being able to get a job, and having fear for the future, losing a child to illness brought about by unclean water, powerlessness, lack of representation and freedom. Meanwhile, poverty reduction has been receiving increasing global focus because research findings have shown that significant poverty reductions are possible and have indeed occurred in many developing countries. This can be achieved according to Learning to Compete, (2016) if the apex bank can institute appropriate measures to improve the value of the Naira so as to boost the nation's economic restructuring program, create

new enterprises and employment and a minimal level of social safety nets be established before selling off state-owned corporations. One of such measures that emerged as an effective strategy for poverty alleviation is microfinance scheme. According to Onwuka, and Udeh, (2015) Nigerian government conceived the idea of microfinance banks to fill the gaps created by the collateral-based conventional banks that are reluctant or ill-equipped to meet the special credit needs of the rural people who are mostly illiterate farmers and petty traders.

Microfinance is defined as the provision of financial services such as credits services (loans), savings, micro-leasing, insurance on credits and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow the small businesses (Ashamu and Ogundina, 2015). Microfinance refers to financial services provided to low income people, usually to help support self-employment. Some of the microfinance services provided include small loans, saving plans, insurance, payment transfers and other services that are provided in small increments that low income individuals can afford. According to Khanam, Mohiuddin, Hoque and Weber, (2018) these services help families to start to build "micro enterprises", a small businesses that are important sources of employment, income and economic vitality for the poor families and low-income groups in developing countries. However, before the advent of microfinance banks, rural dwellers have been accessing fund from informal sector through sundry contributory schemes like

ESUSU (Yoruba), ETOTO (Igbo) and ADASHI (Hausa) which operates in all the rural areas in Nigeria. These schemes work on the principle of “large numbers” where the contributions of the participants form a pool that provides beneficiaries with funds used to execute various economic activities. Some of the schemes’ features include flexible savings and credit, components informality of operations and friendly interest rates while microfinance emerged just to apply sound economic principles in the provision of financial services to low income people, (Igangia, 2008). According to CBN, (2005) as cited by Onwuka, and Udeh, (2015) microfinance banking system was institutionalized by Revised Microfinance Banking Act of 2005. This is with the primary aim of promoting grassroots self-reliant economic development through the provision of finance and other banking services at the local level. Microfinance banks were established to address some of the identified constraints that limit a lot of low-income Nigerians access to bank credit, to ensure geographical accessibility of banking facilities in the rural communities and the unbanked poor urban dwellers (Okezie, Bankoli and Ebomuche, 2013).

The fact that microfinance intervention was born to ease the suffering caused by poverty and to awaken the global economy of the world’s working poor, cannot be overemphasized. The scheme was introduced after the different efforts put in place by successive governments to solve the problem through several rural finance and development programs met with unsatisfactory results. This, probably was due to the lack of mechanism, which would encourage the mobilization of savings among people at the grassroots and at the same time simplify the disbursement of funds through loan and advances. To complement government’s efforts, a lot of NGOs and Universal Banks were also encouraged to engage in microfinance services because perhaps the scheme can take the nation to the promise land. Despite the promises of the intervention and immense benefits to help those who do not have collaterals demanded by the commercial banks, to alleviate poverty and awaken the global economy of a nation, one would expect a significant reduction in poverty level among the low –income group in the country. The fact that poverty is still prevalent among the rural dwellers is an indication that that the execution of the scheme is faulty and requires that one finds out constraints to microfinance bank’s services. It is against this backdrop that, this study assessed the constraints to microfinance banks’ services among rural dwellers in Oyo West Local Government Area of Oyo state. The objectives below guided the study:

1. to describe the personal characteristics of rural dweller.

2. to identify rural dwellers’ sources of information about microfinance bank services.
3. to determine which of the microfinance services do rural dwellers participate most.
4. to ascertain the extent to which respondents derived benefits from microfinance bank’s services.

METHODOLOGY

The study was conducted in Oyo West Local Government Area (LGA) of Oyo state. Multistage sampling procedure was employed in selecting rural dwellers who patronize one microfinance bank or the other for the study. The first stage involved stratification of wards in Oyo West local government area into rural and semi-rural wards using stratified sampling technique. This gave a total of 10 wards in rural stratum. So in the second stage 50 percent of wards that fall into rural stratum was selected to have 5 wards. In these selected wards there are 22 villages in all. The third stage involved selection of 25 percent (5.5 villages) of villages in the selected wards using simple random sampling technique. This gave an approximation of six villages. In the final stage, 25 rural dwellers (who patronize one microfinance bank or the other) were selected from each villages to give a total of one hundred and fifty respondents. However, 105 questionnaires were recovered and used for analysis of this study. Data were collected on rural dwellers’ personal characteristics, participation, benefits derived and factors associated with benefits they derived using structured questionnaire but administered as interview schedule. These were analysed using frequency and percentage, mean, weighted mean score and rank orders statistical tool

Rural dwellers’ participation in microfinance bank’s services was measured through eight services that could be rendered by microfinance banks such as savings plans, insurance, payment transfer, small loans, business loans and so on. Dichotomous response option of “Participate” and “Not participate” were provided. A score of one was assigned to “Participate” and 0 was assigned to “Not participate”. Thereafter, mean score was determined for each service to identify the most participated service by the respondents. To measure respondents’ sources of information about microfinance banks, a list of 10 sources of information like radio, television and newspapers were provided with dichotomous response options of “Yes” and “No”. “Yes” response option was assigned 1 score, while “No” was assigned a score of 0. Furthermore, level of benefits derived from microfinance bank’s services was measured in two stages. First, they were asked to state the extent to which they derive benefits from services of microfinance bank. They were provided with three



response options of “To a large extent”, “To a lesser extent” and “Not at all” while a score of 2, 1, and 0 was assigned to respectively. Thereafter, weighted mean score was computed and was used to rank the benefits derived. In the second stage, the level of benefit derived was determined by computing benefit index for each respondent, and mean was used as a bench mark to categorise level of benefits to high and low. The index range was 2-12 with a mean score of 6. Scores below the mean value were regarded as low level of benefit derived while mean and above the mean value was categorised as high level of benefit derived.

Meanwhile, constraints to microfinance bank's services was measured by providing respondents with a set of 19 factors or constraints that could affect or limit the benefits derived from microfinance bank's services. Some of these factors are obtaining loan with stress, long maturity period, financial literacy, lack of deposit insurance and delay in disbursement of loan among other factors. Response options provided were; ‘Not a factor’, ‘Minor factor’ and ‘Major factor’ with assignment of scores of 0, 1 and 2 respectively. Weighted score was later determined and used to rank the constraints such that a factor with the highest weighted score was regarded as a major factor that affected respondents' level of benefits, while the one with the least score is just a minor factor in that other. Finally, rural dwellers' personal characteristics were measured at interval, nominal and ordinal level of measurement as the case dictated.

RESULTS AND DISCUSSION

Personal characteristics of rural dwellers

The result of the analysis as presented in Table 1 shows that 51.4% of the respondents were between the age ranges of 40 to 59 years. This implies that majority of the respondents are neither too young nor too old, they are in their active or productive age which means they should be able to make good use of the loan received from microfinance bank judiciously. This is in tandem with findings of Onwuka and Udeh, (2015) that rural dwellers are in their productive lives and are consequently considered to be active economic actors in the rural economy. Above average were male (53.3%), 71.4% were married, 32.4% had at least primary education while many (46.7%) of them were farmers. The implication is that almost half of the respondents take farming as their main occupation and diversify into other livelihood activities. It could be deduced that microfinance bank disburse loan to people from different occupations. This confirms the position of Bryceson (1996) in Charmaine, (2011) that there is a process of occupational adjustment, income

earning orientation, social identification and spatial relocation of rural dwellers away strictly from peasant mode of livelihood. That majority of the respondents are male may be because women are risk averse and do not want to involve in loan collection due to the fact that they do not have asset that could serve as collateral required for obtaining loan. High percentage of married people among the rural dwellers indicates that they are responsible and may be planning to use loan collected to improve the standard of livings of members of their families. On forms of education, the fact that many of the respondents had primary education is a plus and good one because they will be able to keep proper record of their sales and monitor their loan status. This is in line with Cathy Austin and Nahanga, (2017) opinion that the level of education achieved by the respondents is good enough to aid their propensity to improve their production.

Rural dwellers' sources of information about microfinance banks

Table 2 shows that 89.5% of the respondents heard about microfinance banks from friends and 83.8% heard from radio, while 76.7% heard from neighbours/relations. This implies that friends, radio and neighbours/relations are the most preferred sources of information about microfinance bank among other sources. It could also be said that they heard from friends and neighbours who have benefitted from microfinance bank services, hence they severed as referral. This is in agreement with Yohanna, Ndaghu and Barnabas, (2014) who posited that high preference for friends as a source of information can be attributed to the fact that rural dwellers especially farmers prefer their friends or other farmers' as a first-hand information to the apparent ineffectiveness of public extension services in developing countries. According to NOIPOLLS report (2018) the use of radio as the most popular source of information in Nigeria. The situation remains the same up till now and radio is probably preferred because radio set is cheap to obtain, easy to operate and widely owned among the rural communities. However, it is surprising that just 46.7% heard from microfinance bank marketers who are supposed to be the flag bearer or advocate of the benefits to be derived from banking with them. This is an indication of poor marketing strategy in most of these microfinance banks because it is obvious that the marketers failed to reach out to people in the interior rural areas. How will this set of people benefit, if they were not contacted? You need to appreciate the importance of referral in this respect. Who can be a better marketer than friends/neighbours who have benefitted from the service of a microfinance bank?

Table 1: Distribution of the respondents according to their personal characteristics

Characteristics	Category	Percentage
Age of respondents	20-39	45.7
	40-59	51.4
	60 and above	2.9
	Total	100
Forms of education	No formal education	26.7
	Primary education	32.4
	Adult literacy education	9.5
	Tertiary education	31.4
	Total	100
Sex	Male	53.3
	Female	46.7
	Total	100
Marital status	Single	22.9
	Married	71.4
	Divorced	5.7
	Total	100
Main occupation	Farming	46.7
	Trading	33.3
	Clerk/Typist	1.9
	Teaching	3.8
	Farming and trading	12.4
	Teaching and trading	1.9
	Total	100

Source: Field survey, 2008.

Table 2 Distribution of rural dwellers on their sources of information about microfinance banks

Sources of information	Frequency	Percentage
Friend(s)	94	89.5
Village head	54	51.4
Radio	88	83.8
Newspaper	49	46.7
Informal meeting	56	53.3
Campaign team	50	47.6
Television	59	56.2
Neighbours/relations	80	76.2
Advertisement	56	53.3
Marketers	47	44.8

*Multiple Response

Source: Field survey, 2008

Rural dwellers' participation in microfinance banking

Table 3 reveals that 61.9% of the rural dwellers participated in savings plans of the services provided by microfinance banks, 57.1% participated in business loans, 53.3% in small loans, 41.0% in individual loans, 21.1% in consumer loans, 16.2% in payment transfer, 12.4% in school fees loans and 5.7% participated in insurance scheme. This indicates that majority of

the respondents are patronize banks especially the savings plan and do not keep money at home or in the ground as before. This improvement maybe as a result of benefits derived such as access to loan. Ayuub (2013) posits that loan facility collected through microfinance institution has helped clients to give better education to their children. This is because the income of households increases after taking loans and leads to increase in expenditure on their children education.

**Table 3 Distribution of rural dwellers on their participation in microfinance banking**

Microfinance bank services	Frequency	Percentage
Savings plans	65	61.9
Insurance	6	5.7
Payment transfer	17	16.2
Small loans	56	53.3
Business loans	60	57.1
School fees loans	13	12.4
Consumer loans	22	21.1
Individual loans	43	41.0

*Multiple Responses

Source: Field survey, 2008

Respondents' level of benefits derived from microfinance bank's services

Table 4 indicates that among other benefits derived from microfinance bank services, rural dwellers ranked opening of account with very little fund first, with weighted mean score of 132.3, followed by obtaining loans without collateral (126.0), improved standard of living (121.9) and obtaining loans with low interest rate (117.3). The implication is that rural dwellers actually benefited from microfinance bank services, which might be one of the reasons they participated (see Table 3) in the first place. However, it is not enough to mention the benefits derived by rural dwellers without stating the level at which they derived such benefits and to this end. Table 4 further shows that

more of the respondents (55.2%) had low level of benefits derived from the banks. Therefore, this implies that despite the fact that rural dwellers benefited from microfinance bank services, the level of such benefits was low and this may be as a result of different constraints faced in participating in microfinance bank services. Authorities, (Okezie, Bankoli, and Ebomuche, (2013), Ayuub, (2013) and Bamisele, (2011) ascertained that empirical evidences indicate that the poorest can benefit from microfinance from both an economic and socio wellbeing points of view. This indicates that microfinance can be a more viable strategy for sustainable poverty alleviation by expansion of program outreach and depth.

Table 4 Distribution of respondents according to the level of benefits derived from microfinance bank's services

Benefits derived	To a large extent	To a lesser extent	Not at all	Weighted score	Rank
Opening of account with very little fund	54.5	23.3	22.2	132.3	1 st
Obtaining loans without collateral	50.5	25.0	24.6	126.0	2 nd
Improved standard of living	52.4	17.1	30.5	121.9	3 rd
Obtaining loans with low interest rate	40.1	37.1	27.8	117.3	4 th
Having timely capital for my business	41.6	33.5	30.0	116.7	5 th
A very good insurance scheme	38.0	37.8	24.2	113.8	6 th
Level of benefits	Frequency		Percentage		
Low (2-5.9)	58		55.2		
High (6-12)	47		44.8		
Total	105		100.0		

Source: Field survey, 2008

Respondents' constraints encountered in microfinance banks' services

Table 5 shows that high interest rate, short repayment time, inadequate fund to save before obtaining loan, risk aversion and long maturity period were ranked as the most important challenges that the respondents faced in fully benefiting from microfinance bank services with weighted mean scores of 119.1, 116.3, 113.9, 109.6 and 106.1 respectively. This is in accordance with the findings of Ademoh and Zivkovic, (2017) that high interest rates among other factors hindered business owners from accessing loan from

Microfinance banks. The implication is that rural dwellers would have benefited more but for the above listed factors that constrained them. According to the findings of this study on Table 4 rural dwellers had low level of benefits derived from microfinance bank services which could be probably because of these identified factors. For example the interest rate of microfinance banks if calculated for the period of re-payment is more than that of conventional banks while grace period or tenor given to agricultural loan is so small to the extent that farmers would not have sold their farm

produce and products before repayment is due

hence increasing stress.

Table 5 Distribution of respondents according to constraints encountered in microfinance banks' services

Identified factors	Not a factor	Minor factor	Major factor	Weighted score	Rank
High interest rate	29.5	21.9	48.6	119.1	1 st
Short repayment time	30.5	22.9	46.7	116.3	2 nd
Inadequate fund to save before obtaining loan	27.6	30.5	41.7	113.9	3 rd
Risk averse	22.9	44.8	32.4	109.6	4 th
Long maturity period	32.4	28.9	38.6	106.1	5 th
Obtaining loan involve stress	30.5	33.3	36.2	105.7	6 th
Financial literacy	42.9	13.3	43.8	100.9	7 th
Lack of deposit insurance	36.2	26.7	37.1	100.9	7 th
Delay in disbursement of loan	36.2	33.3	30.5	94.3	9 th
Lack of credit facilities	38.1	37.1	24.8	86.7	10 th
Poor access to information	38.1	37.1	24.8	86.7	10 th
Political instability	52.4	17.1	30.5	78.1	12 th
Lack of immutable client's right	48.6	27.4	24.0	75.4	13 th
Discrimination	51.4	37.1	11.5	60.1	14 th
Cultural constraint	58.1	26.7	15.2	57.1	15 th
Exploitation	61.0	23.8	15.2	54.2	16 th
Corrupt intermediaries	63.8	26.7	9.6	45.9	17 th
Complicated fiscal system	61.9	34.3	3.8	41.9	18 th
Absence of rule of law	78.1	8.6	13.3	35.2	19 th

Source: Field survey, 2008

CONCLUSION AND RECOMMENDATIONS

Constraints to microfinance banks' services are high interest rate, short repayment time and inadequate fund to save before obtaining loan. Therefore, interest rate of microfinance bank should be addressed and reduced when formulating the next microfinance banking policy so as to really lessen the burden of the rural people. On the other hand, grace period to repay agricultural loan should also be extended at least using the gestation or maturity period of the crop grown or animal reared by the farmers as a yardstick.

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