

**TREATMENT OF LOAN DEFAULTERS IN MICROCREDIT MARKETS IN  
IBADAN, OYO STATE**

**BY**

**Oludare Ibikunle GEORGE  
MATRIC NO: 123105  
BSc. Sociology, M.Sc. Criminology (Ibadan)**

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## **CERTIFICATION**

I certify that this thesis was carried out by Oludare Ibikunle GEORGE (Matric No.123105) of the Department of Sociology, Faculty of the Social Sciences, University of Ibadan under my supervision.

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**Supervisor**  
**O. Tade**  
**B.Sc., M.Sc., PhD (Ibadan)**  
**Senior Lecturer,**  
**Department of Sociology,**  
**University of Ibadan, Nigeria.**

## **DEDICATION**

This thesis is dedicated to my late father, George Omoniyi Ibikunle who breathed his last on 23<sup>rd</sup> June, 2022. This achievement would have been witnessed by you but for death that snatched you from us untimely.

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## ABSTRACT

Loan default is failure to pay back the money borrowed as and when due. It is an offending behavior which can lead to the collapse of lending institutions or deny other loan seekers the opportunity to access loans in microcredit markets. Treatment of loan defaulters involves a range of sanctions oriented towards deterring or recovering default. In Nigeria, studies have shown that loan defaulters face various degrees of sanctions in credit markets, but there is scant knowledge on how defaulters among small-scale traders are treated in microcredit markets. This study was, therefore, designed to investigate the range of sanctions meted out to loan defaulters, unravel the factors determining the choice of sanctions for defaulters, examine rationale for loan procurement, as well as explore the factors inducing loan default in microcredit markets in Ibadan, Oyo State, Nigeria.

The cross-sectional design was employed, while Rational Choice Theory provided the framework. Eight major markets (Agbeni, Aleshinloye, Beere, Bodija, Gbagi Titun, Dugbe, and Ogunpa) in Ibadan were purposively selected due to the preponderance of traders and microcredit providers in these areas. The study engaged 76 participants. Accidental sampling technique was used to select 25 microcredit providers (microfinance banks and microfinance institutions) and 36 defaulters. Purposive sampling technique was used to select state actors (4 police officers, 1 Nigeria Security and Civil Defense Corps, 2 officials of the Central Bank of Nigeria, and 1 Judicial officer), while 5 defaulters' guarantors, and 2 defaulters' Significant Others were reached through snowballing. An In-Depth Interview guide was used to collect data from defaulters and microcredit providers while a Key-Informant Interview guide was used to elicit data from state actors on their regulatory and mediatory roles; guarantors and Significant Others on their lived experiences. Data were content-analysed.

The participants comprised 57 males and 19 females: 65 Yorubas, 7 Igbos, and 4 others. Defaulters faced monetary penalties (fines, loss of interest waiver, savings forfeiture, and loan denial) which were relatively mild compared to other penalties (loss of confidentiality and humiliation, loss of goods and property, sealing of shops, and arrest and detention), which were non-monetary but severe. These treatment options were determined by loan procurer's age, gender, health status and credit records, as well as whether the loan providers operated as microfinance banks or microfinance institutions. Traders procured microcredit facilities to raise capital for business start-up and expansion. This aligned with the priority of microcredit providers who, nevertheless, attached conditions such as providing a guarantor who must be held in high esteem by loan applicants before loan disbursement. In spite of these stringent conditions, default occurred due to diversion of loans by loan procurers to non-productive activities such as ceremonies. Default also occurred due to unfavourable social and economic environments in which small-scale traders operated.

Loan defaulters suffered mild and severe treatments in microcredit markets. To guide against such treatments, there is the need for loan providers to educate loan seekers on the consequences of default before loan is disbursed.

**Keywords:** Microcredit markets in Ibadan, Treatment of loan defaulters, Business failure

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## **CHAPTER FIVE**

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## **CHAPTER ONE INTRODUCTION**

### **1.1 Background to the Study**

Credit facilitates economic growth and development (Olomola, 2002; Okpara, Ibeleme and Chukwudi, 2013; Owusu, Oppong, Agyeiwaa and Abruquah, 2015) as people find it easy not only to meet their basic but entrepreneurial needs if allowed access to credit. Loans can be accessed from formal and informal financial sectors (Amisshah and Gbandi, 2014; Soyibo, 1997; Olomola, 2002), while the loan sector could be micro or macro. Microcredit facilities are small and medium loans accessed by small-scale traders who cannot afford the requirements for loan facilities in commercial banks (Angaine and Warri, 2014). Microfinance banks and others like moneylenders, daily savings collectors and co-operative societies fall within the purview of the microcredit providers, albeit formal-informal segregation existing in the sector. And for the fact that there must be a platform for microcredit providers to offer their services for sale, microcredit markets become indispensable as such markets are the places where the credit providers gain access to the borrowers.

Credit provision is said to have driven economic growth and development when it is beneficial to both loan providers and users (Olomola, 2002). However, the realities may fail to produce the anticipated, symbiotic relationships. This is reflected in the exploitative interest rates reportedly charged by the loan providers, especially those operating in the informal sub-sector of the microcredit markets on the one hand, and the high default rates credited to the borrowers on the other hand. Boyo (2017) puts the interest rates in the informal segment of the markets at over 100% compared to less than 20% charged by commercial banks.

Default arises when the borrowers fail to repay the principal and interest secured promptly (Adewole, Otubor, Mang, Ayeni, Kairo and Okeke, 2017). According to the Central Bank of Nigeria (2019), performing and non-performing loans classify loan facilities. While performing loan facilities have their due principal and interests settled within 30 days, the reverse is the case for non-performing loans which are further broken down by the apex bank into: pass and watch, substandard, doubtful, and lost. Loan facilities become pass and watch when the past due principal and/or interest extends beyond 30 days but less than 60 days; substandard when the past due principal and/or interest is not recovered not less than 60 days but within 90 days; doubtful where the past due principal and/ or interest remain outstanding for a minimum of 90 days but within 180 days; and lost where the past due principal and/or interest cannot be retrieved after 180 days.

Although the foregoing categorizations are the general standard, Olomola (2002) describes the repayment status of borrowers in informal credit markets as the credit risks, the delinquents and the defaulters. Of the three categories, it is only the credit risks that repay their loans as and when due or within one month after the due date; then followed by the delinquents whose repayment takes place within three months after the due date while the defaulters are the worst as they do not repay loans more than ninety days after the due date. Though Olomola's findings are based on the group performance, the individual borrowers could equally exhibit such foregoing repayment traits which should be given intellectual attention. As a deviant behaviour, default attracts sanctions with the aim of recovering the amounts of money in default or deterring immediate defaulters and other loan beneficiaries with such potentials.

About five decades ago, Fadipe (1970) identified distraintment, nuisances, impersonation, forced imprisonment, and discrimination in the pre-colonial Yoruba era as some of the treatment options suffered by loan defaulters. Shaming of loan defaulters is central to the foregoing sanctions in that none of these would be adopted without attracting the attention of others like the family members and neighbours. Given the period within which such treatments were applied, it is arguable that they are informal control mechanisms as there is no evidence that they were sanctioned by the state authorities. The treatment options could have changed in the post-colonial Nigeria where other ethnic groups, apart from the Yoruba, can be found coupled with

the fact that the present-day Nigeria is under the control of state authorities spread across the Western-style of executive, legislature and judiciary. Also, Soyibo (1997) identified confiscation of collateral and personal threats as loan recovery strategies, especially in the informal sub-sector of the microcredit markets. This was corroborated by Adeniyani (2017) who identified police arrest, incarceration, property seizure, blacklisting, stigmatization and physical assaults as means of dealing with default in credit markets. However, Nwanyanwu (2011) submitted that microcredit outfits have the mandate of providing small financial services with little or no collateral. Although confiscation may be different from other sanctions (forced imprisonment, arrest and incarceration), this treatment option may not be effectively administered on the grassroots loan defaulters who may not possess any commensurate property that can offset their loans.

Furthermore, Chijioke (2015) reported the threat of publication of debtors' names by banks over non-performing loans. However, the publication treatment may not produce the desired results at the grassroots where a comprehensive list of debtors may not be available. Also, the publication treatment may be too expensive to bear not only for the informal but the formal microcredit providers because of limited resources. In the same vein, Oyetunji (2017) reported that the Bankers' Committee in conjunction with the CBN had threatened to use the Bank Verification Number (BVN) to blacklist loan defaulters so as to prevent them from accessing further credit in the nation's banking system. This decision is in line with the social thought that he who fails to pay back smaller loans may forfeit access to higher loans. The blacklist treatment may also be faced with some challenges given the fact that not all microcredit outfits are formal.

Being one of the undesirable consequences of credit markets, default is therefore a condition under which credit could be said to be dialectical in nature. It is vital to meeting people's needs, and could be destructive of the defaulters' lives considering the treatment options to which the defaulters are subjected. Such treatment options could have led to suicide committed by a Lagos hairdresser over a loan of one hundred and fifty thousand naira only (Folarin, 2017) obtained from unspecified microcredit provider. This is just one suicide case detected and reported.

Again, Boyo (2017) reports that Nigerians commit suicide when intense pressure to make ends meet drive them to borrow from unregulated shylock loan hawks, called in a local parlance *gbomulelantern* (putting breasts on lantern), *gbedileso* (putting buttocks on the nail) or *gbeponelelantern* (putting manhood on lantern). These hawks charge exploitative interests which could lead to default (Adeniyani, 2017; Ibeleme *et al.*, 2013). Therefore, much needs to be unravelled in this finance sub-sector, especially the borrowers' experiences in the event of default as well as factors underlying the choice of the treatment options.

It is not only the defaulters that bear the brunt of loan default, the defaulters' Significant Others and guarantors are not also spared of the consequences of default in the sense that hardly will a defaulter will be subjected to sanctions without sharing the pains of the sanctions with his or her relatives who constitute Significant Others or the guarantors who pledge to undertake the borrowers' responsibilities in the event of default. The loan providers are equally not immune against the consequences associated with default. Profit reduction of lending institutions, inability to play financial intermediation role, withdrawal of operating licence, and liquidation have been linked to loan default (Popoola, 2018; Adewole *et al.* 2017; Acha, 2012; Umoh, 2002). There is no doubting the fact that these effects can render loan providers bankrupt with the multiplier effect of retrenching the staff in the case of microfinance banks and other corporate lenders.

Given the foregoing consequences, default could then be described as a financial insecurity which does not only lead to the collapse of the affected institutions but also people whose survival directly or indirectly depends on such institutions. It should also be noted that microcredit markets are more likely to be affected by the shocks generated by default and its consequences given the fact that they are more patronized by Nigerians. This is buttressed by Nwanyanwu (2011) that only 35% of the economically active population in Nigeria are included in the nation's formal financial system while the majority still patronize informal credit market. In a country like Nigeria where there is abuse of highly collateralized and relatively low-interest loans (Adewole *et al.* 2017; Umoh, 2002), the extent of abuse of uncollateralized or less-collateralized and high-interest loans granted by the grassroots financial intermediaries cannot be imagined. Therefore, the treatment options that follow such

abuse deserve intellectual engagement. It is against this background that this study sought to determine, among others, the current treatment options meted to loan defaulters as well as factors underlying the choice of the treatment options across formal and informal microcredit markets.

## **1.2 Statement of the Problem**

Central to the attainment of financial security is the availability of loan facilities. While loans may offset certain life needs for an individual or household, the loan beneficiaries may be immersed in further insecurity when loan repayment terms and conditions are not met. It is under such condition that default is said to have arisen. This could stifle the opportunities for others in need of loans while the credit markets may ultimately collapse. When doors are shut against other potential borrowers who may even be armed with more fascinating ideas, many people may continue to live in poverty (Adewole *et al.* 2017).

The consequences of loan default extend beyond loan denial and poverty as earlier mentioned given a range of the treatment options to which the defaulters (including their Significant Others and guarantors) could be subjected. Being deviant as they are, the defaulters whose actions are responsible for halting the intended functions of the credit markets may have some sanctions imposed on them by microcredit providers who may be interested not only in recovering debts but deterring default acts. Defaulters could suffer threat to life, assault, and confiscation of property. Regrettably, these treatment options are not without their costs ranging from physical injury, depression, and suicide which may culminate in untimely death of defaulters. Such treatment options coupled with their ugly costs could defeat the purpose of empowerment which microcredit markets are meant to provide. The treatment options may even extend beyond the immediate loan beneficiaries to cover their guarantors who do serve as collateral in most cases at the grassroots. The guarantors may have not only their property confiscated but their reputations damaged, especially if they are unable or unwilling to repay the debts owed by the principal borrowers.

Although, Fadipe (1970) provided sociological insights into the treatment options (distraintment, nuisances, impersonation, forced imprisonment and discrimination) for defaulters among the Yoruba in the pre-colonial era, such treatment options could

have been outdated in the present-day Nigeria within which other ethnic groups than the Yoruba currently reside. Again, Soyibo (1997) identified property confiscation and personal threats as strategies for default control. However, Soyibo only mentioned the strategies in passing as his study focus was not meant to detail the treatment options for defaulters. Besides, Adeniyani (2017) also identified property seizure and police arrest as loan recovery strategies adopted by informal moneylenders whereas it is not only informal moneylenders that constitute credit providers in microcredit markets in the contemporary times. In the same vein, Olomola (2002) argued for social capital as a rationale for group lending with the purpose of controlling default on the assumption that membership of a group is coercive of default tendencies in a member. The realities, however, may prove otherwise as not all group members could be disposed to honour bonds that characterize social capital. It is therefore against this backdrop that this study raised the following research questions with a view to achieving the subsequent research objectives:

### **1.3 Research Questions**

The study answered the following questions:

- i. What was the rationale for loan procurement in microcredit markets in Ibadan?
- ii. What were the factors inducing loan default in microcredit markets in Ibadan?
- iii. What were the treatment options for loan defaulters in microcredit markets in Ibadan?
- iv. What were the factors underlying the choice of the treatment options for loan defaulters in microcredit markets in Ibadan?

### **1.4 Research Objectives**

The general objective of the study was to investigate the treatment options meted out to loan defaulters (including their guarantors and Significant Others where applicable) in microcredit markets in Ibadan. The specific objectives are as follows:

- i. Determining the rationale for loan procurement in microcredit markets in Ibadan.
- ii. Exploring the factors inducing loan default in microcredit markets in Ibadan.

- iii. Examining the treatment options for loan defaulters in microcredit markets in Ibadan.
- iv. Unravelling the factors underlying the choice of the treatment options for loan defaulters in microcredit markets in Ibadan.

### **1.5 Significance of the Study**

This study departed from the extant studies in terms of detailed information about the treatment options suffered by loan defaulters (including guarantors and Significant Others) in microcredit markets. Fadipe (1970) provided information on the treatment options for the defaulters in a general sense among the Yoruba in the pre-colonial era. However, apart from the time lag that characterizes Fadipe's work, it is necessary to confine the study of the treatment options to a particular institution such as trading. Again, Soyibo (1997) did not go beyond identification of loan recovery strategies whereas detailed information is needed on how such strategies are deployed. In the same vein, Olomola (2002) contributed to the subject with the argument that default could be controlled by social capital whereas social capital alone cannot explain the complexities involved in the issues relating to loan facilities which are likely to suffer from unanticipated consequences like default. It is not all borrowers who respect the social bonds that characterize social capital; and consequently they default in loan repayment and usually are subjected to some treatment options.

Given the limitations of the extant studies (Fadipe, 1970; Soyibo, 1997; Olomola, 2002), there was a lacuna to be urgently filled so as to sustain microcredit markets where actors of diverse interests interplay. This study sought, among other things, to investigate the treatment options available in the event of default in microcredit markets in Ibadan. The findings of the study have expanded not only the field of monetary deviations but also the body of knowledge available on micro economies. Again, the findings of this study will also constitute a good instrument for the policy makers who always yearn for a robust premise upon which their policies will rest. With the findings of this study, the policy makers will be able to come up with a design that will strengthen the government interventions in the grassroots economies.



## **1.6. Scope of the Study**

This is study about microcredit markets where micro loan facilities are disbursed and procured respectively by loan providers and loan takers. As earlier indicated, microcredit markets are dualized into: formal and informal segments. Since there is no institutional standard for what can be termed micro loans in informal microcredit markets, it is better to adopt the standard set by the CBN (2020) where micro loan facilities are expected to exceed #500,000 for the Tier 2 Microfinance banks and #1,000,000 for other categories (Tier 1, State, National Microfinance Banks) while the repayment of such facilities must be redeemed within 180 days through daily, weekly, bi-monthly, or monthly basis.

The study took place in Ibadan, Oyo State, Nigeria. It focused on the loan providers, the loan defaulters, the loan defaulters' Significant Others, the loan defaulters' guarantors, security agents and regulatory bodies. The loan providers were sourced from both microfinance banks and microfinance institutions while the defaulters were sourced from the small-scale traders across major markets (Agbeni, Aleshinloye, Beere, Bodija, Dugbe, Gbagi Titun, and Ogunpa) within the city. The study looked into the treatment options (formal and informal) employed by the lenders in the event of default as well as the defaulters' experiences in the face of the treatment options.

## **1.7 Definition of Terms**

For the purposes of this study, definition of the following concepts should be taken as provided herein so as to avoid ambiguity:

**Loan default:** This is a situation when borrowers fail to pay back the money borrowed as and when due.

**Loan defaulters:** These are the people who fail to pay back the money borrowed by them for some reasons either known to them or to both lenders and borrowers.

**Microcredit markets:** These are platforms where both lenders and borrowers meet for their transactions. These markets are mainly patronized by low-income earners like small-scale traders. And like any other system in Nigeria, the markets are dualized to accommodate both microfinance banks and non-bank microfinance institutions. While microfinance banks are purely formal, organized and regulated, non-bank microfinance institutions (including money lenders, daily savings collectors and co-operative societies) are largely not. For the purposes of this study, the concept

of microfinance institutions will thereafter represent microcredit providers that lack the status of bank by virtue of not being licenced to bear the status.

**Significant Others:** These refer to those people like spouses, sibling, children, fathers and mothers who are expected to share strong ties with defaulters.

**Treatment options:** These are varying sanctions meted out to loan defaulters in the course of recovering debts by loan providers.

## **CHAPTER TWO**

### **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **2.1 Brief History of Microcredit Markets**

Microcredit activities have been carried out all over the world since the use of money as the medium of exchange commenced (Nwanyanwu, 2011). In other words, the history of all microcredit markets is the history of money. This is buttressed by Maurer (2006) who identifies functions of general-purpose money to include means of exchange, method of payment and standard of value. Perkins (2008) reported that the concept of microfinance was initiated by a University of Chittagong, Bangladesh Economics Professor Muhammad Yunus in 1974 when he began lending to a group of impoverished villagers some US\$27 which they were meant to pay back at the appropriate time. The Economics Professor, as further argued by Perkins (2008), later decided to found his Grameen Bank in 1983 with the aim of granting microcredit worth £15 a time to the poor. Although Perkins' submission tends to make microfinance as the Middle-East initiative, the Grameen intervention in such circumstances can be said to have equated the concept of microfinance with poverty alleviation which is needed in a country like Nigeria with about 86.9 million (44.2%) poor citizens (World Data Lab, 2018).

In the view of Copestake, Cabello, Goodwin-Groen, Gravesteyn, Humberstone, Johnson, Nino-Zarazua and Titus (2015) the birth of microfinance as a global phenomenon could not be separated from the first Microcredit Summit held in Washington in 1997 while the G20 adoption of the Global Partnership for Financial Inclusion in Seoul on 10<sup>th</sup> December 2010 actually heralded its eclipse. However, Siebel (2003, 2006) argues that microfinance is not a recent development as it has its roots in slavery in the 16<sup>th</sup> century with the Yoruba forcefully taken to the Caribbean sharing it as part of their luggage. So, for Siebel, it is unfair to believe that microfinance was initiated by Muhammad Yunus in Bangladesh in the 1970s.

Siebel's position is shared by the CBN (2005) that microfinance activities are culturally rooted in Nigeria with the Self-Help Groups (SHGs) and Rotating Savings and Credit Associations (ROSCAs) providing microcredit facilities to members.

Both arguments advanced by Siebel (2003; 2006) and CBN (2005) are sound enough to convince one, especially if one goes by the Yoruba oral literature found in<sup>1</sup>*òyèkugósùn* which is an *Ifa* corpus. Contained in the corpus is the prescription of associational life as against individualism for the townspeople of Egba who must participate in monetary, rotational contributions either on a daily, weekly, monthly or yearly basis with a view to raising capital for whatever projects they sought to pursue as they could not go far in life alone. As was the tradition in the olden days among the Yoruba, people sought solution through consultation with *Ifa* who was believed to be an indispensable oracle. It was people who were puzzled about life as was the case with the townspeople of Egba that were eager to consult the oracle.

As later revealed by the oracle, the people were faced with financial needs which they could not solve individually. However, the solution was rather collectively in which they were instructed to make sacrifice while also mandated to pull resources together in form of monetary contributions which would benefit individual members rotationally. This is what gave birth to *Esusu* (rotational contributions) among the Yoruba, and it came through the Egba who were also part of the victims of slave trade. This was a microfinance system, but the development did not lead to the national adoption of the system until 2005 when microfinance framework was formally launched by the CBN. In spite of the framework, there are still various microfinance activities (including daily savings collection, credit unions, and co-operative societies) which are outside the regulation of the CBN but contribute about 85% of the total rural savings and credits in the country (Adeleke, 2014). The CBN put the figure of microfinance banks in the country at 695 in 2008 whereas the precise figure and size of those outside the state regulation was unknown at the period (Adeleke, 2014).

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<sup>1</sup>Chanted by Baba-awo Faghohun Idowu on December 11, 2017.

Like any other system in Nigeria, microcredit markets are dualized into formal and informal (Adeleke, 2014; Acha, 2012). According to Oladejo (2012), both formal and informal finance systems co-exist in Nigeria even though the latter predates the former. Regulation differentiates them (Olomola, 2002; Adeleke, 2014). While formal microcredit markets are state-regulated, informal ones operate outside the purview of the legal, fiscal, regulatory and prudential framework of the monetary and financial authorities (Olomola, 2002). It is on the basis of regulation, however, that microfinance banks are regarded as formal while others (professional money lenders, daily savings contributions, self-help groups) are informal.

Soyibo (1997) identifies six informal financial institutions to include: moneylenders, Savings and Credit Associations (SCAs), Savings and Credit Cooperatives (SCCs), Savings and Loans Companies (SLCs), Credit Unions (CUs), and *Esusu* collectors. Of the identified financial institutions, some financial institutions like CUs, SLCs and SCCs are semi-formal given some laws and expertise required for their management (Soyibo, 1997). Soyibo's list, though a research work over two decades ago, has some resemblance with the list given by Adeleke (2014) in which professional moneylenders, part-time money lenders such as estate owners, traders, smallholder farmers, relations and friends, daily collectors, credit unions and cooperative societies are identified as informal financial institutions.

Regulation of microfinance banks by the CBN is undertaken through various agencies like Corporate Affairs Commission (CAC) and Nigeria Deposit Insurance Commission (NDIC) in compliance with the Companies and Allied Matters Act (CAMA) 1990 (Okpukpara, 2009; CBN, 2005). Part of the regulation also is for the concerned to obtain a licence from the CBN, and to qualify for an operating licence the concerned firm must be able to raise a stipulated paid-up capital. Microfinance banks as further directed by the CBN (2005:20) are required to disclose their sources of funds, in compliance with the Money Laundering Prohibition Act 2004, probably with a view to forestalling injection of stolen money into the system or use of such platform for terrorism finance. This is one of the merits the state-regulated finance institutions offer when compared with the finance institutions outside the state regulation. Besides, microfinance banks are placed under the watch of the Credit Risk Management System, with the aim of accessing timely and necessary information on

their clients for the purpose of making sound decisions for them by the apex bank (CBN, 2005). On the other hand, informal finance institutions are often faced with the challenges of information asymmetry, adverse selection, adverse incentive and moral hazard, with their dire consequences (Adewole *et al.*, 2017; Soyibo, 1997). However, Meagher (2007) has clarified that there is no institution without some regulation only that these institutions are subject to different forms of regulation. While formal institutions are regulated by state-enforced rules informal institutions concern with societal rules (Meagher, 2007).

Meagher's position could have made Adeleke (2014) further submit that informal financial markets are not considered illegal for operating outside the well-designed monitoring of constituted authorities. In other words, absence of state regulation of informal financial institutions does not suggest anarchy in the sub-sector as these institutions are also regulated by personal relations (Meagher, 2005). However, informality could breed criminality. While human activities are not regulated by the state as it is the case with informal financial markets, illegal activities like tax evasion, tax underpayment and even money laundering could evolve.

The issue of interest has also skewed the geographical distribution of microfinance banks between the North and the South of Nigeria. Acha (2012) reports that 75% of microfinance banks in Nigeria are located in the South while the North houses only 25% owing to the fact that the North inhabits majority Muslims with injunction that abhors usury. Given this overview therefore, the review of literature takes the following themes: rationale for loan procurement in credit markets, possible causes of loan default in credit markets, treatment of loan defaulters in credit markets, choice of treatment options in credit markets.

## **2.2. Rationale for Loan Procurement in Credit Markets**

It is unlikely to see any individual or entrepreneur grow in the twenty first century without loan facilities or aid and grants. Although aid and grants are usually desirable, they are not always forthcoming for the fact that it is only few philanthropists that can give out free money without bothering to ask the beneficiaries to pay back. Yet money is needed not only for taking care of people's basic needs like food, clothing and shelter but also for their entrepreneurial advancement. So,

alternatively, they tend to seek money in form of loan from financial institutions. Put differently, out of quest for raising money as capital or for other purposes, people approach microcredit providers. This corroborates the social thought that there must be no lack of money, whether as personal savings or borrowings. This foregoing thought, however, does not suggest that people do not pay attention to loan repayment given the aphorism that it is in the presence of a visitor that debts are incurred while the repayment of such debt takes place when the visitor might have left. This has shown the indispensable role of loans in meeting people's needs.

Angaine and Warri (2014) premise the rationale for loan procurement on Abraham Maslow's hierarchy on needs in which an average human being prioritizes the satisfaction of primary needs such food, clothing and shelter over other needs including entrepreneurial drives. This is in agreement with Adeniyani (2017) that people patronize indigenous usury lenders in order to fund both investment and consumption needs. Housing financing by credit institutions is a condition under which loans could be considered an investment (Bandyopadhyay and Saha, 2009). The housing project can serve the dual purpose of consumption and investment at the same time in that such project affords the owner the consumptive opportunity if the owner decides to use it for residence, and the investment opportunity if the owner to let it out for rent or sale. However, Ekpo (2016) asserts that informal credit facilities are commonly used for consumption rather than investment given the size of the facilities that are considered insufficient for undertaking productive ventures.

Basically, there are two main actors in microcredit markets: that credit providers and users who ought to be equally benefitted from credit transactions (Olomola, 2002). This is buttressed by Soyibo (1997) who opines that both lenders and borrowers are likely to reside in the same locality while Copestake *et al.* (2015) opine that potential lenders of credit desist from lending to some borrowers on the ground of their poor condition militating against their ability to raise the required collateral. Ntiamoah, Siaw, Oteng and Opoku (2014) also submit that while a lender provides a loan, a borrower is expected to pay back not only the principal but also the interest in future except both lender and borrower operate under some religious injunctions that forbid interest. Going by the foregoing arguments, microcredit markets are primarily concerned with lenders (loan providers) and borrowers (loan users). However, for

Nwanyanwu (2011), financial services at the grassroots could encompass loans and savings as well as insurance and payment services.

In the same vein, Somoye and Ilo (2009) submit that financial institutions play their financial intermediary roles through allocation of deposits in their custody. Ekpo (2016) also asserts that both formal and informal financial institutions intermediate between surplus and deficit economic subjects through savings mobilization and allocation. However, both financial institutions are expected to be rational when disbursing loans so as to enjoy a sustainable savings mobilization. The issue of guarantee could also add to the list of actors in the industry, especially where human subjects replace asset collateral as submitted by Soyibo (1997) that in rural areas where informal credit markets are predominant, guarantors are taken as security for loans in the absence of buildings or any other tangible assets. Nwikpasi (2015) also cites the case of the African International Bank Ltd. V. I.D.S. Ltd., to argue that guarantor could be taken as collateral. While delivering judgement on the case cited, the Supreme Court of Nigeria held that ‘a contract of guarantee exists where a guarantor or surety undertakes or promises to pay a debt on behalf of a principal debtor where the debtor defaults’ (Nwikpasi, 2015:35). On such occasions where guarantors substitute assets as security, the extent of loans to be disbursed to the borrowers could be determined not only by the borrowers’ wishes or financial capability of the lending institutions but also the dictates of the guarantors who will need to consider their financial strength in the event of default.

Given the foregoing arguments, microcredit markets have more than two actors as their services have equally recognized the roles of depositors, guarantors, and others who patronize them for the settlement of bills. It should be noted that all the actors identified so far perform their specific roles that sustain the microcredit system. The financial institutions, for instance, must mobilize savings from the public (depositors) who have more than needed for their immediate use, and then look for those (borrowers) in need to give the savings already mobilized in form of loans that could earn them profits (interests on the loans advanced). In other words, keeping excess money at home by the members of the public could be risky in the face of imminent robbery attacks, fire incident or any other unforeseen circumstances. So, such excess money is kept with the financial institutions pending the time it will be needed by the



owners. And in that case, the money does not lie fallow as the money keepers (financial institutions) will have to channel it to productive use by lending it out to the needy (borrowers) in order to make profits. Besides the foregoing actors identified, the government, community and the CBN also play their respective roles that could qualify them as actors in the markets.

According to CBN (2005), it is not only the money depositors, microcredit providers and borrowers that constitute the stakeholders in microcredit markets as the activities of these three actors are still subject to the regulation of some state actors like the regulatory bodies. The government is not only expected to 'foster adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions but also to set aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents' while the CBN does not only licence the prospective microfinance banks but also set limit on their lending to an individual or a company CBN (2005:21-22).

It should also be noted that the foregoing identified actors employ some strategies while playing their respective roles. For instance, it is not just feasible for credit providers to grant all the loan requests received even though the wherewithal is at its disposal. The same way a potential borrower does not find it easy to convince a credit provider to grant his/her loan request. Strategies employed by actors in microcredit markets in the course of either loan disbursement or procurement could induce loan default. In the view of Dziobek *et al.* (2000:13), 'lending decisions and provisioning' are largely affected by collateral presented by the loan applicants, but this could be counterproductive if it replaces adequate credit analysis as uncollateralized loans have been argued to be more manageable than collateralized ones. For Angaine and Waari(2014) microfinance institutions consider the collateral presented by the prospective borrowers even though it is necessary for the microfinance institutions to expand this strategy with the incorporation of 3Cs of character, capacity, and capital before the prospective borrowers could have their loan requests granted. Character of a prospective borrower should include his/her credit history or background checks to determine how past debt obligations were handled. Then his/her capacity should be considered in respect of the current loan application so as to determine the extent of

loan he/she can conveniently pay back. And lastly, there is the need to evaluate his/her capital in terms of what he/she owns in form of real estate, savings or investment in order to determine the feasibility of the loan repayment should the venture for which the loan is obtained do not yield the expected output. While it is possible to record default even with the 3Cs recommended by Angaine and Waari (2014) in that there are circumstances which may be beyond the borrowers' control that can alter the arrangement, it is necessary to investigate the sanctions meted out to loan defaulters as well as the factors determining such sanctions.

This limitation is not limited to Angaine and Waari (2014) whose scope is not to provide the treatment options for loan defaulters who may emerge in spite of the 3Cs strategies. Udoh (2008) also reports that the use of committees such as Special Project Unit and Local Loan Committees for screening, monitoring and enforcement activities was a strategy adopted by the Akwa Ibom State Agricultural Loan Board without detailing how the loan defaulters were treated. Ntiamoah *et al.* (2014) and Okpukpara (2009) identify Know Your Customer (KYC) as the strategy for loan disbursement. This is done by assigning the loan applicants specific loan officers who are then charged with the responsibility of paying scheduled or unscheduled visits to the applicants' businesses and residences so as to confirm their claims in the application form. Soyibo (1997) argues that lenders utilize both direct and indirect mechanisms as strategies for screening loan requests, with the direct mechanisms adjudged to be more productive but more expensive.

For Olomola (2002) social capital serves as strategy to both lenders and borrowers as being a member of a group could facilitate access to loans by borrowers, and at the same time reduce transaction costs on the part of the lenders who disburse loans to groups rather than individuals. This falls within the purview of group lending that has the capacity of reducing default rates given its reliance on social capital for operation (Olomola, 2002). Group lending based on social capital tends to be beneficial as the level of compliance among borrowers has been reported to be significantly positive if the borrowers are accountable to friends and relatives (Doering, 2018) who are equally members of the group. However, caution is expected by Doering (2018) when relying on any form of social capital for screening of loan applications as this could lead to escalation of commitment that eventually generates erroneous decisions. In

their own submission, Okpara *et al.* (2013) argue that discriminatory interest rates are part of the strategies in place in microcredit markets, especially where credit histories of applicants are not available or accessible. As further argued by Okpara *et al.* (2013), the applicants evaluated to be good credit risks based on the limited information accessed are charged lower interest compared to their bad risk counterparts. However, loan default has been linked with such high interest rates which seek to exploit the loan beneficiaries who patronize such lenders out of frustration and desperation (Adeniyani, 2017; Boyo, 2017; Ibeleme *et al.*, 2013).

For Adeleke (2014), the executive members jointly play a greater role in loan approvals and disbursement in informal finance institutions that take the form of cooperative societies or any other finance club, with the President approving, Treasurer disbursing and the financial records being kept by the Financial Secretary respectively. Like other strategies that have their peculiar shortcomings, this arrangement is not immune against the challenges confronting credit markets as there will always be some members who will fail to honour repayment agreement. In fact, such arrangement could result in the escalation of commitment (Doering, 2018) inherent in social capital which makes the executive members feel responsible for their members' welfare. In such situation, the financially ailing members may enjoy continued financial support from the club via the primordial concern of the executive members. This could, among other factors, lead to payment default that warrants the treatment of defaulters which should be thoroughly investigated.

### **2.3. Possible Causes of Loan Default in Credit Markets**

In the event of failure of various strategies employed in credit markets, default arises. Strategies fail at times when they are either not well-planned or implemented. Again, some exogenous variables like social, technological, economic and political could render such strategies inefficacious. Against this backdrop therefore, it becomes imperative to dig into the conditions under which the strategies fail or factors responsible for default. In a study conducted by Adewole *et al.* (2017), service sector has the highest default tendency when compared to other sectors of the economy. Given its intangible nature, default is possible in service sector as its survival largely depends on real sectors of the economy. A typical instance of this is loan facility granted an investor in hospitality industry. Such industry like insurance or tourism is

meant to render intangible services that may suffer expected patronage, especially in a recession period; hence default in payment by the affected investor who could have recorded a higher marginal cost than marginal revenue. Also, the fact that service sector like hospitality is a tertiary sector which is meant to provide enjoyment for its clients whereas enjoyment is likely to be pursued after primary needs such as food and clothing must have been met. Nonetheless, real sector like agriculture is not immune against default according to Ohajianya, Ejike and Lemchi (2013) who describe it as a risky sector. Default arising from such situations could be associated with the unpredictable nature of the sector in which the agricultural produce cannot be actualized as expected.

Furthermore, short term loans, loan size, non-farm income, diversion of funds by borrowers, exchange rate depreciation, non profit ability of farm enterprises, delay in loan delivery, undue government intervention, educational level, loan supervision, and interest rates are among factors responsible for default (Adewole *et al.* 2017; Augustine *et al.* 2015; Afolabi, 2010; Okpara *et al.* 2013; Ojiako, Idowu and Ogbukwa, 2014). Short-term loans are about the tenure of loans. As indicated earlier, loans in microcredit markets are payable within six months of procurement whereas some ventures require more than six months to mature. Considering the level of sacrifice required for nurturing entrepreneurship to the stage of actualization, short-term loans granted a young entrepreneur in any legitimate industry are likely to suffer default. A new investment, for instance, may not make enough profit to service the debt not to talk of other loan obligations because it needs enough time for growth (Adewole *et al.* 2017) and any pressure from the creditors at such stage could render it liquidated. Besides, short-term loans are not usually monitored by loan providers who are more interested in returns from the facilities than the processes leading to the returns (Soyibo, 1997).

Doering (2018) has added that indiscriminate transfer of clients to other loan officers could hamper monitoring as the original officers do feel non-responsible and comfortable with their original clients than any other clients inherited. With this sense of responsibility and comfort with the original clients, there could be lower rates of defaults among the clients sourced by the loan officers than those inherited or sourced for them. For default to be prevented loan repayment must not only be long-term but

loan size should be commensurate with borrower's capacity and enterprise financial requirements so as to avoid diversion of fund (Angaine and Waari, 2014).

Capacity determination, being part of the 3Cs, suffers failure in the face of subjective evaluation that paves way for improper client selection by loan providers (Adewole et al. 2017). In such situation, loans accessed by such clients are diverted to a wrong cause like meeting their physiological needs or any other primary needs (Angaine and Waari, 2014). This is buttressed by Nwanyanwu (2011) who argues that feeding could be given a priority in Nigeria by loan beneficiaries given the high level of poverty in the land. In such case, loans obtained could be geared toward consumption rather than production. This is a sufficient condition for default as satisfaction of physiological needs may not bring about the results with which the loans will be settled. And for those in genuine need of loans to advance their entrepreneurship drive, inadequate loans could equally be diverted to a venture that may not generate the expected results; thereby creating default for the credit markets.

Moreover, Soyibo (1997) argues that informal credit providers tend to record lower default rates compared to their formal counterparts, especially the government-sponsored microfinance schemes for some reasons including poor management. This is corroborated by the CBN (2005) that deregulation of microcredit markets was undertaken as a result of failure of the government-owned microfinance ventures in the country. The reason for this could not be separated from poor management of government establishments in the country where both government officials and loan beneficiaries tend to consider such facilities as entitlements rather than investments that must be used for pursuing a specific goal such as business which can guarantee prompt repayment. Again, the tangible collateral with which formal loan facilities are secured can equally affect prompt repayment as this places loan providers at par with loan beneficiaries who may not be bothered for repayment given the worth of their tangible collateral (Krippner, 2017). Unlike formal credit providers, informal credit providers may be forced to adopt informal means through which their loan facilities will be retrieved from the beneficiaries as soon as possible.

There has also been study on gender and loan repayment compliance with women reported to be more reliable than men (Doering, 2018; Idoge, 2013). This is consistent

with Angaine and Waari (2014) and Ojiako *et al.* (2014) who report female gender to be more committed to loan repayment. If their findings should be subjected to analysis within the Nigerian context, it is reasonable to argue that women are less burdened with the family financial responsibilities that can drain their pockets. Given this therefore, they tend to make judicious use of their resources to earn more profit that eventually enables them to settle their creditors.

Also, married women in particular tend to be compliant with loan repayment (Idoge, 2013) in a patriarchal society like Nigeria for the fear of having issues with their husbands, especially if such husbands are not disposed to taking such facilities. According to Krippner (2017) married women hardly get mortgage loan in the United States of America on the assumption that they are considered unskilful to keep a property because their husbands are expected to conceal credit identities. This typifies a patriarchal society where husbands are the heads of the family. It is common to find married women seek their husbands' permission before applying for loan facilities under such circumstances. And for these women, compliance with loan repayment is necessary if at all approved by their husbands in order not to be seen as abusers of the opportunity. This is necessary for sustaining a marital relationship for the maintenance of the family institution which forbids women from exhibiting traits not endorsed by their husbands.

Doering (2018) further argues that borrowers are less likely to comply with female loan or recovery officers in relation to loan repayment. Excuses for this disparity could be in the physiological composition of female officers who are likely to be tender as against their male counterparts who tend to appear physiologically aggressive. Default in payment could arise when the level of aggressiveness required for loan recovery is not displayed. Besides gender, some other demographics could determine loan repayment. In a study conducted by Olomola (2002) on the Farmers Development Union in the South West of Nigeria, the educated as well as the young borrowers were found to have recorded higher default rates in their respective groups. But like Doering and Idoge, Olomola could not offer further explanation for these disparities as socio-demographics were not within the focus of their respective studies; hence limiting their works to reports on association between demographics

and loan repayment. This makes the current study indispensable for the purpose of filling the gap.

#### **2.4. Treatment of Loan Defaulters in Credit Markets**

Regardless of the factors responsible for loan default, there are costs attached. And part of the costs usually comes in the form of treatment options for loan defaulters whose deviant acts are likely to be seen as disruptive to the sustenance of credit markets. Defaulters suffer not only personal threat (Soyibo, 1997) but non access to loan facilities in future (Adewole *et al.*, 2017). This is consistent with Adeniyani (2017) who asserts that physical assaults and police arrest are common control mechanisms of default in the usury system. The foregoing sanctions for defaulters show that personal efforts are usually made by loan providers in the course of recovering debts. Threats and assaults are personal efforts that are meant to pressurize defaulters to do the bidding of loan providers.

Apart from personal efforts that underline threatening and assaulting loan defaulters, the foregoing sanctions also indicate that treatment of defaulters extends beyond loan providers' efforts to cover the intervention of state actors like the police. As an organ of government, the police constitute the executive arm that executes the law. Given this, it is arguable that there are state laws against loan default because there would not have been police arrest had there been no laws prohibiting default in the country. This constitutes the state penalty while combining it with threats and assaults could put much more pressure on loan defaulters.

Chijioke (2015) also reports the threats to make public the debtors' details through publication in the national dailies. And of course, the threats were actually executed in 2015 as can be found in almost all the national dailies released in that year. This mechanism could be aimed at blacklisting the debtors. This is corroborated by Oyetunji (2017) that the Bankers' Committee in conjunction with the CBN has decided to make use of the Bank Verification Number (BVN) to blacklist loan defaulters so that accessing loan facilities from any other regulated finance house in the country would be impossible. However, blacklisting defaulters with BVN is a formal mechanism sustained by the state policy and machinery which do not cover informal credit providers. The Bank Verification Number (BVN) is a policy of the

Nigerian state mandating all the bank account owners to have their biometrics captured by their financial institutions. Besides, default is a sign of bankruptcy which portrays defaulters as being financially incapable to meet their loan obligations whereas a person adjudged bankrupt, according to Section 126 of the Bankruptcy Act, could be disqualified from being elected or appointed to certain offices (President, Vice-President, Governor, Deputy Governor, Federal or State Legislator, Local Government Chairman or Councillor, Governing Board, Justice of Peace, Trustee, or Professional being regulated by law on his own or in partnership with any other person) in Nigeria.

According to Fadipe (1970), debtors were treated in the ancient times among the Yoruba in the following ways:

First of all, the use of two or more distrainers known as Ologo would be employed. The distrainers were usually lepers who would have to make a nuisance to the inmates of the debtors' homes. Then, the inveterate and seasoned debtors on whom the above method made no other impression could also have anyone belonging to them (extended or kindred) held as a prisoner. The creditors might also go to the market and buy goods on behalf of the debtors, asking the sellers to get their money from the debtors. Again, a man who made himself a nuisance to his relatives by the amount and frequency of his debts was allowed by them to be sold into slavery. A deceased debtor could also be denied the rite of sepulchre (Fadipe, 1970: 163-164).

A proper review of the treatment options in the quote reveals mechanisms such as distraintment, nuisance, forced imprisonment, impersonation, slavery, and discrimination. The mechanisms were to be applied stage-by-stage in which case the distrainers were first to be sent to the debtor for recovery. However, nuisances could be combined with distraintment in the first stage of recovery because there was no way the distrainers would visit the debtor without making a noise or creating 'scenes' which were meant to give impression that the worst experience would follow if the debtor should still refuse to pay back. However, given the period when the default treatment methods (distraintment, nuisance, forced imprisonment, impersonation, slavery and discrimination) were reported to be in use, it is arguable that the



identified methods are informal in the sense that they were in-built in an informal economy which was solely in force in pre-colonial Nigeria as the formalization of the economic activities in Nigeria within which the Yoruba can now be predominantly found did not commence until the Eighteenth Century when colonial rule was launched. Distraintment in those days could be likened to aggressive debt recovery that informed the use of personal threats in the contemporary times. Using distraintment or personal threats allows for no exception, meaning that, whatever is owed should be settled whether or not the borrowers are able financially.

Forced imprisonment in the context of the pre-colonial debt recovery could be likened to the present-day kidnapping in which the relatives of the debtor would be held hostage until the debt was settled. This slightly differs from kidnapping in that it was not an opportunity to make illegal money which the ransom demanded by kidnapers would represent but rather a strategy to recover debts so as to sustain credit markets. However, this method could expose other members of the debtor's family to risks; thereby making the innocent pay for the offences of the guilty given the assumption that the family members (nuclear and extended) were more likely to live close to one another in the olden days when such mechanisms were in full implementation. In such situation, the innocent member of the debtor's family could easily be identified for forced imprisonment. Depending on the class of the victim, forced imprisonment in those days could be effective in debt recovery in the sense that it could elicit quick and positive response from the entire family members who might be collectively forced to rescue the victim first before taking more severe actions on the debtor.

Next to forced imprisonment was impersonation. Impersonation, like nuisances with distraintment, was meant to embarrass the debtor. As a matter of fact, buying goods in the market in the debtor's name would impose more cost on him/her than what he/she could have suffered with distraintment which might restrict nuisances to his/her residence. Impersonation, in this context, could make not only the debtor's future credit requests denied but also compound his/her ordeals because there could be more creditors who could get goods in the debtor's name from different sellers. Then, selling the debtor into slavery with the aim of raising money for the settlement of the debt was another price to be paid by the debtor because a slave could be subjected to harsher treatment by his/her owner.

The fear of being a victim of slavery was sufficient enough to discourage people from failing to pay back loans in those days. However, being sold into slavery as the means of settlement of debt in those days might still be appreciated as long as it could save the debtor from discrimination in the event of death which underlined the denial of right of sepulchre as a typical African in those days would likely place more value on dignity of corpse. This value, however, might not be respected for the debtor who could have his/her corpse treated against his/her wish or that of his/her relations. The debtor, for instance, could be denied a grave or any other arrangement that could make a befitting burial. This might not go down well not only with the immediate relations of the deceased debtor but also his/her descendants who could be abused in the future for allowing their family member being so discriminated against in death.

In the face of too much pressure, bodily harm could be suffered by loan defaulters, especially if the loan providers are too aggressive while executing such penalties. In some other cases where such penalties are too harsh for defaulters to bear, suicide is attempted as was the case with a Lagos hairdresser who committed suicide over a loan of #150, 000 (Folarin, 2017). This act follows the saying that suicide is better than shame. Suicide, which tends to follow loan default, could arise from the conviction that defaulters' actions do not only halt their personal growth and development but that of the nation. While lives lost to sanctions constitute a reduction in the population size of the country, sanctions for loan defaulters is justifiable considering the impact of default on the lives of those whose survival is sustained by the continuous existence of credit markets.

Loan providers are investors whose primary interest is to make profit. In the event of default, however, this interest is hindered as the principal plus the original interest may not only be lost, but they may also be forced to lose some money while pursuing court cases against defaulters. This is consistent with Ntiamoah, Oteng, Opoku and Siaw (2014) that financial agents do not only lose interest, but also legal fees to default. This puts the lenders, whose sole aim as investors is to make profit, at disadvantage. Loan providers also suffer in the area of financial intermediation which will be hampered as a result of depleting funds whereas financial intermediation is largely determined by savings mobilization in which most of the loan providers

engage. (Adewole *et al.*, 2017). This is corroborated by Soyibo (1997) who reports that savings mobilization is a practice among the informal financial agents. In the light of this, it is arguable that loan facilities are derived from money mobilized through savings. This is the financial intermediation at play as the financial agents will have to strike a balance by moving some people's excess earnings to satisfy some people's shortage. This shows that deposits and loan facilities are not mutually exclusive. The cumulative effect of default reduces the Gross Domestic Product (Adewole *et al.*, 2017) in the sense that financial resources needed by serious and enterprising members of the public to grow their entrepreneurship may be delayed till defaulters offset their debts.

## **2.5. Choice of Treatment Options for Loan Defaulters in Credit Markets**

As earlier indicated, credit markets are concerned with the contract of lending and borrowing. This necessitates rules binding the parties and whoever breaches the contract will be sanctioned according to the contract rules. Since the focus of the current study is the treatment of loan defaulters, the breaches by borrowers vis-a-vis the factors determining the treatment options will be considered in this section. Sanctions for loan defaulters are meant for mitigating deviant acts while such sanctions are generally guided by deterrence, incapacitation, retribution, and rehabilitation (Bamgbose, 2010; Idem and Udofia, 2018).

Deterrence serves the purpose of discouraging offenders from repeating deviant acts in a specific sense while also killing the deviant instincts in potential offenders from manifestation in a general sense. Deterrence can manifest in the pains inherent in severe sanctions (distrainment, forced imprisonment, impersonation, confiscation, threats, assaults, police arrest and reputational damage) suffered by loan defaulters. In the face of such sanctions, it is likely that not only the loan defaulters but potential defaulters will be discouraged from repeating or committing the act for the fear of being exposed to the severity of such sanctions.

Incapacitation aims to deprive loan defaulters of the opportunity to repeat the deviant acts by loan denial and blacklisting (Adewole *et al.*, 2017; Oyetunji, 2017) on the assumption that the act of default would not have been committed had there been non access to loan facilities. Unlike incarceration or death penalty which typifies

incapacitation, loan denial can incapacitate loan defaulters in credit markets where loan defaulters may not be sentenced to death given the civil nature of such acts.

Retribution is meant for imposing commensurate sanctions on offenders such as loan defaulters so as to attain fairness in the choice of treatment options for correcting the deviant acts committed. This could be determined by the volume of loans in default or expiration of due date for loan repayment. Given the retributory guide to sanctions, loan default of #50,000 will not be subjected to the same penalty as that of #200,000 which is expected to attract more severe sanction. Likewise, variations in the payment dates after the expiration of the deadline are also expected to be punished differently, with shorter time attracting lesser sanctions.

Rehabilitation, also referred to reformation, centres on re-shaping or re-modelling offenders such as loan defaulters whose behavioural traits are expected to be corrected through education and training on how best loan facilities should be used in order to avoid default. This intends to elicit behavioural change in loan defaulters who may be given a second chance in the future on exhibiting satisfactory change in attitudes to utilization of loan facilities.

Disparities may exist in the way loan defaulters are treated according to Bamgbose (2010) who reports that pregnant women cannot be given a death penalty, and that female offenders cannot be caned in Nigeria. In the same vein, Onuh-Agbo (2018) identifies age, conduct of offender after commission of offence, first offender status, plea of guilt, abuse of position of trust, health status, membership of the same family and seriousness of the offence as factors determining the choice of sanctions for offenders in Nigeria. The rationale against imposing a death penalty on a pregnant woman could be seen from the angle that more than one person will pay the price for the offence committed by one person. If the expected child is one, definitely two people will be killed if a death sentence is passed on a pregnant woman while the expected child should not be held responsible for the action or inaction of the mother. In the same vein, it could have been assumed that the physiology of women cannot accommodate caning as a form of punishment; hence the disapproval of it as a form of punishment for female offenders. Also, age of offenders such as loan defaulters can inform treatment differentials in that there are some penalties not meant for minors, that is persons under the statutory age of 18, in Nigeria while the ageing

offenders may equally have their penalties reduced according to Onuh-Agbo (2018) who opines that such group of the population is not considered a threat to the society. Given the general differentials in the treatment of offenders, it is assumed that some loan defaulters will not suffer severe treatment options in microcredit markets while some others will do depending on whether they fall within the factors identified.

Creditors are protected in Section 490 of the Criminal Code where a debtor could be charged with a misdemeanour with a year imprisonment if such debtor engages in fraudulent dealing in property presented as collateral to secure loan. This treatment is expatiated in Section 30 of Bankruptcy Act (Laws of the Federation of Nigeria 1990) where it is expressed that ‘a debtor could be arrested and at the same time have any books, papers, money and goods in his possession or under his control or relating to his affairs seized’ on court order if there is cause to believe that ‘he has absconded, or he is about to abscond, with a view to avoiding payment of the debt’ or he is about to dispose of or remove his goods’ or any other materials in his possession so as to frustrate repayment. A debtor, going by Section 52 of the Bankruptcy Act, could also have ‘any part of his property seized whether the property is in his possession or any other person if a receiving order has been made against him.’ A debtor could be sentenced to a six-month imprisonment upon conviction if he/she authorises or permits any obstruction of any property or material needed in connection of bankruptcy case against him/her.

The foregoing laws form the choice of the treatment of loan defaulters in a regulated credit market. However, microcredit markets in Nigeria involve not only microfinance banks which operate within the state regulatory environment. There are also informal credit providers who may not discriminate in the choice of sanctions for both male and female defaulters. This then makes it imperative to investigate the factors informing the choice of sanctions for loan defaulters across microcredit markets so as to have a holistic idea of the subject.

## **2.6 Theoretical Framework**

The study rests on Rational Choice Theory (RCT). However, as important as the applications of the theoretical underpinning are to microcredit activities, so also is the need for presenting its propositions for clear understanding. It is against this backdrop

that its propositions will first be presented as its applications are derivatives of its propositions. Although RCT has its roots in economics, James Coleman's contributions were part of the initial efforts that popularized its utilization in the field of sociology (Ritzer, 2011; Sato, 2013).

RCT is guided by the following assumptions: discrete, purposeful and self-regarding actor, alternative choices, utility functions, and transitive preferences (Green, 2002; Lovett, 2006; Sato, 2013; Hodgson, 2012; Burns and Roszkowska, 2016; Ogu, 2013). The summary of the RCT assumptions is that an average individual, otherwise known as actor, does not just exist without a reason given a number of purposes with which they are usually laden while engaging in social activities while such purposes are assumed to be self-regarding in that they are solely meant to serve the immediate actors' interests at the expense of others. This makes purposes to be distinct and peculiar to the actors who are assumed to have isolated and different aims. However, such projection becomes untenable in the face of the causal assumption which recognizes antecedence rather than sole desires of social actors (Loveth, 2006). In other words, some events must have taken place prior to the actual actors' intentions. In the same vein, Paternoster, Jaynes and Wilson (2017) have refuted the concept of self-interest associated with the actors' intentions with the concept of other-regarding preferences as it is not impossible for the actors to be altruistic; therefore be mindful of other actors' interests as well.

Actors are also assumed to have transitive alternative choices which can be ranked on the scale of preference while such choices are also expected to be the best in terms of their utility functions that can be quantitatively measured. The concept of preference allows for ranking of the sought-after resources known as alternatives according to their relative importance levels since it is from the varied alternatives that the actors make choices that are thought to be of optimal utility (Burns and Roszkowska 2016; Ritzer, 2011). However, since all alternatives are not tangible or observable, it is difficult to determine satisfaction let alone the extent of satisfaction attached to a particular value (Hodgson, 2012) as the mathematical functions that denote utilities (Lovett, 2006) cannot fully capture intangible or unobservable values or resources expended or sought by actors. Again, it should be noted that limitless range of human purposes necessitates alternative choices while transitivity is concerned with

consistency which postulates that once a particular alternative is preferred to another, the reverse can never be the case since the actors are assumed to have adequate information at their disposal for choice making. This is consistent with Ogunbameru (2004) that rational decision makers such as loan providers or loan procurers are assumed to have access to all relevant information needed for a positive outcome.

Under the foregoing circumstances, predictions are possible as to what the actors will prefer in future. The realities, however, are too complex for a transitive preference given the possibility of preference reversal which, according to Hodgson (2013), is often necessitated by the preference of certainty to probability. A transitive preference would postulate that if A is preferred to B; and B is preferred to C; it is impossible for C to be preferred to A. On the contrary, however, C could be preferred to A under some conditions including the certain attainment of C while the probability of getting A is slim.

For rational choice theorists, there are resources in the form of money or other values to be pursued by actors; and in the course of pursuing such resources some other resources in the form of money or intrinsic resources like efforts are to be expended by actors. An average actor weighs the sought-after resources and probabilities of obtaining them against the resources required. If the required resources outweigh the sought-after resources, a rational actor is likely to forgo such pursuit in favour of some other resources requiring fewer resources to meet. This is consistent with Thaibault and Kelly's concepts of comparison level (CL) and comparison level for alternatives (CL<sub>alt</sub>) which expect an actor to weigh both costs and benefits before committing to any exchange transactions (Lambe, Wittmann and Spekman, 2001). It is within this context that the relationship between social exchange and rational choice theories is conceivable. However, the application of RCT is constrained by social institutions and limited information (Ritzer, 2011).

Social institutions could take form of religion, education, economy or any other enduring pattern of behaviour of a people while limited information simply connotes insufficient knowledge needed to guide decision making. These are strains that arise from the disjuncture between the culturally defined goals and the institutionalized means of attaining the goals (Okunola, 2002). According to Agnew, Kristjansson and

Sigfusdottir (2012), strain is any event or condition that is disliked by people. In other words, strains are not desirable as they tend to frustrate the pursuits of goals. Moon, Blurton and McChiskey (2008) add that strains could be objective or subjective depending on whether a significant number of people are affected or limited to few people experiencing them.

The understanding of strains is not complete without identifying the factors responsible for strains. In other words, strains also have sources according to Moon *et al* (2008) who have identified three sources of strains: situations that obstruct attainment of positively valued goals, situations that remove positively valued stimuli, and situations that produce negative stimuli. Valued goals are the actors' targets which do come in any form like monetary or non-monetary. While monetary valued goods can be materially measured, the reverse is the case with non-monetary valued goals that cannot be subjected to material quantification. However, valued goals are generally cherished by not only by the immediate actors but all in the society considering the prestige placed on the attainment of such goals.

Like white-collar job holders that are held in high esteem because of their educational attainment, traders' worth are also determined by a lot of variables, including material possessions. In the pursuit of such valued goals by the traders, there are some positively valued stimuli in form of conducive environment needed for the smooth pursuit of the valued goals. However, the pursuits are hindered by a lot of negative stimuli which indicate barriers which do not only neutralize the positively valued stimuli but make the realization of the valued goals impossible.

## **2.7. Application of RCT to Microcredit Markets**

Loan providers and borrowers are exchange partners whose interests are related, and at the same time discrete by virtue of their respective aims. They are related in the sense that both are principal actors in microcredit markets even though with different purposes. While the loan providers give out loans with the aim of making profits, the borrowers obtain loans for the purpose of meeting their needs. The needs often centre on the establishment or expansion of their business enterprises. This ultimately provides an avenue for the borrowers to make profits whereas the profits of the loan providers are directly realized from the interests charged on loans disbursed to the



borrowers. However, huge resources are required for the actors' respective interests to materialize; and failure to possess such resources may limit the application of cost-benefit analysis to the exchange transaction between the principal actors whereas cost-benefit analysis is central to RCT. Since microcredit markets provide opportunities for both actors, acting in the markets can be well understood within the postulates of RCT given the advantages with which such acting is laden. Both actors are, however, faced with strains which manifest in the form of limitations created by social institutions as well as inadequate knowledge occasioned by lack of information.

The loan providers are faced with asymmetric information about those to whom the loan facilities will be disbursed as well as uncertainties in the environment where they or their loan beneficiaries operate. In the face of inadequate information, rational lenders are likely to give out loans to loan seekers in whom they have confidence so as to forestall default. However, the realities in microcredit markets may affect this option in that not all loan seekers are personally known to loan providers who only rely on third party (in the case of referral) or technological applications (in the case of Credit Bureaux) to determine the loan seekers' creditworthiness.

Furthermore, loan providers adopt sanctions for defaulters or charge high interest rates on loans disbursed so as to minimize the negative effects of default. These options are consistent with Soyibo (1997) that microcredit providers do not only sanction defaulters, but charge exorbitant interest on loans in the anticipation of default. Misuse of loan facilities by loan takers is part of the moral hazards resulting in default whereas the loan providers may not be able to determine the loan seekers with such tendencies at the application stage. A situation whereby an individual approaches a loan provider for a facility without any articulated idea of how the facility will be paid back is self-regarding. It is within this context that individual goals cannot be possibly actualized without causing harm to others. It could also be found in an individual who diverts a loan facility meant for business to social party financing or any other venture that does not guarantee the repayment of the facility. And since actors are the individual units of the society (Ogu, 2013), it is therefore their actions that are aggregated to generate a macro system (Ritzer, 2011). In other words, it becomes imperative to unravel how an individual member of the society acts

and the factors underlying such acts in order to understand how a macro system as the larger society works. If the Nigeria's appalling economic conditions will be understood despite its rising debt profile, for instance, it is important to first understand how an average Nigerian handles loan facilities. This follows the view of James Coleman that the individual actions create conditions for micro-macro transition while the aggregate actions of actors also create macro-micro transition in the society. This provides a context for the lenders' preferences which may be tailored to loan seekers' demographics like age, sex, religion or education. Women are more reliable than men in loan repayment (Doering, 2018; Idoge, 2013) because of fear. In addition, Olomola (2002) has also reported the preference of social capital as a strategy for loan disbursement in microfinance institution which requires that the lenders give out loans to people as a group, affiliated by sex, religion or occupation, with the impression that group affiliation is capable of inducing conformity in the group members.

On the other hand, fire incident and robbery attacks are some of the uncertainties in the environment which can inhibit loan repayment. Default resulting from environmental uncertainties is best situated in the strains that are disliked not only by the lenders but also the borrowers whose initial purposes are equally frustrated. Against this backdrop, the lenders may have to choose between disbursing loans with or without collateral as well as adopting some treatment options for defaulters. Ability to provide collateral by the borrowers is a condition for status parity with the creditors (Krippner, 2017); thereby making the choice of severe treatment options in the event of default less considered.

Severity of treatment options would not have been preferred had there been commensurate collateral that could be auctioned to offset the debts. However, power differentials in the form of superior-subordinate relationships (Emerson, 1976) between the lenders and the borrowers are predominant in microcredit markets given the mandate of small and little or no collateral financial support expected of the microcredit providers. Under such circumstances, the 'superior-lenders' are likely to impose treatment options on the 'subordinate-borrowers' in the event of default. It is within such context that treatment options like fines, default charges, loan decrement, loan denials, personal threats, humiliation, loss of privacy, blacklisting, reputational

damage, confiscation can be found being imposed on defaulters. The treatment options may be too disintegrative, though, given the fact that such sanctions rather disrespectfully disapprove the deviant act committed by defaulters (Murphy and Harris, 2007), the treatment options are not lacking in rationality considering the purposes they ultimately serve. The treatment options will not only guarantee loan repayment from the immediate defaulters but also deter some other people who might want to imitate the defaulters in the future. After all, deterrence has been confirmed to be the application of rational choice theory to the control of crimes in the society because the higher the perceived costs of crimes in the form of punishments, the lower the crimes perceived with lower gains (Paternoster, *et al.*, 2017; Hechter and Kanazawa, 1997). These are the conditions that provide a context for the understanding of the borrowers' choices.

Apart from the stress involved in meeting the loan conditions like possession of collateral, interest charges, and presentation of guarantor before accessing the facilities, loan seekers also face constraints not only in the course of living up to the expectation of loan repayment but at the initial stage where decisions will be made on whether or not to go for such facilities. While the conditions are the costs of borrowing, the constraints are usually created by social institutions and scarcity of information whereas borrowers also depend on information regarding the operation of the credit markets. Such information, however, may not be accessed by the actors as desired as they could not have even thought of default when entering into the credit transactions.

In their rational pursuits, the borrowers apply for loans for their personal cum entrepreneurial needs, but they may not be concerned with the information on the extent of hostility in the credit market. As a matter of fact, access to the information on the hostile response to default in the credit markets could have discouraged the potential borrowers from obtaining loans; thereby making a rational decision in deed. In contrast, however, the credit markets are not understood beyond the avenue for loan procurement by the loan seekers while the loan providers may also not emphasise on loan recovery strategies in order not to discourage loan seekers. In the face of these constraints, preference is considered. It is at this point that rational borrowers will weigh the benefits against the costs of loan facilities to determine if

the benefits outweigh the costs before making their choices. If the borrowers decide to procure the facilities, they are also faced with another set of choices: compliance or default. Compliance, in this context, connotes abiding by the terms and conditions of repayment of the loan facilities while default connotes failure to honour the repayment terms and conditions. While compliance guarantees future access to such facilities, default attracts treatment options that can defeat not only the borrowers' initial purposes but completely damage them beyond the immediate period. On the other hand, social institutions such as religion check the actors' intentions; thereby restricting the actors' choices.

As much as some people would want to get microcredit facilities, this may not materialize if they subscribe to the religious beliefs that forbid interests on loans; hence the likelihood of finding fewer devout Muslims taking interest-based loans because of the Islamic injunction that forbids usury. The same way some borrowers would want to keep to the terms and conditions of microcredit facilities for the fear of treatment options meted out to the defaulters even though such terms and conditions do not favour them. However, as constraining as social institutions are, they are not bereft of rationality in their own right for they are equally meant to meet some ends. If the chances of making heaven would be blocked against the religious faithful living on usury, then avoiding the procurement of interest-based loans would be seen to be rational.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0. Preamble**

In pursuing the specific research objectives earlier set for this study, there is the need to outline the procedure through which the set-objectives were realized. The procedure falls within the purview of methodology as conceived in the work of Ogunbameru (2003) where the concept of methodology is taken for the philosophy of the research process needed as a guide not only for the selection of sample size but also the techniques for data gathering. In the first place, Ibadan, which is the capital of Oyo State, was purposively selected given the preponderance of commercial activities for which the city is known. This is attested to by the large marketplaces within the city. In fact, it is the presence of such marketplaces that attracted microcredit providers to the city. Also, accidental, snowballing and purposive sampling techniques were employed for the selection of the samples from the populations of loan providers, defaulters, guarantors, significant others, security agents, and regulatory bodies.

Again, primary data were collected through the In-Depth Interviews (IDIs) and the Key-Informant Interviews (KIIs). The data were transcribed and translated (where necessary) before analysis and final reporting. Thereafter, there was a comparison of the data collected across different instruments with a view to testing the validity and reliability of the data. And, given the qualitative nature of the data obtained, a content-analytic approach was employed. It should further be noted that human-subject research of this kind has the responsibility of adhering to the rules guiding research endeavour undertaken not only in the clinical sciences but humanities within which this study falls; hence the need for getting clearance from the appropriate quarters before the commencement of the study. Against this backdrop, this section provides information on the research design, research setting, study population and sample selection, methods of data collection, methods of data analysis and presentation, and ethical considerations through the following sub-headings:

### **3.1 Research Design**

The study was exploratory which adopted a cross-sectional approach for the collection of primary data from the participants at one point in time. Data were generated through In-Depth Interviews and Key-Informant Interviews. The data obtained from the adopted data collection instruments (IDIs and KIIs) were content-analysed given the qualitative nature of the study. While the participants who were direct parties (loan providers and defaulters) to microcredit transactions were engaged in IDIs, others (regulators, security agents, and significant others) who were indirectly linked to the microcredit transactions were engaged in KIIs. The data were generated from the participants between August, 2019 and March, 2021.

### **3.2 Research Setting**

The study was conducted in Ibadan. The chosen study site is the capital of Oyo State, Nigeria. The city of Ibadan was founded in 1829 (Fourchard, 2003) and became the headquarters of the defunct Western Provinces in 1939; then later the capital of the old Western Region of Nigeria in 1952. It is near forest-grassland on latitude 7° 3'N to 7° 4'N and longitude 3° 8' E to 3° 9'E (Jackson, Isienyi, Osudiala, Odofin, Adeyemi and Odeleye, 2012). It is also close to Lagos, the nation's commercial centre, with just 145 km drive to the north of Lagos State (Oladele and Oladimeji, 2011). The population of the city as at 2006 was put at 2, 550, 593 million (National Population Census, 2006) with the average population density of 828 persons per km square (Oladele and Oladimeji, 2011). It is therefore the foregoing cumulative features such as nearness to the commercial centre of Nigeria and human number that make trading one of the major occupations in the city (Fourchard, 2003). In fact, these features could be said to have been responsible for the feasibility of microcredit markets in the city because such markets can only be sustained by trading activities which have the potential of generating quick returns to meet the lenders' expectations who may not afford to disburse long-term loans.

Ibadan has eleven local government areas: Ibadan North, Ibadan North East, Ibadan North West, Ibadan South East, Ibadan South West, Akinyele, Egbeda, Ido, Lagelu, Oluyole and Ona-Ara. For the realization of the objectives of the study, the participants were mainly selected from six local government areas (Egbeda, Ibadan

North, Ibadan North East, Ibadan North West, Ibadan South East and Ibadan South West) given the fact that it is within the six selected local governmental areas where trading activities that bring together the microcredit providers and their clients could be found in larger scale. It is within the six local government areas where major markets (Agbeni, Aleshinloye, Beere, Bodija, Dugbe, Gbagi Titun, and Ogunpa) can be found within the city.

### **3.3 Study Population**

The study sought information from the following selected stakeholders:

1. Microcredit providers-microfinance banks and microfinance institutions
2. Defaulters (mainly traders)
3. Guarantors (mainly traders)
4. Law enforcement agencies (The Nigerian Police Force and The Nigeria Security and Civil Defence Corps)
5. Significant Others of the Defaulters (Welder and Teacher)
6. The regulatory bodies (The Central Bank of Nigeria which licences microfinance banks, and the Judiciary which issues the Moneylender's Licence and Certificate to the microcredit providers)

Altogether, there were six groups in which the study population was divided. The first group comprised microcredit providers. The officers identified are in three categories: microfinance banks, organized microfinance institutions and unorganized microfinance institutions. There are three categories of licence granted microfinance banks: unit (tier 1 and tier 2), state and national. A unit microfinance bank is licensed to operate in a particular place (urban or rural depending on the unit tier obtained) within a town in a state of the federation or the Federal Capital Territory; a state microfinance bank can operate anywhere in a state of the federation or the Federal Capital Territory and; a national microfinance bank can operate in all states of the federation and the Federal Capital Territory. On the other hand, microfinance institutions are under the umbrella of the Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN). Microfinance banks are Deposit Money Banks while microfinance institutions are not. By implication, microfinance banks do not only lend out money but also mobilize deposits. On the other hand, microfinance institutions are not legally authorized to mobilize savings, though, they disguisedly do

so with devised words like daily contributions or instalment. This agrees with Soyibo (1997) that informal credit providers, except moneylenders, mobilize deposits.

### **3.4 Sample Selection**

In the first place, Ibadan was purposively selected because of its major markets (Agbeni, Aleshinloye, Beere, Bodija, Dugbe, Gbagi Titun, and Ogunpa) which facilitate the lender-borrower interactions. Thereafter, accidental sampling technique was used to select 25 microcredit providers (10 microfinance banks and 15 microfinance institutions) as well as 36 defaulters who willingly made themselves available for the study following the researcher's introduction of the research focus to them. However, there were 3 participants who were both lenders and defaulters as they would have to obtain loan facilities from microfinance banks for their re-lending activities. Also, purposive sampling technique was used to select 8 state actors (4 police officers, 1 Nigeria Security and Civil Defence Corps (NSCDC), 2 CBN officials, and 1 judicial official from the Oyo State Judicial Registry) because of their regulatory and intermediary roles in the lender-defaulter relationships. In addition, 2 defaulters' significant others, who were independent of the microcredit markets by virtue of the fact that they had no direct relationship with microcredit markets and 5 defaulters' guarantors were drawn through snowballing because they directly felt effects of the treatment options imposed on the defaulters by the credit providers. Matrix 3.4.1 shows the study population and sample size.



**MATRIX 3.1: Study Population and Sample Size**

<b>TARGET POPULATION</b>	<b>SAMPLE</b>
MICROCREDIT PROVIDERS	25
DEFAULTERS	36
GUARANTORS	5
CBN OFFICIALS	2
JUDICIAL OFFICIAL	1
POLICE OFFICERS	4
NSCDC	1
SIGNIFICANT OTHERS	2
<b>TOTAL</b>	<b>76</b>

### **3.5 Inclusion/Exclusion Criteria**

The selected participants were included for specific purposes bordering on information about sanctions for loan defaulters, experiences of loan defaulters on whom the sanctions were imposed, sharing the pains of the sanctions with loan defaulters, as well as mediation and regulation of microcredit markets where loan facilities were disbursed and procured. The fact that the foregoing purposes were fulfilled by specific actors would be the rationale for including six groups of actors (microcredit providers, defaulters, defaulters' guarantors, defaulters' Significant Others, CBN officials, judicial officials, the police, and NSCDC in the study while any other actors not found to be fulfilling the identified purposes were excluded.

Microcredit officers were included because they made loan facilities available to loan seekers who automatically become clients on loan disbursement/procurement.

Next to the microcredit officers are defaulters who had suffered treatment options applied by microcredit officers. This group was important for inclusion on the grounds that it involves people who make production complete in microcredit markets. In other words, the microcredit markets would not have been an issue for research without the defaulters who complement the role of microcredit providers by taking loan facilities from them.

The third group comprised guarantors who were meant to take the responsibilities of the principal borrowers in the event of default. The guarantors were included because they were found to be the surety for loan facilities in microcredit markets. Given this indispensable role, the guarantors could determine if loan facilities would be granted at all as well as the volume of such facilities.

The fourth group comprised defaulters' Significant Others who had been affected in one way or the other by the treatment options for their defaulter-relatives. The Significant Others could be dependent or independent of microcredit markets depending on whether or not they related directly with microcredit providers. Apart from the cases of multiple role players where defaulters could also be guarantors or Significant Others at the same time, there were independent Significant Others whose peculiarity lies in the fact that they had no direct relationship with microcredit

providers as they were not their clients or clients' guarantors. They only became aware of their relatives' transactions with microcredit lenders when such transactions went bad.

The fifth group comprised the regulators (CBN and Judiciary). The regulators are state actors who operate in the formal segment of microcredit markets. While the CBN specifically issues operating licence to microfinance banks, the Judicial Registry issues the Moneylenders' Certificate and Licence generally to microcredit providers. The regulators are the bodies charged with the responsibility of guiding the activities of microcredit providers while they have no direct relationship with defaulters.

The sixth group comprised law enforcement agents who had intervened in the lender-defaulter disputes. Like the regulators, these are state actors involving the police and NSCDC officers who were found to be mediating between microcredit providers and defaulters.

### **3.6. Methods of Data Collection**

Data were generated from the sample selected through Key-Informant Interviews (KIIs) and In-Dept Interviews (IDIs) depending on the specific objectives. IDIs were employed to engage microcredit providers and defaulters for data collection while data was elicited from the security agents, Significant Others and regulators through KIIs for the purpose of answering the research questions which led to the achievement of the specific objectives.

For the achievement of the first objective which is concerned with determining the rationale for loan procurement in microcredit markets in Ibadan, 25 IDIs with microcredit providers and 36 IDIs with microcredit defaulters became useful.

For the achievement of the second objective which is concerned with exploring the factors inducing loan default in microcredit markets in Ibadan, 25 IDIs with microcredit providers, 36 IDIs with microcredit defaulters, and 5 KIIs with security agents were used.

For the attainment of the third objective which is concerned with examining the treatment options for defaulters in microcredit markets in Ibadan 25 IDIs with microcredit providers, 36 IDIs with microcredit defaulters, 5 KIIs with security agents, and 2 KIIs with Significant Others were utilized.

For the actualization of the fourth objective which is concerned with exploring the factors underlying the choice of the treatment options for defaulters in microcredit markets in Ibadan, 25 IDIs with microcredit providers and 36 IDIs with microcredit defaulters were also used. Shown in the Matrix 3.6.1 is the breakdown of information on the research objectives, participants as well as the instruments for data collection.

**MATRIX 3.2: Research Objectives, Participants and Data Collection Instruments**

Objectives	Participants/Instruments
Examining the rationale for loan procurement in microcredit markets in Ibadan	25 IDIs with microcredit providers, 36 IDIs with loan defaulters, and 5 KIIs with guarantors
Exploring the factors inducing default in microcredit markets in Ibadan	25 IDIs with microcredit providers, 36 IDIs with loan defaulters, 5 KIIs with security agents, and 5 KIIs with guarantors
Determining the treatment options for loan defaulters in microcredit markets in Ibadan	25 IDIs with microcredit providers, 36 IDIs with loan defaulters, 5 KIIs with security agents, 2 KIIs with Significant Others, 2 KIIs with CBN officials and 1 KII with judicial official
Unraveling the factors underlying the choice of the treatment options for defaulters in microcredit markets in Ibadan	25 IDIs with microcredit providers, 36 IDIs with loan defaulters, 5 KIIs with security agents, and 1 KII with judicial officer

### **3.7. Methods of Data Analysis and Presentation**

Given the qualitative nature of the study, the data were content-analysed in order to capture what Jegede (2006) refers to as the economic, psychological, social, and political contexts of both interviewer and interviewee while the presentation of the data adopted matrix tables and prose style. This took into consideration the four research questions which were further broken down to meet the needs of each objective. The specific objectives were actualized by bringing together related responses to answer each research question.

The questions raised under the theme of the first research question which is concerned with the rationale for loan procurement would later reveal the purposes for which microcredit facilities were procured and disbursed respectively by loan takers and loan providers. This led to the attainment of the first objective bordering on the rationale for loan procurement in microcredit markets in Ibadan.

The questions raised under the theme of the second research question which is concerned exploring the factors inducing loan default in microcredit markets would later unravel the reasons for delay or non-payment of loan facilities procured. This led to the achievement of the second objective concerned with the factors responsible for default in microcredit markets in Ibadan.

The questions raised under the theme of the third research question which is concerned with the treatment options currently applied against defaulters would generate information about the sanctions for loan defaulters in microcredit markets. This helped in the attainment of the third objective bordering on treatment options for loan defaulters in microcredit markets in Ibadan.

The questions raised under the theme of the fourth research question which is concerned with unravelling the factors underlying the choice of the treatment options for defaulters in microcredit markets would expectedly identify moderators on the sanctions for loan defaulters. Given this, attainment of the fourth objective concerned with the factors determining the choice of the treatment options for loan defaulters in microcredit markets in Ibadan was possible. Shown in Matrix 3.7.1 are the research objectives and questions.

### 3.3: Research Objectives and Questions Matrix

SPECIFIC OBJECTIVES	Rationale for loan procurement	Loan-inducing factors	Treatment options for loan defaulters	Choice of treatment options
Establishing the rationale for loan procurement	Applicable			
Exploring the factors inducing default		Applicable		
Examining the treatment options for defaulters			Applicable	
Unravelling the factors underlying the choice of treatment options for defaulters				Applicable

### **3.8. Data Collection Procedure**

In line with the participants' preferences, the data were mostly generated in Yoruba Language from which transcription was made before undertaking the translation into English Language while the reliability of the process can be guaranteed by a peer-review method to which the process of data transcription and translation was subjected before the usage of the data.

The interviews were conducted mostly in the workplaces, except in few cases where the participants would choose neutral venues like schools and recreational centres if tight schedules at their respective workplaces would not accommodate such interview sessions. In the case of non-corporate microfinance institutions, the interviews were conducted in the marketplaces given the itinerant nature of their activities unlike the corporate microfinance institutions and microfinance banks where the participants were met in their respective offices.

Request letters were submitted to microfinance banks before consenting to the request for conducting interviews with the researcher while the letters would first be taken or sent to their respective head offices for due approval. The researcher also had the same experience with the security agents in that the nature of their jobs does not permit officers to grant interviews as the one sought from them without a due approval. It is against this backdrop that the junior security officers declined to participate but rather referred the researcher to the Divisional Crime Officers in their respective stations.

It was the DCOs, who usually provided tips during unrecorded interviews, that would later direct the researcher to the appropriate quarters to seek approval. And the appropriate quarters is the Command Headquarters at Eleyele where a letter was written to the Commissioner of Police who eventually approved of an interview with a Chief Superintendent of Police at the State Criminal Investigation Department at Iyanganku. On the other hand, microfinance institutions, defaulters, defaulters' guarantors and defaulters' Significant Others did not demand more than convenience and confidentiality from the researcher, except in few cases where the proprietors of microfinance institutions would want to sight a letter of introduction from the affiliated institution.



### **3.9. Ethical Considerations**

As a requirement for the conduct of human-subject research, the study was mindful of the principles of confidentiality, informed voluntary consent, beneficence and non-maleficence. Given these principles, no participant was deceived or coerced into participating in the study. Apart from obtaining approval from the Social Sciences and Humanities Research Ethics Committee of the University of Ibadan with the approval number UISSHREC/2019/0052, approval was also duly sought in writing from the participants, especially microfinance banks, the Nigeria Police Force, the Nigeria Security and Civil Defence Corps, the Judicial Registry, and the Central Bank of Nigeria given the bureaucratic nature of such establishments where approvals for such research requests cannot be granted without authorities.

Furthermore, a consent form or oral communication of the contents of the consent form (where necessary) was provided for all participants as a proof that they were not coerced, deceived or induced to participate in the study. Nonetheless, the participants were persuaded without any form of deceit, coercion or inducement since there must be human participation for the realization of the specific objectives from which the participants as well as the larger society would eventually benefit. Besides, there was utmost respect for the participants' confidentiality in respect of not only their identities but also their responses given during the interviews. In fact, it is upon the promise of beneficence and confidentiality that the prospective participants were persuaded to be part of the study. There was also compliance with rules against falsification of data and plagiarism. For these claims to be confirmed, the contents of the study have been tested against plagiarism through the electronic platform known as *Turnitin*.

## **CHAPTER FOUR**

### **PRESENTATION OF FINDINGS AND DISCUSSION**

#### **4.1. Characterizing the Participants**

There were seventy-six participants engaged altogether: the lenders were represented by twenty-five; the defaulters were represented by thirty-six; the defaulters' guarantors were represented by five; the defaulters' Significant Others were represented by two; the CBN and Judicial Registry were respectively represented by two and one; and security agencies (the Nigeria Police Force and the Nigeria Security and Civil Defence Corps) were respectively represented by four and one. The fact that the researcher was interested in the treatment of loan defaulters is a justification for the inclusion of more microcredit providers and defaulters than any other group in the study given the fact that details of the treatment options for defaulters were obtained more from microcredit providers and defaulters who were respectively the executors and the sufferers of the treatment options.

It should also be noted that microcredit providers intersected defaulters where three participants were found to be informal microcredit providers and defaulters at the same time as they would have to patronize microfinance banks for loans at some lesser interest rates so that they could also lend to their clients at some higher interest rates which would earn them profits. According to Adeleke (2014), this practice is a vertical interaction where informal financial institutions re-lend loans obtained from formal financial institutions at more competitive interest rates.

Of the twenty-five microcredit providers, microfinance banks were represented by ten participants; corporate microfinance institutions represented by seven participants; while non-corporate microfinance institutions (mainly daily savings collectors) represented by eight participants. On the other hand, the thirty-six defaulters and five guarantors were dominated by traders, except for two male defaulters who were

respectively into photography-transportation and painting-music. The Significant Others, all males, were respectively into welding and teaching. This section further presents data on the participants' demographics, including the gender, age, religion, ethnicity, and educational attainment of the participants as well as dichotomy in microcredit markets with the following headings:

#### **4.1.1. Gender**

Of the seventy-six participants, there were fifty-seven males while nineteen were females. Given these figures, it is arguable that there are more males than females in microcredit markets. Disparity in gender representation could not be separated from the biases inherent in the sampling techniques (purposive, accidental and snowballing) adopted which made it possible for the researcher to access only the participants who did not only show willingness to participate but were also available for the study.

#### **4.1.2. Age**

The participants' ages ranged from twenty-seven to seventy years. This shows that microcredit markets are meant for people who are assumed to be legally mature to articulate the purpose of entering the markets, and be ready to bear the consequences of their actions in the markets. The age range of the participants was captured by a male client officer with a microfinance bank at Gbagi Titun thus: *Our client must be above 21years old (IDI/Client Officer/31years/September 9, 2019).*

While the concept of client in microcredit markets is narrowed in meaning according to a male client officer with a microfinance bank at Bodija who had this to say:*The concept of client is exclusively reserved for any person who applies for loan and eventually granted the loan after signing necessary papers (IDI/Client Officer/34yrs/October 22, 2019).*

Unlike other socio-demographics, this is premeditated for the attainment of a particular goal. At the stipulated age of 21 for entry into microcredit markets, it is arguable that the minimum age of the participants was not a coincidence as the loan providers who are dominant actors in the markets could be seen to be rational by fixing the age eligibility that will not be at variance with the legal age sanctioned in

the country where they operate. And being the end-users of microcredit facilities, the actual loan takers are the people who have direct relationships with the loan providers; hence the status of client with which they are addressed so as to distinguish from other actors in the markets. This is the core status as against the peripheral status of the guarantors or Significant Others who are mere appendages of the principal actors in microcredit markets.

#### **4.1.3. Religion**

The participants comprised forty-three Christians; thirty-two Muslims; and one multi-religionist. Apart from the biases characterizing the sampling techniques, disparity in religious representation could also be a function of dominance enjoyed by Christianity and Islam over traditional faiths in the Nigerian society. The fact that more churches and mosques than shrines can be found in the study area where the participants were selected is a justification for having more Christians and Muslims than traditionalists represented in the sample.

#### **4.1.4. Ethnicity**

The participants were dominated by the Yoruba with sixty-five; Igbo with seven while one respectively represented Benue, Calabar, Edo and Kogi. Apart from the sampling technique biases, disparity in ethnic representation could also be a function of the study area where more Yoruba could be found dwelling than any other ethnic group. The study area is an ancient town located in the Yorubaland; hence it should not be unexpected to have more Yoruba represented than other ethnic groups in any study conducted in the area. However, it is noteworthy that almost half of the non-Yoruba participants could also speak Yoruba Language fluently given their preference for the language during the interview sessions. Their mastery of the language is supported by the aphorism that if leaves are mixed with soap for a long time, such leaves automatically turn to soap.

#### **4.1.5. Educational attainment**

The participants' educational attainment ranged from Secondary School Certificate Examinations to Master's degree. This is calculative given the following submission by a male professional moneylender at Ogunpa:

*Basic accounting knowledge will make a successful credit provider (IDI/Professional Moneylender/70yrs/October 5, 2019).*

In the same vein, a male marketer with a microfinance institution at Aleshinloye stressed the literacy level of his clients thus: *The percentage of literate clients in the market where I work is high. Some of them can easily read and write (IDI/Marketer/44yrs/August 30, 2019).*

Being an operator in microcredit markets, it is easy for the male moneylender to understand that complexities of microcredit transactions cannot be handled by people who do not possess requisite literacy needed for differentiating income from expenditure. The submission is in tandem with the findings by Soyibo (1997) that some microfinance institutions are not simply informal but semi-formal given the reasonable level of managerial skills required for their operation. Same for modern trading activities which demand that the traders obtain a minimum level of education that can enable them relate with their customers without a hitch.

#### **4.1.6. Dichotomy in Microcredit Markets**

Dichotomy was found in the mode of loan disbursement, with microfinance banks giving out loan facilities to both individuals and groups while microfinance institutions preferred disbursing loans to individuals only. Dichotomy was also found in group composition, with some microfinance banks preferring heterogeneity whereby both male and female clients co-existed as group members while some others preferred homogeneity whereby male groups would be separated from female groups.

##### **4.1.6.1 Individual/Group Loan Dichotomy**

As earlier indicated in the methodology section, microfinance institutions are under the umbrella of the Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN). And while some microfinance institutions are corporate given their size and structure, some others are not. However, microfinance institutions generally were found not to deal in group but individual lending while microfinance banks deal in both individual and group lending according to a male recovery officer with a

microfinance institution at Agbeni who had this to say: *We give loans to individuals, and not groups (IDI/Recovery Officer/42yrs/October10,2019).*

Whereas, a male marketing officer with a microfinance bank at Gbagi Titun expressed thus: *We do both individual and group loans. A group is a minimum of five people and maximum of ten people (IDI/Marketing Officer/38yrs/September14, 2019).*

Given the contrary expressions, it is arguable that microfinance banks make provision for options that have the potentials of meeting the diverse needs of their clients. This has implication for the level of patronage that might be enjoyed by microcredit providers. The difference between the two forms of lending lies in the amount of disbursement and requirements as succinctly captured by a male compliance officer with a microfinance bank at Agodi-Gate who expressed thus:

A loan of #150,000 could be easily accessed by an individual borrower while the amount will be equally divided for a group of five borrowers. The reason for such disparity in treatment is that group loans are for low-income earners with no or little collateral. The group lending involves formation of a group of not less than five members, and then the group will be presented to the lending institution as a group of intending clients. The group members are meant to cross guarantee one another **(IDI/Compliance Officer/40yrs/November 12, 2019).**

This was corroborated by a male supervisory officer with a microfinance bank at Dugbe who had this to say:

The collateral for group lending is the savings and cross-guarantee. We lend them #50,000 each for a start, and tell them that if a member fails to pay, all of them will contribute the money because they are assumed to have known one another. They will also bring a guarantor outside the group **(IDI/Supervisory Officer/38yrs/September 21, 2021).**

In the light of the foregoing narratives, the amount of loan available to a group is smaller than that of individual. In other words, higher loan facilities can be accessed individually than as a group on the grounds that group lending is meant for low-

income earners. The concept of ‘low-income earners’ is contextual here given the fact that microcredit providers generally meet the financial needs of low-income earners. This shows that microcredit clients are further stratified along the loan amounts even though they are all low-income earners. The fact that there is disparity in the requirements for varying loan amounts indicates that there is *micro* even within the *larger micro* in microcredit markets. In spite of the lesser requirements for group lending, however, it could help solve the problems associated with high transactions cost and default (Olomola, 2002) in that the burden of default lies with the entire group members as against individual loan facilities. It is under such circumstances that people are said to have paid for what they have not directly benefited from.

Although group lending could be a control mechanism for default, it is evident from the foregoing expressions that group lending is also in response to lack of collateral. It is for this reason that group members are meant to cross-guarantee one another in some microfinance banks while some others still demand a guarantor outside the group to complement group cross-guaranteeing which may not be reliable given the assumption that credit group members are likely to be at par in terms of socio-economic status. In the event that the group members are at the same economic level as typified of credit groups, it will not be rational for the lenders to rely solely on within guarantee characterizing the cross-guarantee.

#### **4.1.6.2 Homogeneous/Heterogenous Group Composition Dichotomy**

Based on the instruction of the lending institutions, some groups are homogeneous while some others are heterogeneous in sex. In other words, a fully male group is accepted by some; a fully female group is accepted by some; while some others allow group composed of both male and female clients. A male client officer at Iwo-road said this to capture the gender composition of credit group:

The rule of the organization is that men should have a group, and so also should women. Men are not allowed to join women’s group, and women are not allowed to join men’s group. However, group members are not segregated along religious, ethnic, and educational lines **(IDI/Client Officer/29yrs/November 6, 2019).**

On the other hand, a female informal lender at Agbeni submitted had this to say about gender composition of credit group: *Both male and female are considered by them (lenders). In my group, for instance, there are many males (IDI/Informal Lender/40yrs/September 22, 2019).*

The foregoing expressions, no doubt, have established that microcredit facilities are patronized by both male and female regardless of their religious, ethnic or educational backgrounds. However, dichotomy in group composition depicts distinctiveness in corporate rules. Although no rationale was provided for the dichotomy, it cannot be said to be lacking in rationality. It could be an opportunity for the loan providers to study the loan performance of such groups for the purpose of taking decisions that will help in the management of such diversities. Again, it could be a function of the religious community where the activities are conducted, even though the male client officer's narrative does not show religious segregation of clients.

Nigeria is a country of different religious faiths, but some religions forbid open mingling of men and women. This could be a guide for the loan providers who choose to segregate group composition along gender while some other loan providers who believe in co-mingling of clients cannot also be said to be wrong or lacking in rationality. The dichotomy cannot be separated from the thought that one man's meat is another man's poison. However, the loan providers give female clients more responsibilities in heterogeneous groups according to a female branch manager with a microfinance bank at Challenge who expressed thus:

It is the rule that the leader and the secretary of a group are women. If the leader is not educated, the secretary must. There is even a group now in which the secretary cannot read and write. I have instructed the secretary to make use of her daughter who can read and write to take the minutes of the meeting **(IDI/Branch Manager/30yrs/December 19, 2019).**

The branch manager was corroborated by a male banking officer with a microfinance bank at Gbagi Titun who has this to say:



The loan officer will see the leader and the secretary because they are the ones to represent the group. The loan officer cannot be dealing with the group one-by-one. It is the leader and the secretary that collect money from the members and put it in the members' cards for collection on their pay day **(IDI/Banking Officer/27yrs/September11&15, 2019).**

The foregoing narratives have shown that leadership positions in microcredit groups are skewed in favour of women who are saddled with enormous tasks. Differences in the clients' educational attainment are part of the complexities to contend with in microcredit markets; hence the need for compromise where necessary as was the case with the illiterate secretary who was allowed to make use of her daughter for the secretarial job. It is evident that credit group members are not usually literate up to the lenders' satisfaction whereas some level of literacy is expected from the executive members of the group.

Again, the condition under which a client's Significant Others like children can gain entry into microcredit markets has also been established. Involving the children in such activities could be productive in that the children made to perform sensitive roles as that of the secretary will not only be equipped with skills but also be privy to their parents' sources of capital which tends to make them reasonable with financial requests from their parents in order not to create default-inducing challenges for them. However, involving the children could as well be counterproductive, especially if they are minors who are not legally mature to understand microcredit intricacies.

The foregoing variations in microcredit markets are justified considering the following submission by a senior officer from the Other Financial Institutions Supervision Department (OFISD) of the CBN:

We have more than a million microfinance banks in the country. So, coming up with a standard may be difficult given the differences in the people's beliefs. The Northerners, for instance, are different from the Southerners **(KII/CBN Officer/53yrs/December 27, 2019).**

Although the operations of lending organizations (especially microfinance banks) are subject to the dictates of the state laws, they are also expected to be guided by their respective corporate rules which are internal to them. And the fact that microfinance

banks are closer to the populace is an indication that they are more likely to be influenced by the peculiarities of their respective social environments. It is in this light that microfinance activities cannot be unified given the differences in the beliefs of people that patronize them. The CBN, being the regulator, is equally aware of such differences; hence the decision of the apex bank to allow the creditors to operate according to their discretion on some salient issues bothering on the peculiarities of their geographical zones.

## **4.2. Objective One: Rationale for Loan Procurement in Microcredit**

### **Markets in Ibadan**

The rationales for loan procurement identified in microcredit markets are take-off capital (expansion of business) and risk taking. An action is expected to have a cause. This applies to microcredit activities which do not just occur in that both lenders and borrowers are driven by some factors before taking their respective decisions. However, there are a number of activities taking place between lending and borrowing. Part of the activities is loan application in which the borrowers request for loans from the lending institutions. Again, awareness and search also constitute preceding activities to loan application or procurement. It is on this basis that additional themes will be considered with the rationale for loan procurement in this section.

#### **4.2.1. Start-up (Expansion of Business)**

Basically, loans are taken to start or expand businesses among traders. While the concept of 'start' represents new that of 'expand' indicates existing. There is no doubting the fact that a new business needs capital for its take-off just like an existing business that needs additional capital to boost its capacity. In fact, it is possible for a business plan to be frustrated if the needed capital for its take-off is not available. It was the need for starting a business that drove a ready-made clothes male trader at Aleshinloye to a microfinance bank for a facility as captured thus:

I went for the...loans because I had a business to do, and there was no capital. I requested for #300,000 then. They granted me my request. And I paid them back. This happened in 2015. When I completed the business, I did not renew the loan application. I thought of managing what I have. I paid it back within 6 months **(IDI/Trader/36yrs/August28, 2019).**

However, a general wears male dealer at Gbagi Titun submitted thus:

You borrow to enlarge your business. A starter should not borrow money. A starter can only borrow money if the nature of the business is understood **(IDI/Trader/45yrs/September9, 2019).**

Corroborating the general wears male trader was a ladies wears male trader at Aleshinloye who expressed thus:

You go for loan when you are short of capital to boost your business. You hope to add goods to the little you have in the shop; thereby making more goods available in your shop so that your customers can access their choices. However, I am not still with the microcredit providers because the kind of loans advanced by them can only bring one a brief relief. Those facilities cannot push your business for so long. I took loans twice from them. The first loan of #200,000 was taken in 2015 while the second loan of #300,000 was taken in 2017 **(IDI/Trader/40yrs/August 25, 2019).**

Given the foregoing narratives, the need for capital is the driving force for traders. Although the two markets where the participants respectively operated were some miles apart, their interests were harmonized in the light of the fact that they both needed capital for their respective businesses. This agrees with Owusu *et al* (2015) that microfinance generally is a medium through which start-up or expansion capital is obtained. This is further corroborated by Oladejo (2013) that microfinance framework is meant to ensure that there is a flow of financial services to the nation's micro, small and medium enterprises. These findings are, however, inconsistent with Seibel and Shrestha (1988) that informal capital markets only promote consumption rather than investment.

Availability of loans is the availability of goods in that traders generally will be afforded the opportunity to satisfy their numerous customers when they gain access to loan facilities. This will boost patronage in that the customers tend to stick to the traders who make available their choices. Given the assurance of patronage, profits will be made. On the other hand, starters are not encouraged to make use of such facilities probably because of challenges facing a new business in the country where a conducive environment needed for successful management of such business is not available. However, starters are not totally discouraged from applying for such facilities provided they are armed with requisite knowledge of the businesses for which the loans will be obtained. The requisite knowledge, in the context of trading, may require the loan applicants to serve as apprentices or conduct a feasibility study with a view to determining the sustenance of the businesses. This becomes necessary in the light of the fact that such facilities cannot sustain the beneficiaries for long as implied above. If an existing trader, as was in the case of ladies wears male trader, could admit that such facilities could not sustain him for long, it is rational for the starters to consider other financing options.

Again, traders are generally micro entrepreneurs provided for in the microfinance framework. This has been shown in the volume of loan requested for. It is a micro trader who would request for a loan of #300,000 as it was in the case with the ladies wears male trader. Also, a situation whereby a client decides not to renew a facility is a pointer to the fact that traders do not only have a choice but have a target. Having a choice in this context is about the option of taking or not taking the facility. It is not automatically rolled over for the clients. In other words, it is not imposed on the clients. And for a trader to decide not to renew a facility, there is the possibility that such trader may have got enough profits from the venture originally financed with the facility or not be satisfied with the terms and conditions of the facility.

#### **4.2.2. Risk Taking**

Related to the foregoing is the risk taking behaviour which involves engaging in uncertainties. This applies to the people who are fond of exploring new ideas. The risk in this context is not limited to financing an existing business with a loan facility. It could take the form of venturing into a different business about which nothing or little known. And if a clearly understood venture could later prove abortive, it is not

an overstatement to state that it is highly risky financing a venture that is not well understood with a facility. However, a male tailoring materials trader at Gbagi Titun preferred this as captured thus:

A businessman that cannot take a risk will not be able to go ahead. Your ability to take risks will drive you to these microfinance banks, so that one can boost one's business. There was a time I took like #300,000. That has been long ...like 7years ago (IDI/Trader/36years/September 4, 2019).

As a dealer in tailoring materials, he would be concerned about not just making profits but satisfying his numerous customers. Given this, he could have been confronted with a lot of situations requiring him to take urgent decisions even if he was not adequately informed to determine the outcomes of such decisions. Going to the market where he used to get his goods, for instance, could make him get to know about new materials which were not in his budget. Yet, he might be attracted to the potentials of such materials for his business growth whereas he was not sure if the customers in his domain would patronize the materials. This was a risky situation that demanded an urgent decision as the new materials might equally be bought to the last unit by other traders since he was not the only trader introduced to such materials by the suppliers.

#### **4.3. Conditions for Loan Disbursement in Microcredit Markets in Ibadan**

These are requirements adopted by microcredit providers to determine the suitability of loan applicants. Among others, age, business proposals, forced savings, guarantor, collateral, credit histories have been identified as conditions for loan disbursement in microcredit markets. However, variations exist in the the conditions across microcredit markets. While microfinance banks were found to have clearly stated the conditions in a codified document, microfinance institutions (depending on whether corporate or not) were found to have combined both verbal and written requirements.

##### **4.3.1. Age**

There is no ambiguity in the age limit set by microfinance banks whereas this is not explicitly stated by microfinance institutions, especially those that are non-corporate. Age has to do with the number of calendar years a loan applicant has terrestrially

existed. This requirement is not limited to the applicants as the guarantors are also required to meet the condition before loans are approved for the applicants. The minimum age required for applicants is 21years while the maximum age is not specified according to a male client officer with a microfinance bank at Gbagi Titun who had this to say:

We have requirements-eligibility criteria. The person must have been in business for more than a year. The person must be above 21years old, and the business must be in an area around one of our branches **(IDI/Client Officer/31years/September 9, 2019).**

In the same vein, a male recovery officer with a microfinance bank at Challenge said this:

Above 65years cannot guarantee, but I don't have an idea of the minimum age for guarantor **(IDI/Recovery Officer/ 30years/December19, 2019).**

Although microcredit transactions are sealed by the parties concerned, access to loan is subject to the nation's legal framework which has stipulated 18years as legal age for anyone who wants to enter into such transactions. At such age, an individual is assumed to have been physically and mentally mature to understand the intricacies of such transactions. This will make an individual liable for any infraction committed in the course of fulfilling their contractual obligation. And where a principal borrower is not ready to be liable, it is not rational to entrust older persons with such responsibilities; hence the imperative of setting the maximum age for guarantors who are meant to assume the responsibilities of the principal borrowers in the event of default.

The danger of accepting minors as guarantors lies in the limitation to the power of loan providers who may be incapacitated to apply some penalties if the contract between the lenders and the borrowers eventually turns bad. Therefore, it is rational for loan providers to get such information before sealing any agreement with clients. Given this, the applicants are required to fill their personal details, including age in the forms provided by the banks. However, facts are difficult to establish in a situation whereby the applicants are not required to attach birth certificate to verify their claims.

Apart from the age requirement, it has also been stressed again that micro loans are not for starters given the minimum period of a year expected of any business to access the facilities. Such consideration resonates the thought saying that heaven helps those who help themselves. Managing one's business for some time without external financial support is a sign of self-sustenance. This can be used to determine if the clients will be able to pay back loans. In addition, location of the business also matters in such transactions.

Distant clients are not given a consideration; hence the need for the lenders to have many branches that can meet the financial needs of their numerous clients. In the light of this, both the lenders and the borrowers stand to benefit as the lenders will not incur much costs on screening which involves home (shop) visitation neither will the borrowers find it difficult to locate the lenders. This is proximity to resources for the concerned parties. This is consistent with Soyibo (1997) that both lenders and borrowers tend to live in the same locality. Again, such arrangement provides the lenders the opportunity to gather the needed information about the applicants before advancing the loans. This is a rational action that saves time and costs for the lenders while at the same time taking into consideration the interests of the clients who will have financial services delivered at their door-steps.

#### **4.3.2. Business Purposes**

The lenders are interested in the reasons for loan applications as they do not just grant the applicants' loan requests even if they are able to do so. Although the lenders are presented with numerous reasons, applications that are not business-concerned are usually ignored. This shows that it is not only the borrowers who are guided by this rationale as the lenders also consider this while vetting applications from people as captured made by a male client officer with a microfinance bank at Gbagi Titun thus:

*We don't grant loans to other purposes than business (IDI/Client Officer/38years/September 6, 2019).*

The client officer's expression was corroborated by a female informal lender at Agbeni thus:

I ask people coming to me for loans the reasons, and some will say they want to use it for buying and selling; some will say they want to use it to repair Okada or Maruwa **(IDI/Borrower-lender/42years/September 22, 2019).**

In consonance with the earlier reported findings that business is the primary eligibility criterion for microcredit facilities, lenders are also unambiguous about their interests. The consideration is not limited to microfinance banks in the light of the foregoing female informal lender's expression. Given the limited capital of microcredit providers, it is rational for them to prioritize businesses such as trading and transportation that can guarantee quick returns; hence their favour of business proposals among all the applications received for loan facilities. It is against this backdrop that the lenders could be found operating or locating their offices in major markets as pinpointed by a male recovery officer with a microfinance institution at Agbeni:

We are at Agbeni market, so sourcing for clients is easy. The market environment where we occupy makes people come to us for services **(IDI/Recovery Officer/42yrs/October 10, 2019).**

Generally major markets in the study area are places where all kinds of goods are sold. In fact, it is not uncommon to find major distributors of fast consuming goods in such markets. Given this condition, financial services become inevitable for such businesses to thrive while such places also become strategic for the survival of the loan providers. Consequent upon the strategic nature of such places, financial institutions are not difficult to find there to play their intermediary role. The presence of loan providers in such places will lessen the stress involved in seeking their services elsewhere if their offices are sited outside the market domains. In the same vein, no or little cost will be incurred by the loan providers on sourcing for the clients who are in need of their services.

#### **4.3.3. Guarantor**

The issue of guarantor cannot be done without when processing loans by the lenders regardless of whether they operate as microfinance institutions or microfinance banks. A guarantor is one who pledges to pay back a facility in the event of default by a principal borrower. In other words, a guarantor assumes the responsibility of the



principal borrower in the event of default according to a female branch manager with a microfinance bank at Challenge who had it to say:

I usually ask any person brought to stand as the guarantor if they will be able to pay for the borrower if he/she (borrower) travels. I use the word 'travel' to mean default. **(IDI/Branch Manager/30yrs/December19, 2020).**

Relying on the concept of 'travel' imported by the branch manager, it is evident that premonition of default is the rationale for demanding guarantors from loan applicants. Even though default could not be said to have arisen at the time of screening the applicants, the lenders do not pretend to ignore its possibility. Based on this, guarantor must be someone of economic value who can support the principal borrower financially. This makes it difficult, if not impossible, for isolated persons to access microcredit facilities as opined by a male informal microcredit provider at Agbeni thus:

I don't give out loans to isolated persons. If your shop is isolated, I won't grant you loan as you may not have someone to guarantee you. Assume there are three persons occupying different shops located close to one another, I would grant loans to two persons out of the three but they will cross-sign for one another. If one person fails to pay back, the third person will be forced to disturb the defaulter as the third person will not be granted loan until the defaulter among them fully settles their debt **(IDI/Informal Lender/46yrs/November 25, 2020).**

Although the foregoing narrative suggests discrimination, it is not lacking in rationality given the fact that some circumstances like default may necessitate loan procurers to be rescued by others whereas such rescue may not be forthcoming for isolated applicants. Also, it is clear from the narrative that microcredit markets, especially the informal segment is a closed institution by giving associated applicants a preference over isolated applicants. Olomola (2002) argues that associational activities inherent in such sub-sector will help in obtaining not only useful information about potential clients but also lowering costs related to loan processing. It is such associational life, which is a component of social capital, rather than tangible assets that paved the way for women to access credit from the Grameen Bank in Bangladesh (Rankin, 2002). In other words, there is no merit in isolation as 'benefactors' as lending institutions would want to see their potential 'beneficiaries'

as being well attached to social institutions as the family or other groups for them to be convinced that such beneficiaries are responsible. By implication, management of clients is likely to be more effective and efficient, more so, that the burden of screening or repayment is not solely on the credit providers. It is within this context that a male moneylender at Ogunpa submitted thus:

A male applicant could be asked to bring his wife so also could a female applicant be asked to bring her husband. The headmasters also used to guarantee the teachers  
**(IDI/Professional Moneylender/70yrs/October 5, 2019).**

By asking the loan applicants to bring their spouses, or superiors, the burden has been shared with the clients' Significant Others and other close contacts. The action is rational in itself as this would afford them the opportunity of spending less on transactions even with the assurance of gaining more profits in the end. In the absence of such opportunity that makes it possible for burden sharing, more of the credit providers' resources would have been expended; thereby creating financial burden for them. Given the huge role expected of a guarantor, there are certain qualities a guarantor must possess according to a female client officer with a microfinance bank at Iwo-road who expressed thus: *A guarantor must be older, capable and respected (IDI/Client Officer/28years/November 8, 2019).*

A male supervisory officer with a microfinance bank at Dugbe also corroborated the female client officer's expression thus:

A guarantor must be certified to have a good job. We make them (guarantor) know that they are the one collecting the loan because if the borrower fails, we go and meet them for repayment  
**(IDI/Supervisory Officer/38years/September 21, 2019).**

There are three qualities rolled in one in the foregoing expressions: age, capability and someone held in high esteem by the borrower. Given the gerontocratic nature of the African setting within which microcredit activities are conducted, age is respected. Therefore, it is rational for the lenders to demand an older person as a guarantor on the assumption that an older person will be able to mount the needed pressure on the principal borrower.

Again, capability has to do with the person's financial standing that can make them conveniently play their expected role in the event of default. A jobless person would not be taken as a guarantor. This further explains that microcredit markets are not for idle minds as both the borrowers and the guarantors are expected to be identified with productive activities to complement that of the lenders in order to make a production cycle. This buttresses the earlier position that microcredit facilities are mainly for business purposes. And if the borrowers could access such facilities on the grounds of being into business (productive activities), it should therefore not be unexpected that the guarantors would be engaged as well because it is only an engaged mind that can support the borrower in the event of default. However, while the concept of guarantee could be considered rational on the part of the lenders as this would afford them the opportunity of sharing the risks involved in lending with others, same could not be said of the guarantors who might stand for the borrowers based on trust.

Trust is a function of community membership which is usually derived from religious, trading or residential affiliation. However, the fact that trust is more of moral than legal makes it prone to abuse whereby the person such as borrower in whom the trust is reposed may fail to pay back the facilities secured; thereby exposing the guarantor to risks of loan providers' sanctions. Besides, size of the loans was found to determine what the guarantor would be asked to present as captured by a male banking officer with a microfinance bank at Gbagi Titun thus:

If the money (loan) is high like millions, we normally take guarantors that have current accounts because we do collect cheque (blank and post-dated). If the applicant is giving us cheque, we also take cheque from the guarantor. That is the best security we use to get our money back. You know if you issue someone a cheque against an account that is not funded, it is a criminal offence. That is really helping us **(IDI/Banking Officer/27yrs/September 11&15, 2019)**.

In the same vein, a male marketer with a microfinance institution at Aleshinloye had the following to say about how the number of guarantor (s) was determined by the loan size:

Depending on the amount of loan, we take one or two guarantors. We let the person (guarantor) know that the form they are about signing is about being a guarantor to somebody. And, if the person (borrower) fails to pay us, they (guarantor) must be capable of paying that **(IDI/Marketer/44yrs/August 30, 2019)**.

In spite of the micro nature of the operations, there are no flat facilities for all loan takers in microcredit markets; hence the variations in the guarantee requirements for various categories of loan facilities. It is a custom for microcredit providers to make the guarantee conditions higher for higher loan facilities so as to ensure sufficient security for the facilities. Given this, the risks involved will be minimized as the borrowers' capabilities will not only be determined by their assets but also their guarantors' worth. Requiring some applicants and their respective guarantors to present blank and post-dated cheques has shown that there are disparities in the ways the applicants are treated right from the beginning of microcredit transactions. Of course, millions of naira as it is the case with the Nigerian situation is a lot of money that cannot be offered for nothing by an average businessman; hence the stringent conditions attached to giving such amount of money out in loan.

As a withdrawal tool, a cheque is only possessed by a few bank customers who operate current accounts. Given the bank charges and the minimum balance required to maintain a current account, cheque users are assumed to be in the middleclass as against others who operate a savings account or none. In other words, a cheque represents more than a withdrawal booklet. Given the charges imposed on cheque users, it can be seen as a class symbol which makes the cheque users to enjoy banking services than other bank customers. It is not always compulsory for the cheque users to physically visit the bank before making withdrawal as the cheque can be presented on their behalf by someone else provided it has been duly signed by the issuer. However, a cheque user is also mindful of the fact that a cheque is a delicate instrument that can create problems for them. Part of the problems is that it should not be bounced; otherwise criminal charges will be pressed against the issuer.

Again, the fact that the guarantors will be mandated to fill forms as narrated above shows that microfinance institutions are also becoming complex in which written

rather than oral agreements dominate. Like cheque, however, Adeniyani (2017) reports that use of such documents is not just a proof but fighting tool in the event of default. In the contemporary times, written agreements such as that contained in the documents are believed to have a force of law. In the light of this, it is rational for the lenders to demand such a vital instrument from not only the loan takers but their guarantors so as to prevent default. And even if default is inevitable, there is a ground for legal battle.

Furthermore, marital status of borrower determines the number of guarantors acceptable to microfinance banks with the married requested to present a guarantor outside the family having taken the spouse as a co-signer whereas the singles are required to present two guarantors according to a male client officer with a microfinance bank at Dugbe who had this to say:

For the married, one guarantor is required while the spouse is a co-signer. On the other hand, the divorced or single will present two guarantors with one of them as a financial guarantor while the other will be moral guarantor. The financial guarantor must provide business details whereas the moral guarantor does not have to but must have pressure on the borrower **(IDI/Client Officer/31years/October 5, 2019).**

On the contrary, microfinance institutions do not accept spouses as guarantors according to a male head of recovery with a microfinance institution at Agbeni who said this:

We don't accept your spouse as a guarantor because when you have a problem, automatically your wife also has a problem. It is better to have a guarantor outside the family **(IDI/Recovery Officer/42years/October10, 2019).**

Although discrimination is not a written rule in microcredit markets, differences are noticeable in the way married and single applicants are treated before they access loan facilities. That lesser number of guarantors is demanded from the married than the singles shows not only the significance of marriage but extent of discrimination in microcredit markets. It is the marriage institution that forms the family institution which is generally regarded as the smallest group in the society.

And being the smallest group as it is, the family is assumed to be one regardless of the size. Krippner (2017) corroborates this by asserting that credit identities of women in the United States of America have always been subsumed into those of their spouses upon marriage. In other words, a loan for husband is equally a loan for a wife as both are deemed to be jointly responsible. For the married therefore, both are borrowers even though there will always be a co-signer who will play the role of a moral guarantor expected of those that are not married. In fact, one's spouse is likely to play the role of a moral guarantor better than any other person in the sense that there may hardly be any issue about the principal borrower hidden from their spouse. As partners-in-marriage, they are even likely to operate a joint account. By this, they will have adequate knowledge of the family earnings and spending (including when to borrow and pay back). The action is rational in that the spouses will be thrifty in spending so as to avoid consequences that may follow delay or failure of loan repayment. Justifying the marriage-induced disparity is the following expression made by a male tyres dealer at Ogunpa:

Throughout my transactions with the credit institutions, I used to present my wives as guarantors. This idea really helped me because they would be critical of me if they suspected that my life style was too expensive. Again, they would not make much demand because the source of the money is known to them **(IDI/Trader/52yrs/November 14/ 2019).**

Given the tyres dealer's expression, he was a polygynist. As a polygynist, he could have been aware of the fact that being married to more than one wife would surely generate rivalry at home. The rivalry could take the form of multiple requests by the respective spouses at the same time. He believed that the rivalry characterizing a polygynous home would be mitigated when his wives were carried along; hence his decision to present his wives as the guarantors so that they would be privy to his finance sources. And being privy to his finance sources would make them understand that failure to pay back the loan would land not only him but the entire household in trouble. This portrays a rational borrower who did not want to be distracted by his spouses' requests.

Self-recognition also plays a role in the guarantee in microcredit markets. However, this was found to be limited to microfinance institutions as against microfinance

banks. Unlike microfinance banks, self-recognition connotes guaranteeing in microfinance institutions as anyone who introduces a client (potential borrower) must have been known to the lender and, becomes the guarantor automatically. Like group lending in microfinance banks, borrowers are made to cross-guarantee one another in microfinance institutions as expressed by a female informal lender at Agbeni thus:

When they meet me for loan, I give it on self-recognition. And the person known to me will be the one to pay back regardless of the number of people introduced to me **(IDI/Informal Lender/40yrs/September22, 2019)**.

In the light of the female informal lender's expression, strangers are not entertained for microcredit transactions while strangers, in this context, are faces not known to the lenders. The strangers do not have known faces to recommend them whereas the lenders are guided by referral to determine the loan applicants' credit worthiness. It is for this reason that self-recognition can be collapsed with referral as someone who makes the referral is automatically the guarantor to the person referred. This agrees with Soyibo (1997) that guarantors are the security for loans in informal finance system. For lenders operating at this level, regular faces are easier to deal with unlike the strangers whose whereabouts cannot be traced. However, the confidence reposed in the known faces may encourage the lenders to extend loan facilities even to the strangers in anticipation that the burden of repayment lies with the known faces.

Personal relationships upon which self-recognition is built facilitate financial transactions through trust (Doering, 2018). This could be a condition for loan facilities in an environment where legal system is either costly or impossible (Olomola, 2002). However, self-recognition could discourage conduct of objective assessment on the applicants. In the absence of objective assessment, Doering (2018) argues that there will be escalation of commitment which is an error-laden method of taking decisions on loan applicants. It is error-laden because the lender may not be interested in the 3 Cs (character, capacity and capital) elaborated by Angaine and Waari (2014) as indispensable requirements for loan approval.

The applicant's credit histories as well as collateral are certainly embedded in the 3 Cs. Although self-recognition could as well come from the applicant's character, this

might be devoid of financial value that underlines credit histories elaborated in the 3 Cs. Self-recognition earned as a good religious leader or community leader, for instance, cannot substitute that earned by virtue of being a consistent redeemer of loans. Since there could be silence on collateral when disbursing loans on self-recognition, problems might arise in the event of default as non-monetary value as self-recognition could not be held responsible for repayment. Also, in the event of default, retrieval of bad loans would be more difficult than that sealed with paper as oral evidence that is likely to be relied upon for such transaction may not be found tenable enough to win the case for the lenders.

Again, guarantee was found to be polarized into open and closed systems in microcredit markets. Open guarantee system does not allow concurrent roles of borrowers and guarantors in the same organisation while closed guarantee system does allow it. In other words, open guarantee system does not permit a loan client to be a guarantor to another loan client in the same organization whereas it is permissible with closed guarantee system. Closed guarantee system is peculiar to microfinance institutions according to a male marketer with a microfinance institution at Aleshinloye who said this:

Surely, they must have guarantors. It is our existing customers (clients) that will guarantee another customers. We don't accept guarantors from outside the clients. The method is working because the clients know one another  
**(IDI/Marketer/44yrs/August30, 2019).**

On the other hand, open guarantee system is peculiar to microfinance banks according to a client officer with a microfinance bank at Gbagi Titun who expressed thus: *A loan customer cannot stand as a guarantor (IDI/Client Officer/38yrs/September 6, 2019).*

The contrasting expressions, no doubt, respectively typify within and without guarantee methods. As closed as within-guarantee method is, it is advantageous in that the lenders will not have to struggle much to get information about the loan applicants as the guarantors will be always available to be helpful in that area. In fact, there may be no or little screening costs incurred in that the guarantors, who will be beckoned upon in the event of default, have always been part and parcel of the



system. And given the fact that the lenders have an unrestricted access to the guarantors' financial details, including their savings, retrieving loans from recalcitrant borrowers will not be much difficult as the lenders can take the guarantors' savings at will. Given this therefore, the access to financial details is the rationale for the within-guarantee closed method which is undoubtedly an effective management of a lending firm.

The advantage of open guarantee system, on the other hand, lies in the fact that it will be difficult for the lenders to cope if both clients default as the security may not be sufficient to offset their facilities. If a guarantor's ability is determined by their worth, including tangible assets, it is therefore rational for the lenders to put on hold the guarantors' loan requests until the clients guaranteed by them fully settle their debts as the same assets that qualify them to be guarantors cannot qualify them as borrowers at the same time. Risks tend to be higher when a client is allowed to play a dual role of a borrower and guarantor simultaneously in that there will be limited assets to fall back on if they both default. This could have been envisaged by a male banking officer with a microfinance bank at Gbagi Titun who maintained thus: *A guarantor can be a borrower at the same time if they are capable (IDI/Banking Officer/27yrs/September11&15, 2019).*

It is evident from the male banking officer's narrative that open guarantee system is not a rigid rule in microfinance banks given the fact that a compromise could be made for the guarantors who have been found to be capable of playing the dual roles, that is, acting as a guarantor and a borrower simultaneously. Capability, in this context, is in relation to the person's financial standing which leverages on this rule while the person must have been certified to be qualified before they are allowed the opportunity.

The gender factor was also found to be considered when taking guarantors. The factor is concerned with being male or female. Female guarantors are preferred to male guarantors in microcredit markets according to a male marketer with a microfinance institution at Aleshinloye who said thus:

Female guarantors are better. The company accepts both male and female, but we prefer female. You know the female are easy to bend. And, if something happens, they take it seriously. They can go to a defaulter's house guaranteed by them even to fight whereas the male guarantors will not expect you to ask them to go and fight their guaranteed defaulters **(IDI/Marketer/42yrs/August30, 2019)**.

In the same vein, a male head of recovery and information technology with a microfinance bank at Agbeni stressed the rationale for female guarantors thus:

We accept two female guarantors, but we don't accept two male guarantors. Women like keeping relationships. Women do pay for their guaranteed defaulters whereas I have never seen male guarantors pay for their guaranteed defaulters **(IDI/Head of Recovery and Information Technology/41yrs/October29, 2019)**.

The narratives presented above do not only buttress the cooperation of female guarantors but make comparison between the attitudes of male and female guarantors in the event of default. Although it is not a written rule for microcredit providers to reject male guarantors, it is a practice to do so on the grounds that male guarantors are too hard for the lenders to control, especially when they are supposed to pay back on behalf of defaulters or needed to mount pressure on defaulters to pay back. Unlike male guarantors, the female counterparts go extra miles in ensuring that their guarantees' debts are settled in order not to ruin their future chances with the lenders whom they see as their benefactors.

Although the policy seems to be discriminatory against males, there is rationality in it because the attitudes of female guarantors align with the position of Nwikipasi (2015) that the concept of guarantor simply connotes assuming the responsibility of the principal borrower in the event of default. By implication, microcredit providers may be compelled to prioritize willingness of the people presented by the applicants as guarantors over any other factor because it is the female guarantors' willingness that makes the difference in this context.

#### 4.3.4. Compulsory Savings

Microcredit providers mandate their intending borrowers to save with them while such savings will only be released to them on demand after the full settlement of the facilities granted them. The savings, no doubt, belongs to the clients but it is not optional for the clients given the fact that it is an integral requirement for loan processing. Although it is a general rule in microcredit markets to impose the savings culture on their clients, variations exist in the ways it is conducted with microfinance institutions requiring their clients to run their savings accounts for a minimum period of time before they can access loan facilities while microfinance banks allow their clients to pay a certain lump sum as savings. However, there is convergence at the point where both still mandate the borrowers to continue to fund their savings concurrently with loan repayment. The imperative of savings was captured by a male head of recovery with a microfinance institution at Agbeni as follows:

In my own organization, you must have a certain percentage with us before we can give you like double or triple of what you have. If you want to collect #100,000, you should be able to have at least #20,000 or #25,000 with us. If you even pay the money in lump sum, it takes at least a month to advance you a loan **(IDI/Recovery Officer/42yrs/October20, 2019).**

In the same vein, a male supervisory officer with a microfinance bank at Dugbe submitted thus:

An applicant is to pay 10% of the amount to access as a loan. Out of it, 5% is compulsory savings while 5% is for processing and insurance **(IDI/Supervisory Officer/38yrs/September21, 2019).**

While loans can be advanced to clients by microfinance banks with the options of upfront lump sum savings and deduction from the source, microfinance institutions make no provision for options as only the upfront running of savings account for a minimum of a month is mandated for the clients before they can access facilities. Apart from the savings that will be deducted from the source, the clients also have insurance and processing charges imposed on them by microfinance banks as against microfinance institutions where there are no insurance policies. It should also be noted that the clients cannot access any amount of facility with any amount in their

savings accounts. In fact, the amount in the savings account will determine the amount of loan to be enjoyed.

Compulsory operation of savings accounts tends to serve at least two purposes. First, it will not only reduce the burden in the event of default but also determine the intending borrowers' competencies given the following view expressed by a tailoring materials male dealer at Gbagi Titun:

They will determine your competence by your daily savings. If your savings is #1,000 per day, and you don't skip any throughout the month, they can use that as a yardstick to determine how long it will take you to pay back their money. I had dealt with them for like a year before accessing their facility **(IDI/Trader/36yrs/September 4, 2019).**

Competence, in this context, could be taken for ability. It is rational to assume that a client who is able to make an uninterrupted daily contribution of certain amount will not renege on the responsibility of paying back a loan facility. On the other hand, an inconsistent client whose daily contributions do not agree to the terms of the transaction will automatically be denied a loan in order to avoid risks associated with such attitude when it comes to loan repayment. However, sharp practices may emerge from the intending borrowers at this point in the form of temporarily adhering to the terms and conditions of daily contributions just for the sake of accessing loans while the real self of the borrowers may emerge when it is time for actual loan repayment. Secondly, compulsory savings encourages the borrowers to develop savings culture which guarantees self-reliance in the long run as captured by a sports materials male trader at Aleshinloye thus:

I have a target. You see. As I am collecting loans, I am also saving with them. Once my savings reach up to #300,000, I would stop taking loans. I will just take my savings and run away **(IDI/Trader/28yrs/August28, 2019).**

In the light of this, both parties stand to be mutually benefitting. The foregoing narrative also shows that borrowers do not believe that they can be sustained by loan facilities throughout their lifetimes; hence the aspiration of saving to the point where they will solely depend on their personal incomes for survival. At this point, they are financially independent as they do not pay any kind of charges like interest and

processing which can reduce their profits. Besides, the rigours of loan processing have been overcome at the point.

#### **4.3.5. Collateral**

This refers to the property used by the clients to obtain facilities from the lenders. The property, in this context, are usually valuable items ranging from goods in the shops, home appliances, automobiles, land, to buildings as stressed by a male supervisory officer with a microfinance bank at Dugbe thus:

We collect collateral. We take any movables like car, building plan or survey, electronics. We take the original receipts of the collateral **(IDI/Supervisory Officer/38yrs/September21, 2019).**

In the same vein, a male head of recovery with a microfinance institution at Agbeni expressed thus to confirm that collateral presentation is not restricted to microfinance banks:

For someone to collect #15m, there are a lot of things we need to put into consideration like collateral **(IDI/Recovery Officer/42yrs/October10, 2019).**

From all indications, the items listed as acceptable collateral are valuable. Cars are not just meant for transportation but indicators of the owners' socio-economic statuses. The kind of car presented by a loan applicant can even guide the lenders on how best the applicant will be assessed against the amount of facility requested for; so also are the building plan and survey that are documents used to determine the rightful owners of property. Taking all these items as collateral is indeed rational in that the loan applicants presenting such items are likely to be mindful of the consequences of loan default more so that the lenders retain the original receipts of the items until the full settlement of the facilities by the borrowers. In some cases, microfinance institutions take academic certificates and letters of appointment from government employees according to a male professional moneylender at Ogunpa who said this:

I used to collect the certificates of teachers who used to patronize me then. And, I would also collect their letters of appointment. The reason being that whenever they retired or there was a change in government, those certificates would be needed **(IDI/Professional Moneylender/70yrs/October5, 2019)**.

Although the earlier reported findings have shown the extent of priority given to business purposes in microcredit markets, this narrative has provided an exception by establishing that formal employees equally patronize the markets. In the light of this, it becomes imperative for microcredit providers to devise a method tailored to meeting the needs of such clients while also demanding suitable collateral from them. Academic certificates are documents expected to be presented by the loan applicants who have not only been to school but also on salary by virtue of holding formal jobs. In other words, it is only through such academic certificates that a borrower could be a civil or public servant.

The fact that such documents are the evidence of formal schooling in the society; they are automatically part of societal values. By implication, possession of such documents confers some respect on the holder. So, for the holder to deposit such documents as security for loans, it does not only show the significance of microcredit facilities but that people are generally driven by needs that can take away their values from them. Such actions are indeed laden with rationality in that the holder must have weighed the benefit of retaining the documents (that is, without loans) against the cost of forgoing the satisfaction of the needs (that is, with loans). And, of course, the lenders will not only be comfortable but also sure that the loans disbursed on the presentation of such documents will not go bad given the pressure under which the holder will be to settle the debt in order not to lose the documents as loss of such documents could expose the holder to further risks which include loss of job.

Same for appointment letters which are the evidence of one's engagement in the government service. Without appointment letters, the contract of employment between the employers and employees may not be valid. In other words, failure to present such letters when required could lead to summary dismissal. It is against this backdrop that repayment of loans secured with such documents will be given a

priority by the borrowers as the worth of collateral is too high for the borrowers to forego. By implication, it is the worth of the security for loan facilities that guarantees repayment. This is justifiable given the risks characterizing informal credit markets where loan providers are confronted with inadequate information about their clients while carrying out contract enforcement functions (Soyibo, 1997). Unlike microfinance banks where the clients' credit histories could be easily accessed through the Credit Bureaux, informal credit providers do not have information about loan applicants readily available; hence their resort to demanding vital documents as certificates and appointment letters.

#### **4.3.6. Identity Cards and Statement of Accounts**

Identity cards are the means of identification while statement of accounts represents the bank transaction details. The bank transaction details that will be revealed through the statement of accounts are sufficient to determine the clients' financial viability; hence it is a rule for the intending borrowers to present these documents to microfinance banks before they can access loan facilities. Capacity of the client is at the centre when requesting for the statement of accounts which will show both deposits and withdrawals made within a given period. With the knowledge of the client's capacity, over-financing will be avoided as a client who deserves #50,000, for instance, will not be allowed #100,000 so as to prevent the person from misusing the loan. It should also be noted that it is not all identity cards that are acceptable to microfinance banks considering according to a male client officer with a microfinance bank at Dugbe who had this to say:

Sometimes, you request for their bank statement of accounts. Also, there is no loan that can be processed without ID card (national, voters, passport, or driver's). Where none of the ID cards is possessed by client or guarantor, then affidavit is required with a business ID card **(IDI/Client Officer/31yrs/October5, 2019)**.

The client officer was corroborated by a male marketing officer with a microfinance bank at Gbagi Titun who said this:

If you want to open an account in a bank, there are documents you need to provide. Documents like utility bill, valid ID card. If you don't have that, you can't deal with bank. And, anyone that wants to get a loan must open an account with such documents **(IDI/Marketing Officer/38yrs/September14, 2019).**

Given the foregoing narratives, there is flexibility on the rule prescribing the statement of accounts as part of the documents to be presented by loan applicants. The statement of accounts is not usually demanded whereas it is a rigid rule for the identity cards to be presented. However, it is clear that it is not all identity cards that are recognized by microfinance banks. For a client to be considered for any facility, such client must be able to present state-issued identity cards such as national identity card, passports, permanent voter's card, and driver's licence unless the client will get an affidavit from court to complement any other ID card that is not issued by the state.

The disparity in the way the state-issued ID cards are treated against the ID cards not issued by the state cannot be divorced from the fact that the state-issued ID cards do not only contain vital information about the clients but are the means of identification approved by the regulatory bodies such as the Central Bank of Nigeria. Against this backdrop, it is rational demanding such ID cards from clients because they make the clients traceable in the event of default.

#### **4.3.7. Credit History**

It is also a rule in microfinance banks to make use of a platform called "credit bureaux" to verify the credit histories of the intending borrowers so as to confirm whether or not they are indebted to some other credit providers. On the other hand, microfinance institutions do not make use of the platform since they are not within the CBN regulation. If the intending borrowers disclose their credit histories to the credit providers during screening, this simplifies the process but their chances of getting loans will not be jeopardized even if they are on facilities somewhere else. The amount of loan requested may, however, be reduced coupled with special monitoring in such situation according to a male banking officer with a microfinance bank at Gbagi Titun who expressed thus:



For you to get a loan at all, we consider the size of your business, and whether or not it is seasonal and your credit history. Have you even taken loan before? Sometimes, they have. Some customers will tell you the truth. Sometimes, they lie to us. But when we get to the place where we are supposed to do our own search, we get to know. For customers who have lied, we believe such customers are not worth the loan because we don't see any reason for concealing such information from us. Whether you hide it or not, when we get to the Credit Bureaux, we know. Some people might have taken loans from three banks before coming to us. We determine through our search. If the loan is performing, we may reduce if the loan requested from us is high **(IDI/Banking Officer/27yrs/September 11&15, 2019).**

In the same vein, a male supervisory officer with a microfinance bank at Dugbe added thus:

If you want to collect a loan now, you will give us your Bank Verification Number (BVN) to determine if you have borrowed somewhere **(IDI/Supervisory Officer/38yrs/September 21, 2019).**

In the light of the expressions above, Credit Bureaux and BVN are inseparable with the latter facilitating the application of the former. In other words, it is the BVN that guarantees unrestricted access to the loan applicants' past financial dealings. However, creditworthiness is not determined by the absence of credit history but the true financial standing. This shows that microcredit providers are in touch with the realities which may make it impossible for the traders to stick to single creditors considering the nature of their occupation which requires regular financing. The credit history of loan applicant is only considered with the size of the applicant's business and the period of the year when the business booms. Knowledge of the size of the business will help the lenders determine the suitable loan amounts for applicants so as to avoid over-lending or under-lending.

As earlier reported, if a business is over-financed as it is in the case with over-lending, the loan may end up being misused. If a business is under-financed as it is in the case of under-lending, the business may suffer sustainability as the materials required for its development may not be covered by the little amount of loan made

available. Again, the foregoing narratives have shown that lenders are conversant with the trends in the trading world; hence their ability to decipher that there seasonal products. In other words, they seem to understand the extent to which various products boom in a year. There are some products that will record a boom during a dry season while some do during a wet season. It is equally important to note that festive seasons also determine boom of some products. These are part of the activities that ultimately form the feasibility study conducted by loan providers for the purpose of being sure that any amount given out in loan will not suffer default.

#### **4.3.8. Oath Taking**

The practice takes the form of presenting the clients and the guarantors with some agreement forms which will be taken to the law courts for signing. This was found to be a practice in microfinance banks as against microfinance institutions according to a male trader at Aleshinloye who expressed thus:

Before the loan is advanced, the applicant must take an Oath form for signing to the High Court and bring it back to them (the lender). The Oath is meant to inform the government that you have taken a loan from them... The two guarantors will also swear to the Oath **(IDI/Trader/40yrs/August 25, 2019)**.

Although microfinance banks are mostly owned by private individuals, their activities are subject to the state control. This accounts for the reason for requesting the loan applicants and their guarantors to swear to the Oath in the law courts. The state-sanctioned Oath, in this context, does not only make the government monitor the activities of the lenders, but the government has assumed the responsibility of a witness to the transactions taking place in microcredit markets. Again, it should be noted that taking the Oath form to the High Court of Justice, and not just a law court, is an indication that microcredit providers do not hide their activities. Hidden activities will not be shown to the judiciary, which is an organ of government, given the consequences that may attend such activities if they come to the open. The practice of Oath taking accentuates the fact that there is nothing new under heaven when comparing the practice with what obtained in the olden days. The difference only exists in the objects used for Oath taking across times.

While Oath could be taken with blood or gun in the olden days, written words on paper plus state stamp and signature characterize the modern-day Oath taking. In spite of the difference in the approach, however, both old and new forms of Oath taking are meant to bind the agreement between the concerned parties-lenders and borrowers. This becomes necessary so as to avoid ugly consequences of the Oaths. As against the modern-day Oath taking, the Oath taking in the olden days is exemplified in the Yoruba oral literature found in <sup>2</sup>*Ikaàgúnda* which is a corpus in the *Ifa* religion. The corpus is about a highly strict ancient lender who was fond of making his potential clients swear with the gun before accessing loan facilities so as to be sure that the loans would be paid back as agreed in spite of high interests charged such facilities. It is within this context that the defaulters' experiences are likely to be formed. Swearing with gun in the Yoruba context is suicidal for the swearer if they later renege on their promise. This signifies that the parties involved must honour the agreement regardless of any circumstances. It is such agreement that makes the borrowers fulfil their obligation of debt repayment to their creditors at all cost even if it is not convenient to do so.

#### **4.3.9. Know Your Customers (KYCs)**

This is a technique which allows microcredit providers access to detailed information about the intending clients whose trading places and houses must have been visited by loan providers or their appointed agents before the clients' loan requests are granted. This was found to be the practice by both microfinance institutions and microfinance banks according to a male marketer with a microfinance institution at Aleshinloye who had this to say: *We do KYC. Having collected their house descriptions, we go to their houses before disbursing loans to them (IDI/Marketer/42yrs/August 30, 2019).*

In the same vein, a female branch manager with a microfinance bank at Challenge submitted thus: *KYC is very important so as to determine what the clients are actually doing for a living (IDI/Branch Manager/30yrs/December 19, 2019).*

The foregoing narratives are laden with rationality in that people tend to conduct themselves well when they know that they are not faceless. A faceless person is not

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<sup>2</sup> Chanted by Baba-awo Faniyi on November 5, 2018.

traceable and cannot be entrusted with loan facilities meant to generate income not only for the providers in form of interests but the handlers who equally use such facilities to either start or enlarge their businesses. As a matter of fact, visitation to the intending borrowers' or guarantors' houses and shops enables the lenders to take rational decisions on loan applications having been privy to appropriate information needed to undertake such tasks through KYC. It should be noted that KYC extends beyond mere visitation, it also involves interrogating everything observable during visitation according to a male client officer at Dugbe who expressed thus:

If we get to their houses, there are questions we ask. Apart from asking questions, we may also take a look at the pictures in the house. You may see a wedding picture, then you ask the person: Madam, but you said you're single? She might say it's my Dad and Mum's picture. Then, you ask why her own picture is not there. I've gone to a house and seen a different picture and, the client said that it's her friend's picture. Then, I asked her why she had to put her friend's picture and not her own there. From the moment, I knew something was wrong. KYC enables us get insight into what is really happening **(IDI/Client Officer/31yrs/October5, 2019)**.

The client officer's experiences are similar to a female credit group leader at Agbeni who said as follows:

We visited someone who wanted to take a loan recently. We asked her what she was into and she said she was dealing in *Akube* (second-hand clothes). We believed we would feel the *Akube* traces in her house. When we got there, however, she brought forward her children's clothes and presented them as part of her wares. And, you know the microfinance officers are wise. When they brought the clothes to their noses, they did not smell *Akube*. That was how she was denied. And, the following week when she came to the meeting, they said that they could not manage her. So, her money (initial deposit) was returned to her **(IDI/Credit-Group Leader/42yrs/September30, 2019)**.

The foregoing narratives have not only shown that KYC is a claim-verification tool in microcredit markets but that the markets are also prone to manipulations. Part of the manipulations is the hiring of an apartment by a potential borrower with the hope of boosting their chances of procuring loan facilities. Same for a potential borrower who

disguises their means of livelihood with the aim of impressing the lenders as was the case with the 'Akube dealer'. Regardless of the implication of such manipulations for microcredit markets, such manipulations are devoid of rationality for the potential clients who develop such for specific purposes including access to loan facilities.

In the same vein, KYC helps the loan providers discover the intending clients' manipulations which are unravelled during interrogating the intending clients' claims on visitation. The loan providers are seen from the foregoing expressions as being observant to take a notice of all objects within the intending clients' apartments. This shows that loan providers do not take anything for granted at the stage of screening the clients for facilities. Implied in the narratives also is the transparency and compassion with which microcredit activities are conducted. This is noticeable in the refund of deposits by loan providers who are not satisfied with the borrowers' conduct during KYC. This shows that loan providers understand that making the affected forfeit the deposits permanently will not only lead to breach of contract but subject the affected to much more suffering. Again, the refund of the initial deposits corroborates the earlier reported findings that intending clients are usually mandated to make some deposits (covering savings and insurance) with microcredit providers as conditions for loan procurement.

#### **4.4. Means of Attracting Clients in Microcredit Markets in Ibadan**

Referral and market storming were identified as the means through which the loan providers gained access to their clients in microcredit markets. Lenders and borrowers would have found it difficult, if not impossible, to relate with each other without some awareness while such awareness was found to be facilitated by referral and market storming. These means hold the potential of increasing the lenders' turnover in the sense that the more people get to know about their services, the likelihood of higher patronage. In the same way, the borrowers will have their accessibility chances boosted through awareness. However, like the conditions for loan disbursement, variations also exist in the ways microfinance banks and microfinance institutions attract clients to their respective domains. While microfinance institutions were found to rely on referral, microfinance banks were found to be sustained by both referral and market storming.

#### **4.4.1. Referral**

This is a medium whereby the clients are informed about the existence and services of a lending company by some other people who are friends or relatives. Normally the referral is made by people who are themselves clients with such lending company according to a male client officer with a microfinance institution at Aleshinloye who said thus:

We don't have any adverts on radio or in newspaper. Customers (clients) join us through our existing customers. The current customers tell their friends in the market about us **(IDI/Marketer/42yrs/August30, 2019)**.

This was corroborated by a ladies' wears male dealer at Aleshinloye who had the following to say:

There were many of such institutions I was introduced to by a friend who had gotten loans from them. I have also got information through media. Sometimes, they come to the market for advertisement of their facilities which are in different forms **(IDI/Trader/40yrs/August25, 2019)**.

Although the foregoing expressions show a range of awareness options available in microcredit markets, it is evident that information from friends and relatives features prominently given its frequent mentioning in the foregoing expressions, Also, it could be described as effective given the ease involved in convincing people with evidence at the disposal of those who have already benefitted from such facilities. Again, information from such people as friends and family is cost-effective compared to other options that may warrant that the intending clients spend money to access. It should also be noted that within-guarantee closed method earlier reported to have characterized the conditions for loan disbursement in microfinance institutions cannot be effective without referral. This makes referral a tailored medium of attracting the clients to microfinance institutions. However, referral could be a function of disappointment as captured in the following expression made by a female nylon trader at Agbeni:

There was a brother I used to borrow from then on a monthly basis. Whenever I got to him, he would ask me if I did not know where my mates were shifting on a bench. He failed in lending me in a particular month. When I discovered that he was dribbling me, I had to confront him. It was at that point he told me that he also took loans, and that he could not give me part of the loan he was to pay back with interest as I would not know its value because I did not suffer for it. Then, he reminded me of what he had earlier told me about where my mates were shifting on the bench. He was talking about group loans indirectly (**IDI/Trader/42yrs/September 30, 2019**).

Given the female trader's narrative, there was re-lending at play between her and her brother. However, her brother was meant to pay back with interest while she enjoyed an interest-free loan. This could no longer be sustained by the benefactor-brother; hence his resort to the use of analogy of bench shifting in communicating the need for her to look for means elsewhere. The bench shifting, in this context, refers to the weekly meeting which serves as an avenue for group borrowers to pay back their loans. When the brother discovered that her sister could not understand the analogy given her continued patronage, he had no choice but to disappoint her. It was at this point that the brother was forced to talk plain on the need for her to get the loan directly from the source as a member of group borrowers so that she would equally know the value of the loan.

Although information about lending institutions can be obtained via many sources, information from social networks is more likely to spread faster. When information comes from one's friends or family, it is social network at play. Social networks among traders lessen the stress involved in sourcing for clients by the lending institutions. Social networks fall within the range of resources of social capital. According to Olomola (2002), social capital provides an individual a platform to benefit as a member of a social group. Social capital is instrumental to effective sharing of information about lending institutions among clients. The concept of social capital could as well make it imperative for an individual to teach their fellow individuals how to catch fish rather than being just fed with fish. Learning the fishing skills as depicted in a situation whereby a person in need of financial assistance is introduced or taken to a lending institution for a loan instead of being made to benefit

from one's generosity does not only make the person introduced input some efforts but also be responsible for any action taken against failure to repay the loan.

#### **4.4.2. Market storming**

Unlike referral, market storming is a system of mass visit by the agents of loan providers to the prospects while the prospects are the traders who can only be accessed in the markets. This means is peculiar to microfinance banks according to a male client officer with a microfinance bank at Gbagi Titun who said this:

We do market prospection (storming) to source for clients. We visit businesses and introduce ourselves to them. And, if they are interested in what we're doing, we proceed from there **(IDI/Client Officer/31yrs/ September9, 2019)**.

This was corroborated by a male loan officer with a microfinance bank at Challenge who expressed as follows:

We do market storming for individual borrowers while credit group members first gather themselves before inviting the bank for inauguration **(IDI/Loan Officer/28yrs/December19, 2019)**

Looking for clients, as it is the practice in microfinance banks, is meant to render door-step services which could have been traditionally expected from microfinance institutions which Olomola (2002) describes as the institutions of simplicity and flexibility. The reality has, however, shown that microfinance banks are equally simple and flexible given the door-step services rendered by them. And for microfinance banks to employ this medium there is a possibility that they are financially stronger than microfinance institutions; hence, the resolve to reach out to as many as possible clients who are in need of loans. The financial strength of microfinance banks is a function of the capital required in setting up such financial institutions coupled with the fact that they are legally permitted to accept deposits from the members of the public. This agrees with Nwanyanwu (2011) that paucity of funds actually limits the outreach of microfinance institutions. Given this financial strength, it is possible for microfinance banks to increase their client base and turnover; hence the adoption of varied options through which they can reach out to intending borrowers.



#### **4.5. Rationale for Loan Disbursement in Microcredit Markets in Ibadan**

Profits drive and empowerment were identified as the rationales for loan disbursement in microcredit markets. Unlike procurement that is undertaken by borrowers, disbursement is the mandate of the lenders. Disbursement literally connotes lending. Like the borrowers, the lenders are also guided by rationale when disbursing loans.

##### **4.5.1. Profit Making**

The lenders are entrepreneurs in their own capacities. And if the reward for entrepreneurship is profit, the lenders can be said to be driven by the gains made from the interests charged on loans according to a male credit officer with a microfinance bank at Gbagi Titun who stated thus: *I am working for a firm. And, the firm has to pay me my salary from profits made from interests (IDI/Credit Officer/38yrs/September16, 2019).*

In the same vein, a female informal lender at Agbeni corroborated the client officer's submission on the rationale for loan disbursement as follows:

When I provide loans, I know what comes to me as gains. It is the profits obtained from it (lending) that makes me give out loans **(IDI/Informal Lender/40yrs/September 22, 2019).**

Given the foregoing expressions, it is arguable that there are no interest-free loans in microcredit markets as the interests charged by the lenders make the profits with which the lenders cater for their running costs, including the payment of their employees' salaries. Microcredit markets do not only support the clients' businesses, but also a means of livelihood for the lenders and their employees. The interests charged on loan facilities generate and sustain employment-opportunities even for the loan officers and others working for the lending institution in ensuring that loans get to the final users.

##### **4.5.2. Empowerment**

Empowerment through microcredit facilities is recognized by the Central Bank of Nigeria; hence the articulation of microfinance framework by the apex bank in 2005. The framework, which eventually sought to regulate and decentralize microfinance

activities in the country, became imperative given the shortcomings that negatively impacted on the government-sponsored microfinance programmes (CBN, 2005). In the event of the failure recorded by the government in discharging effective and efficient microfinance programmes to the populace coupled with the liberalization of the financial sub-sector, private individuals and groups have regularly been licensed to undertake the role according to a male rubber-footwear trader at Ogunpa who said thus:

When they sat us down, they would tell us that they were for our empowerment and that we should know that such programme would not be fast if handled by the government. They would say that they did not need to bother us about statement of account as we might not have enough in the account that could qualify us in that traders like us were fond of stocks reordering frequently with the little we had **(IDI/Trader/46yrs/October27, 2019)**.

The rubber-footwear trader was corroborated by a general manager of a microfinance institution at Mokola who expressed thus: *We give out loans to assist the society (IDI/General Manager/45yrs/January21, 2020)*.

Given the foregoing narratives, it is incumbent upon the lenders not only to demand the loan applicants' rationales but also enlighten them on the rationales for disbursement so that the facilities will not be misused when eventually released to them. There is no doubting the fact that provision of loan facilities is empowerment or a form of assistance even though it is equally a source of revenue for the lenders. When loan facilities are made available to the traders, they have the opportunity of making a timely re-ordering of goods that will be given out in sale with the aim of making profits. This will not be meant for only business expansion but satisfaction of the family needs. However, microcredit providers do not just disburse even after applicants have been certified worthy of the facilities. They also deem it fit to educate the successful applicants on how best to utilize the facilities so as to justify its disbursement. Part of the education is to inform the successful applicants about the stringent conditions characterizing alternatives to private micro-financing. Having identified the traders' needs as well as the shortcomings inherent in the alternatives, microcredit providers consider it rational to create an impression that they are more effective to fill the vacuum. This is necessary for competitors who must get their

shares of the market by projecting their image properly in such a way that the prospective clients will be interested in securing such facilities.

#### **4.6. Objective Two: Factors Inducing Loan Default in Microcredit Markets in Ibadan**

The study found no variation in the causes of default across microcredit markets-regulated or not. Among others, loan diversion, flamboyant lifestyle, economic situation, education, gender, no or little attention to KYC (know your customer), fire outbreak, inability and unwillingness on the part of borrowers, proxy loans, seasonal products, over-borrowing, institutional compromise, robbery, illness and death were identified as factors responsible for default in microcredit markets.

While the concept of default basically connotes failure to live up to the contract terms and condition, it is the failure to pay back loan facilities promptly in the context of microcredit markets. The study found out that minutes or hours rather than days would determine default in microcredit markets according to a female branch manager with a microfinance bank at Challenge who had this to say:

Coming late for repayment is default. A client is said to be a defaulter if they fail to show up for repayment till the close of a day's activities at 4.00pm **(IDI/Branch Manager/30yrs/December 19, 2019).**

In the same vein, a male client officer with a microfinance bank at Dugbe expressed thus:

The moment you don't pay on your date, you have already defaulted. We open 8:00 am and close 4:00pm. Once you don't show up within the hours, we have every right to go to the person's shop and serve them warning letters **(IDI/Client Officer/31yrs/ October5, 2019).**

However, the point at which default is determined in microfinance institutions is longer as captured in the following expression made by a male marketer with a microfinance institution at Aleshinloye:

A loan customer must finish repayment within a month. However, we give grace of some weeks. It is after 2 months we say the customer has defaulted **(IDI/Marketer/42yrs/August 30, 2019).**

The foregoing narratives are inconsistent with the position of Olomola (2002) that describes a defaulter as someone who fails to pay back their loan facilities 90 days after the due date. There is a difference at the point default is determined between microfinance institutions and microfinance banks. This implies that microcredit providers generally do not agree to common terms to determine the point at which a borrower could be said to have defaulted. This disparity cannot be divorced from their respective statuses-being regulated or not.

Unlike microfinance banks, microfinance institutions are more lenient with the clients. Although this may create unhealthy competition between the loan providers in the markets, both methods adopted in determining the point of default are not lacking in rationality. The shorter time allowed for loan repayment helps the lenders recover their loans in good time while the longer time equally allows the loan procurers the opportunity to nurture their businesses to the point of satisfaction. And with quick recovery, there will be much more available for loan recycling unlike a situation whereby the borrowers are allowed longer time for repayment.

When repayment is not made according to the dictates of the contract, sustainability of microcredit markets will be threatened as the realization of the actors' aspirations will be unfeasible. It should be noted that default does not end at the point of its determination as it is equally interesting to present the features of defaulters as provided by a male banking officer at Gbagi Titun who expressed thus:

There are some signs you notice in customers that should make you to be careful before giving them loans. Let me mention a few: a person who starts bribing you or giving you tips the first time; a person who tells you that he/she needs the loans urgently; or a person who tells you that something bad will happen if he/she does not get the loans **(IDI/Banking Officer/28yrs/September 11&15, 2019)**.

This was corroborated by a chief executive officer of a microfinance institution at Salvation Army who had this to say: *They are too impatient to enable you carry out in-depth findings about them (IDI/Lender/October20, 2019)*.

Having interacted with a number of prospective clients, it was easy for the narrators to be clear about the features with which potential defaulters could be identified. This shows the officers' depth of experience. In other words, identification of the features could have been the outcome of lessons personally learnt by the officers in the course of carrying out their duties.

Bribery, desperation and emotion typify the foregoing narratives. In this context, bribery is concerned with the use of incentive for the facilitation of opportunity; desperation connotes urgency with which the opportunity is sought; while emotion connotes placing oneself in a pitiable state so as to attract feelings from others. The features do not align with the lenders' interests that have been earlier reported to be business-centred. If a microcredit seeker, who is considered low-income earner, offers incentive to facilitate a loan facility, it is arguable that the facility will be insufficient for the project for which it is sought. In the same vein, urgency with which a loan facility is sought could also hinder thorough assessment expected to be done by the concerned officers as there would be limited time to undertake such activities so also will emotional funding of personal predicament create crisis for microcredit markets. The defaulters' characteristics can be located in the following factors responsible for default in microcredit markets:

#### **4.6.1. Loan Diversion**

This arises as a result of channelling the amount of money taken as a loan into a different venture other than the venture for which it was originally sought and granted. According to Nwanyanwu (2011) loan diversion occurs when borrowers care for feeding with loan sought and granted for trading because of the high level of poverty in the country. For such borrowers, nothing can be done successfully at the higher level of entrepreneurship until their physiological needs are first satisfied. This confirms Angaine and Waari (2014) that Abraham Maslow's hierarchy of needs is sufficient to explain a situation whereby loans meant for business purposes will be eventually used for feeding.

It is the diversion of this kind that is captured in the thought that a hungry man first thinks about satisfying his primary needs before entertaining any other needs. And as feeding amounts to consumption rather than investment expected to be done with the

loan, repayment may not be feasible as ability to repay loan facilities is automatically foreclosed. The following have been found to engineer loan diversion in microcredit markets: imitation, wrong spending, functions and illness.

#### **4.6.1.1. Imitation**

This takes the form of attempting or deciding to live like someone else without the required means according to a male marketer with a microfinance institution at Aleshinloye who expressed thus:

A customer who wants to imitate another customer, who probably controls a shop worth 2million naira and rides in car worth a million naira, may also get a loan and divert it to another thing, not business **(IDI/Marketer/42yrs/August30, 2019).**

In the light of the foregoing narrative, imitation leads to diversion as it generates unhealthy competition among traders. It is under such circumstances that traders will use loan facilities to finance luxury such as cars, jewellery, and expensive accommodation for them to be accorded respect by their peers or rated higher than others. This is where diversion crosses flamboyant lifestyle. Diversion due to the pursuit of luxury could be a consequence of skill deficiency identified by Angaine and warri (2014) as one of the causes of default. When a client approaches a credit institution for a loan, it is expected that they must have known what to do with the loan before approaching the institution. If, at such stage, there is no clear-cut project with which the loan will be funded, the client may not be said to be skilful enough to handle the loan.

#### **4.6.1.2. Wrong Spending**

This takes the form of expending one's limited resources on those things not needed by the spender according to a male marketing officer with a microfinance bank at Gbagi Titun who expressed as follows: *Some customers take loans to buy what they don't need or what they are not supposed to buy (IDI/Marketing Officer/38yrs/September14, 2019).*

Implied in the narrative is the imperative of distinguishing between needs and wants. While goods with which loan facilities are secured are the needs in this context, other things purchased with the loan facilities are the wants. A trader granted a loan to

finance vegetable oil business, for instance, is not expected to spend the facility on shop rent or children's school fees as doing so would amount to wrong spending. Diversion of this kind could also occur when an entirely different venture is pursued by the client rather than the venture for which the loan was secured. In such situation, the client could be attracted to the projected gains of the new venture in spite of their skill deficiency. This could be a rational action initially even though the diversion may not generate the desired benefits in the end as rational choices do not always gratify choice makers in the end given the limitations to the rational choice theory. Ritzer (2011) identifies scarcity of resources like information as one of its limitations. Based on this assumption, it could therefore be posited that default arising from diversion due to pursuing a different venture could be borne by lack of or insufficient information available to the choice maker who could have made their choices based on limited information available to them.

#### **4.6.1.3. Flamboyant Lifestyle**

Diversion was also found to result from flamboyant lifestyle not connected to cars, jewellery and accommodation. Frequent and expensive functions can as well be in the range of indicators of unhealthy competition among loan procurers. It is possible for the loan procurers to default after expensive social functions according to a female trader at Aleshinloye who submitted thus:

There was a social function in Abeokuta organized by my friend. I attended it. She borrowed money to buy one-third cow from a daily savings collector with the hope that the well-wishers would accompany her to Abeokuta from Ibadan. You that do not attend party now invite people to a party. She gave the food out for free as there were no well-wishers. I think it was only three people that travelled from Ibadan to attend the party. This was almost ten years ago. She spent more than #100,000. She could not pay back the loan three years after the party while the lender was disturbing her. She was begging the lender and hiding at the same time **(IDI/Trader/42yrs/September 2, 2019)**.

The victim in the foregoing narrative was a type who wanted to make profits from a social function; hence her decision to take a facility to finance it. This was a rational action initially given the cash gifts characterizing such functions in the Nigerian society. However, she got it wrong at a point when she could not see herself

objectively within the context of her society where reciprocity is the norm. This accounted for low turn-out of her co-traders at the function as she was made to understand that she was not in the best position to have her invitation honoured because she was not a party-goer. Through their collective refusal to grace her occasion, she was not made to reap where she did not sow. Consequently she defaulted in loan repayment as the low turn-out denied her the opportunity to get the expected cash gifts from the well-wishers.

Given this consequence, she had no choice but to pacify the lender in order not to be exposed to the treatment options meant for defaulters. Even if it could not be proven that her default was solely determined by the social function, it cannot be refuted that her non-repayment followed the function. In other words, a relationship can well be established between the social function and default that eventually followed while the relationship might not be the cause as there are many other factors found to be responsible for loan default among traders. Unless there is monitoring of loan facilities by loan providers, actual cause of default may be difficult to establish in some situations whereas Soyibo (1997) argues that few informal lenders monitor loans after disbursement. This is not limited to informal lenders as microfinance banks may equally find it difficult to monitor loans after disbursement given the costs of monitoring. When borrowers are not monitored, there is tendency for them to divert loans. This is the point at which monitoring crosses diversion.

#### **4.6.1.4. Illness**

Diversion was also found to result from illness. This is concerned with the health condition of the clients. If diversion due to social functions or luxury cannot be said to be rational given the pains of non-repayment that may outweigh the ephemeral pleasure offered by such ventures, same cannot be said of illness. For instance, if a client is ill, and there is no other means to care for the client than the loan procured, the client will be likely prioritizing their health over loan repayment. In such scenario, the client cannot be said to be irrational as one must first be healthy before thinking about other needs, including loan repayment. This is justified by the thought that while there is life, there is hope. Life, in this context, transcends just being alive as a human being to include sound health because it is only healthy minds that are mentally and physically fit to engage in productive activities like trading. It is under



such circumstances that diversion of loan is likely to be justifiable in that the affected client must have weighed the consequences of the action against the gains embedded in diversion. This is the point of intersection between diversion and illness according to a female nylon trader at Agbeni who had this to say:

Even, whenever that CO came around, my neighbours would not know that he came for loan retrieval. He would come and ask after me, and even offer to take me to the hospital as I was ill then. He would also buy me fruits. The BM would also send me money in spite of the fact that I was indebted to them **(IDI/Trader/42yrs/September20, 2020)**.

This was corroborated by a male informal lender at Agbeni who expressed thus:

There was a client who fell ill two days after taking a loan of #50,000 from me. She dealt in liquor. She was admitted to the hospital over the illness. I did not talk about the loan again, but her recovery. You know you get back your loan when the borrower is alive. Even without paying back the loan, she was granted another loan of #10,000 after her discharge from the hospital for her to start afresh so that she could pay both the old and new loans **(IDI/Informal Lender/46yrs/November25, 2019)**.

In the same vein, a male marketing officer with a microfinance bank at Gbagi Titun had this to say:

Customers who fall ill along the line may use the capital for treatment of illness. If you are ill, you will not be looking at yourself. You will be looking for a way out to get better. And, it has to do with money. When you get to the hospital, they ask you to go for test and drugs **(IDI/Trader/38yrs/September14, 2019)**.

The fact that the ill clients are compelled to expend beyond their shares of the capital on their recovery, default is inevitable. This is evident in the foregoing narratives which indicate that loan facilities obtained from formal or informal lenders are prone to default in the event of the clients' ill health. This is part of the risks in microcredit markets. A situation whereby a borrower fell ill two days after taking a loan as was the case with the informal male lender has confirmed the earlier reported finding that microcredit markets are characterized by risks as the female client could not have taken the facility had she had the premonition of illness. Again, she might be too unconscious to determine whether or not the facility obtained should be expended on

her recovery as she could depend on caregivers for decision at such critical stage. The lenders are aware of the fact; hence their decision not to bother the clients during illness. This shows the extent of compassion in microcredit markets as against the notion that taking such a loan is synonymous with putting one's manhood or breasts on a lantern.

Microcredit lenders are also seen to be so compassionate that they could offer to foot the hospital bills for their ill clients as was the case with the nylon dealer as well as extend further credits to defaulters who have recovered from illness as it was the case with the liquor dealer. In the informal lender's rational sense, the female client would not be able to pay back the facility unless she was further supported financially to continue her trading activities.

#### **4.6.2. Loan Sharing**

This arises from a situation whereby the principal borrowers sub-lend the loan facilities procured to someone else without the consent of the lenders. This practice, which cuts across formal and informal microcredit markets, was found to be perpetrated by the clients in a bid to satisfy their guarantors and other people around them according to a male sport-wears trader at Aleshinloye who had this to say:

The guy that stood as my guarantor also begged me to lend him #100,000 out of #300,000 granted me. After paying the first and second instalments, he ran away. He is no more in the market. This made me default **(IDI/Trader/28yrs/August 28, 2019)**.

This was corroborated by a female nylon trader at Agbeni who expressed thus:

If you take a microfinance loan and sub-lend it, the beneficiary cannot think like you. The rules read to you were not read to the person as they have not followed you there. I used to divide the loans personally taken with an area mother until recently when I told her that we could not continue like that but rather she should come and face the challenges by herself. The woman nearly cried when she got home on the day she was taken to the meeting having witnessed the hurdles surrounding the loan facilities **(IDI/Trader/42yrs/September30, 2019)**.

Unlike the female nylon trader who discontinued loan sharing with her area mother with a view to making her experience the terms and conditions of loan facilities first-hand, the male trader's foregoing experience exemplifies the possibility of ulterior motives of people who are approached by loan applicants to guarantee their loan requests. There is no doubting the fact that the guarantor offered to guarantee the trader on the condition to share the facility with him rather than other considerations. This shows the extent of manipulation by guarantors who become loan procurers in disguise.

Although such practice seems to be undesirable as it falls short of the laid-down rules of loan providers, rationality in guarantors can justify the action which seeks to maximize gains from where their efforts are channelled. The guarantors' efforts are undoubtedly instrumental to securing loan facilities. Therefore, going by the tenets of rationality which describe actors as being purposive, there is nothing wrong about them benefitting from the deal as was the case with the male guarantor who benefited a quarter of the loan of #300,000 accessed by the male sport-wears trader. The guarantors are rational actors who have speculated that they would be forced to pay back the loan facilities should the principal borrowers fail to pay. So, in their rational thought, it is better to have a share of the loan so as not to be a total loser in the event of default.

In the same vein, the principal borrower could also be seen to have operated within the rational template by consenting to the guarantor's request as failure to do so might deny him the loan especially if it was a pre-procurement request in the sense that the guarantor would refuse to sign the necessary documents that would confirm him as the guarantor. And since guarantee is an integral part of loan requirements in microcredit markets, refusal to sign the necessary documents by guarantors automatically connotes 'no guarantee' while the applicant will be disqualified. Even if it was a post-procurement request, the borrower could still consent so as not to ruin his relationship with the guarantor. This follows the thought that one may be forced to patronize a particular person for help more than once. And if one (principal borrower) fails to appreciate (in form of loan sharing) one's benefactor (guarantor) in the first loan cycle, it may be impossible for the principal borrower to access a second loan

cycle as the guarantor who is not appreciated in the first cycle may not be willing to surety the second loan.

#### **4.6.3. Loans by Proxy**

Related to loan sharing is loans by proxy in which a person will ask another person to take a loan facility on their behalf. This is different from loan sharing in that the whole facility will be submitted to the person on whose behalf the facility is procured. Although microcredit providers are aware of this, such arrangement is not legally known to them; hence the lenders' resolve to bother the person who procures the facility in their own name in the event of default. It is one of the sharp practices in microcredit markets according to a male client officer at Gbagi Titun who expressed thus:

Some collect money (loans) on behalf of another person and, they will be compelled to declare that they did not use the money when the loans go bad. That does not concern us. We collect our money back **(IDI/Client Officer/38yrs/September9, 2020)**.

In the same vein, a female nylon trader at Agbeni also provided an insight into loan by proxy as follows:

There was a friend of mine who claimed to have been denied credit group membership. She then presented her younger one, neighbour and someone else to take separate loans on her behalf while she also took facility from a daily contributions collector. When she started paying back, it became a problem. And, you know people will only know about the one directly taken by her. They may not know about other facilities taken on her behalf **(IDI/Trader/42yrs/September30, 2020)**.

However, a female second-hand clothes dealer at Aleshinloye provided a different angle to loans by proxy thus:

There was a person I once borrowed for from a microfinance bank. The person could not meet the conditions. So, I used my name to borrow a loan of #100,000 for the person 3yrs ago and, the person had settled the facility **(IDI/Trader/49yrs/September2, 2020)**.

In the light of the foregoing narratives, loans by proxy can both be productive and counterproductive. It is productive when the takers (users) are able to pay back from the returns from the loan-financed investments while inability resulting from inadequate returns from the loan-financed investments makes it counterproductive. The narratives have also shown that actual loan users are different from loan takers who could have trusted the actual loan users' repayment abilities or been forced by the actual loan users. In other words, trust and force are the motivating factors responsible for loans by proxy in microcredit markets. Given this, it is necessary to undertake a review of the concept of production chain which prescribes that production remains incomplete until the goods and services produced reach the final consumers.

The final consumers, in a broader sense, are the buyers of such goods and services whereas the final consumers are not necessarily those who directly procure loan facilities from microcredit providers but those to whom the facilities are eventually delivered for use. However, the loan takers are legally responsible for the loan repayment. This practice takes microcredit transactions beyond civil region given the criminal characteristics of such transactions according to a male Divisional Crime Officer at Agugu who had this to say:

The police come in when a borrower disguises to get multiple loans at the same time by recruiting some other people to get loans for him/her. The borrower could be charged with fraud in such situation **(KII/DCO/55yrs/November26, 2020)**.

Whereas, a male Divisional Crime Officer at Bodija expressed as follows:

Since lending is a business transaction between people, we do not usually accept such cases because we are not consulted before they seal the transactions. Moreover, we have been warned by the authorities to be careful when dealing with such cases (debts) because they are civil **(KII/DCO/56yrs/November 26, 2020)**.

Being an integral part of the executive arm of government, the security agencies execute the law of the land by gate-keeping the criminal justice system. The first narrative depicts a point of intersection between loans by proxy and multiple borrowing. Convergence of the two circumstances makes it possible for an individual

to gain access to what they could not have got ordinarily. The foregoing case about the female nylon trader's friend who adopted facelessness in securing multiple facilities is best situated within this context. It is evident from the case that the person failed the eligibility criteria for such facilities; hence the choice of rational means of faceless. This is an innovating reaction which involves devising another means of accessing a certain goal in the face of non-access to the legitimate means.

When the legitimate means are not within the reach of loan applicants, they tend to react by pursuing their goals with their improvised means. This is a calculative action that does not just occur by accident as the applicants must have mapped out the action before recruiting other people who are certified eligible to procure such facilities on their behalf. However, such innovating reaction takes microcredit transactions beyond the civil domains in which they ought to be to the criminal domains which attract the attention of the law enforcement agents. In other words, it draws a line between civil and criminal cases in microcredit transactions as attested to by a male Divisional Police Officer whose expression indicates that default is only civil if the loan facilities are not obtained by proxy.

Obtaining loan facilities by proxy can give an impression that such facilities are procured under pretence which is criminal in nature as such practice tends to affect the composition of major actors in microcredit markets known to be lenders and borrowers. The ideal composition of microcredit actors does not have provision for hidden faces such as those obtaining loans by proxy. Although the foregoing narratives suggest severe penalty for the hidden faces behind proxy loans, the known faces who are used for the facilitation of such undeserved facilities may not also be pardoned given their complicity. Implied in the foregoing narrative also is the fact that criminal dimensions to microcredit transactions usually require the security agents to usher culprits into the nation's criminal justice system, while civil matters can be well pursued without attracting the attention of the security agents.

Again, like criminal cases, civil cases can also be settled in the law courts while the law enforcement agents are also seen to be involved even though such transactions do not generally have inputs from them as they are not a direct party to such transaction. This is the reason for not being disposed to entertaining cases related to such

transactions as a male Divisional Police Officer would reveal above, and more so that they have been warned by the higher authorities to exercise caution while treating such cases. However, the police indisposition to such cases does not connote outright rejection as there are still other areas of the transactions that attract their attention. Such areas might not even be envisaged by the parties to the transactions at the procurement/disbursement stage. This confirms the social thought that the issue kept away from the father will eventually be settled by the father when the issue results in crisis. A father in this context could be anyone assumed to be older or more knowledgeable than the parties involved. This is the fatherly role played by the security agents who are brought into such transactions because of the authority they represent rather than age.

#### **4.6.4. Multiple Borrowing**

This basically means procuring loan facilities from more than one microcredit provider simultaneously. It is not an offence, however, for the borrowers to take facilities from more than one lender according to a male supervisory officer at Dugbe who said this:

People default because they don't collect money from one bank, even though borrowing from other microfinance banks does not mean that we will not lend you money. We only need to know how much they already borrowed, but they will not tell you the truth **(IDI/Supervisory Officer/38yrs/September21, 2020).**

Corroborating this was a male trader at Gbagi Titun who expressed as follows:

I was struggling with my trading until default resulted from the facilities of #500,000 and #300,000 respectively obtained from two microfinance banks about four years ago. As I'm talking, I'm still indebted to one of the microfinance banks to the tune of about #100,000 **(IDI/Trader/43yrs/November20, 2019).**

From the foregoing narratives, it is evident that multiple borrowing is not a problem in itself but rather the greater burden attached to it. The burden, of course, centres on multiple financial responsibilities which may not be supported by little investment at the borrowers' disposal. It becomes worse if multiple borrowing arises from intent to settle one facility with another facility. And where it is not meant for the settlement of

other facilities, multiple borrowing may lead to over borrowing which eventually create wasteful spending as the amount of resources available to the borrowers must have been more than the amount of resources required for running their businesses. Under such circumstances, borrowers cannot be said to be financially stable to pay back loan facilities. For this to be prevented, microcredit providers need information about other financial dealings sealed by the borrowers in order to determine if they are still capable of taking another facility.

There is rationality in the lenders' curiosity as this will pay both parties in the end. With such information, the lenders will not have their money laid unused or wasted by borrowers while it also shields the borrowers from the consequences of default likely to arise from multiple borrowing. It is, however, regrettable that such vital information is not always available to microcredit providers in the light of the fact that the borrowers are not trustworthy to disclose such information to the lenders for the fear of being denied access to loan facilities. This is a calculative action that cannot also be divorced from rationality in potential borrowers.

#### **4.6.5. Unfavourable Economic Situation**

This was found to be resulting from government policies such as ban on importation of some foreign products according to a male sales representative with a microfinance bank at Challenge who expressed thus: *A client dealing in foreign food items like rice and vegetable oil will find it difficult in the country now (IDI/Sales Representative/28yrs/December19, 2019)*

Whereas, this situation was found to be as a result of low patronage on some other occasions according to a second-hand clothes male trader at Aleshinloye who had this to say:

I'm still owing them (microfinance bank) a little money. I have stopped dealing with them because the country is in disorder. Since the Buhari government entered (commenced), there is nothing going like before. We can't meet up again in sales to pay back the loans. If you take a loan to buy goods, and there are no sales, you can't meet up and you fall in their hands (IDI/Trader-defaulter/65yrs/September2, 2019).



This was corroborated by a male tailoring materials dealer at Gbagi Titun who said thus: *I have some goods inside (the shop) that are more than 5 years. Some want to buy the goods, but there is no money (IDI/Trader/36yrs/September 4, 2019).*

Implied in the foregoing are the default-inducing factors beyond the control of defaulters whose loan repayment attitudes cannot be solely determined by their abilities but macro-economic factors while such factors are dictated by the government policies. For instance, the traders who deal in rice or second-hand clothes may find it hard paying back loans in the country owing to the government directive that all land borders be closed. Again, if there is a change in consumers' taste, this could affect the traders whose goods are less preferred.

In some cases, demand for traders' goods suffers a decline as a result of lack of purchasing power by consumers. Purchasing power could be a function of employment because it is from employment that one gets wages as rewards for one's labour. However, being employed may not guarantee purchasing power sometimes given the Nigerian experience during recession when even the government employees could not be paid salaries for months. These are the economic factors that affect the sales turnover of the borrowers; hence their inability to pay back their loans as loan repayment is also function of sales. Unlike the tailoring materials dealer, the second-hand clothes dealer associated his ordeal with disorderly state of the country under the Buhari-led administration. Although he did not expatiate further on how the Buhari-led administration had affected him, it could be inferred that the nature of his trade as a second-hand clothes dealer would surely put him at a disadvantage in the country where there is a ban on importation of such goods.

It is also evident from the narratives that policies are not always the same for all government administrations; hence the reason for comparison between the former and the current administrations by members of the public like the second-hand clothes dealer whose means of livelihoods depends on such policies. This necessitates the interpretive understanding of the concept of disorder adopted by the second-hand clothes dealer to describe the government in place. Contextually the concept may imply any government policies that are not favourable to the traders whereas the foregoing narratives also suggest that economic situation is not only measured in

terms of embargo on the importation of some products. Consumers can affect the sales turnover of the products that are not under embargo as well. In other words, placing an embargo on the importation of some products is not solely responsible for unfavourable economic situation given the fact that the consumers' incomes can affect the sales turnover of the products that are not under embargo as well.

The extent to which the economic situation affects loan repayment cannot be underestimated in the light of foregoing expressions which show not only the loan procurers' but loan providers' depth of knowledge of this factor. However, loan procurers, who are on the verge of receiving treatment options that follow failure to pay back loans are better equipped to understand that it is not only rice and vegetable oil dealers that are affected by the factor. Traders generally are affected given the case of the tailoring materials dealer who could not make expected sales in spite of the fact that his goods were freely accessed from the suppliers and even made available for sales in his shop. This is not the case of not having what to sell in the store, but not having enough patronage which could earn traders the desired returns. So, being the shoes' wearers, the traders understand where the shoes pinch them unlike the lenders who are not directly involved in the ventures funded with the loans.

#### **4.6.6. Robbery**

This is a situation whereby loans are forcefully taken away from the loan procurers who may not be well protected to resist the attack given the inadequate security in the country. In the face of such attack, loan repayment may suffer as the victim loan procurers may have been weakened by the loss to the attackers. Being one of the factors militating against loan repayment, robbery is likely to be induced by many factors including cash-driven economy in which both buyers and sellers prefer to conduct business transactions rather than other payment means whereas the nation's realities dotted by robbery attacks may render loan facilities unsafe. The frequent media reports on the robbers dispossessing their victims of cash and other valuables attest to the fact that robbery is an impediment to the actualization of all aims, including loan repayment. The victims, of course, could be people who have just taken loans from microcredit providers.

Dispossessing the borrowers of the loan facilities has undoubtedly created a situation whereby such facilities will not be used for the purposes for which they are procured as there has been interruption in-between loan procurement and loan utilization. Given this, default has arisen in that robbery that takes place has broken the productive chains of loans because loans taken for any purposes remain incomplete until they are eventually put into use (channelled into the purposes for which they are procured) according to a male Divisional Crime Officer at Ogunpa who had this to say:

An Okada rider who borrowed money to purchase a motorcycle, but the motorcycle was stolen/snatched away from him cannot pay back if he even wants to pay back **(KII/Police Officer/55yrs/ November 26, 2019).**

The police officer was corroborated by a male client officer with a microfinance bank at Gbagi Titun who expressed thus: *Robbery is one of the several factors causing default (IDI/Client Officer/31yrs/ September 9, 2019).*

Robbery is not limited to borrowers as lenders could be victims as well in the light of the following narrative by a male informal lender at Agbeni:

There was a day I was negotiating my way through a corner around Iso-Pako (plank market) at Omowumi area near Olorunsogo. It was around 7:00pm. I carried a bag containing about #21,700 which was the money made from the day's work. Area boys usually hanged around the place, and I usually 'settled' them whenever I took the route as they would hail me as *Baba Alajo*. However, on that fateful day, some of the boys there snatched my bag and ran away. I first thought it was over until one of their leaders came to my rescue by ordering those boys to return my bag and money **(IDI/Informal Lender/46yrs/November25, 2019).**

Given the foregoing narratives, it is not only the lenders that are aware of the fact that robbery can interfere with loan repayment. The fact is also clear to the police who could be brought into the issue bordering on default. And a law enforcement agent of such standing, the DCO's narrative presents a practical scenario to demonstrate that a victim of robbery attack is undoubtedly financially crippled to survive not to talk of paying back a debt. As earlier reported, it is lack of or inadequate resources driving people to microcredit markets for loan facilities. Again, it is the less-privileged in the

society that are likely to be found riding commercial motorcycles to earn a living. If, for instance, the poor succeed in obtaining loan facilities to procure motorcycles, and unfortunately such motorcycles are stolen, it becomes a dual tragedy for the victims in that they will renege not only on the repayment of the facilities but lose their means of livelihood. In the event of such experience, the resulting default cannot be said to be rationally chosen by the victims who lack control over such situation.

Being an operator of a microfinance institution, the male informal lender who was a victim of robbery attack was a type whose working hours could extend beyond 4pm as against what obtains in the former work environment like microfinance banks. Cash transactions were acceptable to him; hence his choice of the use of bag for the movement of the proceeds from daily transactions. His daily proceeds could also help in determining that he was not so a buoyant operator. Nevertheless, he was a known face in the area given his local appellation chanted by the area boys whom he used to 'settle' not only for praising him but his safety. His generosity later proved him right on the day his safety was threatened. Although his narrative implies that he was confronted with 'enemies-within' given the unpalatable treatment meted out to him by the boys he used to 'settle', he would have suffered totally if he were not generous to them at all. The fact that one of the area boys' leaders came to his rescue points to the imperative of generosity among the operators of that nature and, the decision of the boys to return his valuable items to him on the order of the leader also establishes that there is order in the world of area boys usually taken for a total disorder. In other words, there is order where disorder is assumed to be the norm.

As earlier reported, such experiences are inevitable in a cash-dominated economy where loan disbursement and repayment are preferably made in cash according to a male chief executive officer with a microfinance institution at Salvation Army who had this to say:

We don't encourage cash, especially with various applications available now. But that is what they want. Some will request for transfer while some will request for cash. So, it is the combination of the two **(IDI/Lender/ 63yrs/October 11, 2019)**.

This was buttressed by a male head of recovery with a microfinance institution at Agbeni who expressed thus:

Given our environment, many of them will not accept transfer of loan into their accounts. Many of them are stark illiterate. They will tell you that they want cash payment. At times, we make cash available to them. At times, we give them cheques or do transfer. It depends on how the customer wants it done **(IDI/Recovery Officer/42yrs/October10, 2019)**.

The fact that most microfinance institutions are informal, cash-dominated transactions in the sub-sector are not accidental in the sense that such institutions are likely to be found attending to the needs of informal economic activities which are more dominated by the illiterate. This is the point at which socio-economic factors such as education and occupation intersect with the mode of transactions that will be preferred by the borrowers. However, it is also evident in the narratives that the operators of microfinance institutions are not naive in the art of lending given the options of cheque and transfer made available to their clients.

Although cashless policy initiated by the Nigerian government in 2014 is expected to be embraced in all nooks and crannies, the populace have not jettisoned the practice of cash transactions given the fact that the alternative means of payment may not be well understood or trusted to be safe. This is consistent with Tade and Adeniyi (2017) that the Automated Teller Machine (ATM) card holders are not immune against financial loss either by tricks of their close contacts or force of strangers. ATM card is one of the vital tools designed for the realization of the cashless policy. With the pin of the ATM card disclosed to a third party, safety is no longer guaranteed whereas the borrowers, like others, could be too trusting to release such vital codes to the family members, co-traders or apprentices in emergency periods.

#### **4.6.7. Gender**

This is another factor found to be default-induced, but this rather moves in the opposite with the males rating female borrowers' performances higher than their male counterparts while females rated male borrowers higher than their female counterparts. A male professional moneylender at Ogunpa had this to say: *If you are disciplined, women are better lendees because they fear anything that is hard* **(IDI/Professional Moneylender/70yrs/October5, 2019)**.

On the other hand, a female nylon trader and credit group leader at Agbeni said this:

We have men in our group. In fact, it is men that are supposed to be taking such loans. Men fear more than women when it comes to repayment. Hardly will you see ten men who will fail to repay as men rarely give excuses given by women **(IDI/Trader/42yrs/September30, 2019)**.

However, there is a third voice mediating in the foregoing dissenting expressions by a female client officer with a microfinance bank at Iwo-road who expressed thus:

Male clients are not different from female clients. In fact, both clients would be ready to fight you by holding your clothes in the event of default **(IDI/Client Officer/27yrs/ November 8, 2019)**.

The opposite findings could be as a result of the individual experiences. If male lenders have a good experience with female borrowers, female borrowers would be better to them as was the case with the professional moneylender. On the other hand, female lenders or group leaders who have a good experience with male borrowers would not hesitate to give male borrowers a preference over their female counterparts as was the case with the female credit group leader. Regardless of the direction, this is inconsistent with Angaine and Waari (2014) who report that gender does not determine default. In the same vein, the submission of Doering (2018) that clients are unlikely to comply with loan repayment when female officers are concerned cannot apply in this situation given the experience of the female credit group leader who was charged with the responsibility of ensuring repayment compliance of group members. Her narrative suggests that she was more comfortable dealing with male clients; thereby proving that females can play the role of loan officers to the satisfaction like their male counterparts.

The foregoing narratives have also unravelled the significance of fear in prompt loan repayment which might not necessarily emanate from the clients' ability but anxiety. It is such anxiety that forces willingness on the clients who may remain worried until their debts are fully settled. This is observable in male clients by female lenders, and equally found in female clients by male lenders. Nonetheless, the narratives have equally emphasized the importance of discipline in loan recovery which is expected by to undertaken by male loan providers objectively. Discipline, in this context, is a moral attribute that enables a person to understand when, where and how erotic

relationships should be established with the opposite sex. A disciplined male lender is not expected to submit to seduction from a female client if he wants to actualize loan recovery to his satisfaction.

Despite the dissenting findings on gender and default, there is still a basis for concluding that default is gender-motivated even though there is no clear direction against a particular gender. This is the beauty of a qualitative study which Jegede (2006) associates with the generation of individual differences. It is certainly the individual differences that will necessitate the preference for male clients by female lenders and vice versa. However, in the light of the moderating narrative by a female client officer that both male and female defaulters display violent attitude, it is arguable that gender does not influence defaulters' attitude to the lenders' reaction to default. This negates the expectation that the lenders should rather fight the defaulters being the benefactors whose facilities are meant to empower the defaulters in the first place.

#### **4.6.8. Affliction**

This is the factor that is concerned with spiritual attacks which do not make the afflicted to have their efforts yield meaningful results that can enable them to play their roles as debtors according to a male head of information technology and recovery with a microfinance bank at Agbeni who had this to say:

There was a poultry operator who defaulted, but said that he did not know how the money disappeared. He linked his default to spiritual attacks. We would not take that from anybody **(IDI/Head of Information and Recovery/41yrs/October 29, 2019).**

This was corroborated by a male flour dealer at Agbeni who said thus:

I started having problem when the group leader placed a curse on me that I would not find it easy to pay back the facility of #120,000 granted me in that year. And, truly I found it impossible to pay back as the flour I used the facility to procure became so defective that was rejected by the bakers **(IDI/Trader/46yrsNovember25, 2019).**

Although the reason might not be tenable to the lenders, evidence abounds that it is not all people that have graduated to the positive (scientific stage) postulated by Auguste Comte where causes and effects are rationally determined as a number of people are still at the theological and metaphysical stages which make them ascribe events to spiritual forces. Unlike other factors, affliction is a subjective factor that cannot be subjected to any objective analysis as knowledge about it is still unclear not only to the victims but people around the victims. Under such circumstances, the victims begin to interpret altercations between them and others as was the case with the male flour dealer so as to find a meaning that could help them offer explanation for the causes of failures rather than seeking objective understanding of their predicament.

Apart from the factory error which could have negatively impacted the production of the flour, poor storage facilities could also have rendered the flour defective. Such objective analysis of the cause of the defection might, however, not appeal to the flour dealer who was likely to downplay this with the argument that other dealers who patronized the same factory did not have such experience while his storage had been a long time facility that had never disappointed him.

Same for the poultry operator who used the term ‘disappear’ to describe his lack of knowledge of how the loan facility procured for the purpose of his business was eventually utilized. The term ‘disappear’, in this context, connotes inability of the victim to account for the facility whereas repayment of the facility depended on the extent to which the victim could account for the facility as this would afford him the opportunity to determine whether or not he made profits from the venture financed with the facility. Affliction is beyond rational thinking; hence the reliance of the victims on divine solution mostly sought in religious centres.

#### **4.6.9. Lockdown (Corona Virus)**

This is a novel factor that was created as a result of the pandemic outbreak that led to lockdown of all activities across the world in 2020. Like other nations of the world, Nigeria was also affected given the restriction placed on the movement which ultimately affected microcredit markets according to a male fabric materials dealer at Ogunpa who expressed thus:



I borrowed #200, 000 from a microfinance bank before the outbreak of Corona Virus pandemic last year. As we could not make sales during the lockdown, I couldn't meet up with repayment. I still owe them (microfinance bank) about #45,000. They used to come here and disturb me and my guarantor, but my guarantor would ask them to meet me since I was available. I recently promised them that I would settle the debt during festive period **(IDI/Trader/43yrs/March7, 2021)**.

This was corroborated by a male foot-wears dealer at Ogunpa market who expressed thus:

The person I guaranteed for a loan in a microfinance bank defaulted last year because of lockdown. Being his guarantor, they (the lenders) still come to me. But, whenever they come around, I ask them to meet the defaulter who is always available since we share the same shop **(KII/Trader/45yrs/ February 20, 2021)**.

Implied in the foregoing narratives is the intersection of unfavourable economic situation with global health concern. Since the virus is taken for a disease that spreads fast with a large gathering of people, it was reasonable for the government to close down marketplaces in order to discourage large gathering of people characterizing marketplaces. This was the global concern which consequently collided with the people's means of livelihood. During the lockdown, traders could not open their shops not to talk of making sales; thereby resulting in the traders' inability to fulfil their loan obligations. In other words, the fact that all activities were suspended during the lockdown that followed the pandemic, the loan takers would not be expected to operate their trading activities freely.

Lockdown is one of the unforeseen circumstances inhibiting loan repayment. This could have accounted for the lenders' understanding who considered it reasonable to pay the defaulters a visit rather than subject them to sanctions. However, such visits can also be interpreted to mean that no circumstances can stop loan providers from demanding their clients and the guarantors to perform their obligations in order to sustain microcredit markets. Again, the foregoing narratives have shown that the concept of guarantee, in the Nigerian context, is not understood beyond physical

presentation and signing of necessary documents so as to enable the loan seekers access the facilities without preparing the mind for the guarantee challenges which usually require that the guarantors assume the responsibilities of the principal borrowers in the event of default. This is the abdication of responsibility for the guarantors who are not ready to settle the principal borrowers' debts as long as the debtors are available.

#### **4.6.10.Ethnicity**

This could be taken to mean social identity of a group of people sharing the same culture. Although there are 389 ethnic groups in Nigeria, the number is not fixed (Otite, 2000). Of the 389 ethnic groups in Nigeria, the Hausa/Fulani, Igbo and Yoruba constitute the major ethnic groups in the country. Given the sensitivity involved in ethnicity, the social identity has not been reported in the literature as default-driven factor whereas social researchers demand to know the ethnic identities of their research participants. A probe into the participants' ethnic identities without corresponding courage to report the association existing between the focus of the study and the participants' ethnic identities may not justify the time expended on probing into such identities. This is the gap that has been filled by this study which found ethnicity to be playing a significant role in microcredit markets. Although the study was conducted in a Yoruba region, evidence abounds that the Igbo are preferred to other ethnic groups for loan facilities according to a female client officer with a microfinance bank at Iwo–road:

I prefer to give out loans to Igbo because they know business. And, they are very straightforward. They are very truthful. They know what agreement is. When they see that the loan interest is too much for them, they won't take it **(IDI/Client Officer/27yrs/November8, 2019).**

It is rational for loan providers to consider a set of people who can safely handle such facilities. Such set of people could be ethnically determined. This follows the anthropological concept of modal personality in which a group will be known for the exhibition of certain personality traits (Oke, 2004). Loan is a business deal that requires taking a rational action so as to be at advantage. This buttresses the earlier findings that microcredit facilities are basically for business purposes. Although open to criticisms, knowledge of modal personality will not make loan providers suffer

when trying to get back their loans as such knowledge will have guided them against being biased when considering people for loans in the first place.

In the same vein, it is rational for the clients to attach loan facilities to a profitable venture which can enable them pay back conveniently. This is the trait identified in the Igbo clients by the female client officer whom she described as being knowledgeable in business ventures. However, the findings of Ohajianya *et al* (2013) report that it is risky supplying loan facilities to agricultural investors in Imo State. Although Imo State is predominantly occupied by the Igbo, the ethnic identities of the affected investors are not disclosed in the report so as to determine their ethnic affiliation. Again, the participants of the current study were mainly traders who are different from the agricultural investors considered by Ohajianya *et al* (2013); hence they should respectively be expected to operate under different circumstances leading to default. More so, the findings of Againe and Waari (2014) indicate that default in the trading sector ranks the least among all sectors of the economy.

The factor of ethnicity in microcredit markets can also determine the kind of guarantor accessible to a loan applicant according to a male tailoring materials dealer at Gbagi Titun who said thus:

There was a day one of my church members came here. The member, an Igbo man, asked me to stand as his guarantor. I am Yoruba. Igbo and Yoruba, what relationship do we have? We are one in Christ, but whenever they mention N'digbo I won't be able to answer. I asked the member to look for co-Igbo to stand as his guarantor **(IDI/Trader/36yrs/September4, 2019)**.

This was corroborated by a male sports wears trader at Aleshinloye who had this to say:

I have been friends with the guarantee for 6-7years. We got to know each other because we're Igbo. We are also in the same market. That's the help I could render as a friend since I didn't have money to give him **(IDI/Trader/28yrs/August28, 2019)**.

In spite of the merits offered by determining the ethnic affiliations of loan applicants, it could also create division even among people who subscribe to the same religious belief. It is within this context that a member of an ethnic group will not be disposed

to surety loans procured by someone of different ethnic background. For someone to volunteer to guarantee a borrower, some level of confidence is needed to be reposed in the borrower's ability to pay back. Given the foregoing narratives, such confidence is not determined by the borrower's financial status but their ethnic affiliation; hence the need for structuring loan guarantee along ethnic lines rather than financial status or religious ties which are not considered too strong to determine the kind of confidence needed to repose in the borrower to pay back.

It is evident from the narratives that the fear of language differences also makes the preference for the sameness of ethnicity inevitable as an average trader is willing to guarantee a co-trader with whom they can freely communicate rather than someone whose language is not understood. This forecloses cross-ethnic guarantee. It is against this backdrop that the sense of *One Nigeria* will be in doubt. Again, if the concept of guarantee connotes help as pinpointed by the second narrator, it may be difficult for some less privileged to access microcredit facilities in the light of impossibility of cross-ethnic guarantee whereas guarantors are needed to access such facilities.

#### **4.6.11. Education**

This factor is concerned with schooling in the Western sense which classifies people as educated and non-educated depending on whether or not they attend schools which eventually earn them the status of graduate, secondary school certificate examinations holder, or primary school first leaving certificate holder. Although education has been established to play a vital role in credit markets according to Ibeleme *et al* (2013) who report that the level of education determines the loan size demanded, the current study found out that loan default was much more among the educated than non-educated according to a male client officer with a microfinance bank at Dugbe who had this to say:

In terms of repayment, I rate unlearned ones higher than learned ones because they are very scared of anything letter. They don't even know the meaning of letter. Once we say that we are bringing letter, they believe we are coming to lock their shops or lock them in the prison. So, the fear will make them pay. But those learned ones will tell you that they know their rights, and will start bring up issues to defend themselves (IDI/Client Officer/ 31yrs/October5, 2019).

Given the narrative, the educational attainment of a client can as well induce fear in the client; hence better loan repayment performances among illiterate clients than their literate counterparts. This agrees with Olomola (2002) that educated defaulters are higher than illiterate defaulters. Unlike the illiterates, the literates are conversant with written words to discern the contents of letters written to defaulters by microcredit providers. Again, being learned will make the learned understand the fact that being a civil matter, mere default may not take them to prison. The current finding does not agree with Angaine and Waari (2014) who submit that default rate decreases with the borrower's level of education in Kenya. Although, Kenya like Nigeria is an African country, differences should be expected in the socialization processes of their respective borrowers. Such socialization processes are rooted in the cultures of the affected peoples whereas variations generally exist in cultures regardless of continental affinity which the two countries share. It is within this context that borrowers will not be expected to behave the same way even when being faced with the same obligation such as loan repayment across the two countries.

#### **4.6.12. Institutional Compromise**

This arises from the targets set for loan officers in microfinance banks as against microfinance institutions. Targets are meant to determine the loan officers' effectiveness. It takes the form of tasking the affected officers to source for clients who will make deposits or take loans with the aim of increasing the income level of microcredit providers. It is only the officers who are able to meet the job demand that are said to have met the targets, and consequently compensated. This follows the social thought that requires expression of gratitude to the person who has done well for them to sustain the value. This is a rational action for microcredit providers given the assurance of increased income that will be attained with little incentives. However, this could be counterproductive according to a female client officer with a microfinance bank at Mokola who had this to say:

The pressure of meeting targets by the marketers could lead to default as core banking principles are usually compromised in the quest for meeting the loan targets **(IDI/Client Officer/31yrs/December 3, 2019).**

However, a male banking officer with a microfinance bank at Gbagi Titun expressed thus:

If you fear much default and arrears of payment, making target will be difficult whereas your monthly target will earn you promotion, enrich your pocket and make you do fine **(IDI/Banking Officer/27yrs/September 11, 2019).**

Going by the foregoing narratives, there is an institutional process of loan disbursement. Unlike microfinance institutions, the process is the same for all microfinance banks as it has been explicitly expressed in the banking principles. This shows the homogeneity of operational rule. However, a situation whereby the loan officers, bearing in mind the promises of job security and emoluments, are compelled to attract more clients to the banks will undermine the process as such tasks may be pursued vigorously in such a way that the ideals will be substituted with the realities. While struggling for targets, Doering (2018) opines that there is a decline in the interactions between loan officers and clients; hence loan default as prompt loan repayment is a function of monitoring aided by interactions.

Lending and borrowing activities are two sides of the same coin which cannot be mutually exclusive in that both activities require actions and reactions that are absent in a singular actor. Taking a loan is action in itself while monitoring its usage is a corresponding response. In the course of monitoring, the loan taker may have to answer some questions if the loan giver observes a breach, say, diversion. All these actions and reactions transcend an individual; and therefore not individual-oriented. It should also be noted that the targets are determined by the officers' positions in the company according to a male client officer with a microfinance bank at Dugbe who said this:

As a loan officer, I can disburse #6m, senior loan officer can disburse #7.5m while a junior loan officer can disburse up to #3m **(IDI/Client Officer/31yrs/October5, 2020).**

This narrative indicates that the higher the position, the higher the targets. The variations existing in the targets have established that the loan officers with microfinance banks are stratified along some lines which could be experience-based; hence the three categories of the loan officers-junior, intermediate and senior. This is the hierarchical nature expected to have characterized formal organizations as microfinance banks. Under such arrangement, loan officers are not at the same level given the variations allowed for individual capacity for loan disbursement. However, this tends to make higher status attract greater burden in that loan officers who disburse higher loans are likely to be more worried than loan officers who disburse smaller loans.

#### **4.6.13. Breach of Trust**

This arises from a situation whereby money paid by the clients for the settlement of their facilities is not duly remitted on their behalf by the loan officers or credit group leaders. This was found to be possible where the clients do not relate directly with the lenders as it is always the cases with the lenders who have staff carrying out lending activities for them or credit groups who are usually represented by the group executives according to a recovery officer with a microfinance bank at Challenge who said thus:

There was a woman once reported to have defaulted. When I visited her for recovery, I got to know that she had paid #9,000 into her savings account but was not recorded by the CO (client officer). After investigation, it was found to be true. That led to the sacking of the CO **(IDI/Recovery Officer/30yrs/December19, 2020)**.

The recovery officer's experience was not different from that of a male photographer-driver at Oja Oba who said as follows:

It happened about 3yrs ago when I took a loan of #50,000 from a microfinance bank. Being a photographer turned commercial driver, the nature of my job did not allow me to make my weekly repayment directly to the leader. This made me to drop the money with the leader's daughter or neighbours who would help me deliver it to her. However, the leader did not pay the money. I got to know about it when the officers of the microfinance bank besieged my house. It was my younger brother's wife who called to inform me about their presence  
**(IDI/Photographer-Driver/56yrs/January 31, 2021).**

The photographer-driver was corroborated by a male flour trader at Agbeni who expressed thus:

I was the secretary and the first member to be granted a facility of #50,000 in the group. The group leader then was not honest, but her unholy dealings came to the open on the day she was not present in the weekly meeting and I would have to represent her. It was discovered that the group members had over the years been made to pay more than the required weekly instalments as they were not educated to check their cards. Her absence was an opportunity for me to know about this and also to educate other members about the required instalments to settle their facilities  
**(IDI/Trader/46yrs/November25, 2020).**

The foregoing narratives, no doubt, typify sharp practices in microcredit markets where the clients are at the mercy of the go-between who are usually the loan officers or group leaders. Such practices tend to distort facts and figures as microcredit providers who are confronted with such circumstances usually find it difficult to determine the number of defaulters as well as the extent of default in the system. In the same, the clients have their images misrepresented in the light of the foregoing narratives as the lenders may be forced to put them in their bad books whereas they should not. It was such misrepresentation that necessitated the visitation of the male recovery officer to the female client and the siege laid to the home of the photographer turned driver. However, division of labour found to be adopted by microfinance providers can be seen to be checking the excesses of the staff with ulterior motive as loan is a process being handled from disbursement to recovery by different officers according to a male client officer with a microfinance bank at Gbagi



Titun who had this to say: *We have different kinds of department. I am a client officer. We have a recovery team that recovers loans (IDI/Client Officer/38yrs/September6, 2020).*

In the same vein, a male marketer with a microfinance institution at Aleshinloye had the following to say:

As marketers, we are the chief recovery officers because we come here every day. However, there are recovery staff who don't come here every day. We involve them when default goes beyond what we can easily handle **(IDI/Marketer/44yrs/August30, 2020).**

The foregoing expressions have shown that division of labour is not the monopoly of microfinance banks as microfinance institutions also key into the idea it enables such institutions to exercise effective control over their employees. Given this, no member of staff will believe that they can do and undo when it comes to loan processing and recovery. Division of labour extends beyond specialization to cover separation of power which demarcates responsibilities among the members of staff. It is for this reason that loan officers/credit officers/client officers/marketers could be seen charged with the primary responsibility of sourcing for clients who patronize the services of their respective organizations.

Apart from sourcing for clients, loan officers also facilitate loan disbursement to clients. However, there is a variation at the point the roles of the loan officers ends between microfinance banks and microfinance institutions. While these officers partially play the roles of recovery officers in microfinance institutions, they are not involved in loan recovery in microfinance banks. In spite of the variation, nonetheless, there is separation of power between the two units (marketing and recovery) which are likely to constitute the core part of lending institutions given their prominence. It is within this context that intentional and unintentional errors committed by a member of staff from a particular unit will be easily detected by another unit. This explains why the fraudulent acts committed by the CO and the group leader cited in the foregoing narratives were eventually discovered and meted with severe punishment.

#### **4.6.14. Fire Outbreak**

Fire outbreak simply means a situation whereby the clients' goods are destroyed by fire whereas the affected goods are financed with loan facilities procured from loan providers. This is a disaster as attested to by a female second-hand clothes dealer at Aleshinloye who narrated her experience thus:

This happened to me in 2015. I collected #300,000 from them then, and I had just paid back half of the loan before my shop was razed by fire. I went there to tell them what happened to me. They came down here with me to snap the shop and send it to their head office (IDI/Trader-Defaulter/49yrs/September2, 2020).

This situation may render the victims incapacitated in terms of viable financial resources that can sustain life. Unlike death, victims of fire outbreak are living. However, the victims' lives are characterized by scars which may take time to heal. And except in few cases where such incident is established to be deliberately caused by the victims, fire outbreak cannot be said to be the victims' choices given the fact that victims of such incident generally do record a huge loss that ultimately forecloses any financial obligations, including loan repayment. This was the experience of the female defaulter whose shop was affected by fire outbreak. Being a place where the goods were kept and offered for sale, the incident had automatically destroyed her means of livelihood; hence the decision to visit the lenders for consideration as she could no longer perform her expected role as a client.

#### **4.6.15. Death**

This means non-existence of life in the clients who cease to be physically alive whereas there are still the responsibilities of loan repayment left behind by the deceased according to a male recovery officer with a microfinance bank at Challenge who had this to say:

There was a man at our Bodija branch who just died after getting a loan from us. He died at Ojoo area while he had not settled his facility before the incident (IDI/Recovery Officer/30yrs/December19, 2020).

While a male banking officer with a microfinance bank at Gbagi Titun expressed thus: *We consider death. Death is the end of loans (IDI/Banking Officer/28yrs/September11&15, 2019).*

Like fireoutbreak, the foregoing narratives depict circumstances that are beyond the victims' control. Except in few cases like suicide, no one can accurately determine when one will die; hence the consideration of death by the lenders who take death for the termination of credit contract as there are no productive activities in death. Angaine and Warri (2014) have reported death and illness as factors responsible for default. Death can affect the guarantors as well according to Nwikpasi (2015) who argues that a guarantor's liability ends with their demise unless the loan involved is a continuing one by reason of drawings by instalments.

#### **4.6.16. Inability and Unwillingness**

Insufficient resources underline inability while unwillingness is defined by reluctance in the context of default in microcredit markets. It is not uncommon to find a situation whereby a borrower will find it difficult, if not impossible, to settle their loans as a result of inability while some others are not just willing to pay back despite obvious ability. In some other extreme cases, inability may be combined with unwillingness as captured by a male compliance officer with a microfinance bank at Agodi-Gate thus:

There are three categories of borrowers-some are willing but unable to pay; some are unwilling but able to pay while some are unwilling and unable to pay. The third category is therefore the worst **(IDI/Head of Compliance /40yrs/November 12, 2019).**

The narrative, no doubt, is the premise for other factors earlier discussed to be responsible for default in microcredit markets as it has provided a summary of the foregoing factors which could be as a result of inability, unwillingness or combination of inability and unwillingness. In the light of the narrative, the extent to which internal factors can be separated from external factors responsible for default has been unravelled. Internal factors can be self-created by the affected while external factors are the outcomes of strains confronting the affected. It is against this backdrop that factors like loan diversion, multiple borrowing, education, and gender can be regarded as internal factors that induce unwillingness in the affected while factors like

ethnicity, unfavourable economic situation, robbery, institutional compromise, illness, corona virus, affliction, fire outbreak and death can be considered as external factors that engineer inability in the affected.

Where borrowers default in spite of being certified financially capable to pay back loan facilities, there is deficient willingness. However, willingness might not be supported by financial resources. When willingness is not supported by financial resources, it breeds the first category as was the case with the flour trader who lost financial ability to pay back his facilities as a result of the curse placed on him by the group leader. This can also explain the cases of other clients whose repayments were affected by factors beyond their control like unfavourable economic situation.

Low sales occasioned by low demand for goods may not be caused by the defaulters. This is an external factor that can be explained better by some economic indices. On the other hand, lack of apprenticeship training can equally lead to default, though this is internal to defaulters who might have failed to internalize sound training before undertaking business ventures. This agrees with Angaine and Warri (2014) that a borrower who is deficient in human capital will be unable to pay back loan.

Human capital is about skills, and when a trader takes a loan to finance a venture in which they have no skills, the loan will be more or less a diverted one without any gain in the end. However, even when the defaulters possess the right skills to manage their trades and are not affected by low demand for their goods, they could be unwilling to pay back. This is consistent with Ibeleme *et al* (2013) and Ntiamoah *et al* (2014) that some borrowers do not just want to pay back their loans. This could be explained within the concept of unwillingness that the affected defaulters must have concluded not to pay back even before procuring the loans. The reason for unwillingness despite obvious ability to pay back was not covered by the scope of the current study, but could be as a result of the national cake mentality reported by Ibeleme *et al* (2013) and Soyibo (1997) to have characterized all funds coming from formal credit providers, especially the government-owned institutions.

Again, socialization of individual borrowers could make a difference as borrowers who are raised by parents (guardians) or attached to peers with such traits are not

likely to see anything wrong with unwillingness to pay back loans. The situation becomes worst when unwillingness is combined with inability in that it will be difficult to determine if the affected would pay back had they been supported by additional financial resources. Unlike the case of an informal lender earlier reported to have disbursed additional loan of #10,000 to a female liquor client who had just been discharged from the hospital with the aim of further empowering her to pay back both the additional and initial loans, the lenders confronted with unable and unwilling defaulters will not know the next line of action to recover the first loan as additional disbursement in this situation could suffer the same fate.

#### **4.7. Objective Three: Treatment Options for Loan Defaulters in Microcredit Markets in Ibadan**

With the exemption of the circumstances of fire outbreak and death which will be later reported to have been covered by the insurance policies adopted by microcredit providers, other default-inducing factors are not spared not only by microfinance banks but also microfinance institutions. Among others, the treatment options found to be use in microcredit markets include: fines or default charges, application of RED symbol, denial of interest waiver, denial of loan increment, outright denial of loan, denial of privacy, humiliation or embarrassment, issuance of warning letters, loss of goods and property, forfeiture of savings, sealing of shops, arrest and litigation.

The treatment options are not mutually exclusive as it was common seeing their combination for the defaulters where necessary. In other words, more than a treatment option could be seen being meted out to a defaulter at the same time. These treatment options could also be seen to be applied in stages whereby the loan providers would start with relatively mild sanctions before administering more severe sanctions on defaulters. Discussed below are the treatment options for loan defaulters in microcredit markets as well as the means of execution of the treatment options:

##### **4.7.1. Fines (Default Charges)**

These are monetary penalties levelled on defaulters in microcredit markets. A female client with a microfinance institution at Aleshinloye had this to say about default charge:

In their company, there is a fine for default. I had that experience about 3 years ago when I collected #30,000 from them. They charged me a day's instalment as a fine. They would even deduct it before granting you another loan **(IDI/Trader/42yrs/September2, 2019)**.

This penalty is not restricted to microfinance institutions according to a male client with a microfinance bank at Aleshinloye who said this: *If you default, you pay penalty of #1,000 for a day, #2,000 for two days...I paid penalty when I defaulted (IDI/Trader/27yrs/August 28, 2019)*.

Fines are the simplest monetary penalties for defaulters. And it is after the failure of the monetary penalties that the defaulters will be exposed to the next stage of penalty. The defaulters, being the shoes' wearers, are in better position to give information about this penalty. Although monetary penalties are adopted in both microfinance institutions and microfinance banks, there exist variations in the ways the penalties are applied. Microfinance institutions deduct the default charge from the source (that is, the subsequent facility) while microfinance banks demand the payment of such charges from the defaulters before granting them another facilities. Given this, it is arguable that it is not all defaulters that lose the opportunity to further access facilities in microcredit markets. In other words, default is no excuse for loan denial at all times. It should be noted also that the application of the penalty by the lenders is rational in that it has the potential of discouraging not only default in the clients but also making up for the recycling frustrated by the late repayment. As it will be later reported, recycling affords the lenders the opportunity of continual processing of loan facilities with a fixed amount of money. In other words, multiple lending can be achieved with recycling within a given loan cycle.

In the same vein, payment of such charges by defaulters is equally rational as they may not be considered for further loan facilities if they refuse to pay. In fact, the defaulters' willingness to make such payment points to the possibility of being aware of such at the initial stage when sealing the transactions agreement with their respective creditors. This follows the proverbial saying that to be forewarned is to be forearmed. Forewarning comes in the form of the documents given the clients to read, understand, and sign before loan procurement.

#### **4.7.2. Loss of Interest Waiver**

This was found to be limited to microfinance banks which allow for a loan cycle ranging from six months to one year as against microfinance institutions. Although there are no interest-free loans in microcredit markets, interest could be waived for clients who pay before the end of their loan cycles according to a male trader with a microfinance bank at Aleshinloye who said thus:

My personal default experience was just in days. It was the officer that was not taking it likely as I was loudly complaining that it was just days of default. I wanted to complete the money (settle the loan) for me to be waived 2 months interests. When the voices went up, the manager came to ask about the situation, and I explained that I was to pay on 16<sup>th</sup> but could not until the second day. He now said okay that I should go and pay #1,500 so that I could be waived 2 months interests amounting to #5,000 or more **(IDI/Trader/40yrs/August 25, 2020)**.

This was corroborated by another male trader with a microfinance bank at Aleshinloye who had the following to say: *The shorter the loan repayment period, the lower the interest (IDI/Trader/28yrs/August28, 2020)*.

There is rationality in seeking waiver by clients generally so as to reduce the costs incurred on the procurement of loan facilities; thereby putting them at the advantage. However, interest waiver is not automatic for all loan takers as it is a function of compliance with specific terms and conditions for repayment. In the light of the foregoing narratives, interest waiver comes in the form of allowing the affected a reduction in the interest earlier agreed on the facility. The difference of #3,500 between the charge of #1,500 eventually paid by the narrator and the interest fee of #5,000 he ought to have paid presents the practical value of rationality involved in seeking the waiver. Again, the charge imposed on the narrator for him to enjoy the interest waiver indicates a point at which interest waiver intersects fines. This places both fines and interest waiver within the region of monetary penalties.

The foregoing narratives have also affirmed the earlier report that there is a hierarchy among the employees with microfinance banks. It is only the hierarchical nature of such establishments that would warrant the intervention of a superior officer in an

issue that could not be settled by a junior officer as was the case with the male narrator. This also shows the limitations to the power that can be wielded by the officers in the markets as the first officer would have settled the case with the narrator had the officer had such power. Again, the setting where the argument between the narrator and the first officer took place could not have been other place than banking hall where silence would be expected to be maintained. In the absence of silence, there was no way the superior officer's attention would not be easily attracted so as to forestall disruption of normal banking activities.

#### **4.7.3. Savings Withholding (Forfeiture)**

Since savings are integral part of loan requirements as earlier reported, the lenders have an unrestricted access to the clients' savings. Therefore, it is possible for the lenders to put a kind of lien on such savings in the event of default. It is withholding in the case of microfinance banks while forfeiture fits the practice in microfinance institutions. It is a relatively simple penalty that denies defaulters access to their savings as long as their loans have not been fully settled. The penalty is also extended to guarantors in microfinance institutions according to a male marketer with a microfinance institution at Aleshinloye who expressed thus:

The first thing we are going to do to the defaulters is that their savings with us will be forfeited to offset the loans. If the defaulters' savings are not enough, the guarantors also forfeit their savings; then we ask the defaulters to pay the remaining amount if the forfeited savings are not sufficient **(IDI/Marketer/44yrs/August 30, 2019)**.

In the same vein, a female leader of a credit group and informal lender at Agbeni submitted thus:

If the borrowers pay up to a point, and there is no more ability, they will check their savings if their savings can offset their loans. And, if their savings cannot offset the loans, they ask them to look for money. I even lost more than #30,000 to the group because the credit institution would not release savings to others in the event of default. Once they discover that the default is caused by the leader, they seize the savings of the group members and ask them to face the leader **(IDI/Credit Group Leader- Informal Lender/ 40yrs/September22, 2019)**.



In the light of the foregoing narratives, the lenders will have their risks reduced in the event of default due to the relief offered by the forfeited savings. In the same vein, this penalty will equally offer defaulters a relief as the forfeited savings will reduce the principal loan even if it cannot take care of the interest. However, the benefits inherent in the penalty are skewed in favour of the lenders who are at the greater advantage by virtue of being the custodians of the savings. And as the custodians, decisions on the savings do favour them. Unlike the lenders and borrowers, the benefits inherent in compulsory savings are not extended to the guarantors who may not directly benefit from the facilities. The situation even becomes worse for credit groups where default by a member will negatively affect the chances of others given the cross-guarantee method forced on such groups by the lenders. Cross-guarantee depicts a sense of collective responsibility whereby both gains and pains are jointly shared by group members. By implication, this promotes a communal culture among group members who stand the chance of being financially protected with collective rather individual efforts as captured by a female food vendor at Ogunpa thus:

We have a Union Purse from which emergency fund is drawn. If a member fails to pay back, we take money from the Union Purse to settle it while the defaulter settles us later. The defaulter may not even know that we have settled it, but the CO will be aware so that they will help us get back our money from the defaulter **(IDI/Trader/40yrs/September28, 2020).**

This expression was corroborated by a female nylon trader at Agbeni as follows:

As a group, we will look for the money probably from the Union Purse or contributions to pay on behalf of a group member who is absent from our weekly meeting. It is when we get to the office that we inform them (the lenders) that we are paying for an absent person **(IDI/Trader/42yrs/September30, 2020).**

The foregoing narratives show the means through which the individual deficiencies are covered by collective strengths. If default is an individual deficiency, in this context, Union Purse is the collective strength. This is the advantage of group loans compared to individual loans to confirm the aphorism that the two heads are better than one. The fact that an individual does not possess a Union Purse even makes individual loan facilities more risky than group loan facilities. As a matter of fact,

premonition of default presupposes the Union Purse which enables the group to attend to emergency issues. However, Union Purse tends to pay some more than others as all the group members may not be equally committed to the group. And being a credit group leader even puts more burden on a client. It is within this context that the female narrator lost a huge sum of money in order to ensure that other members continued to benefit from loan facilities. On the contrary, where the leader is the defaulter, other group members will either contend with lack of access to loan facilities or collectively perform the leader's responsibility by making contributions toward settling the leader's debt for them to continue to access such facilities as such leader may not even be able to attract enough money to the Union Purse from which the debt can be settled. It is under such circumstances that a leader stands the risk of being removed from the position.

#### **4.7.4. Denial of Loan Increment (Outright Loan Denial)**

Denial of loan increment simply means refusal to increase loan facilities for clients while outright loan denial refers to refusal to allow the clients any form of loan facilities owing to their past default records. This agrees with Adewole *et al* (2017) who assert that defaulters are made to suffer many treatment options, including blocked access to such facilities at the point of default or in the future. Like savings withholding or forfeiture, loan increment or outright loan denial is relatively simple as it cannot be said to have imposed much more burden on defaulters when compared with other treatment options. However, the imperative of loan as expressed by Idoge (2013) indicates a boost in the purchasing power of the beneficiaries. Given this therefore, such facilities are the opportunities that promote entrepreneurship and raise the living standards of the beneficiaries.

When defaulters are blocked from further accessing such opportunities, they will be faced with other challenges which could also frustrate their consumption and entrepreneurship. Consequently, life may be meaningless to the affected and their dependants, especially if they are the breadwinners of the family. On the other hand, good repayment performances boost the borrowers' records in microcredit markets. The multiplier effect of such records is the benefit of not only continuing to enjoy the facilities but also that the facilities can be raised up for the clients if they so desire

according to a male client with a microfinance bank at Aleshinloye who said as follows:

If you default and reapply for another loan, they may reduce your loan. Actually, they ought to have increased my second loan to #500,000 from the first loan of #300,000, but I was asked to repeat the loan of #300,000 for the second cycle because I defaulted in the repayment of the first loan **(IDI/Trader/28yrs/August 28, 2019)**.

This was corroborated by a female credit group leader and informal lender at Agbeni:

I don't give loans to such people (defaulters) again no matter what they say to persuade me. Some of them do come back, maybe, after some months, but I don't grant their requests any more **(IDI/Credit Group Leader- Informal Lender/40yrs/September22, 2019)**.

Given the foregoing narratives, it is evident that defaulters do not mind patronizing lenders despite their unworthy credit histories. Having understood the gravity of their wrongdoings, it is not unexpected of the defaulters to resort to the use of persuasion to appeal to the lenders for further consideration. However, the defaulters' method does not always affect the lenders' decisions which are either outright denial or repetition as expressed above. While microfinance institutions go for outright denial, microfinance banks settle for reduction or repetition. The disparity in this situation indicates the level of compassion obtainable in microfinance banks.

Again, the state-sanctioned platforms such as the Credit Bureaux and BVN earlier reported as the conditions for loan disbursement in microfinance banks make it easy for the defaulters' histories to be tracked to determine the kind of option suitable for them. It should be stated that there is rationality in such options of treatment given the negative consequences of default reported earlier. If default should be taken as failure on the part of the borrowers to live up to expectation as enunciated by Adewole *et al* (2017), it is rational for microcredit providers to apply this sanction to any borrower whose repayment does not satisfy them in order not to be at the receiving end. Going by the earlier reported finding, failure to live up to the expectation is a function of the borrower's inability or unwillingness or both. Whatever the case (inability, unwillingness or both) with the borrowers, loans will not be easily retrieved; hence

the justification for the options of loan repetition, loan reduction and outright loan denial adopted in microcredit markets.

#### **4.7.5. Loss of Privacy and Humiliation**

The duo factors are taken together because they are inseparable. In the context of loan default, loss of privacy connotes exposure of the defaulters' activities to other people related or not to the defaulters while humiliation depicts a lack of self respect usually occasioned by exposure of the defaulters' activities. In other words, if the defaulters were not reported to others or subjected to some treatment options which tend to attract the attention of others, there is no way they would not have their dignity preserved. As earlier reported, microcredit markets are composed of many stakeholders including the lenders, the borrowers, the guarantors, the depositors, the regulatory bodies, and the security agencies. The stakeholders are actors in their respective capacities given the roles expected of them. However, the lenders and the borrowers are the dominant stakeholders in the sense that other stakeholders' activities are dependent on the duo.

Without the duo, the regulatory bodies would not have been constituted in the first instance not to talk of charging them to come up with policies to guide the activities taking place in microcredit markets. Without the duo also, there would have been no loans to surety by the guarantors or default-engineered disputes to be resolved by the security agencies. Again, it is the presence of the duo that also attracts the money depositors to microcredit providers who ultimately strike the balance between the surplus and the deficit. Considering the dominance of the duo of lenders and borrowers, therefore, lending and borrowing activities ought to have been limited to them, but the reverse is the case given the involvement of the other actors either by design or default. While money depositors and the regulatory bodies could be said to have been involved by design, the same could not be said of others who are driven into the markets on the grounds of default premonition or occurrence whereas default-driven involvement is a violation of the borrowers' privacy. Defaulters have their privacies violated through the following ways according to a male trader at Aleshinloye who said this:

They did not pack my goods. They only came here to shout. And, my neighbours who knew that things were not like this before would come out of their shops to plead with them on my behalf **(IDI/Trader/65yrs/September2, 2019)**.

In the same vein, a male banking officer with a microfinance bank at Gbagi Titun said this:

There are some organizations that are more wicked than us to the extent of bringing out paper, writing DEFAULT there boldly, hanging it on the neck of the defaulter, and ringing a bell in the market **(IDI/Banking Officer/27yrs/September 11, 2019)**.

The banking officer was corroborated by a male recovery officer with a microfinance bank at Challenge who expressed thus:

There was a female group leader I once visited in her school because she was a teacher in a public school. The group headed by her defaulted in the repayment of #50, 000, and she failed to respond to our several invitations. When I started staging a drama in the school, the head of the school had to intervene because I made sure that all activities in the school were grounded. Eventually, the school had to give me #10, 000 on that day as I had already threatened to invite Oyo SUPEB which is in charge of public schools in Oyo State to be notified of the incident **(IDI/Recovery Officer/30yrs/December19, 2020)**.

The motive for this sanction may not be just to attract the neighbours' attention, but portray the defaulters negatively. This is synonymous with reputational damage reported by Adeniyani (2017). There is no way a written word like DEFAULT will be hung on the defaulters' necks without using a rope. This is similar to how animals, particularly goats are treated. This is a shaming parade which will not only humiliate the affected but make them lose their privacy to whoever watches or bails them out. Same for 'drama scenes' created in the defaulters' workplaces which are meant not only to tarnish the defaulters' reputation but lose their means of livelihood.

The fact that the foregoing expressions were made by the agents of the lenders, who were equally the executors of the treatment options, is a sufficient proof that there are

indeed harsh penalties for defaulters in microcredit markets as the executors could not have amplified the treatment options to implicate themselves. Given the narratives, there is no privacy for the defaulters whose not only the spouses will be aware of the deviant acts committed but also their neighbours who have once held them in a high esteem. Making the matter worse is the use of bell which easily draws the public attention to the scene of the parade. The treatment is similar with degradation contained in the use of distrainers reported by Fadipe (1970).

#### **4.7.6. Loss of Goods and Property**

Like savings withholding or forfeiture, loss of goods and property takes the form of confiscation or personal auctioning. However, it differs from the option of savings withholding or forfeiture in that cash is not involved and that the items involved are not in the custody of the lenders. In other words, the items meant for confiscation belong to the defaulters, but will have to be taken over by the lenders as the defaulters must have already pledged with the items at the point of loan procurement. Although this is consistent with Soyibo (1997) that confiscation of collateral is the method of controlling default by the moneylenders, the study also found out that confiscation was not confined to only moneylenders but rather generally adopted by microcredit lenders. A male flour trader at Agbeni market said this about his confiscation experience:

I pledged with my home appliances then. They were supposed to come for the confiscation of my home theatre and fridge on December 25, 2015 because I defaulted but I pleaded for a shift to December 26 and that the home theatre and furniture be taken away instead because of the festive mood. I did not want to release the fridge because of my appetite for cold drinks. As they eventually arrived for the confiscation in the evening of December 26, my wife was crying whereas I had already summoned the courage to take it lightly with them. I had to pacify her with the promise that things would soon change for the better before she stopped crying **(IDI/Trader/46yrs/November 25, 2019)**.

In the same vein, a male fabric materials trader at Gbagi Titun provided his personal auctioning experience thus:

Default made me sell my uncompleted building and personal car in order to offset the facilities. In addition, my wife left home as she couldn't bear the challenges any more. They stopped disturbing me and my guarantors recently when I approached a lawyer who wrote them a letter on my behalf **(IDI/Trader/43yrs/November20, 2019)**.

At the extreme, defaulters could 'lose' their property by mere writing on the wall according to a female recovery officer with a microfinance bank at Yemetu who said this:

There was a house of a defaulter we once placed a notice, **THIS HOUSE BELONGS TO ... MICROFINANCE BANK**. The defaulter's wife we met at home begged us to limit the notice to a side instead of the four sides we intended placing it on. When we visited the house the second time, we also met the woman. She had used stone to erase our notice on the wall. This has taught us a lesson **(IDI/Recovery Officer/28yrs//February10, 2021)**.

Given the foregoing narratives, defaulters are prepared for confiscation as the penalty is not an impromptu exercise. Also, the narratives show that confiscation does take place on strategic days which will make many people witness the defaulters' ordeals. However, the executors of the penalty are also considerate to allow a shift in the confiscation date. This portrays a human face to microcredit facilities as against the general notion that such facilities enslave the beneficiaries. However, the frequency of the lenders' disturbances can also frustrate the defaulters to the extent of not only losing their property but spouses as depicted in the foregoing male fabric materials dealer's narrative. Loss of spouse, in such context, confirms the aphorism that true friends are identified in trying times. It is under such circumstances that default could be said to be functional as it helps in determining defaulters' true friends.

Again, loss of property does not always translate to confiscation of property but lack of power to determine what and what not to write on the property as implied in the foregoing female recovery officer's narrative. Defaulters lack power to warn against writing or posting on their property even if such is found to deface the property as was the case with the male defaulter whose wife had to appeal to the recovery team to limit the property defacing to a side rather than the four sides of the building. The

wife's appeal in such situation would definitely make the husband lose his privacy if he had not informed his wife about such transaction. In the same vein, his privacy had also been exposed to the neighbours who could be around to witness the writings even if they did not intervene. It should also be noted that confiscation has a process according to a male client officer with a microfinance bank at Dugbe who had this to say:

If someone defaults, we serve letters (warning letter, statutory letter, demand letter) before we give confiscation notice. Each letter has a deadline. If the person does not comply at expiration of all the letters, we have every right to move for the pledged items according to our procedure **(IDI/Client Officer/31yrs/ October5, 2020).**

However, a male marketer with a microfinance institution at Aleshinloye gave a different motive for confiscation thus:

We confiscate or threaten to confiscate so that they can run to their friends in the market to get some money to settle us. This is done to build panic in them for them to go extra miles to get our money. There was a female defaulter whose goods were confiscated not only because she defaulted but fought the recovery team **(IDI/Marketer/42yrs/August30, 2020).**

It is evident from the foregoing narratives that confiscation by microfinance banks is a gradual process starting with warning. Given this approach, defaulters with microfinance banks have higher degree of preparedness for confiscation compared with their counterparts with microfinance institutions. Unlike defaulters with microfinance banks, defaulters with microfinance institutions are not warned but threatened with confiscation. This agrees with Soyibo (1997) that personal threat constitutes a means of default control in informal credit markets.

The threat issued by microfinance institutions is expected to induce fear in the defaulters to the extent of seeking a help from others. This confirms the earlier report that default is no longer a private issue with the affected whose privacy will be lost to public attention. However, confiscation is not solely determined by default in microfinance institutions where the defaulters' manners are also factored in by the recovery team. This follows the social thought that it is the manners that determine



whether a kola nut will be drawn from the pockets or a sword will be drawn from its sheath. In other words, defaulters who conduct themselves well with the recovery officers are more likely to be spared of confiscation while bad conduct may warrant confiscation and its consequences which usually remove the defaulters' privacies. This is the stage where this particular sanction intersects loss of privacy and humiliation in that if the defaulters' property were not defaced or confiscated, there would not have been loss of privacy as loss of privacy could be seen as being informed by the intervention of others (spouses, neighbours or passers-by) that might be moved by the defaulters' plight. And considering the nature of the patriarchal Nigerian society where the husbands are usually the family heads, married female defaulters may suffer divorce threat in a once blossomed marriage according to a male bookseller at Beere who had this to say:

It has happened to my wife before. I had once guaranteed her for a loan not knowing that she had collected loans from another two different lenders. The loan balance was not up to #40,000, but she was frustrated to the extent of opening up to me considering the heavy curses being rained on her by the group. I, however, helped her settle the loan with the warning that she would be sent away if she should repeat the act **(KII/Significant Other/45yrs/October 20, 2020)**.

Whereas the following experience of a male teacher at Iwo-road extended beyond warning to separation:

About 6 or 7years ago, she went behind me and collected the money (loan). It was at the point of her inability to pay back that I got to know that she took a loan of #40,000. I was desolated and confused as I was alerted from my sleep by the noise of the creditors whose noise had not only woken me up but attracted the attention of the passers-by. I eventually paid #20,500 to balance her loan. She later initiated a divorce as she could no longer stand the embarrassment her action generated in the neighbourhood **(KII/Significant Other/46yrs/October30, 2020)**.

It is evident from the foregoing bookseller's narrative that his wife was a habitual borrower as she had even been guaranteed by the narrator. In the light of this, there is the sense in the aphorism that there will always be someone to bail one out in times of

crisis such as the loan application stage where a guarantor is demanded before disbursement. Being marriage partners, spouses are likely to play such role when the married are involved; hence the acceptance of lesser number of guarantors from the married as earlier reported. Unlike the single, the married will be seen as people whose efforts are complementing. This was different from the second narrator's experience in which the significant other was not aware of his spouse's dealings with microcredit providers until the point she could not fulfil the repayment obligation. This shows the possibility of getting loan facilities without spousal knowledge or consent. In other words, spouses do not necessarily have to be guarantors according to a male chief executive officer of a microfinance institution at Salvation Army who had this to say:

There are some of them (women) who don't want their husbands to know about the transactions for the fear of losing part of the facilities to their husbands who may request for 50% of the facilities **(IDI/Lender/63yrs/October11, 2020)**.

Implied in the foregoing narrative is the dominance of women in trading; hence the lender's resolve to jettison the use of vice-versa while citing the fear of loan sharing as the factor responsible for women's indisposition to carry their husbands along while procuring microcredit facilities. This cannot be said to be irrational in the light of the fact that loan sharing does induce default as earlier reported. However, possibility of procuring loan facilities without the knowledge of the borrowers' spouses can pave way for secretive lifestyle which negates marital vow of openness. This does not guarantee predictability of human conduct in spite of the fact that couples are meant to live under the same roof. This is the complexity of human beings. But human complexity tends to be moderated by some factors beyond the control of the actors.

Such factors, as implied in the foregoing significant others' narratives, include curses and nuisances which eventually offered the defaulters no choice but open up to their respective husbands about her hidden transactions. This agrees with Fadipe (1970) who reported nuisances as a means through which defaulters were dealt with in the pre-colonial era among the Yoruba. This resonates the aphorism that the issue kept away from the father will eventually be settled by the father when the issue results in

crisis. Unlike the case of the security agencies, however, the ‘father’ in this context is the spouse or the neighbour.

Use of curses and nuisances by the lenders in the modern-day credit transactions has also shown that traditional means of social control are not outdated and do transcend the traditional settings which they are meant to serve as the modern-day creditors still rely on them while dealing with defaulters. The difference, however, is that rather than relying on lepers for creating nuisances, it is the lenders themselves, their representatives or credit group members who do that in the modern-day times. And there is no doubting the fact that these sanctions create humiliation for defaulters who do have their privacies violated; hence the frustration of the teacher’s spouse to the extent of initiating a divorce as her social relations could have been negatively impacted by the nuisances created in her neighbourhood.

#### **4.7.7. Sealing of Shops**

This sanction takes the form of bringing the shops of defaulters under keys and padlock by microcredit providers. However, it was discovered that there was a difference in the way defaulters were treated across microcredit markets against the sealing penalty. While microfinance institutions were found to be sealing defaulters’ shops, the penalty was not found to be practised by microfinance banks. Being immovable property, sealing is not tantamount to the confiscation of the defaulters’ shops like goods or other home appliances. When shops are under the lenders’ padlock and keys, the goods therein will also be affected in that the goods will not be accessed until the default issues are resolved. The matter becomes worse if perishable rather than durable goods are involved. This makes sealing penalty rational to some extent as the affected defaulters will surely not be at rest until the shops are unlocked for their daily transactions according to a male marketer with a microfinance institution at Aleshinloye who had this to say:

Before they (recovery officers) are invited, we must have employed different strategies like going to their shops, calling them on phone or visiting their houses. When we beckon on the recovery officers to come, they don’t take nonsense when they come. Depending on what they feel is suitable, they may lock the defaulter’s shop  
**(IDI/Marketer/44yrs/August 30, 2019).**

On the contrary, a male loan officer with a microfinance bank at Dugbe said this:

In our own case, we don't lock up shops. If you ask the person (defaulter) to look for the money while locking shop, where will the person get the money? We consider them too. We have feelings for our clients. We allow you (defaulter) to continue your business or sales and look for a way to pay us. Those locking shops might also have their own reasons **(IDI/Loan Officer/31yrs/October5, 2019).**

The narratives above present contrasting approaches. The contrast follows the aphorism that we cannot all face the same direction. In other words, there are always alternative ways to resolving issues such as default. As significant as recovery is to loan officers, the use of recovery officers is a choice that will be determined by the loan officers whereas the choice is a function of the clients' repayment performances. The use of recovery officers is the last resort for the loan officers whose efforts might have been frustrated by the clients. Being the officers in charge of sourcing for and recommending clients for loans, the loan officers are expected to initiate recovery efforts in their own capacity before eventually requesting for the intervention of the recovery officers. If the clients comply with the rules of repayment, invitation will not be extended to the recovery officers and vice versa.

Although the sealing penalty is alien to microfinance banks, the fact remains that they are aware of the penalty. The contrast in approach follows the aphorism that cutting off a head is not the solution to a headache. If a head is cut off as a solution to a headache, death is the consequence just as a defaulter whose shop is sealed by the lenders will be permanently rendered incapacitated to pay off their debt. In other words, there are always many ways to resolving an issue. If default is an issue as it is in this context, the way favoured by microfinance banks to deal with it does not warrant denying the defaulters access to their shops and goods in that no sales will be made while the shops remain locked up.

There is surely rationality in sparing the defaulters' shops from sealing as this will afford the defaulters the opportunity not only to earn a living but also pay their debts from the profits made from sales. Given this backdrop, microfinance banks could be seen to be more lenient than microfinance institutions when it comes to the choice of

treatment options like sealing. However, the leniency was found to be dictated by the regulatory framework within which the activities of microfinance banks are conducted according to a male supervisory officer with a microfinance bank at Dugbe who had the following to say:

A microfinance institution can do and undo but a microfinance bank cannot do and undo when it comes to recovery because we are regulated by the CBN and NDIC **(IDI/Supervisory Officer/38yrs// September21, 2019).**

As earlier reported, microfinance institutions are not within the purview of the state regulation under the watch of the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation. In the light of this, therefore, variations may be observed in the way microcredit providers go about recovering their loans or administering treatment options on defaulters. The main purpose of regulation, in this context, is to check the excesses of the operators' tendencies for abuse or actual abuse. In fact, the regulators may impose sanctions on microfinance banks if found to have violated the rules and regulation specified for microfinance activities. In order to avoid a situation whereby the violation of the state regulation will make the 'punisher' to be punished too, it is rational for microfinance banks to avoid sealing of the defaulters' shops as the penalty appears not to have been institutionally approved for use when carrying out recovery.

Furthermore, it can be seen from the foregoing narratives that recovery officers are unfamiliar faces to the clients as they scarcely pay them a visit. In fact, no rational clients will wish to be visited by the recovery officers given the disaster such visit signals. And of course, it is possible to have transactions with microcredit providers without coming in contact with the faces behind recovery. Conformity definitely makes the exemption possible and vice versa. Again, sealing of shops is one of the options available to the officers on recovery mission. In other words, it is not all the times the defaulters' shops are sealed on visitation by the recovery officers as there are varied treatment options including those earlier discussed available for choice depending on the case involved. Given this, therefore, peculiarities of default cases can be said to have been entertained and treated differently by loan providers and their agents.

#### **4.7.8. Arrest and Detention**

Depending on the issues at stake, both defaulters and lenders (or their agents) were found to have been arrested and detained by the law enforcement agents, particularly the police and the Nigeria Security and Civil Defence Corps (NSCDC). However, the police and the NSCDC were also found to have mediated in default issues without detaining either party. Although default is a civil matter, confiscation that usually follows it does generate criminal offences that attract the attention of the law enforcement agents according to a male Divisional Crime Officer at Gbagi Titun who had this to say:

Credit officers and borrowers fight and injure each other at times when the borrowers fail to pay back the loans as earlier agreed or when the creditors attempt to confiscate the borrowers' assets. The public should note that the police are not debt collectors because default issues are civil. The creditors should train their personnel on debt recovery **(KII/Police Officer/55yrs/September 4, 2019).**

This was buttressed by a Superintendent of Corps of the Nigeria Security and Civil Defence Corps at Agodi:

We intervene based on petition from the concerned parties, and it is when the invitation extended to the concerned is not honoured that forces us to make arrest. We don't judge. We only mediate. At times, we advise the lenders to approach the courts if the borrowers are not ready to cooperate **(KII/NSCDC Officer/52yrs/January 21, 2020).**

However, a male marketer with a microfinance bank at Gbagi Titun gave the conditions under which the security intervention would be required thus:

We use the police to scare the debtors. There are some customers who will be looking at you as if you don't have any right to ask for the money (loan) when you go to them. But immediately they hear, I will call the police, they cooperate. We take them (debtors) to the police station, and they make arrangement on how to pay back the money **(IDI/Marketing Officer/38yrs/September 14, 2019).**

Expectedly, the value of such items is enough to make the owners reluctant in releasing their goods and property for confiscation. Given the value, therefore, the battle is inevitable. And, with the inevitability of such battle, the attention of the law enforcement agents will be attracted. This is where the penalty of confiscation crosses the police arrest. Again, the request for the intervention of the security agents is an option of treatment that is necessitated by lackadaisical attitude perceived or observed in the defaulters by the lenders. The lenders or their agents want to see willingness in the defaulters to be convinced of their inability to pay back. When such willingness is not, however, forthcoming, the option of the state security intervention is unavoidable. And of course, the option pays in the end in that the defaulters' unwillingness gets replaced with willingness forced on them by the state security. This is a rational action on the part of the lenders in that there is a hope of getting back the money which could have been lost to default.

Given the challenges of recovery, it is no gainsaying that loan recovery is an arduous task; thereby requesting for the intervention of the security officers for its success is not a misplaced effort. Formal report is, however, required for the intervention of the security agents as they may not be aware of all incidents taking place within a country. In spite of the fact that they legally carry arms, they still depend on information from the concerned parties as well as other members of the public for discharging their roles. This accounts for the fact that making the formal report about such incident is not restricted to the parties concerned. The police and the NSCDC are often beckoned on for such tasks in spite of the fact that there are other security agencies in the country. It should, however, be noted that it is not only the option of force considered by the security agents given the fact that they also mediate by facilitating amicable settlement of default disputes.

Where mediation could not resolve default disputes, the foregoing narratives indicate that the security agents do advise the concerned parties. It is such advice that determines if default cases will be taken to the law courts. However, involving the state law enforcers is not without its cost according to a male head of recovery with a microfinance institution at Agbeni who had this to say:

Normally we don't call the police. But when we are faced with stubborn customers, we involve them. They may give us two policemen. Actually we are supposed to inform them before we go for recovery, but there is no way you call them without giving them something **(IDI/Recovery Officer/42yrs/October10, 2019).**

The recovery officer was corroborated by a male head of compliance with a microfinance bank at Agodi-Gate who said this:

We are aware that ten percent of loan amount recovered by the police belongs to them, but we are given a waiver on this because the police force is our sister institution **(IDI/Head of Compliance/40yrs/November12, 2019).**

In the light of the foregoing narratives, it is evident that it is not only the microfinance banks that beckon on the security agents when trying to recover loans from defaulters. Microfinance institutions also seek the police help when confronted with the same situation. Given the access to the police despite operating outside the purview of the regulatory body is a proof that the informal status of microfinance institutions does not exclude them from being protected when they feel their rights are being violated. However, there is no doubting the fact that the cost of the police involvement depicts gratification in this context. This is a corruption allegation that can only be established by further studies.

As public officers whose wages are being paid with the taxpayers' money, there is no justification for demanding gratification before legal services are rendered by the police, more so, that the police are not debt collectors. If the police, however, are found to be hired to perform the function of the recovery officers, then it can be said that rather than legal services with which the police are charged, they may be bent on rendering illegal services such as undue interference in civil matters like default; hence the gratification demanded by them. And the gratification is not flat for lenders who require such illegal services. The gratification is partially charged according to closeness which has always favoured the state-affiliated credit firms as against those that are owned by private individuals. In spite of its illegality and discrepancies, the option of the police involvement is rational for microcredit providers who must have evaluated its gains against its costs before deciding to make use of the police for



recovery. And if getting back the money in default will surely boost their profits as well as remove the loan officers' default-induced burden when compared to the amount involved in gratification, the option of the police involvement will then be seen to be rational for microcredit providers and vice versa.

Apart from the security agencies, arrest and detention could also be executed by non-state actors like the lenders. Being corporate as they are, microfinance banks have offices where not only the deposits, disbursement and repayment are made; the offices are also the avenue for meeting their clients on invitation. However, invitation could turn to detention if defaulters' movement is restricted on invitation. This makes the detainees of the defaulters according to a male compliance officer with a microfinance bank at Agodi-Gate who had this to say:

On some occasions, we invite them to the office and ask them to sit down until they make good of their debts. When it gets to that stage, some of them will be forced to put calls to their relatives to bail them out **(IDI/Compliance Officer/40/November 12, 2019)**.

This was corroborated by a male tailoring materials trader at Gbagi Titun, whose shop was opposite a microfinance bank, who said thus:

They detain people inside their office here most times. From time to time, they have a cordial relationship with the police. There is a police station at the entrance there. When they opened the microfinance bank, the DPO there came here. They pay the police for security. The police are always on their side **(IDI/Trader-Defaulter/36yrs/September 4, 2019)**.

Although the law enforcement agents like the police are expected to be fair to the parties involved in microcredit transactions, the reverse is always the case in a situation whereby a party extends generosity to the police to influence the course of justice. Of course, there is nothing wrong with inviting the police to the opening ceremony of a microfinance bank by the management. Such invitation resonates the saying that the police are the friends of the public. Being members of the public, the management of a microfinance bank like loan defaulters are entitled to extend ceremony invitation to the police. They are also entitled to support the police financially in a bid to upholding the private-public partnership so as to make the

police more effective in service delivery. The wrong, however, lies in allowing such relationships to pervert the course of justice as narrated by the trader whose shop location had given him the opportunity to observe the events taking place.

The accuracy of the tailoring materials trader's observation can be determined by the collaborative narrative by the male compliance officer who equated invitation to detention in which the reality would dawn on the invited defaulters when they were not allowed to leave the bank until the debts were settled. And like the police detention, the defaulters would depend on people (Significant Others and friends) out there for them to be released. The fact that the defaulters would require the efforts of a third party to secure release has even taken away their privacy. At this point, the treatment of arrest and detention intersects that of loss of privacy. Subjecting the defaulters to this treatment portrays the lenders rational beings in that the priority of a detainee is to gain freedom. Be that as it may, the possibility of retrieving the loan with this sanction may be high as the repayment responsibility has extended beyond the defaulters. However, defaulters also request for the intervention of the security agents to avoid the lenders' threat according to a male Divisional Crime Officer at Iwo-road who submitted thus:

A borrower once met me for protection when she failed to pay back a facility of #150,000. She got the loan when her husband was on Hajji Pilgrimage. She actually lied to the moneylender about the purpose for which the loan would be used. Her husband did not know about it. The husband even bought her a car on returning from pilgrimage. For the fact that she was indebted to the moneylender, she could not drive the car because the moneylender would seize it from her. This was the reason for coming to me for protection. I will even have to contact her later to know if the matter has been resolved **(KII/DCO/53yrs/November 26, 2019)**.

Whereas, confiscation in absentia necessitated request for the police intervention by a male trader at Aleshinloye who narrated his experience as follows:

There was a time I went to Iyaganku to report that my home appliances were confiscated by a microfinance institution in my absence. The defaulter did not want me to take any legal action but I said no to his plea. Assume I came back home and my children were not found, where will I find them to? There were two kids at home while my wife went to the hospital for the immunization of third child on the day. They asked the elder one, who was just 12yrs, to sign for what they confiscated. They gave me three officers. We went to the company and invited them to the station. When they got to the station, they didn't have anything to say. I wrote my statement and they also wrote their own. They (the police) said that it was a big offence, and asked them to beg me so that we could reach agreement on how to settle the debt **(KII/Guarantor/36yrs/August28, 2019)**.

As indicated earlier, microfinance facilities are primarily for business purposes. However, this does not suggest that such facilities are not needed by others without business interests. It is for this reason that a number of people will be found procuring the facilities under pretence. This better explains the circumstances under which the woman indicated in the DCO's narrative defaulted. It is evident that she did not use the facility for the purpose for which it was obtained. The woman's case was different from that of the second narrator who could not be said to have directly benefitted from the facility guaranteed for someone else. Again, the woman's case has confirmed the earlier finding that spouses do keep their credit information from their partners whereas handling of default is no more a personal affair. It is under such circumstances that the female defaulter had to look for someone who would fill the vacuum created by the absence of her partner who was not carried along. In other words, she was forced to seek the help outside the family as she could no longer shoulder the loan responsibility alone.

Implied in the DCO's narrative also is the fact that microcredit facilities are not limited to the low-income earners. The family that could afford to pay not only for pilgrimage but a car as that of the female defaulter would certainly not be referred to as low-income earners. However, the fear of having the car confiscated by the lender would not allow the optimal utilization of the car by the defaulter. Given this, therefore, it is arguable that microcredit providers do resort to confiscation of any

items found in the defaulters' possession in addition to the collateral initially pledged for the facility. If the female defaulter got the car from her husband as a gift on return from pilgrimage whereas the facility was procured while the husband was on pilgrimage, it is evident that the car would not be part of the collateral pledged for the procurement of the facility. So, the fear of having it confiscated by the lender shows that microcredit providers do not restrict confiscation to the collateral but any other valuable items found on the borrowers in the event of default.

Although the car was valuable to the female defaulter, it was not as valuable as her marriage in that the protection sought from the DCO for the car was purposely to save her marriage because the confiscation of the car would mean that her husband would get to know about what she did that brought such consequences. In other words, it was the fear of having marital crisis rather than losing the car that necessitated seeking the police protection. Being a Muslim, the husband might not be pleased with usury characterizing microcredit facilities; hence the likelihood that the female defaulter had been seriously warned against taking such facilities. Therefore, there was no way her husband would get to know about the deal that the marital relationship would still continue to be blossomed.

On the other hand, taking possession of one's property in one's absence was perceived to have been a violation of one's rights as was the case with the second narrator. This negates the social thought that we do not shave the head without first seeking the consent of the affected. As earlier reported, the security agents are ideally saddled with the responsibility of protecting the interests of all parties. If being a borrower does not exclude one from such protection as was the case with the female defaulter, then a guarantor must equally have their rights protected. This accounted for approaching the police by the male guarantor whose property were confiscated by microcredit providers as well as the subsequent invitation extended to the accused party for the police to hear their side so as to be seen as an unbiased arbiter. Again, the male guarantor's experience has also confirmed not only the burden of guarantors in the event of default but also that microfinance institutions are characterized by impromptu confiscation as against microfinance banks that follow a due process for confiscation exercise.

It was the jettisoning of such due process that would not make the recovery officers to be mindful of the minor status of the person who was asked to certify the list of items confiscated from the guarantor's residence. At 12, the person asked to undertake the role was not legally mature to understand the tenets of the contract let alone being made to serve as a witness to the penalty that followed the breach of contract. It is not all parties to such transactions that are conscious of this; hence the persuasion of the guarantor by the defaulter not to take up the issue with the credit providers. However, consciousness eventually paid the guarantor when the lenders were not only rebuked but also asked to apologise to him by the police. This has reiterated the earlier report that the security agents do play a mediatory role in the lender-defaulter disputes. Although the lenders might be legally wrong, the impromptu confiscation approach was not lacking in rationality given the challenges associated with recovery. The lenders could have envisaged high resistance from the guarantor if he had been forewarned.

#### **4.7.9. Loss of Money through Cheque**

This penalty, which was found to be adopted by microfinance banks, subjects the affected to loss of money while the affected could be a defaulter or guarantor. As earlier reported, microfinance banks demand blank cheque from the applicants, guarantors or both as part of the requirements for processing loans. As the name implies, blank cheque is a cheque that will only be signed by the issuer and transferred to the beneficiary while the beneficiary will complete it with other information like the name and amount. The beneficiary, in this context, is the microfinance bank. This is taken as a security measure to prevent default or deal with issuers in the event of default. If the account with which the cheque is issued is well-funded to settle the debt, it is a loss to the issuer, especially if the issuer is only a guarantor who might not even benefit from the facility. This was the experience of a male tyres trader at Ogunpa who expressed his regret thus:

I ran into trouble sometimes ago when I guaranteed a neighbouring trader (pointing to his shop which was next to his) who defaulted. I was asked to present three blank cheques. They told me that it was only my current account that could guarantee the person. And, I had to consent being my next door neighbour. When the man defaulted, they brought me a letter but my apprentices failed to deliver the letter to me. So, I did not hear anything about the transaction again until I received a debit alert of #152,000. Such debit alert was unexpected and provoked me to call my account officer but he was not within the bank premises at the time. He, however, promised to call me back when he got to the office. And when he got to the office, he called me to find out if I had issued any cheque to a microfinance bank in recent time. At that point, I remembered the microfinance bank and the circumstances under which I issued the signed cheques to them **(IDI/ Trader/55yrs/November14, 2019)**.

Being trade colleagues who also shared the same building, the narrator was convinced that he would not have a problem guaranteeing the defaulter; hence his decision to give a consent to the transaction with blank cheque. This further confirms the earlier finding that microcredit providers are not interested in isolated persons as it is a requirement for the loan applicants to present guarantors before their requests can be granted. And the fact that the guarantor shared market space with the defaulter, he was accessible to the defaulter. This follows the thought that we beckon on close associates in our trying times.

In the light of the above, it is arguable that both the defaulter's request and the guarantor's consent were laden with rationality considering the fact that the defaulter would not have accessed the facility without the guarantor while the guarantor's consent could be taken for the preparation for the rainy days in which the guarantor hoped to benefit from the defaulter in future. Such motives are the norms in the society where reciprocity is entrenched. However, he was later proven wrong when he finally got to know the reason for receiving a debit alert from his account officer rather than the defaulter who was residentially bonded with him. This was an abuse of trust which could ultimately discourage the narrator from guaranteeing someone else in the future.

Apart from losing a huge amount running into thousands to a transaction that did not directly benefit him, depending on his account officer for information that could be freely supplied by his neighbour-defaulter was stressful. Again, the stress was also compounded for him by the failure of his apprentices to deliver a notice to him. Had he got the notice at the right time, he would have been saved of the stress that came with the unexpected debit transaction if he could not succeed in pressurizing the defaulter to pay back. This shows the level of indiscipline of apprentices in informal sector where the guarantor operated. On the other hand, if the account was not well-funded to settle the debt, the issuer would be automatically exposed to criminal charges. In a latter case, default would no longer be treated as a civil matter given the fact that the attention of the concerned state security agencies might have been drawn to it according to a male banking officer with a microfinance bank at Gbagi Titun who had this to say:

That (cheque) is the best security we use to get our money back. You know if you issue someone a cheque, and there is no money in that account, that is a criminal case. But before we present the cheque, we inform the owner (issuer) that we are throwing in the cheque if they don't show up within 2 to 3 days **(IDI/Banking Officer/27yrs/September 11&15, 2019).**

Corroborating this was a female credit officer with a microfinance bank at Iwo-road who said thus:

There was a man reported to the police over forgery of collateral documents to secure a loan. I will not want to reveal the identity of the client because we are still on it. Cheque is part of the collateral, and it should not be bounced. We demand blank cheque from client or guarantor **(IDI/Credit Officer/28yrs//November8, 2019).**

A male Divisional Crime Officer at Bodija also expressed as follows:

Money is obtained under false pretence when forged document is involved. The police can intervene here so as to prosecute the accused. This is a criminal case as against borrowing **(KII/DCO/55yrs/November 16, 2019).**

Cheque is not just a document that can be found on any bank customers. It is possessed by the current account operators who may not be low-income earners as such. It is such clients who may be found requesting for or guaranteeing huge loans that run into millions. Given the huge amount involved, microfinance banks consider it rational to demand security of substantial value that can be found in blank cheque from both the principal borrower and the guarantor in order not to be at total loss in the event of default. In spite of the micro status, the lenders at the grassroots are equipped with professional skills to be conscious of criminal issues inherent in civil matters. In a situation whereby a borrower or guarantor is confirmed to have issued a blank cheque with an account that is not well-funded to obtain a loan that later turns bad, such is an example of a civil case that is criminally embedded. In such situation, the civil issues bordering on default will be pressed by the lenders while the criminal issues relating to cheque will be pursued by the state against the affected. Consequently, the affected will have penalties imposed on them by two authorities- the lenders and the state.

Despite the fact that default is the original offence, the state penalties may be more severe than that of the lenders given the option of imprisonment attached to the cases of such criminal nature. However, exposure to such criminal charges and subsequent severe penalties could be averted by quick and positive response to the notice given by the lenders before presenting the cheque. In fact, the notice given by the lenders attests to the human face of microcredit markets which are solely interested in loan recovery rather than subjecting defaulters or guarantors to suffering. Being aware of the gravity of this offence is enough for the issuer to ensure prompt repayment or pressurize the principal borrower (where the issuer is the guarantor) so as to avoid any ugly consequences that follow default.

#### **4.7.10. Litigation**

As the name implies, litigation takes both microcredit providers and defaulters to law courts for settlement. Although law courts are state institutions that are expected to be exclusively reserved for lenders that operate within the state regulation, the sanction was found to be applied by both microfinance banks and microfinance institution according to a male head of loan unit with a microfinance institution at Agbeni:



We charge anyone who refuses to pay our money after 30 days to court. And, the more time the case takes in the court, the more interest on the facility. There is a case currently in court involving a female defaulter who came here on invitation to insult us, including our manager. She tore our manager's clothes. She is to settle us with #36,000. We don't mind spending more money on the case because we don't want her to pollute the minds of other customers **(IDI/Head of Loan/34yrs/November26, 2019)**.

However, this sanction has a procedure according to a male judicial officer who had this to say:

Before anybody (lender) can pursue litigation against defaulters, the person must have been registered with the Corporate Affairs Commission and obtained the Moneylender's Certificate and Licence. The lenders do not have the power to seize the defaulters' property while the borrowers do not also have the power to default in loan repayment. The court has the final say. Although customary courts have lesser jurisdiction, they can also adjudicate in default. Default can be pursued to the Supreme Court. There is a bailiff who enforces the court judgement without resistance from the defaulters **(KII/Judicial Officer/52yrs/January 27, 2020)**.

On the other hand, a male loan officer with a microfinance bank at Dugbe who had the following to say:

Our procedure is backed by law. We have client advisors who tell you this at the application/disbursement stage. We also give you your own documents to study, but ninety-nine of them don't go through it. What they are after is the money. We take actions rather than initiate court cases against defaulters. It is the defaulters who take us to court for our actions. I have a case in court currently. Someone dragged me to court. The only thing is that we can file another suit if we are not comfortable with the judgement **(IDI/Loan Officer/31yrs/October15, 2019)**.

In the light of the foregoing narratives, informal microcredit providers may have limited right in terms of seeking court redress in the event of default consequent upon the fact that such lenders may not possess documents that are recognized by the state.

Given this therefore, litigation may be exclusively reserved for microfinance banks and corporate microfinance institutions which may possess necessary documents to pursue such cases. Unlike microfinance banks that are dragged into litigation by defaulters, however, microfinance institutions initiate litigation against troublesome defaulters as was the case with the female defaulter who resorted to fighting the lenders on invitation to the lenders' office.

Although pursuing court cases against defaulters might be costly to microcredit providers, it could be a rational action to be taken under some circumstances so as to achieve deterrence as pinpointed by the male narrator who feared that failure to do so at that point in time would not only encourage the culprit to repeat such deviant act but other clients who either witnessed or heard about the act. In other words, the fear of losing respect in the presence of beholders was considered with deterrence by the lenders before opting for the option of litigation against the female defaulter. The lenders' action was also in agreement with the law given the foregoing expression by the male judicial officer that no party had the right to take action against each other until judicial intervention.

On the other hand, this cannot be said to be applicable to microfinance banks that rely on pre-default agreement to take actions against defaulters who must have sworn to Oath in a law court before accessing loan facilities as earlier reported. This is not lacking in rationality also considering the fact that initiating litigation against defaulters is tantamount to duplication of efforts as the consequences of default might have been communicated to the loan seekers initially even though the loan seekers were found to be keen on securing loans rather than paying attention to the consequences of default. However the contradiction between the approaches to litigation across microcredit markets, the respective approaches can be seen to be serving the same purpose of loan recovery eventually.

#### **4.7.11. Loss of Life**

As earlier indicated, demise of defaulter connotes lack of life in which the person ceases to live. However, rather than being a direct punishment by microcredit providers, this was found to result from the pressure from microcredit providers or guarantors according to a female informal lender at Agbeni who expressed thus:

Truly there is fear about repayment of such loans. I cannot say that death cannot result from such fear because I have an experience. There was a woman in our second zone. She gave birth to a child. She was to pay back but she did not. And, the officers (creditors) paid her a visit on the naming day. She was said to have collapsed and died on sighting them **(IDI/Informal Lender-Credit Group Leader/40yrs/September22, 2019).**

The female lender was corroborated by a welder-commercial motorcyclist at Apete who had this to say:

I did not know about it until she died. It happened 7 months ago. It was the guarantor who called on the fateful day to inform me that she guaranteed her for a loan of #100,000. I had to put a call to her immediately after I spoke with the guarantor, but she did not pick the calls. That was unusual, but it confirmed what the guarantor had earlier told me that she had called her line five times without a response. This made me go home, but she was not easily found until I saw her lifeless body dangling from the ceiling in the store room. She was about forty-one years old. She was my second wife. She had three children for me while she had a child in her first marriage. I am the one taking care of them all. **(KII/Significant Other/55yrs/February 2, 2020).**

Death might not be a deliberate penalty, yet it is the ultimate price for default given the contents of the foregoing narratives. Death, in this context, arises from the frequency of disturbance from the creditors and guarantors who believe that money given out in loans must be retrieved. It was such belief that took the lenders to the female defaulter on the naming ceremony day in a bid to recover their money from her whereas such visit created not only a shock for her but led to her death. There is no doubting the fact that the demised defaulter did not expect her creditors on the day; hence the shock expressed at sighting them while the impromptu visit to her indicates the level of knowledge of the creditors about their clients whose might have been well-profiled before considering for loan facilities. Confronted with such realities, defaulters would be restless and might be forced to take radical decision such as suicide in order to be free from the disturbances. Although the choice of suicide might be painful to the respective families, it was laden with rationality in that it was the only way understood by the defaulters to escape the shame characterizing

the treatment options for defaulters, more so, that their spouses were not carried along while sealing the contracts.

Having understood the consequences of their actions in a patriarchal society to which they belonged, suicide was the right path chosen by the brave. However, a vacuum would surely be created as with the foregoing cases. It is under such circumstances that the bereaved husbands would deem it fit to take the offspring of the relationship to the orphanage or hire caregivers for the offspring so as to fill the maternal vacuum. This is a cost that might not be borne by low-income earners. And where such cost cannot be borne, the family might be disorganized as the offspring could be given out to family relations for care consequent upon the interruption in the flow of the upbringing. This has implications for the upbringing of the offspring who have had a taste of their biological mothers' care. Given this, the offspring would have a basis for comparison compared with the offspring who have been under the watch of caregivers since birth.

#### **4.8. Costs of Loan Default in Microcredit Markets in Ibadan**

In spite of the severity of some of the foregoing sanctions, justification can be made for them given the harm done by loan defaulters not only to the credit firms but the loan officers according to a male marketer with a microfinance institution at Aleshinloye who had this to say:

If a borrower pays as and when due, that money will be recycled. It is not also easy getting our staff benefits. If the money is held by the customer, how are we going to enjoy our benefits? It may even affect salary. The company suffers in the event of default given the high interest paid on loans obtained from bank (commercial) as we don't own all money disbursed **(IDI/Marketer/42yrs/August30, 2020)**.

The experience is not different from what obtains in microfinance banks according to a male banking officer with a microfinance bank at Gbagi Titun who said this:

Things have changed now. In the event of default, the loan officers used to pay back. If it would take the loan officers to pay the money 3 or 4 years, the bank would take that money from the salary. That was why a loan officer would be seen fighting the customer (defaulter) and cursing each other **(IDI/Banking Officer/27yrs/September11&15, 2020).**

Given the foregoing narratives, it is evident that there are a lot of people suffering because of loan default while the suffering cuts across different lending establishments. If the reward for labour is wages or salaries, the loan personnel like any other workers in microcredit markets are expected to go home with their monthly pay and other emoluments attached in order to meet their needs. Apart from meeting their personal needs, they will also have to cater for the needs of their immediate family members and other dependants with their monthly take-home. However, default frustrates the wishes of the personnel whose salaries and other emoluments remain pending until the loans facilitated by them are fully settled. This follows the proverbial saying that the consequences of a sin will not only be borne by the immediate sinner but also the saints around the sinner.

The sinners, in this context, are the defaulters for they have failed to keep to the repayment terms and conditions of loan facilities granted them while the lenders and their employees whose chances of success in lending business and salaries will be respectively affected are the saints. In fact, the lenders are the first victims of default in that the employees' emoluments and salaries depend on them even though the loan officers can be seen wielding some power in microcredit markets being the middlemen between the lenders and the clients. For instance, they determine 'whom to grant and whom not to grant loans' by their recommendations; hence their employers' decision to attach their rewards to loan retrieval given the assumption that they are closer to the clients. Although the decision might be painful to the affected personnel, the lenders can be seen to be rational in that the tendencies for abuse on the part of the affected personnel would be checked by the lenders' approach.

Apart from the lenders' commitment to staff, they also service loan facilities procured from commercial banks. Loan servicing, in this context, is concerned with the interests paid on loan facilities procured by microcredit lenders. This explains the

condition under which a borrower can also be a lender. It is an indication that microcredit providers are not also independent like their clients. In the light of these commitments, recycling of funds is integral to the survival of the lenders. Recycling, in this context, is about reprocessing fixed amount of money for loan facilities within a given period. Recycling of funds is not feasible with default because the money withheld by defaulters will not be available to be given out in loans to other clients. This is only feasible when clients pay back as expected of them with a view to re-lending part of the facilities already retrieved before the expiration of the loan cycle. This tends to earn the lenders more profits.

It is also through the recycling that output from microcredit markets could be raised in that money would reach the entrepreneurial minds quickly as against a situation whereby disbursement of loans would be delayed or cancelled because of default. In the face of dwindling recycling, high interest rates may be unavoidable in microfinance markets in order to generate not only their profits but also cater for the loan servicing. Although this is consistent with Adewole *et al* (2017) and Soyibo (1997) that default risks necessitate high interest rates in such markets, the fact, however, is that default is not considered by microfinance institutions while sourcing loans from microfinance or commercial banks. It is only at the stage of disbursement after successful loan procurement that default will be factored in. Again, microcredit providers do not always provide for default according to a male sales representative with a microfinance bank at Challenge who said this:

As a sales representative, you are not expected to have a record of default. The sales representative incurs cost on visitation to clients and guarantors in the event of default **(IDI/Sales Representative/28yrs//December19, 2020).**

In the same vein, a female recovery officer with a microfinance bank at Yemetu said this:

There are people depositing money with us. If they come for their money and do not get it, won't they fight? So, we have zero tolerance for default here **(IDI/Recovery Officer/28yrs/February10, 2020).**

Given the foregoing narratives, the costs of default extend beyond non-payment of loan officers' salaries to include personal costs incurred on visitation to defaulters.

Such personal costs may not even be known to the employers not to talk of being refunded. This shows the compassionate side of the affected officers who make such huge sacrifice for the sustenance of microcredit markets. And of course, the sacrifice is justified in the light of the fact that there are other people like depositors whose interests must be given priority over others. Depositors, in this context, do not take loan facilities. However, they have a stake in microcredit markets by virtue of keeping their money there while the money is certainly part of the financial resources at the lenders' disposal given out in loans. The fact that the depositors must not lose their savings to the investments not known or approved by them justifies the zero tolerance for default in microcredit markets as default can deny them access to their savings.

#### **4.9. Challenges of Loan Recovery in Microcredit Markets in Ibadan**

It should, however, be noted that recovery officers are confronted with challenges while carrying out the recovery activities in the field according to a male recovery officer with a microfinance institution at Agbeni who said this:

There was a day we were taken for the NDLEA officers because of our uniform by the hoodlums at Nalende area of Ibadan when we went for recovery. We usually visit defaulters as early as 6:30 am so as to meet them at home before they go to the markets. On our way, we saw some guys smoking Indian Hemps. This made me tell my team to be vigilant. Unfortunately, the woman (defaulter) was not at home, but we met an old man in the house with whom we left our message. We were still there when we saw those hoodlums coming with broken bottles and axes to attack us. They even threatened to burn down the house if we were not produced. Some of my people (recovery team) were already rolling on the floor. However, we managed to escape by disguising with the clothes given us by someone in the neighbourhood **(IDI/Recovery Officer/42yrs/October 10, 2019).**

Corroborating this was a recovery officer with a microfinance bank at Challenge who said thus:

I go for recovery as early as 6.00am. When I am going there (defaulter's place) the first time, I appear in mufti so that I will be able to locate them easily as seeing me in a corporate-customized vest may not allow me to get information that can lead to the location of the defaulter because the neighbours may be scared of the vest **(IDI/Recovery Officer/30yrs/December19, 2019)**.

Implied in the foregoing narratives is the centrality of timing to recovery. The timing of recovery can be seen to be strategic in the sense that at 6.00am, there is the possibility of meeting people at home with whom a message will be delivered even if the affected defaulters are not found. Given this, the chances of repayment are high because the lenders' pressure will now be combined with persuasion or pressure from the neighbours who relay the message to the defaulters on return. The foregoing narratives also depict the challenges being faced by the recovery officers who could be wounded in the course of carrying out their duties.

Apart from the confiscation-related challenges that the recovery officers struggle to get over, their uniforms also make prey of them. In spite of its symbolic value for easy recognition and marketing, corporate uniforms like customized vests put on by recovery officers are inimical to the safety of the wearers who could be mistaken for a threat by people living contrary to the societal values. Indian-hemp smokers are some of the people living contrary to the societal values while such people will also want to evade arrest by the state security agencies like the National Drugs Law Enforcement Agency (NDLEA). Again, the physical structure of the location where the attack took place could be said to have provided a haven for such hoodlums.

Nalende is a slum within Ibadan metropolis. It is along Mokola-Oritamerin road and shares domains with Oopo, Elelede, Idi-Ikan, and Ayeye. Numerous visits to those areas in the course of gathering data for this study have made the researcher confirm that those areas were notorious where young people could be found conspicuously indulging in criminal acts like smoking of the Indian Hemps. And being slums as they are, they are also educationally backward; hence the inability of the hoodlums to differentiate between the recovery officers and the NDLEA personnel. The characteristics of such areas have also confirmed the earlier findings that microcredit



markets are mainly meant for low-income earners who will be found residing in slums due to their socio-economic positions in the society.

#### **4.10. Objective Four: Factors Underlying the Choice of Treatment**

##### **Options for Defaulters in Microcredit Markets in Ibadan**

The treatment options earlier identified were found not to be applied without considering some factors such as gender, age, stubbornness, credit records (first-timers), absconding and death. Such factors were found to make the treatment options defaulter-centred. In other words, the treatment options were found to be applied to suit individual default cases. It is such factors that account for a situation whereby a defaulter will be exposed to harsher penalties than another even if the same amount of loan and the same microcredit providers are involved.

##### **4.10.1. Gender**

Although gender was not found to have directly influenced the treatment options personally favoured by the lenders for defaulters, the law enforcement agents were found to have taken it into consideration. This was found to be adopted by the police who were not disposed to subjecting female defaulters to the treatment option of arrest and detention against the wish of microcredit providers according to a female recovery officer with a microfinance bank at Yemetu who had this to say:

The head of the police station where we take the defaulters to is now a woman. She does not want female defaulters detained like male defaulters. The female defaulters are only asked to write an undertaking to the station, and not to the bank anymore **(IDI/Recovery Officer/28yrs/February10, 2020).**

Whereas, a male supervisory officer with a microfinance bank at Dugbe expressed thus:

We don't consider gender while dealing with defaulters. When you default, we give you an ultimatum of 3 to 5 days before we take action. Why do you come here to take loan as a woman? No preferential treatment for defaulters. Even, the guarantors are treated the same because they are told before they guarantee **(IDI/Supervisory Officer/38yrs/September21, 2019).**

The foregoing narratives indicate that lenders do not always have their ways in the choice of some treatment options that will not be directly executed by them. It is clear from the female recovery officer's expression that the Divisional Police Officer was biased against male defaulters whereas there is rationality in flat penalty for defaulters in the light of the male supervisory officer's position that harms associated with default are not gender-discriminatory. It is also evident from the female recovery officer's narrative that the female police head had just been transferred to the station. And having a new head at the station did not make business to be as usual for the lenders who were used to administering the treatment of arrest and detention on the defaulters at will.

As the head of the police station, the DPO was the highest authority whose orders would be binding even if such orders contradicted the wish of the complainant as was the case with the recovery officer whose aim was to detain all defaulters regardless of gender. However, being a female officer is not enough to explain the gender-based discriminatory order considering the fact that the recovery officer who would have been pleased with seeing both male and female defaulters arrested and detained was equally a female officer. Therefore, the DPO's compassion for female defaulters could be located within the context of the state law which tends to be biased against men. This is in tandem with Bamgbose (2010) that the state penalties for offenses are determined by socio-demographic factors of the offenders, gender inclusive. Given the option of undertaking, nonetheless, the discriminatory orders would not set female defaulters free or absolve them of the accusation. And if loan repayment was the expected result of arrest and detention, the substituted option of undertaking was equally justifiable in that it could yield the same result in the end.

#### **4.10.2. Age**

Age, in this context, is about whether the defaulters are young or old. Much is not usually expected from an individual who has attained the age of 60 years in terms of productivity. It is for this reason that a trader at Aleshinloye narrated his neighbour's experience thus:

I can speak of someone who had such experience (default). They kept coming to him two to three years after the due date. And they have not charged him to court probably because of his age. The man should be around 60 something years old. I don't know their plan. I am not directly involved, but the man is a close neighbour in the market **(IDI/Trader/40yrs/August25, 2019)**.

Unlike public service where retirement age is put at 60yrs except in few exemptions like the university professors and judges, informal economy such as trading sector does not have retirement age even though much is not expected in terms of productivity from traders who have attained certain age. Again, the structure of marketplace generally does not support privacy. It is in the markets where traders could be found sharing stores and shops. In such situation, a neighbour as the narrator could have easily got a clue to the defaulter's ordeals. In fact, it was even possible that the narrator had once played the role of a rescuer to the defaulter on some occasions when the defaulter was visited by the lenders while such visits indicate that loans are a treasure that cannot be quickly written off by the lenders. Against this backdrop, the lenders hardly lose hope of retrieving debts from defaulters as was the case with the old male defaulter cited by the narrator.

Visitation, in this context, is meant to put pressure on defaulters. And being an old man did not affect the pressure from the lenders. In fact, the visits would allow the lenders the opportunity of monitoring the defaulter's progress and determining when he was able to settle the debt regardless of the fact that the trader could not move up and down any longer at such age. However, the lenders understood that apprenticeship system in trading sector could make up for the defaulter's ageing-induced dwindling ability. This could render saving the defaulter from the treatment of litigation on the ground of age untenable.

Again, litigation could be too costly for the lenders to pursue, especially if the amount involved in default did not justify the treatment as rational credit providers tend to weigh the amount of money in default against the cost of litigation before choosing the treatment option according to male chief executive officer of a microfinance institution at Salvation Army who said thus:

...if you say you want to pursue it, you consider the amount because you will incur cost again on going to the police, employing lawyers, going to court (IDI/Lender/63yrs/October11, 2019).

The CEO's narrative is laden with rationality even though it can set defaulters free from sanctions. This also shows that the option of litigation is hardly considered by microcredit providers who believe that such option rather depletes than boosts the income if the amount involved is not justifiably substantial. In other words, the volume of money in default is a strong determinant of litigation. Again, the narrative has buttressed the earlier reported finding that the state actors such as the police and the judiciary are involved in loan recovery. However, involving the state actors is not without financial cost which could further add to the lenders' burden. Apart from the explicit cost, litigation could also expose the lenders to implicit cost in terms of time taken to pursue court cases against defaulters.

#### **4.10.3. Attitudes and Disposition**

As earlier reported in the treatment of loan defaulters, it was deemed necessary for the lenders (microfinance banks in particular) not to confiscate without serving notices. So, quick even if not positive responses to such notices were found to save defaulters from some treatment options. Related to this is whether or not the affected defaulters are perceived to be stubborn. Stubbornness has to do with doggedness or hardness in which case no matter what the lenders do to persuade the defaulters, there will be no cooperation from the defaulters who may not respond at all or at the appropriate time to the lenders' requests. The lenders do not hesitate to apply the treatment options under such circumstances according to a female recovery officer at Yemetu who submitted thus:

There is a defaulter who just sent me a Whatsapp text (the text shown the researcher) informing me that he could not make it to the bank for repayment as scheduled. Such defaulter will not be subjected to any form of ugly treatment. There are many items here seized from defaulters. Though, as a bank, we don't like seizing property. We like being paid back the loans obtained from us. It is even difficult getting buyers for the seized items. So, it is not our wish getting the items in place of our money. We seize property when the defaulters are too stubborn for us **(IDI/Recovery Officer/28yrs/February10, 2019)**.

The female recovery officer's position was shared by a male head of information technology and recovery with a microfinance bank at Agbeni who had this to say:

There is a defaulter currently being detained by the police on our request for his stubbornness. He took a loan of #250,000 in August last year to finance his poultry venture. He was to pay back #40,000 a month. Instead, he would pay #20,000. He even stopped the payment, but after negotiation, he agreed to pay #10,000 which he also reneged. He said that he did not have the money to pay, and that we should do whatever we liked. Even he is proving his stubbornness in the station. And, the police are handling the case tougher than we expected **(IDI/Head of Information and Recovery/41yrs/October 29, 2019)**.

Whereas a male trader at Aleshinloye expressed as follows:

In my own case (default), I had a problem in my shop then with my landlord. I had to sort that one, hoping that I would get the money within two days, but I couldn't get it. I called some of my friends but the money did not come out. I had to call them (loan providers) to plead for 2 to 3 days for me to raise the money. I informed them before the due date so that they would not come and embarrass me. I envisaged that they would come if I did call them. They are not the owner of the money. Maybe the money belongs to another person. They are using it for business **(IDI/Trader-Defaulter/36yrs/August28, 2019)**.

Microcredit providers make provisions for dialogue; hence the need for extending invitation to defaulters so as to determine the underlying factors responsible for failing to meet up with repayment. It was the knowledge of such factors, however

unreasonable to the lenders, which necessitated the variation of the earlier terms and conditions for the poultry proprietor. This is the human face of microcredit markets which do not always make the credit providers act for the protection of their own interests. The clients' interests are also considered given the fact that such dialogue may provide a basis for discriminatory sanctions against defaulters. This explains why defaulters in the same amount categories may not be subjected to the same treatment options going by the variations in the reasons for individual cases that will be unravelled during the dialogue. In some other cases, defaulters do not need to be invited let alone detained on the order of the creditors before informing the creditors about their inability to meet up with the repayment as were with the cases of the defaulters who reached out to their respective creditors before the due date. This shows that dialogue does not need to be always initiated by the lenders as the defaulters can as well initiate it so as to avert ugly consequences of default.

Technological devices (mobile phones) and their applications (*whatsApps*) can also be seen as the platforms through which the defaulters can facilitate dialogue with the lenders in the contemporary times. However, various moves must have been made as was the case with the male dealer at Aleshinloye before informing the creditors about the imminent disappointment. Part of the moves is to reach out to friends. This has again confirmed the earlier reported finding that microcredit markets are not for isolated individuals as being isolated would definitely not afford the defaulters the opportunity to seek help where necessary. Besides, it is evident from the narratives that clients do speculate and have other commitments apart from the obligation of debt settlement. In other words, there are many needs competing for the clients' resources. This is where the application of the concept of scale of preference is imperative. The concept is instrumental to prioritization of the satisfaction of the most pressing needs of man.

Having understood that it was from the shop that sales would be made to settle the debt and fulfil other obligations, the male trader considered it rational to settle the financial issues arising from the shop which could be the rent before loan repayment. This was a rational action taken as default was a choice in such situation while the envisaged embarrassment that might attend the failure to settle his debt would have been the opportunity cost had he not put a call to the lenders to seek more time after

the due date. Given the positive experiences resulting from timely responses, it is arguable that there is rationality in good attitudes but it is not all defaulters who exhibit good attitudes to their creditors who have no choice but to consider severe treatment options like confiscation of the collateral and detention in the absence of the expected attitudes.

#### **4.10.4. Absconding**

This is another factor found to have determined the kind of penalty imposed on defaulters in microcredit markets. This takes the form of a situation whereby a client runs away either immediately after procuring a facility or when there is no means of repayment of the facility. In such circumstances, the lenders do not pardon the clients given the pressure that will be mounted on the guarantors. However, the guarantors could as well fail to fulfil their responsibilities according to a male informal lender at Ogunpa who this to say:

A man actually defaulted in 2014. He went away with my money which was #75,500. He travelled out of the country. I did all I could with the guarantor, we were unable to retrieve the money. The guarantor later travelled to Lagos. Surprisingly, the man (client) called me two years later from the United States of America to inform me that he was out of the country. Then, I got to know that the loan was part of the money he used to travel **(IDI/Informal Lender/45yrs/December16, 2019)**.

Although microcredit providers have earlier been reported to have given the business purposes a priority, it is evident that borrowers disguise to get microcredit facilities to fund other purposes than businesses. Having understood the priority of microcredit providers, the defaulter considered it best to hide his motive from the informal lender. This follows the saying that the name to be christened a child with resides in the mind. This provides the explanation for the ulterior motives of loan applicants who choose to hide the real reason for loan application from loan providers whose priority has been known to be business-oriented.

Of course, the person who guaranteed the loan had to be dragged into the case considering the fact that the guarantor was expected to fulfil the principal borrower's obligation in the event of default but the expected result was not forthcoming either

given the guarantor's exist from the city where the transaction was sealed. And as against the tradition in microfinance banks where there are a lot of securities with which such facilities are obtained, the informal lender had no choice but to write off the loan as there was no collateral to confiscate. However, the trust rather than tangible collateral upon which the transaction was conducted later compelled the defaulter to redeem his debt two years after the due date. On the other hand, absconding act attracts a severe punishment according to a male marketing officer with a microfinance bank at Gbagi Titun who said thus:

Most customers don't know this. When they have problem with loan repayment, they run away. That is not the solution. The solution is for them to come to the bank and tell us about your problem. Then, we will ask you, how do you think you can settle the money? And, there will be a compromise which may be extension of time or additional lending to manage and from this the money will be paid back. We listen to them if they come for re-negotiation. Before giving them money, we do KYC (Know Your Customer). We know their houses, shops, relatives and guarantors. By the time we push their relatives and guarantors up and down, they will produce them and will be taken to the police station where they are forced to make an arrangement on how to pay back the money. **(IDI/Marketing Officer/38yrs/September14, 2019).**

This was buttressed by a female *Fufu* dealer at Ogunpa thus:

It happened last year that a member, who was a policeman's wife, could not be found at home after taking a loan. It was not that she had left home totally, but we could not find her. She would leave home early in the morning and return late at night. And, are we not too busy to chase her around? It was her husband who later came and settled us. We got to know about her husband's arrival through hints. We have closed her card. She is no longer our member **(IDI/Trader-Credit Group Member/40yrs/September28, 2019).**

It is evident from the foregoing narratives that defaulters are ignorant of the right steps to take; hence their resolve to abscond whereas there is no hidden place for them no matter how they struggle to hide themselves from the creditors. It is not reasonable for one to hide from people who have got sufficient information about one



through KYC which boosts the confidence of the creditors that their defaulters will easily be tracked. This, however, attracts severe penalty compared to voluntary self-submission expected from defaulters. There is a hope of retrieval when the creditors do not find it hard to locate their debtors. However, the creditors are aware that the clients are bereft of the knowledge of hopelessness that characterizes the absconding option; hence the encouragement that the defaulters should not consider the option in that the punishment for it will be made harsher than voluntary self-submission. It is also evident from the narratives that more pressure is put on the guarantors in the event of absconding situation. And the guarantors cease to be pressurized on presentation of the defaulters while the guarantors whose guarantees cannot be located continue to suffer in the hands of the lenders.

Relying on KYC, the clients were reminded that their places were not hidden from the lenders who had visited their homes and shops prior to loan disbursement. Noting this reminder makes the defaulters that voluntarily report themselves to the lenders save themselves not only from being reported to the police, but are likely to be considered for top-up facilities if it is discovered that extending the repayment period alone may not guarantee the defaulters' survival. This shows the extent of compassion in microcredit markets as against the experience of the police officer's wife who suffered severe penalty in the end despite hiding from the creditors and group members for a long time.

Although the police officer's wife's debt was eventually settled, the defaulter exhibited features unexpected of someone connected to the law enforcement agents. Definitely, her membership would not have been terminated if she had not absconded. This was a punishment that would not allow her enjoy such facilities again even though she had the debt settled eventually by her husband. However, the profits lost to broken recycling coupled with the restlessness of the other group members while tracking her husband would justify the punishment. Such punishment has the force of deterrence which would discourage not only her from indulging in the act but other group members who might want to exhibit such act in the future. This was a police officer's wife who ought to have understood that absconding in such context would be interpreted as a fraud that would tarnish her family's image. This could have made the group members to be more interested in tracking the husband rather than the

actual defaulter with a view to recovering the debt conveniently from the officer who might not want to expose himself not only to ridicule but severe penalties with which default would be treated under such circumstances. This was a rational action collectively taken by the group members who did not want to bear the brunt of default with their meagre resources.

Beckoning on the officer has again affirmed the imperative of attachment rather than isolation in microcredit markets as the isolated could not have got a bail-out like the officer's wife. Also, the means through which the officer was tracked has shown the significance of intelligence gathering for the sustenance of microcredit markets. This agrees with Soyibo (1997) that creditors seek information about loan applicants. There is no doubting the fact that information is needed about loan applicants at this stage where new entry is recorded whereas the lenders are not usually familiar with the new entries given the present microcredit complexities which may extend patronage beyond the lenders' ethnicities, educational levels as well as geographical locations. However, default tends to hinder the reliability of information gathered about loan applicants as defaulters' whereabouts become unpredictable as against what obtains at the application stage where loan applicants are likely to be rational by being consistent in supplying the information that is verifiable so as not to miss the chances of accessing the facilities.

In the light of this, the information sought by creditors is not limited to loan application stage but about defaulters when the credit transactions later turn bad. There is always the need to update the information through intelligence gathering as the conventional way of sourcing for such information may not be realistic in the event of default.

#### **4.10.5. Illness and Credit Records**

Credit histories of defaulters are also factored in when applying treatment options. It should, however, be noted that the credit histories do not exonerate the defaulters from paying back the loans as good credit history only lessens the penalty for non-habitual defaulters who are confirmed to be ill at the same time. In other words, illness is not enough for defaulters to be given lesser penalty as the records must have shown that the affected would not have defaulted had they not been ill. This is a

function of willingness earlier discussed under the factors determining default according to a female nylon trader at Agbeni who had this to say:

I had a default experience when I was ill. They did not notify my guarantor because they had checked my past records. I did not have bad records. That was not the first, second, third or fourth cycle. And, hardly would a week pass without me saving money. They even checked my savings. And, they did not see me as an alagbeda (fraudster). It was my good records that attracted such favour as it would be impossible for a first-time borrower who defaults **(IDI/Trader-Defaulter/42yrs/September 30, 2019).**

This was corroborated by a tailoring materials trader at Gbagi Titun who said thus:

If they discover that the person has been turning up for a long time and ended up defaulting the first time, they only calculate interests on the loans as against detention and shaming parade done to other defaulters **(IDI/Trader-Defaulter/36yrs/September4, 2019).**

However, a male trader at Aleshinloye expressed a contrary view thus:

Even when you are sick, they ask for their money. There was a time I was involved in an accident last year. They still came and worried me **(IDI/Trader-Defaulter/65yrs/September2, 2019).**

The narrative by the shoes-wearer as was the case with the nylon trader has shown that good credit records do not impose penalty not only on ill defaulters but the guarantors. Also implied in the narrative is the reward for faithfulness of loan takers whose efforts to redeem their loan obligation at all cost are being observed by microcredit providers. Although default generally has been earlier reported to be harmful to microcredit markets, there is rationality in saving the exceptional defaulters of sanctions as was the case with the nylon trader in order to encourage not only her but others to be faithful to the lenders. Of course, four loan cycles (twenty-four months) are enough to determine a credit-worthy client. During the period, consistency might have been studied to determine the extent of the client's ability and willingness. When such values are always forthcoming, on no occasion will such client be taken for a fraudster.

On the other hand, it is only when a defaulter lacks good credit records that they can be taken for a fraudster. This could explain the case of the male defaulter whose creditors continued to disturb despite his accident experience. Unlike the accident victim, the creditors considered it imperative to further help the female defaulter by treating her case as a patient in need of medical attention rather than a deviant who must be exposed to sanctions. Although past records intersected illness in her own case, she would not have suffered harsh treatment even if she were not ill in the light of the corroborating narrative of the male tailoring materials trader who was equally of the opinion that first-time defaulters were not treated with harsher options found in the police detention and shaming parade.

#### **4.10.6. Fire Outbreak and Death**

As earlier indicated, fire outbreak refers to a situation whereby the clients' goods are destroyed by fire in the shops while death simply means an end to the clients' lives. The above-underlined two factors should have been treated separately but for what is common to the duo. Under the circumstances of fire outbreak and death, the victims were found to be usually exonerated of debts in microfinance banks owing to the intervention of insurance policies undertaken for the duo circumstances on behalf of the loan takers by microcredit providers. This is another distinguishing feature between microfinance banks and microfinance institutions. Unlike microfinance institutions, microfinance banks could have been mandated by the relevant government agencies to undertake insurance policies for their clients. Such policies will definitely anticipate circumstances like fire outbreak and death according to a male recovery officer with a microfinance bank at Challenge who had this to say:

There was a man who just died after getting a loan from us. There is insurance for such incident provided a death certificate is presented because without death certificate, we assume the person is still alive (**IDI/Recovery Officer/30yrs/December 19, 2020**).

The recovery officer was corroborated by a female second-hand clothes dealer at Aleshinloye who narrated her experience thus:

If you borrow money today, there is a portion of insurance. If anything happens to your shop, perhaps fire outbreak, you will not pay anything. They will not collect anything from you. This happened to me in 2015. I collected #300,000 from them then and, I had just paid back half of the loan before that thing happened to me. I went there to tell them what happened to me. They came down here with me to snap the shop and send it to their head office. I did not pay anything again **(IDI/Trader-Defaulter/49yrs/ September 2, 2020).**

However, there is no consideration for such circumstances in some microfinance banks according to a male compliance officer with a microfinance bank at Agodi-Gate who expressed as follows:

In the event of death, we call on the guarantor to either pay back the facilities or furnish us with information on how to get back the facilities. And, if it requires us to visit the family of the deceased or attend the funeral, we do so to register our debt against the deceased **(IDI/Compliance Officer/40yrs/November12, 2019).**

The compliance officer's expression is not different from what obtains in microfinance institutions according to a male informal lender at Ogunpa:

There was a person we granted a loan of #90,000 about seven years ago. The person committed suicide (hanging) two days after getting the loan. We visited the family to inform them about it, but they said they would get in touch with us in the future if God enabled them get the money. If we were the ones owing the deceased, we would have given all the savings to the family without any deductions **(IDI/Informal Lender/35yrs/November11, 2020).**

Although insurance will definitely add to the cost of loan, there is no doubting the fact that it has given a human face to microcredit facilities in a bid to negating the notion of *gbomulelantern*(putting breasts on lantern) or *gbedilesa*(putting buttocks on nail) commonly used to describe such facilities. It may not be reasonable disturbing a client who has lost their goods to fire for loan repayment so as to avoid further damage, which could be psychological, to the person; same for the relatives of a demised client who may be too bereaved to entertain anything outside condolences during the period. However, the foregoing compliance officer's narrative points to the

need to call the guarantors to their responsibilities in the event of the principal borrower's demise. Against this backdrop, it is arguable that some microfinance banks still operate like microfinance institutions.

Without insurance policies, damage of greater magnitude may be done to the health of the affected. In fact, without such policies, suicide could be contemplated, especially by the client affected by fire outbreak or any other disaster. However, apart from the fact that enforcement of the policies is low which explains why some microfinance banks have not adopted the policies, it is also evident that such policies can be frustrated in the Nigerian society where people are likely to die outside the formal healthcare facilities where death certificates and other necessary documents needed for processing the policies will be easily obtained.

Being formal as they are, microfinance banks do not rely on oral evidence in the event of death of clients; thereby the likelihood that the demised clients and their families will lose out in the deal if they cannot support their claims with necessary documents. On the other hand, circumstances like fire outbreak may not be that difficult to prove to microfinance banks given the physical damage involved that does not require more than photo attachment. Taking the photo of the incident could be conveniently handled even by the affected given the access to highly technological phones in the modern times.

If default is one of the risks in credit markets as advanced by (Ekpo, 2016), then, a rational lender should be expected to transfer or share it with others (especially insurance companies) which specialize in taking up risks. Although transferring or sharing the risks will be at a cost, the clients are meant to shoulder the responsibility as part of the loan processing fees. More so, it is not only the insurance costs that are transferred to the clients in microcredit markets considering adverse selection in the markets. According to Adewole *et al* (2017) adverse selection involves the anticipated risks in credit institutions that will warrant not only dividing the clients into riskier and safer but also determining the interests with which they will respectively be charged.

In the absence of such policies like insurance, the deceased client's relatives would be disturbed for repayment as was the case with the male informal lender. This is one of the risks characterizing such transactions. The lender did not have a premonition of such incident; hence his decision to extend loan facility to the deceased in the first instance. Although there was no report of suicide note, it cannot be asserted that the deceased had not premeditated the incident because suicide generally does not just take place. And the fact that there was no evidence that the suicide was not default-motivated as there was no note or oral words left behind by the deceased to justify that cause does not foreclose speculation.

Part of the speculation could be a case of fraud in which the deceased had lost all his earnings, including the facility just procured. Given this possibility, the deceased could decide to go for suicide in order to escape the likely penalty that would follow the imminent default. This speculation did not, however, discourage the lender from paying a visit to the deceased family to inform them about the transaction even though the family would not be pleased with such information at the time. This shows that death is not an excuse for operators of microfinance institution to write off debt. Debt can only be written off when it is clear that the deceased family are not forthcoming.

If negative circumstances like death are moderated by insurance policies in microfinance banks, writing off debt over death in microfinance institutions may be impossible given the informal nature of their activities which may not make their clients appreciate such policies which could even be mistaken for fraud or additional burden bereft of any benefits. And where there is knowledge of such policies, there may not be appreciation; hence non preference for such policies in spite of debt relief that comes with it. In other words, a client may rather suffer any consequences that follow failure to pay back than pray to cease to be alive in order to be relieved of the pains associated with non-repayment despite costs incurred on the policies. This could have accounted for disturbing the guarantors or relatives of the deceased clients in some microfinance banks. This could not be said to be lacking in rationality given the fact that mere default is a civil matter that does not attract a death sentence in the nation's criminal justice system. If a client cannot be committed to death over debt, it is arguable that death insurance will not be an appreciated option among clients to

settle debt as clients are not alive to settle only debt obligation. The clients are human beings who are attached to the family or any other group with expected commitments. Given this, it is not only the deceased who will be displeased with death and the subsequent debt relief but their Significant Others and peers who will be more affected, especially if the deceased are the breadwinners of the family. Again, the male informal lender's claims that the deceased did not have enough money in the savings account as such would have been used to settle the debt if there were enough in the savings account also attests to the earlier reported finding that compulsory savings is an integral requirement for loan procurement in microcredit markets.

Besides, the lender's claim that if the deceased had more than enough in the savings account to settle the facility, the balance would have been returned to the family indicates sincerity in microfinance institutions despite conducting their operations outside regulatory environment. This portrays microfinance institutions trustworthy in spite of the informal mode of operation that may not mandate loan applicants to present a next-of-kin.

#### **4.11. Theoretical Discussion of Findings**

As earlier indicated, the study was guided by Rational Choice Theory (RCT) which is basically about being seen to take the best decisions which maximise gains with a minimum cost. However, the theory has its limitations which make the actors confront barriers in the course of taking the best decisions.

In the light of the findings presented so far, the following actors were found to be operating in microcredit markets: microcredit providers, clients, clients' guarantors, clients' Significant Others, the CBN, the Judiciary, security agents (The Nigeria Police and The NSCDC).

Microcredit providers are the lenders who are either regulated by the state or not; the clients are the loan takers who are tagged defaulters when they fail to pay back the facilities procured; the guarantors provide surety for loan facilities granted the clients; the Significant Others are affiliated to the defaulters by virtue of marriage or consanguinity; the CBN regulates the activities of the credit providers (especially microfinance banks); the judiciary does not only licence credit providers but



adjudicates in the lender-defaulter disputes; the security agents are the actors to whom the lender-defaulter disputes are reported.

Given the foregoing roles played by the identified actors, it is arguable that the actors' respective engagements in microcredit markets are laden with purposes which do take into consideration the actors' interests. While non-state actors like the loan providers, loan takers, guarantors and Significant Others operate in microcredit markets with the aim of protecting their individual interests which may be self-regarding, state actors like the CBN, the judiciary and the security agencies operate in the markets for the sole protection of the state interests which border on maintenance of law and order.

The rationale for loan procurement as well as the conditions for loan disbursement can be understood within the RCT assumptions. Loan facilities procured for business start-up or expansion are purposeful for the clients who are traders by occupation considering the merits therein. Although there are many sources of capital, loans are accessible to traders in microcredit markets. This allows the traders to boost their businesses. This agrees with Amissah and Gbandi (2014) and Olomola (2002) that low-income earners such as traders do patronize credit markets for loan facilities. Access to loan facilities provides the traders with the opportunity to have enough goods in the stores; thereby enabling the traders to satisfy their numerous customers with varieties which will ultimately earn them profits. This also applies to the guarantors who are driven into microcredit markets by the clients as the clients' loan requests cannot be granted without presentation of guarantors to the loan providers. This makes the guarantors' roles to be that of the facilitators whose roles are indispensable for loan procurement.

The guarantors' roles are not devoid of rationality given the purposeful intentions with which such roles are laden. It even becomes clearer if the clients' guarantors are spouses who do not only share the same residence with the clients, but also depend on the clients for survival as it was the case with the clients presenting their wives as guarantors to the credit providers. Although the clients' wives, in such situation, might be seen to have limited choices as their refusal to consent to guarantee such transactions could be taken for non-cooperation or disobedience in a patriarchal society like Nigeria, the spouses cannot be said not to have choices at all given the

fact that they can refuse to consent and face the consequences if they are convinced that such facilities would not advance their collective interests.

Having understood the implications of default for surety in the light of the fact that intending guarantors are usually educated by the loan providers in that respect, it is arguable that making oneself available as a guarantor is deliberate. This is a rational action for the guarantors who could have envisaged the benefits such facilities would offer them as it was the case with loan sharing found to be responsible for loan default. The roles of Significant Others can also be seen in this light. Whether by design (where clients present spouses or other family relatives as guarantors) or default (where clients' spouses are not informed prior to default), Significant Others' involvement in microcredit markets is not only deliberate but also purposeful in terms of intervention they provide to rescue defaulters from the sanctions imposed by loan providers.

Same for the lenders who deem it fit that the traders must satisfy some conditions (age, business-related proposal, guarantor, compulsory savings, presentation of blank cheque, collateral, good credit records, Oath taking, means of identification and statement of accounts) before they can enjoy loan facilities from them. The conditions can be located within the screening process reported by Soyibo (1997) in which the loan providers consider it necessary to gather relevant information about loan applicants before loan disbursement in order to avert default. As earlier reported, the minimum age for loan applicants is 18yrs while the maximum age (explicitly stated for guarantors) is 65yrs in microcredit markets. The age condition is in tandem with the legal age of maturity put at 18yrs within the nation's context that considers any individual below the age limit as minor and expects any individual who has attained 65yrs to have retired. This accounts for the reason why the loan providers are not interested in underage who cannot either be sued in the event of default or be said to have developed capacity to be self-dependent in trading or overage whose productivity could have dwindled to fulfil loan obligation.

In the same vein, the loan providers are interested in funding ventures that are business-related so as to be sure of returns that will be adequate for the loan takers to settle their debts. Business ventures like trading are investment opportunities that

involve buying and selling by the loan takers whose aims will solely be profit making from the difference between cost prices and selling prices. Despite the fact that the loan applicants must be of legal age and business owner, the loan providers also demand the loan applicants to provide national means of identification which will make the loan applicants traceable as well as guarantors who must present blank cheque. Given the rationale behind the foregoing conditions, it is arguable that the conditions provide security for loan facilities as such conditions tend to make the loan takers prioritize loan repayment at all cost in order not to be at the receiving end of penalties likely to be meted out to loan defaulters. The conditions are not only deliberate given the purposes such conditions are meant to serve but self-regarding in that such conditions are meant to advance the loan providers' interests which can only be actualized at the expense of the loan takers. In spite of the costs of the conditions to the loan takers, however, it is not all loan facilities procured that are paid back as agreed; hence the issue of default which results from loan diversion, unfavourable economic situation, robbery, gender, ethnicity, education, institutional compromise, illness, fire outbreak, and death.

In a nutshell, default-inducing factors can be mainly grouped into three: unwillingness (loan diversion, education); inability (illness, unfavourable economic situation, robbery, gender, ethnicity, fire outbreak, death); unwillingness and inability (where unwillingness is combined with inability). As earlier noted, unwillingness is induced by factors internal to the defaulters while inability is induced by factors external to the defaulters. The finding on gender is inconsistent with Angaine and Warri (2014) that gender does not affect default while the current study found a relationship between gender and default. However, the finding on education is consistent with Olomola (2002) that default increases with the level of education of loan procurers. In the same vein, the findings on illness and death are consistent with Angaine and Warri (2014) that default does result from ill-health status and demise of loan procurers.

Unwillingness resulting from loan diversion shows the extent to which default can be rationally created by the lifestyle of the affected. Having understood the consequences of default, loan takers may choose between using loan facilities for the purpose for which such facilities are procured and using such facilities for funding

uncertainties like social parties. These are choices available to loan takers whose post-procurement activities are not usually monitored by the loan providers. In the event that the loan takers use such facilities to fund uncertainties, the loan takers can be said to be self-regarding whose actions are detrimental to the interests of other actors whose survival is equally sustained by microcredit markets. Same for the loan takers' demographics such as gender, ethnicity and education which are tied to certain traits that predispose them to default. On the other hand, default-inducing factors such as illness, unfavourable economic situation, robbery attacks, fire outbreak and death are strains that can be explained by the limitations of RCT because such factors are undesirable for the loan takers whose primary purpose is to secure loan facilities to start or expand their businesses. The purpose is automatically defeated during the illness or any other period that does not contribute to the fulfilment of the purpose. The factors are beyond the control of the clients, and yet determining the clients' repayment performances. These are strains that either cancel the positively valued stimuli or generate the negatively rejected stimuli so as to halt the achievement of the positively valued goals (Moon *et al.* 2008).

Loan repayment is a goal for the traders generally as this affords them the opportunity to access more of such facilities when desired while favourable investment environment devoid of policy inconsistencies and insecurity can be regarded as the positively valued stimuli. In the absence the positively valued stimuli, negative stimuli found in bad economic situation, robbery and fire outbreak prevail. Bad economic situation does not guarantee the expected turnover and returns needed for loan repayment so also is the insecurity of lives and property which can induce loss of capital to robbery attacks or fire. In the event of such strains, default is imminent as the clients may not be able to cope with the circumstances.

The applications of RCT are also extended to the treatment options (fines, loss of interest waiver, loan decrement, loan denial, loss of privacy and humiliation, loss of goods and property, savings forfeiture, shop sealing, arrest and detention, litigation and loss of money through cheque) for defaulters. The treatment options can also be grouped into two: mild and severe. Mild sanctions involve fines, loss of interest waiver, loan decrement, loan denial and savings forfeiture. This is consistent with Adewole *et al* (2017) that defaulters are denied further access to loan facilities.

On the other hand, there are also severe sanctions (shop sealing, arrest and detention, litigation, loss of goods and property, loss of privacy and humiliation and loss of money through cheque) that do not only violate the defaulters' privacies but also expose them to reputational damage. This is consistent with Adeniran (2017) that loan defaulters do have their reputation damaged by their creditors in informal credit markets and Soyibo (1997) that personal threats and confiscation of collateral constitute the means through which default is controlled in informal credit markets. Sanctions like loss of privacy and humiliation can also be found in distraintment and nuisances reported by Fadipe (1970) as the mechanisms through which loan defaulters were treated in the pre-colonial period among the Yoruba.

In the light of the functions of the treatment options, it is arguable that the treatment options are deliberate and calculative in that such sanctions are freely chosen by the loan providers whose aim is not only to recover debts but achieve deterrence. In fact, the pressure with which the sanctions are applied can frustrate the affected to the extent of committing suicide as was practically demonstrated in the case of the Significant Other's wife who took her life as a result of such pressure. This makes death more than a cause of default as it can also become a consequence of default even though it was not found to be a direct sanction from the loan providers. However, the treatment options were found to be determined by the defaulter's age, gender, attitude, illness and credit records, and fire outbreak and death. This agrees with Bamgbose (2010) that socio-demographics of offenders are factored in while sentencing convicted offenders. It is under such circumstances that female offenders can be seen to be given lesser sanctions than male offenders even when both are established to have committed the same offence. The foregoing factors, no doubt, resonate the positivist school of deterrence that postulates that punishment must fit the offenders rather than the offence. The 'offenders' in this context are the defaulters while the 'offence' is the default.

It is the variations in the sanctions that portray the loan providers as other-regarding actors who apply sanctions to suit the defaulters' conditions. Although the variations are strains that may not guarantee quick debt recovery, the variations are not only deliberate but also purposeful given the good image such variations tend to offer the

loan providers. Saving an ill defaulter, whose past dealings have been consistently commendable, of sanctions will not only serve as propeller for the affected to sustain the good values but encourage others to imbibe the good values.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Microcredit markets, which are segregated into regulated and non-regulated, are the avenues through which loan facilities can be accessed at the grassroots. While microfinance banks provide loan facilities as formal entities within the regulatory environment controlled by the CBN, microfinance institutions (including daily savings collectors, professional moneylenders) provide loan facilities as unregulated entities since such institutions are outside the purview of regulatory environment. However, microfinance institutions can also be corporate or not depending on whether or not the affected institutions possess state documents like the certificate of registration from the CAC and the moneylender's certificate and licence from the State Judicial Registry. It should be noted that regulation does not discriminate against the mandate of microcredit providers who are meant to render financial support to the low income earners.

The state intervention in microcredit markets provides a backdrop for the multiplication of actors in the markets. Apart from the CBN and the Judiciary identified as state actors, the Nigeria Police Force and the Nigeria Security and Civil Defence Corps are other state actors to whom the lender-defaulter issues are reported for settlement. Besides, there are clients who take loan facilities from the loan providers; there are guarantors who provide surety for loan facilities procured by the clients; and there are Significant Others of clients who do feel the pains of the sanctions imposed on defaulters.

Microcredit providers were found to have given traders a consideration as suitable clients who need loan facilities to either start or boost their businesses. Microcredit providers' collective mission is in tandem with the rationale for loan procurement among traders whose reasons also revolve around business start up or expansion. Loan facilities are individual or group based in microcredit markets, with microfinance banks mainly providing both while microfinance institutions were

found to be providing mainly individual loans. However, the unity of mission does not amount to free access to microcredit facilities as the loan applicants were found to be required to fulfil other conditions spelt out by microcredit providers. One of the conditions is that loan seekers must have attained the age of 18yrs. This is the legal age of maturity in Nigeria where the credit providers operate. For credit transactions to be valid, the credit providers deem it fit to align their corporate rules with the national law so as forestall negative consequences that may attend extending such facilities to minors who might not have developed mentally to master not only the art of trading but complexities of microcredit markets. Another condition is that loan seekers must present a minimum number of guarantors who must not be older than 65yrs, even though such guarantors must be older, capable and respected by the loan applicants.

Being the persons who assume the responsibility of the principal clients in the event of default, the guarantors are expected to be productive; hence the stipulation of 65yrs for the guarantors who are equally expected to be relatively strong to mount pressure on the clients to honour repayment agreement. It is arguable at this point that the fear of default is part of the rationale for demanding guarantors. It should also be noted that marital status of the loan applicants determines the number of guarantors demanded, with the married given the privilege of presenting fewer guarantors. Also, microcredit providers were found to be demanding national means of identification, statement of accounts, collateral (cars, buildings, home appliances) as well as Bank Verification Number (BVN) used for tracking the loan applicants' credit histories.

While the foregoing conditions were found to be explicitly stated by microfinance banks in codified documents which must be read properly by the loan applicants before appending their signatures on such documents, microfinance institutions were found to be handicapped to adopt some of the conditions, especially those that are sanctioned by the state regulatory bodies. Instead, microfinance institutions were to prioritize self-recognition as a prerequisite for guaranteeing loan facilities. Self-recognition is the benefit of social capital which provides the rationale for uncollateralized loans at the grassroots.



Apart from movable collateral, microfinance institutions were also found to be accepting academic certificates and appointment letters (in the case of civil servants) from applicants.

In spite of the stringent conditions for microcredit facilities, default was found to be inevitable in microcredit markets. Default is the failure to live up to the terms and conditions of loan repayment, and it was found to be determined at the point when the clients did not fulfil their loan obligations some minutes after the due time. In other words, default occurs once a client fails to show up for repayment within the working hours in microcredit markets. Default tendencies were earlier reported to have been identified through desperation, urgency and emotion of applicants who might try to compromise the loan officers with the needless expression of their pitiable state or incentives with a view to getting loan facilities quickly rather than allow the loan officers sufficient time to carry out necessary assessment before disbursement.

Default was found to be induced mainly by unwillingness and inability of the loan takers. Unwillingness is concerned with default-inducing factors (loan diversion, education, loan sharing, and multiple borrowing) that are not only internal but within the clients' control while inability covers default-inducing factors (unfavourable economic situation, gender, ethnicity, affliction, lockdown, robbery, institutional compromise, illness, fire outbreak and death) that are not within the clients' control as such factors are external to the clients.

Internal or external to the loan takers, the consequences of default were found to be felt not only by the defaulters who were made to face sanctions ranging from mild (fines, loss of interest waiver, savings withholding or forfeiture, loan decrement, and outright loan denial) to severe (loss of privacy and humiliation, loss of goods and property, sealing of shops, litigation, arrest and detention, and loss of money through cheque) but the loan providers who were equally found to be facing limited loan recycling as well as the loan officers whose emoluments were also found to be affected.

In the light of the severity of the foregoing sanctions, it is possible for defaulters to lose their lives. It should also be noted that the sanctions would not exempt the

guarantors who were equally found to have suffered loss of property owing to confiscation and reduction of bank savings through cheque presentation by the loan providers.

Of all the sanctions for defaulters, it is noteworthy that sealing of shops was not the option favoured by microfinance banks who considered the option as an interruption that could not guarantee loan repayment while microfinance institutions did not apply the option of cheque presentation as blank cheque was not part of the loan requirements of such institutions. However, the sanctions were found to be moderated by the defaulter's age, gender, attitude and disposition, illness and credit records as well as fire outbreak and death. Age, in this context, connotes ageing people whose productivities have dwindled. The fact that much is not expected from this segment of the population, the ageing defaulters were found to be spared of the treatment option of litigation. In the same vein, female defaulters were found to be spared of the sanction of detention compared to their male counterparts who were arrested and detained at will.

Again, quick responses to the loan providers' invitation could save defaulters, regardless of age or gender, from all treatment options. The influence of good attitudes and disposition found in the defaulters' quick responses was also found in illness and credit records of defaulters whose past dealings had been commendable coupled with their health challenges. Unlike other moderating factors that did not exonerate the defaulters from sanctions, albeit lessen the sanctions, fire outbreak and death were found to be exempting defaulters from all sanctions owing to the insurance factor that made the clients bear some insurance costs at the time of loan procurement. However, insurance policies were not found to have been totally integrated into the microcredit transactions as some microcredit providers could still be seen operating without such policies; hence the likelihood of sanctions for defaulters who were victims of disasters like fire outbreak.

## **5.2 Conclusion**

Microcredit markets are largely patronized by small-scale traders given the fact that the trading occupation aligns with the mission of the microcredit providers who have prioritized financing business purposes. However, default results from microcredit

transactions while some of the causes of default (loan diversion, loan sharing, multiple borrowing) can be a function of unwillingness as such causes are internal to defaulters, some others (unfavourable economic situation, affliction, lockdown, gender, ethnicity, robbery, institutional compromise, illness, fire outbreak and death) can be a function of inability because such factors external to the defaulters. Whether internal or external, defaulters face mild sanctions (fines, loss of interest waiver, savings withholding or forfeiture, loan decrement, and outright loan denial) as well as severe sanctions (withloss of privacy and humiliation, loss of goods and property, sealing of shops, litigation, arrest and detention, and loss of money through cheque). It should, however, be noted that the sanctions are moderated by the defaulter's age, gender, attitude and disposition, illness and credit records as well as unforeseen circumstances like fire outbreak and death.

### **5.3 Recommendations**

For this study to live up to expectation, the following recommendations are hereby made:

- The loan seekers should ensure that loan facilities are procured for the running of their businesses alone as this is what will align their interests with that of loan providers who seem to prioritize business funding.
- The loan takers should also endeavour to live above default-inducing factors (loan diversion, multiple borrowing and loan sharing) that are internal to them so as to avoid the consequences of default.
- The loan providers should intensify efforts on monitoring of loan facilities by loan takers as well as be clear on the sanctions for defaulters at loan application stage rather than being concerned with the profits to be made from loan disbursement.
- The Central Bank of Nigeria should implement a policy that will harmonise the activities in microcredit markets so as to discourage institutional compromises which lead to loan default in the markets while the government should provide enabling environment for traders so as to overcome default-inducing factors that are external to them.

#### **5.4 Contributions to Knowledge**

In the light of the findings presented above, the study has contributed to the body of knowledge on the grassroots economies in the following ways:

The study has unravelled the preceding activities to loan default such as the rationale for loan procurement/disbursement, conditions for loan disbursement and means of attracting clients who later become defaulters due to non-payment of loan facilities.

The study has also detailed the factors responsible for default to include loan diversion, loan sharing, loans by proxy, multiple borrowing, unfavourable economic condition, robbery, among others. While some of the factors have been reported to have been defaulter-induced (within the defaulters' control), some others have always been the function of socio-political cum economic environment within which the affected operate.

Furthermore, the study has shown that default is not limited to commercial banks as small-scale traders found to be patronising microcredit providers do equally default. However, the grassroots operation of microcredit providers does not set loan defaulters free given a range of sanctions (fines, loss of interest waiver, savings forfeiture, denial of loan increment, loss of privacy, confiscation, arrest and detention, among others) meted out to them.

The study has ultimately shown that there are no flat sanctions for microcredit defaulters who have sanctions imposed on them determined by age, gender, attitudes of defaulters, type of microcredit providers (microfinance banks or microfinance institutions), health status and credit records of defaulters, as well as fire outbreak and death. It is within these factors that the human face of microcredit providers is located as against wickedness with which their activities are frequently described.

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**APPENDIX I**  
**IN-DEPTH INTERVIEWS (IDIs) GUIDE**

**INTRODUCTION:** Good day, sir/ma, my name is Oludare Ibikunle George. I am a student in the Department of Sociology, University of Ibadan, Nigeria. I am conducting a research on the **treatment of loan defaulters in microcredit markets in Ibadan, Oyo State**, as part of the requirements for the completion of my doctoral degree programme. The research requires I conduct an interview with you for a minimum of thirty minutes. Data generated from your responses will be used for academic purposes only.

**CONFIDENTIALITY AND INFORMED CONSENT:** I will like to assure you that your responses to my questions during the interview will be treated with utmost confidentiality as there will never be the need for me to reveal your identity (including your responses) to the third party. Since the research is purely academic, be assured that your responses are for academic advancement only. Sir/Ma, do I have your permission to proceed with the interview?

**Yes (continue)                      No (thanks for his/her time and discontinue the discussion)**

**PROCEDURE FOR THE INTERVIEW:** Your candid and detailed responses are needed as I ask questions after which you respond.

Thank you.

## **IDIs FOR THE MICROCREDIT PROVIDERS**

### 1. Socio-demographics of the participants

#### **Probe for:**

Age

Marital status

Religious affiliation

Educational attainment

Position held as a microcredit officer

Length of service

Status of the microcredit in terms of formal or informal

Ownership status in terms of sole proprietorship, partnership, or limited liability

Coverage status in terms of branches of the microcredit

Financial status in terms of loan disbursement capacity

Manpower status in terms of staff strength

Mode of operation in terms of savings mobilization, lending or savings mobilization and lending

### 2. Treatment options, comparison of the treatment options administered on the loan defaulters and means of execution of the treatment options

#### **Probe for:**

Getting the borrowers, i.e. sourcing for people in need of loans

Reason (s) for getting borrowers

The loan range disbursed in Naira

Interests range on loans in Naira

Strategies for loan disbursement (including conditions under which loans are granted, presentation of guarantor, threat of default charge and police arrest in the event of default, utilization of the Credit Risk Management System and Credit Bureaux))

Strategies for loan repayment (including weekly, monthly and so forth)

Possible causes of loan default

Patterns of loan recovery (intervention of the treatment options)

Challenges of loan recovery or treatment options

Means of execution of loan recovery or treatment options (AMCON, guarantor and loan recovery officer)

Cost of loan default against loan recovery means (treatment options and their execution)

Difference in the treatment options and execution as against what obtains elsewhere

Knowledge of the law on loan recovery

## **IDIs FOR DEFAULTERS**

1. Socio-demographics of the participants will require probing into the following:

Age

Marital status

Religious affiliation

Educational attainment

Average income (daily, weekly or monthly)

Market location

Socio-economic status in terms of ownership of house, residence type, possession of car

Kind of business engaged in

Status of the business in terms of formal or informal

Status of the microcredit firm dealing with in terms of formal or informal

2. Treatment options, comparison of the treatment options, means of execution of the treatment options and effects of the treatment options on the defaulters

### **Probe for:**

Decision to take loans (including the rationale for loan procurement)

Kind of dealing with the microcredit (savings and borrowing, borrowing only)

Source of information about the microcredit firm

Length of dealing with the microcredit firm

Loan range taken in Naira

Strategies for loan application and taking

Awareness of the terms and conditions for loan repayment (penalty for late repayment)

Drivers of loan prompt repayment among conformists

Drivers of delay in loan repayment among non-conformists

Rationale behind loan default

Actual use of the loan

Default experience (including shaming, fines)

Reactions of the creditors to the default in terms of treatment options

Reactions of the significant others (spouse, parent, uncle, etc) to the creditors' reactions

Sources of information about the default experience to the significant others

Personal costs of default in the neighbourhood Amount of money involved in default

Eventual means of settlement of the default or otherwise

Future plan for obtaining such loan (including default prevention or otherwise)

## **APPENDIX II KEY-INFORMANT INTERVIEWS (KIIS) GUIDE**

**INTRODUCTION:** Good day, sir/ma, my name is Oludare Ibikunle George. I am a student in the Department of Sociology, University of Ibadan, Nigeria. I am conducting a research on the **treatment of loan defaulters in microcredit markets in Ibadan, Oyo State**, as part of the requirements for the completion of my doctoral degree programme. The research requires I conduct an interview with you for a minimum of thirty minutes. Data generated from your responses will be used for academic purposes only.

**CONFIDENTIALITY AND INFORMED CONSENT:** I will like to assure you that your responses to my questions during the interview will be treated with utmost confidentiality as there will never be the need for me to reveal your identity (including your responses) to the third party. Since the research is purely academic, be assured that your responses are for academic advancement only. Sir/Ma, do I have your permission to proceed with the interview?

**Yes (continue)                      No (thanks for his/her time and discontinue the discussion)**

**PROCEDURE FOR THE INTERVIEW:** Your candid and detailed responses are needed as I ask questions after which you respond.

Thank you.

## **KIIs FOR THE GUARANTORS**

1. Socio-demographics of the guarantors will require probing into the following:

Age

Marital status

Educational level

Means of livelihood

Religious affiliation

Average income (daily, weekly, monthly)

Socio-economic status in terms of ownership of house, residence type, possession of car

2. Surety information on the treatment options, comparison of the treatment options, mode of execution of the treatment options and effects of treatment options on defaulters and sureties

### **Probe for:**

Relationship with the guarantee (borrower)

Period of relationships with the guarantee in terms of days, weeks, months or years

Knowledge of the guarantee's means of livelihood

The amount of loan secured for the guarantee in Naira

Knowledge of the terms and conditions of the loan secured for the guarantee

Level of trust in the guarantee's ability to pay back the loan

Spousal awareness of the loan secured for the guarantee

Default experience (or fear of default experience) with the guarantee

Source of information of the default experience with the guarantee

Timing of default experience (including coincidence with some other ugly experiences)

Default experience at first, second or third time of standing as a surety

Personal reactions to default experience (or fear of default experience) with the guarantee

Personal costs of default experience (or fear of default experience) with the guarantee

## **KIIs FOR THE SECURITY AGENTS (THE POLICE AND NSCDC)**

1. Socio-demographics of the security agents will require probing into the following:



Age

Marital Status

Educational background

Religious affiliation

Rank

Length of service

Department

2. Security information on the treatment options, comparison of the treatment options, mode of execution of the treatment options and effects of treatment options on defaulters

**Probe for:**

Knowledge of microcredit institutions in terms of operation and strategies for loan recovery

Awareness of disputes over loan default within the station

Knowledge of reportage of lender-borrower disputes at the station

Frequency of reportage of the lender-borrower disputes at the station

Security intervention in the lender-borrower disputes at the station (nature of the intervention)

Determination of satisfaction with the security intervention from the parties' countenances

Referral of parties to the law-courts on the ground of dissatisfaction with intervention

Court pronouncement on such disputes (if any)

**KIIs FOR THE DEFAULTERS' SIGNIFICANT OTHERS**

1. Socio-demographics of the defaulters' significant others will require probing into the following:

Age

Sex

Marital status

Educational level

Means of livelihood

Religious affiliation

Average income (daily, weekly, monthly)

Socio-economic status in terms of ownership of house, residence type, possession of car

2. Experiences with treatment options through links with the loan defaulters

**Probe for:**

Relationship with the defaulter in terms of spouse, child, parent, brother, sister, uncle or aunt

Awareness of dealing between the defaulter and the creditor from the onset

Knowledge of the amount of loan (in Naira) defaulted

Means of information of the default

Personal reactions to the default

Personal costs of the default in terms of treatment options suffered by the defaulters

Family costs of the default in terms of treatment options suffered by the defaulters