ACE SOAS Consortium
Anti-Corruption Evidence
Making Anti-Corruption Real

Briefing Paper 17

Lending Corruption and Bank Loan Contracting: Implications for Gender Inequity and Inclusive Growth in West Nigeria

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Who is this aimed at?

- Policymakers and planners in government and financial institutions

Key messages

- Lending corruption exacerbates gender inequity in access to credit.
- Lending corruption discourages women from applying for loans.
- Lending corruption limits business expansion for women-owned small and medium-sized enterprises.
- Variations in lending corruption across Nigeria stem from differences in access to online loan application processes.
- Cultural factors and lack of awareness are key factors contributing to gender inequity in credit access.

Policy options

- Policies directed towards making loan applications online with minimal contact with bank officials – and so less opportunity for rent-seeking in the form of bribes – should be implemented uniformly cross the country's financial industry.
- Training and sensitisation programmes directed at women's empowerment and gender equality should make deliberate efforts to include male participants, as this is key to addressing the social and cultural factors contributing to gender inequality.

What is ACE?

The Anti-Corruption Evidence (ACE) research consortium takes an innovative approach to anti-corruption policy and practice. Working with a multi-country coalition of 12 partners over five years, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

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Summary

The Nigerian banking industry lacks comprehensive strategies for effectively addressing lending corruption and loan contracting in the sector. Study authors have argued that weak governance and supervision in the banking industry have left the banking sector vulnerable to corrupt practices like bribery, nepotism, fraud, conflicts of interest and political corruption. Lending corruption, which is the focus of this brief, captures both paying bribes and using familiarity rather than merit as the metric for access to credit. In Nigeria, women face numerous challenges in accessing credit. The leading causes of gender-based inequality in this access are lack of information, lack of landed assets and other sociocultural factors. Lending corruption in the banking sector is also another factor contributing to this gender inequity.

This policy brief is based on a research study involving field data collection from 120 small and medium-sized enterprises, 60 bank officials and key informants in the banking sector. Across three states in Nigeria, it investigated the perception of lending corruption, its incidence and its impact on women-owned SMEs. The study's key findings include evidence of variation in the perception and incidence of corruption across the different states as a result of different banking policies, and that lending corruption discourages women-owned SMEs from seeking loans through banks, resulting in a lack of capital to expand their businesses over time. We recommend policies to mitigate this market restriction-driven corruption that align with the Anti-Corruption Evidence (ACE) research consortium strategies of aligning incentives and designing for differences, in the form of online loan application approaches that reduce the opportunities for rent-seeking by bank officials, through the use of centralised and structured credit systems, and via the inclusion of men as well as women in empowerment and sensitisation programmes.

Introduction

The banking and finance industries play a major role in fostering development through their provision of access to credit. The conditions of access to bank loans therefore play a decisive role in the revitalisation and development of small and medium-sized enterprises (SMEs) in developing countries in West Africa such as Nigeria. By collecting deposits and providing credit to individuals, families and businesses, the banking system is often regarded as the lifeblood of many economies and is instrumental to growth. Yet lending corruption is a key problem for banks. The consequences of this corruption have a great influence on social and economic development because the banking sector is one of the most vital to the economy. Lending corruption is costly because when bank managers take deposits and pass them along to businesses on a basis not solely of efficiency considerations, fewer funds are available to support more worthy business initiatives (Barth et al., 2007). Poor and unconnected individuals with innovative ideas are also denied funds to realise their dreams and improve their economic conditions (Barth, Caprio, and Levine, 2006). In addition to making lower funds available to worthy creditors, lending corruption also has the potential to foster the already existing gender inequities in Nigeria. While access to credit can open up economic opportunities for women, women entrepreneurs face significantly greater challenges than men in gaining access to financial services. Women's limited access to public officials and their low income levels diminish their ability to pay bribes, further restricting their access to credit. Lending corruption can thereby disproportionately impact women-owned SMEs because of their low level of economic empowerment.

How Prevalent is Lending Corruption in Nigeria?

The prevalence of lending corruption seems to vary across regions in Nigeria due to varying banking practices on the process of lending to SMEs. While there is minimal to zero contact between bank employees and loan applicants in Lagos State, the loan application process is mostly in person in Abia State. Data collected from interviews with bank officials and key informants in the banking sector indicate that, occasionally, bank officials engage in corrupt practices. This was reported mostly among participants in Abia State. According to one key informant, "the customer agreed to pay about 5% of the loan to ensure he is given approval. He emerged successful and nothing happened. No one was indicted or punished." Other corrupt practices reported by key informants include customers offering monetary gifts to speed up the loan application process, and insider lending, which involves a bank official lending to themselves using a proxy. As reported by a key informant, "Occasionally, customers extend gift to staff for them to fact-track the processing of their application; at the end of the day, they had their way and nothing happened." Among the 120 SMEs surveyed in Abia, Lagos and Plateau states, about 16% reported having been asked to pay a bribe before their loan could be processed, and this was also reported mostly by SMEs in Abia State. In Lagos and Plateau States on the other hand, data obtained from SMEs, bank officials and key informants indicated little evidence of lending corruption.

How Does Lending Corruption Impact Women-owned SMEs in Nigeria?

Women entrepreneurs in Nigeria face a number of socio-economic barriers in accessing loans from banks, and lending corruption presents an additional challenge, according to some of the respondents interviewed. Information gathered from bank officials and key informants highlights the following three main effects of lending corruption on women-owned SMEs.

1. Interviews with key informants reveal that some women applicants abandon the loan application process when asked to pay bribes during their application. According to a bank official, "Some women would bolt out and abandon the pursuit of the loan because of their integrity."

2. The key informants in Abia State mostly pointed out how lending corruption discourages women-owned enterprises from applying for loans through financial institutions. Lending corruption not only discourages the people who experience it, but also the other women entrepreneurs who hear the stories of it. According to a key informant, "This [lending corruption] scares women away from going to banks to access loans. They usually keep away from anything that will connect them to sexual harassment and its stigma."

3. Lending corruption, in addition to other factors, therefore, makes it difficult for women-owned SMEs to grow or expand as indicated by some of the bank officials and key informants who were interviewed.

Comparing responses obtained from bank officials and key informants in Lagos, who reported little to no issue of lending corruption, with the responses from those in Abia State revealed a large variation in the reported ratio of men to women as loan applicants. While about 85% of interviewees in Abia State indicated at least a 60:40 ratio of male-to-female loan applicants, 65% of interviewees in Lagos State indicated a 50:50 ratio, and the other 35% indicated a 40:60 ratio in favour of female applicants. Other gender-related factors, including cultural and economic ones, may also be playing a role in this variation across the two regions.

Policy Recommendation

The low level of lending corruption reported from the participants in Lagos State relative to that of Abia State suggests that the lending process in Lagos, which requires minimal contact between bank officials and the loan applicants, because it is mostly online, mitigates avenues and incentives for bank officials to engage in corrupt practices like bribery. In Abia State, bank officials and key informants revealed that loan applications are done in person (filling out forms and taking them along with other required documents to the bank), with the applicant interacting with at least two bank officials during the loan application process. In addition to the fact that loan applications are mostly done online in Lagos State, responses from bank officials and key informants indicate that banks here also utilise the credit system more effectively relative to the other states included in the study. The loan applicant's credit score or history was one of the key

requirements identified by the interviewees as playing a major role in determining loan application outcomes. This study therefore recommends that the Central Bank of Nigeria, which is the main regulator of the financial sector, mandates and enforces policies that encourage online loan applications and minimise direct contact between loan applicants and bank officials playing a role in determining application outcomes. Such policies would not only mitigate lending corruption but would also lead to faster and more efficient decisions for banks. These policies are appropriate to mitigate market restriction-driven corruption (Khan 2014), which emerges due to unnecessary or damaging market distortions such as red tape and barriers to entry that block productive business activities. The lack of an online loan application is creating such a barrier, allowing some loan officials to evade rules and to engage in rent-seeking in the form of bribes. Using the Anti-Corruption Evidence (ACE) research consortium strategies of (i) aligning incentives and (ii) designing for differences will circumvent these barriers: online loan applications will address current variations in instances of corruption by making external enforcement feasible and eliminating the opportunity for loan officers to ask for bribes by reducing face-to-face interaction.

Other Factors Impacting Unequal Access to Credit

Women entrepreneurs in Nigeria face challenges in addition to lending corruption, as revealed by the participants in our research study. The three most important factors pointed out by respondents, ranked according to how many times they were referenced among participants, include: cultural factors, lack of collateral and lack of awareness.

Cultural Factors

Among the cultural factors mentioned are the inability of women to inherit landed properties in the south-eastern region of Nigeria and the notion of women as home keepers. According to one of the key informants, “before now, women are taken to be for the house, to take care of and manage the home. Even when they are in business, some shying away from borrowing may be due to lack of support from their husbands.” Another participant pointed out: “culture demands that the woman be provided for and that this reduces the level of their aggressiveness in her business pursuits, thus desire to borrow and shoot forward may be stifled.” In the northern region, religion was found to be an important factor limiting access to credit for women. One of the participants in Plateau State clearly stated that “Muslim men don’t allow their women to go out for businesses because they believe that a woman is meant to stay at home to take care of the kids while the man go out to fend for the family, hence, even when a woman have a business idea, and don’t have the money to start up such business, the denial for her to go out already hinders her opportunity to access credit facility for the business.”

Lack of collateral

The issue of collateral is another important factor mentioned by study participants. The fact that women in Nigeria find it difficult to present collateral, mostly in the form of landed properties, is also tied to the cultural factors that have left women economically disadvantaged relative to the men. Men are mostly able to inherit land and other assets, which they can easily use as collaterals to access credit.

Lack of awareness

Interviews with bank officials and key informants reveal that women are largely unaware of the processes involved in accessing credit, including the different programmes that banks are currently implementing to encourage lending to women-owned SMEs. According to a bank official who was asked why more men accessed credit, the reply was that “it’s the knowledge gap, because some women are not aware of the SME loan, not to think of applying for them”. Other factors mentioned by respondents included a lack of appropriate business documentation, high interest rates and risk aversion.

Policy Recommendation

Several stakeholders, including financial institutions, government regulatory agencies and non-governmental organisations, are currently engaging in women empowerment and sensitisation programmes to address some of these factors contributing to gender disparities in access to credit, but a large number of these programmes do not include the

participation of men. Both men and women should participate so as to combat men's perceptions regarding the role of women in society. Enlightened men in households are more effective drivers of women's empowerment and equality when they encourage the women in their households to actively participate in economic activities.

Banks and other stakeholders should improve efforts in creating awareness especially with regard to the programs currently being implemented by banks to encourage lending to women-owned SMEs. Some of the initiatives mentioned by the bank officials interviewed for this study include the W Power loan product being implemented by Access Bank Nigeria and the Ellevate programme being implemented by Ecobank. According to one of the respondents, "we also have W community for women, where they meet with other well-established women to interact amongst themselves", which is key because lack of networks is another factor contributing to the gender inequity in Nigeria. Stakeholders should raise awareness about these programmes to encourage more women entrepreneurs to take advantage of these opportunities and grow their businesses.

A more centralised and structured credit system will also reduce the need for collateral as a requirement to access loans. As mentioned, lack of collateral in the form of landed assets is a major impediment for women-owned SMEs to access loans. The use of a credit history to determine the creditworthiness of loan applicants will effectively eliminate this barrier. The Nigerian credit system is currently unstructured because, even though banks report lending records to credit bureaus as required by the 2017 Credit Reporting Act, it is not done in real-time[1] and there is a lag before records are updated. Furthermore, the use of this credit system is still mostly relevant to the upper class and, to some extent, the middle class. A more structured, centralised and localised use of the credit system would play a significant role in combating the existing gender inequities in access to credit as a result of a lack of collateral for women entrepreneurs. A more structured credit system also helps banks to mitigate the incidence of high-risk loans. The major challenge mentioned by most of the bank officials interviewed on providing credit to SMEs, was the issue of non-performing loans and non-repayment. A more structured credit system also helps them to mitigate this challenge.

Conclusion

Our research finds that the Nigerian banking sector lacks a central lending process that effectively minimises the potential for lending corruption across the different regions/states. The prevalence of lending corruption varies across these states depending on the lending processes or requirements prevailing in the state. Lending corruption is found to exacerbate the issue of gender inequity in credit access, as it discourages women from approaching banks for loans, in turn limiting the opportunities for women business owners to expand their SMEs. We recommend lending processes that involve online applications with no to minimal contact with bank officials to address the issue of lending corruption. We also recommend the inclusion of men in sensitisation programmes to educate them on the benefits, both for their households and the economy, of women's participation in economic activities. Furthermore, we recommend a well-structured and centralised credit system is established to enable banks to determine the creditworthiness of loan applicants. This would be key to addressing the gender inequities in access to loans, resulting from women's lack of land ownership and other economic disadvantages.

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1 https://techpoint.africa/2019/01/21/unstructured-credit-system-nigeria/

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About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
- Health Policy Research Group (HPRG), University of Nigeria Nsukka (UNN)
- Ifakara Health Institute (IHI)
- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium
- REPOA
- Transparency International Bangladesh (TIB)
- University of Birmingham

ACE also has a well established network of leading research collaborators and policy/uptake experts.

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