Microfinance Banks Operations in Nigeria, Constraints and Suggested Solutions: An Evaluation

Kanu Clementina,
Accountancy Department,
Federal University,
Ebonyi State, Nigeria.
Email: srmenfu2009@gmail.com

Isu Gabriel,
BURSURY Department,
Federal University,
Ebonyi State, Nigeria.

Abstract

The aim of establishing Microfinance banks by Central Bank of Nigeria is to make financial services accessible to the poor because of inability of formal banks to include active poor in financial services. Microfinance banks differ from formal banks in various respects these include: absence of collateral; simplicity of operation; institutional role to connect the poor and underprivileged of society in developing countries. The issue is that this objective has not been achieved. Therefore, this paper discussed the mode of operations of microfinance banks in Nigeria, the challenges that face microfinance and suggested solutions. Descriptive analysis from SPSS package was used to determine the most challenging factors in the operations of Microfinance banks in Nigeria. The results obtained indicate that Poor capital base, targeting the wrong customers, Lack of Microfinance culture, insider abuse, inadequate business opportunities available to microfinance banks and constant change in government policy contribute immensely to the poor performance of microfinance banks in the country. Based on our research findings we posit that Microfinance banks will breach the gap of financial exclusion of the active poor in the rural areas, create job opportunities and increase standard of living of the populace, therefore, Government should help in provision of capital and infrastructure to the Microfinance bank. Appropriate and stable policy should be designed by the government aim at contributing to the effective performance of the banks, improving standard of living and contribute to the growth of economy. We therefore recommend the introduction of insurance in the microfinance bank operations to protect the banks against loan defaulters and for government as well as operator of the banks to source for foreign donors. This will go a long way to reduce the operational costs and high rate of interests charged to customers. The constraints to microfinance banks should be eliminated, in order to have sustainable MFBs in the Country.

Key Words: Microfinance banks, operations, constraints and solutions.
1. Introduction

In Nigeria, the issue of financing active poor in both urban and rural areas through formal financial institutions is difficult. Nigeria is facing various serious problems which are threats to the nation economy. According to National Financial Inclusion, in the provision of financial services, Nigeria lags behind many African countries. In 2010, 36% of adults—roughly 31 million out of an adult population of 85 million—were served by formal financial services. This figure compares to 68% in South Africa and 41% in Kenya. This is because formal financial institutions deny the poor in both urban and rural areas access to financial services. In order to breach this gap, Nigerian government established various institutions as well as programmes to enhance the standard of living of people, make poor people self-reliance and turn out more entrepreneurs than job seekers in the country. Some of these programmes are:

- Directorate of food, Roads and Rural Infrastructure (DFRRI)
- Better Life/Family Support Programme
- The Family Economic advanced programme
- Peoples Bank
- Community banks

These programmes failed to achieve their objectives due to poor implementation, corruption and host of other factors. Government did not relent in their efforts to make financial services accessible to the poor, thus, the emergence of microfinance banks as an alternative credit system for the poor.

According to CBN (2005), “microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions”. There are three features that distinguish microfinance from other formal financial products. These are: (i) the absence of asset-based collateral; (ii) the smallness of loans advanced and or savings collected, and (iii) ease of operations.

Microfinance, according to Otero (1999) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services include: small loans, savings, current, financing small business for the active poor both in rural and urban areas of the country. Microfinance is a term used to refer to different methods for giving poor people access to financial services. Microfinance is about providing of timely, affordable, diversified, and dependable financial services to the active poor which otherwise would have little or no access to financial services. It is a financial intervention that focuses on the low-income group of a given society.

Many researchers conclude that in most developing countries, the formal financial system reaches to only 25 per cent of the economically active population. This leaves 75 per cent
without access to financial services apart from those provided by money-lenders and family. Savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows because of inadequate savings opportunities and products. Such methods of keeping savings are risky, yield no returns, and reduce the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy.

The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) were launched in 2005 and the objectives are to address the prolonged nonperformance of many existing community banks. This lack of performance has been attributed to incompetent management, weak internal controls and high cost of transactions. Other objectives to be addressed by MPRSF are poor corporate governance, lack of well-defined operations, restrictive regulatory/supervisory requirements, and weak capital base of existing institutions. Indeed a huge gap exists in the provision of financial services to a large number of active but poor and low income groups, especially in the rural areas as a result of rigidity operations of formal financial institutions in Nigeria.

CBN (2005) maintain that Microfinance banks are aimed at empowerment of the poor and the private sector, through the provision of needed financial services. This empowerment, it is hoped, will enable them to engage or expand their present scope of economic activities and generate employment. Thus, Jamil.B. (2008) opines that a large number of active poor in the rural areas is left unattended to by existing microfinance banks. The question is whether the aim of establishing microfinance banks has been achieved.

The objectives of this paper is to find out the constraints that mostly challenged the performance of microfinance bank in Nigeria and to propose strategy that will enhance the elimination of those factors. The rest of this paper is as follows: review of the related literature, describes the methodology, data presentation and discussion on the findings, conclusion, recommendations and suggested area of further researcher.

2. Literature Review

(CBN, 2005) defines microfinance as the provision of financial services to the poor who are traditionally not served by the conventional banks. This was captured by Jaffari, S. I. et.al (2011) and (Conroy, J. D., 2003). As mentioned earlier, the characteristics that distinguish microfinance from other forms of formal financial products are; (i) the absence of asset-based collateral; (ii) the smallness of loans advanced and or savings collected, and (iii) ease of operations (CBN, 2005) and(Iorchorh, D., 2006).

It is clear that microfinance is a very good instrument for job creation and poverty alleviation. Again, greater number business sectors in Nigeria are private and small in need of the services of microfinance banks. It is the sustainable MFBs will provide the services to
these small businesses to ensure their growth. Microfinance banks would improve the standard of the living of active poor in the urban and rural areas, help the poor to be self-reliant, increase their sources of income. Above all, Microfinance banks will help to produce more entrepreneurs than job seekers.

2.1 Operations of Microfinance Banks in Nigeria

In order to enhance the accessibility of financial services to poor Nigerians in both rural and urban areas, Government has, in the past, initiated series of publicly-financed micro/rural credit programmes with the mandate of providing financial services to alleviate poverty and for improved standard of living of the poor in both rural and urban areas of the Country. However, none of these programmes achieved its objective because of the level of corruption in the system and other factors that inhibited the performance of the programmes. According to CBN (2005), ‘microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions’.

“Micro finance refers to the provision of financial services to poor or low income clients including consumers and the self-employed”.

Micro finance was defined by Ana. I. (2008) quoting Gert Van Manner, a micro finance expert as banking the unbankable, bringing credit, savings and other essential financial services within the reach of hundreds or millions of people who are too poor to be served by regular banks in most cases because they are unable to offer sufficient collateral. A microfinance bank can therefore be defined as the bank for the poor. It means investing in the income generating activities of the poor. Microfinance bank is meant for those who cannot be efficiently served by regular commercial, universal or merchant banks because their activities and volumes are too low to warrant the high cost of services by big institutions.

As a result of provision of financial services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services from formal financial system, government introduced Microfinance banks in order to make accessible the financial services to the poor. The practice of microfinance in Nigeria has been in existence for over decades, but they have been informal. Hence, Onoyere. I.A. (2014) said that the practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners.

The launching of the microfinance policy, regulation, and supervisory framework guideline was launched by the Central Bank Nigeria in 2005 and were licensed to begin operations in 2007. Ana.I. (2008) said that microfinance banking in Nigeria is guided by the microfinance regulatory policy and guideline of 2005. No micro banker may, therefore, operate outside the dictates of this policy. The microfinance banks in Nigeria were made up
of community banks and Microfinance –NGO that met with the requirements Central Bank of Nigeria. In Nigeria, microfinance can be owned by government, individual, group. Hence, Acha. A.I. (2012), maintain that the point of divergence between the community banks and their microfinance successors is in those which the regulatory guideline allows to own them. In addition to individuals, group of individuals, community development associations, private corporate entities which could own community banks, commercial banks and foreign investors could also own microfinance banks.

There are two categories of microfinance banks: State based microfinance with a minimum paid up capital of N1b. This type of microfinance bank was authorized to have branches anywhere within the state.

The second one is Local Government Area based; with a minimum paid up of capital of N20m and should have just one branch within the LGA.

On that note, Alegieuno.J. (2008) captured thus: that Universal banks that intend to set up any of the two categories of MFB as subsidiaries shall be required to deposit the appropriate minimum paid up capital and meet the prescribed prudential requirements. Statutorily, a microfinance bank is not allowed to lend more than N500,000 (Five Hundred Thousand Naira) to a single individual or business and N5,000,000 (five million Naira) to companies. However, some of them exceed this limit which will give rise to the problem of non-repayment of some loans. Microfinance banks classify their loans as loss if they remain unpaid for 90 days.

MFBs in Nigeria charge high interest rates just like commercial banks, yet receive customers patronage because of the need for their services, while some clients will abandon their accounts. Mohammed, A. D. et at, maintain that the usurious interest rates and poor outreach are among the challenging factors to MFBs. They focus less on the active poor and greater numbers of microfinance banks are situated in the urban areas. In their operations, they imbibe the culture of commercial banks, leaving the micro economy to suffer. Again, the services of the existing MFBs are insufficient to large number of people in Nigeria who are in dare need of these services and the striving MFBs are bedeviling by numerous constraints. On the issue of insufficient number of MFBs, Adeyemi, K. S., (2008) pointed out that, “despite decades of public provision and direction of provision of microcredit, policy orientation, and the entry of new players, the supply of microcredit is still inadequate”.

What prevented the efficient and effective delivery of microfinance services are those constraints that have stunted their growth and performances.

2.2 Benefits of Microfinance Banks

According to microfinance policy regulatory and supervisory frame work for Nigeria, “robust economic growth cannot be achieved without putting in place well focused
programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit”. This was the primary aim of establishing microfinance banks in Nigeria.

Microfinance banks should enhance the capacity of the poor for entrepreneurship significantly through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

Again, prior to the establishment of microfinance banks, 65% of unserved populace were obtaining financial services through informal sector thereby preventing CBN from carrying out their duty of promoting monetary stability, and a sound financial system. The establishment of microfinance banks should eliminate this problem by operating under a regulated system that will aid CBN for effective and efficient performance of their duties.

Microfinance banks should expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). This also creates a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. It harmonizes operating standards and provides a strategic platform for the evolution of microfinance institutions.

Nigeria has a large number of populations and is endowed with resources; therefore, the effective operation of microfinance banks should enhance fairly distribution of these resources through elimination of poverty and sustaining the active poor to be self-reliant. To buttress this point, Acha. A.I (2012) said that large number of Nigerians still live in poverty and that it is in the bid to address this that the government formulated the microfinance policy guidelines in 2005.

Onoyere A.I. (2014), confirmed this by saying that Africa in general and Nigeria in particular, there exists high-level of poverty and increasing unemployment rates. Poverty and unemployment are two major development challenges facing Nigeria. The problems of poverty and unemployment can be solved vigorously through microfinance policy, regulatory and supervisory framework for the Nigerian economy.

(Umo, Ju. 2007) maintain that these two problems are not as separate as they appear or mere once conceived by economic analysts. They can be referred to as twin sisters or as Siamese twins. Therefore, the policy thrust for dealing with one to a very large extent can be effective in resolving the other. It appears that a consensus is emerging on the idea that the problem of poverty can be solved by vigorously dealing with unemployment through the generation of remunerative and employment opportunities provided by microfinance activities.
Microfinance banks would encourage savings and investment opportunities and contribute to the growth of the Nation’s economy. Savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria and poor people keep their resources in kind or simply under their pillows because of inadequate savings opportunities and products. Such methods of keeping savings are risky, yield no returns, and reduce the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The existing formal financial institutions have denied the active poor in the urban and rural areas of Nigeria access to financial services. The existence of sustainable microfinance free from constraints will improve standard of living of the poor and contribute towards the growth and development of the country’s economy.

2.3 Constraints of Microfinance Bank

The licensing of MFBs by the Central Bank in 2007 caused the emergence of greater number of MFBs in Nigeria. The challenges which contributed to the failure of earlier community banks, the converted infected the newly established microfinance banks and their performances crippled.

These poor performances lead to the failure of microfinance banks and the withdrawal of the license of 224 microfinance banks in 2010. Since then, some microfinance banks have closed shops. This impacted negatively the public, the owners of the banks, staff of the banks and economy of the Nation.

Thus, Adeyemi, K. S., (2008) identified some of the challenges which microfinance institutions face that impinge on their ability to perform to include; undercapitalization, inefficient management and regulatory and supervisory loopholes. To these, Mohammed, A. D. and Hassan, Z. (2009) added usurious interest rates and poor outreach. Further buttressing the challenges facing microfinance banks, Nwanyanwu, O. J.,(2011), identified diversion of funds, inadequate finance, and frequent changes in government policies, heavy transaction costs, huge loan losses, low capacity and low technical skill in the industry as impediments to the growth of this subsector. These constraints contributed to the failure of previous microfinance banks. The most challenged factors to microfinance banks in Nigeria are discussed below:

2.3.1 Low Capital Base

Micro-finance banks with their level of capital cannot satisfy the need of the large percentage of the active poor that are now relying on them for loans to start business. Microfinance banks finance their fixed assets and operate with customers’ deposits. The result is that the Microfinance institutions in Nigeria lack finance required extending financial services to clients. According to microfinance letter (2007), the problem of microfinance banks primarily arise from low capital base of the institution, inordinate fixed asset
acquisition, ostentatious operational disposition, inability to mobilize deposits, poor lending, and questionable governance and management arrangement. Onoyere I.A. (2014) maintain that some of the major challenges include poor capitalization and restrictive regulatory and supervisory procedures. The low capital base and the isolated mode of operation have hindered any meaningful contributions to financing activities. A minimum of Paid-up capital of N1.0 billion for a licensed microfinance bank to operate multiple branches within a state can act as serious bottleneck for efficient management of such Banks. As a result of the problem of finance, Ovia. J. (2007), observes that there is inadequate channeling of fund for real sector development especially agriculture and manufacturing. According to him, only about 14.1% and 3.5% respectively are allocated to these sectors as against 78% funding for commerce. Low capital base of microfinance banks hinder their ability to meet the demand of their clients.

2.3.2 Insiders Abuse

Another factor that hampers the performance of microfinance banks is insider abuse. The “insider abuse” in microfinance bank is made manifest in granting credit. Okpara G. C. (2009) pointed out that directors misuse their privileged positions to obtain unsecured loans which, in some cases are in excess of their banks’ statutory lending limits. This is in violation of the provisions of policy of microfinance banks. Furthermore, they approve loans for their friends and relatives without proper documentation. These loans turn out to be non-performing credit. In addition, some of these owners grant interest waivers on non-performing insider-credits without obtaining approval from the CBN. They are known to have compelled their microfinance banks to directly finance trading activities through proxy companies. The benefits that accrue from such transactions are not ploughed back to the banks. They use microfinance banks as sources of funds for their private ventures.

Board members are also known to misuse their positions to obtain loan facilities that are above the regulatory limit for insider related loans and with no intentions of repaying such facilities. They also use their positions to unduly influence and manipulate the recruitment processes in favor of their cronies. Frauds and forgeries by both insiders and outsiders to the banks are rife and people generally obtain loans with no intention to repay (Acha I. A. 2012).

2.3.3 Inadequate business opportunity in Nigeria

In Nigeria, the availability of business opportunities authorized by Central Bank of Nigeria to microfinance banks are inadequate, as a result, the chances of survival for the microfinance banks are very lean. Unlike Bangladesh and some other countries, where some microcredit organizations give their clients more than loans, offering education, training, healthcare, and other social services. Typically, these
organizations are not-for-profit or are owned by customers or investors who are more concerned about the economic and social development of the poor than they are with profits. The definition of microfinance bank by Asian Development Bank (2000) as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises confirm the fact that in Asian countries, microfinance banks have more available business opportunities than they have in Nigeria.

2.3.4 Change in Government Policies

The constant change of government policies is also a challenge to microfinance banks in Nigeria. Hence, Nwanyanwu C. M. (2004) said that policy instability has impacted negatively on the performance of primary institutions responsible for policy monitoring and implementation. There have been cases of sudden reversal of policy which has resulted in abandoned projects and in the case of microfinance banks; a good number of them could not survive this storm.

Another challenge that faces microfinance banks in Nigeria is inability of the stakeholders to perform their roles as indicated in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. Some of these roles include:

- Government role to ensuring the stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability;
- Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy; and
- Setting 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.

Again, the role of Central Bank of Nigeria (CBN) to
- adopt an appropriate regulatory and supervisory framework;
- Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines;
- Implementing appropriate training programmes for regulators, promoters and practitioners in the sub-sector, in collaboration with stakeholders.

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) in the development of the sub-sector. Public sectors perform the following functions:

- Provision of resources targeted at difficult-to-reach clients and the poorest of the poor;
- Capacity building;
- Development of MFIs’ activities nation-wide;
- Nurturing of new MFIs to a sustainable level; and
- Collaborating/partnering with other relevant stakeholders.

Also donor Agencies should offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. The problem is that none of these stakeholders make sincere effort to perform its responsibility. According to IMF working paper on microfinance on Africa: Experience from selected countries, in Guinea, microfinance activities are regulated by central bank. Guinea has three main types of institutions: credit only MFIs, MFIs that collect deposits and lend to members only, and MFIs that collect deposits and lend with no membership restriction. The two well-known institutions that are wholly donor-financed, micro-lending entities operating solely in the urban sector in Guinea: This impacted negatively on the performance of microfinance banks.

2.3.5 **Focusing on wrong group of customers**

Microfinance banks in Nigeria, instead of targeting poor clients whom they are meant to serve, they compete with commercial banks, for rich customers. Microfinance bank activities should cover the rural dwellers who deal more on agriculture and petty trading. Instead, many Microfinance banks engage in commercial banks activities - grant big loans to companies and big customers which are outside the scope of their duties. Taking the issue of targeting wrong customers, Udo F. (2012) pointed out that many of them have assumed a larger than life clout, attempting to finance big projects and other traditional functions of commercial banks, even when they don’t have the required capital base and managerial capabilities. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005). In so doing, they stray from the policy framework establishing them, leaving the micro-economy to suffer.

2.3.6 **Lack of culture by microfinance banks**

The culture of microfinance bank is quite different from commercial banks. Microfinance banks are meant to visit their customers in their various locations and attend to their needs. The activities of microfinance bank are more in the field than in the office. However, it is common to see microfinance banks staff dress in suits and sit in air conditioned office, waiting for customers to come. This is because many microfinance bank managers and other management staff were in most cases commercial banks’ staff that joined microfinance banks with orientation, philosophy and culture of commercial banks. Akinmutimi (2013) opines that microfinance institutions should go back to the people if they are meant for the poor and for the people. They should concentrate their efforts on going to meet the people where they are, where they do their businesses and reduce the level of formality that is in that system today. It must be understood that microfinance is not micro-commercial bank, it is a
special kind of banking requiring a different approach, philosophy and client base. Unfortunately however, many microfinance banks spend a lot of money building office complexes, purchasing cars and embarking on promotional activities. They also engage in inordinate competition with the commercial banks. The orientation and practice run counter to the essence of microfinance (Acha. I. A. 2012).

Another consequence of adopting commercial banks method of operations is high cost of operation. They involve in computerization, and employment of staff poorly experienced in microfinance, engagement of the services of External auditors, online renditions of monthly returns. These activities attract enormous operational cost. Microfinance letter (2008) observes that some microfinance institutions conduct their businesses in manners that are at variance with international best practices as regards the management of microfinance banks. For example, expenses on office accommodation, official cars, and fixed asset acquisition, constitute a heavy burden on the institutions. Nwanyanwu.O.J. (2011) opines that salaries and allowances of staff and Board members have not, in some cases, been based on affordability of the institution. The result is that these high operational costs are transferred to customers; hence multiple charges with different names like commission on turnover, handling charge, IT charge and service charge, commitment fee amongst other. Thus poor customers are made to bear the burden of high interest rates. It must also be pointed out those small units of services lead to high operational cost. Economic fundamentals exhort that every borrower is interest sensitive. Some researchers in India maintain that capacity of borrowing decreases with increase in interest rates. High interest rates may prove to be counterproductive, and weaken the social and economic condition of poor clients. The high interest rate charged by the MFIIs from their poor clients is perceived as exploitative. The interest rates are not well regulated for private MFIIs as well as for formal banking sector. These services include several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities (Abdullahi. I.G. 2008). Microloans sometimes even reduce cash flow to the poorest of the poor, observes Vijay Mahajan, the chief executive of Basix, an Indian rural finance institution. He concludes that microcredit “seems to do more harm than good to the poorest this is as the result of the high interest rates charged by microcredit organizations This hinders sustainability and continuity in service delivery; hence the closure of some microfinance banks.

3. Methodology

The study was carried out in the South East Zone of Nigeria where some selected microfinance banks were used as targets for the study. The researchers made use of primary sources to collect data. For the primary source, a structured questionnaire was used. 1000
respondents were randomly selected from the total population of 1200 which include the management staff (Internal Auditors, Managing and Board of Directors, Accountants and Supervisors) and the clients (Savings, Currents, Loans and Fixed deposit customers) who have established relationship with these microfinance banks under study. They were initially identified through a preliminary survey. There were two different sets of questionnaires – the first set solicited information from the management staff and the second set from the clients of the micro-finance banks.

The data was analysed using descriptive statistics from SPSS software package which including pearsons chi-square tests and bar charts.

Table 1: Responses of MFB workers on constrains affecting MFC most

<table>
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<tr>
<th>POSITION</th>
<th>LCB</th>
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<th>TWC</th>
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Figure 1: Responses of MFB Workers on constrains affecting MFC most
Table 2: Pearson Chi-square test on responses of MFB workers on constrains affecting MFC most.

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<td>Inadequate Business Opportunity (IBO)</td>
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Table 3: Responses of MFB Customers on constrains affecting MFC most.

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</table>
Figure 2 - Responses of MFB Customers on constrains affecting MFC most

Table 4: Pearson Chi-square test on responses of MFB customers on constrains affecting MFC most.

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<th>Constrains</th>
<th>Value</th>
<th>df</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Capital Base (LCB)</td>
<td>46.275</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Insiders Abuse (IA)</td>
<td>68.182</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Targeting Wrong Customers (TRC)</td>
<td>5.000</td>
<td>3</td>
<td>.172</td>
</tr>
<tr>
<td>Lack of microfinance Culture (LMC)</td>
<td>30.303</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Government Policy (GP)</td>
<td>111.111</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Inadequate Business Opportunity (IBO)</td>
<td>253.333</td>
<td>3</td>
<td>.000</td>
</tr>
</tbody>
</table>

Figure 3: Response by Gender

<table>
<thead>
<tr>
<th>Response by Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGREED</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>DISAGREED</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
</tbody>
</table>
4. Discussion on the findings

The analysis of data on ‘the responses from operators of microfinance banks on the constraints that affect MFB most’ was done using Pearson Chi-Squared Statistic. The Chi-square test statistic is a statistic used to test the independence or otherwise of two or more attributes. The test statistic is given as

$$\chi^2 = \sum_{i=1}^{n} \frac{(o_i - e_i)^2}{e_i}$$

Where, $O_i$ is the observed frequency, $e_i$ is the expected frequency and $\chi^2$ is the chi-square statistic.

The results of Pearson Chi-square test on responses of MFB workers on constrains affecting MFB most as show in table 2 indicates that there are significant difference in Low Capital Base, Government policy, Insider Abuse, Targeting wrong customers at 5% significant level.

The result indicates that all these factors challenged microfinance banks most. While the Pearson Chi-square tests on responses of MFB customers on constrains affecting MFB most as show in table 4 indicate that there are significant difference in almost all the examined factors at 5% significant level except ‘Targeting wrong customers (TWC)’ which p-value is above 0.05. The result shows that all other factors challenged MFBs most except Targeting wrong customers.

The results from the responses from the management, staff and clients of microfinance banks in table 3 and 4 indicate that the constraints that affect microfinance banks most are: Low Capital Base, Government policy, Insider Abuse, as well as lack of microfinance culture and inadequate business opportunities available for microfinance banks.

Again considering number of responses obtains according to the gender, four hundred and fifty male and four hundred female out of one thousand respondents agreed that the aforementioned constraints mostly affect the performance of microfinance banks in Nigeria.

4.1 Suggested Solutions

As a result of numerous challenges facing Micro Finance Banks it is our belief that the following suggestions will help to eliminate some of these difficulties.

**4.1.1 Provision of infrastructure and adequate capital base by Government**

Government should be engaged in microfinance banks, finance them by providing adequate capital base and promote the viability of the banks. State government should contribute its own quota in a situation where Federal Government is ready to give some percentage to the Microfinance banks in the state. Government should help in providing infrastructure: buildings, roads and electricity to Microfinance banks in order to reduce cost.
In order to build a world where financial services will be available to all, effort should be made to effect the systemic change necessary to incorporate the poor into financial markets. This is a challenge which is massive indeed, and operators of microfinance cannot achieve it all alone. Government should therefore help to give people the tools they need to make them self-reliant by providing “micro” loans, business training and other financial services to poor men and women to start their own businesses. Microfinance does not necessarily require new institutions. In most cases all that is needed is effective transformation of existing institutions so that they become more business-minded (Anupam .B., Rodolphe . B., and Murat .Y. 2004)

4.1.2 Elimination of insider abuse

Mismanagement and misappropriation of depositors’ money should be avoided by the management, directors and proprietors of Microfinance banks. Resources should be channeled properly to yield appropriate returns and avoid using customers’ money to enrich themselves.

Stakeholders should perform their roles. The stakeholders should perform their role as stipulated in the microfinance policy framework. Good corporate governance should be maintained. All sorts of corruption, fraud and forgery by insiders of microfinance banks should be avoid.

This will enhance sustainable of Microfinance Institutions (MFBs) aim at continuous service provision to clients profitably as a going concern.

4.1.3 Microfinance banks culture

Operators of microfinance banks should be imbibe the culture of microfinance banks. They should be made to understand the modalities, aims and operational styles of microfinance banks. Microfinance banks are not mini commercial banks. Staff of Microfinance banks should concentrate their efforts on going to meet their customers where they are and where they do their business. In some other countries, Microfinance field staff managers perform village surveys before entering a village, conduct interviews with potential members, train members on credit discipline, travel to villages by motorbike every week to collect interest and disburse loans, and follow-up to ensure the loans are being used for their intended purpose.

4.1.4 Provision of other services

Microfinance banks in Nigeria should be authorised to perform other services that will enhance their sustainability. In India, Bangladesh and other countries, Microfinance banks not only extending small loans (micro-credit), but also provides various other financial and non-financial services such as savings, healthcare, insurance, guidance, skill development training, capacity building and motivation to start income generating activities to enhance the productivity and improve standard of living.
4.1.5 Technical Innovations

In order to improve the quality of microfinance banks services in Nigeria, the directors and owners need to introduce some technical innovations. A number of electronic devices are being used in different countries to expand the outreach and to improve the microfinance functions. Some of these devices are mobile phones, ATMs, processor cards, computers etc. Mobile phone provides the rural poor borrowers with the communication facility (Ghate 2008). In Nigeria, many rural roads are not accessible. The unfortunate thing about this is that those rural dwellers produce food as well as cash crops, but cannot be sent to market or in the city where they are in great demand. Banks cannot in any way build branches in such rural areas. Therefore, ATMs should help to facilitate saving, payment and loan transactions in the remote and rural areas where it is difficult to open bank branches.

4.1.6 Community based microfinance banks

Microfinance banks should be initiated by the members of the community who pool their resources together and as well give out the contribution to some other members of the community to use to establish small businesses. These members must be known by the members of the community and be identified by the community heads. In order to sustain the business the microfinance banks should charge minimal interest from the clients who desired the services of the microfinance banks.

4.1.7 Microfinance banks should be involved in the insurance agreement

The nature of microfinance banks services, and the active poor are very vulnerable to natural uncertainties, insurance is necessary for them. These insurance services should cover the losses of both microfinance institutions and their customers at the lowest cost. It may be envisaged that micro-insurance would facilitate penetration of insurance to rural and remote areas. Microfinance banks should provide accident, life, and crop insurances. The microfinance banks customers who wish to obtain credits from the banks should insure their businesses with the insurance company. The amount to be paying as premium should be determined by the amount of money applied for as loan. In a situation where any customer finds it difficult to repay the credit, insurance company will pay the outstanding loan.

4.1.8 Group lending

The use of group lending which substitutes group guarantees for collaterals. Group loan is one major way microfinance banks seeks to reduce credit risk because each should know and identify themselves. In a situation where any of the members of the group default those that guaranteed the default client will refund the outstanding balance. There is need to identify each member in a group. Banks should cultivate the attitude of KNOW YOUR CUSTOMER as instructed by the CBN. Although group lending is more effective in rural areas and individuals loans are more appropriate in the urban area. In every community of the
in rural area, the head of the community should be involved in the introduction and guaranteeing of the group. The study of IMF on Microfinance in Africa state that group lending with joint liability tends to encourage self-selection and group formation among good credit risks, addressing partially the problem of imperfect information faced by the lender, and thereby lowering the overall risk of the group lending scheme. It went further to express that a number of limits/risks may exist in group lending schemes with joint liabilities, where the behavior of one individual may affect the repayment of the group as a whole:

4.1.9 Contributions from International Agencies

In Nigeria, successful microfinance banks are those that have benefited greatly from technical assistance and funding provided by international agencies. It is stated clearly in the microfinance banks policy framework that International agency should be involved in the provision of fund at a minimal rate of interest to make the cost of borrowing cheaper. Therefore, effort should be made by the owners of Microfinance banks and the Government to engage the technical assistance of international agencies. This should not only enhance the efficient performance of Microfinance banks but also attract foreign investors in Nigeria as well as reducing the cost of operations. In many countries, credit-only schemes have been developed by NGOs, often with donor support.

4.1.10 Records of Accounts

Operators of microfinance banks should know that proper accounting system is a key to success of every business organization. It gives true financial position of the business organization and equip the owners of business with ideas on what to do in an ugly situation. Many microfinance banks have been distressed because of incomplete records and window dressing of their accounting records. Qualified and experienced accountant should be employed to do the work of the accountant.

5. Conclusion and Recommendations

This study has examined the constraints that most affect the performance of microfinance banks in the Nigeria. Our overall observations emanating from the statistical results, suggest that the constraints that most affect the performance of microfinance banks in Nigeria are low capital base, Insider Abuse, lack of microfinance bank culture, constant change of government policies, Targeting wrong customers and Inadequate business opportunities available to microfinance banks.

The potential economic advantages of viable and sustainable microfinance banks in Nigeria are needed, therefore, this calls for concerted efforts of government, proprietors of microfinance banks, operators and clients to facilitate the elimination of the constraints to microfinance banks to enhance the development of the microfinance banking sector to
unleash its potential for economic growth and development. There is need to improve the microfinance banks so as to help to incorporate the poor into financial markets.

We therefore recommend that government should design firm, sustainable and favorable policies to enhance the performance of microfinance in Nigeria considering the advantage of eliminating the twin problems of poverty and unemployment that are tormenting the country and other potentials of microfinance banks in Nigeria. In Nigeria, large number of people is involved in agriculture and other in small and medium enterprises which may not have access to formal financial institution for financial services; there is need for sustainable microfinance banks for survival and sustenance of these enterprises. Government should provide the required capital and infrastructures to microfinance banks instead of embarking on number of unachievable programmes. There is need for urgent elimination of insider abuse and all the operators of microfinance banks should be imbibe with the culture of microfinance banks. Above all, all the factors that mostly affect the performance of microfinance banks should be carefully eliminated.

We also suggest that further research should be conducted on the impact of performance of MFBs on Nigeria economy.

References

Ana, I.,2008, “Microfinance Banking? What is that” Lagos the Guardian Newspaper, Saturday March 22, P.47.


