The Unintended Consequences of Change in Microfinance Regulation (A case study of Nigeria).

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List of Acronyms

CBN	Central Bank of Nigeria
CRC	Credit Risk Certification
EFInA	Enhancing Financial innovation Access
GDP	Gross Domestic Product
ICA	Investment Climate Assessment
IRDP	Integrated Rural Development Programme
KYC	Know Your Customer
MD	Managing Director
MFB	Microfinance Banks
MFI	Microfinance Institutions
MSMEDF	Micro, Small and Medium Enterprises Development Fund
N	Nigerian-Naira
NBCB	National Board for Community Banks
NBS	National Bureau of Statistics
NREP	National Rural Employment Programme
SIDBI	Small Industries Development Bank of India
SME	Small and Medium Enterprises
TK	Taka

Abstract

Considering the economic conditions of the developing countries, it is crucial to provide financial inclusion in order to alleviate the poor living standard of people and bring as much people above the poverty line. …………. Provision of access to credit may be one of the most productive ways to emancipate human capacity and reduction of income poverty. As stated by the former World Bank president; James Wolfensohn, microfinance fits directly to the aim of poverty reduction and standard of living improvement through the provision of loans and technical assistance to the poor (Mishra et al. 2013 : 237). ………………

The microfinance institutions of Nigeria were formerly named community banks, but the name and regulation was changed due to the malpractices in the whole banking sector and the envisaged imminent doom in the Nigerian Financial sector which necessitated an infusion of new banking regulations and capital requirement increase. The regulation did not particularly augur well with the microfinance banks in terms of consequences of illiquidity and limited funds to transact with. Owing to the liquidity portfolio of the microfinance banks, the financial literacy and borrowers' capacity of their supposed target client, the MFIs in Nigeria found themselves at the cross-roads of trade-off between sustainability and outreach which happens to MFIs owing to their capital base and transaction cost on the verge of expansion which is a consequence of their compliance to prudential supervision and regulation (Cull et al. 2011:961).

Relevance to Development Studies

Financial inclusion is a vital panacea to poverty and unemployment ravaging developing countries and the efficacy of microfinance as a tool to curtail financial constraints cannot be over-estimated if its regulation is effective in terms of administration and supervision. My proposed findings would examine if microfinance is an effective tool of poverty reduction in Nigeria and showcase the need to fine-tune the regulation and supervisory framework of the policy makers in the trajectory of financial inclusion and development to attain the targets of both outreach and sustainability of the microfinance.

Keywords

Microfinance, Outreach, Sustainability, Mission drift, Poverty, Adverse Selection, Moral Hazards, Transaction Cost and The Six Cs.

Chapter 1: Introduction

1.1 Background of the Study: The Challenges of Increasing Poverty and Lack of Employment Opportunities in Nigeria

Considering the economic conditions of the developing countries, it is crucial to provide financial inclusion in order to alleviate the poor living standard of people and bring as much people above the poverty line. For several reasons ascribed to life opportunities metamorphosing to life outcomes, so many people are living in poverty (UNDP 2013: 1). However, there is critical need for more than a clarion call but well-fine-tuned concentrated actions to delve an insight into the penury stance of the less-privileged to ensure their improved living conditions especially as regards the Nigerian rising income poverty and unemployment trend.

Figure 1: Unemployment rate in Nigeria[1]

Source: www.tradingeconomics.com/ National bureau of statistics

Figure 1 shows the unemployment rise in Nigeria which has skyrocketed from 5.8% to 23.9 % within four years from January 2008 to January 2012. The issue is that the number of firms and business organisations are not commensurate with the growing population and increasing number of graduates from tertiary institutions (Fajana 2011:3).

[1] The unemployment rate in Nigeria was reported by the National Bureau of Statistics by conducting a survey that shows the percentage of unemployed labour force using a baseline of 40hours per week and the method has not changed overtime.

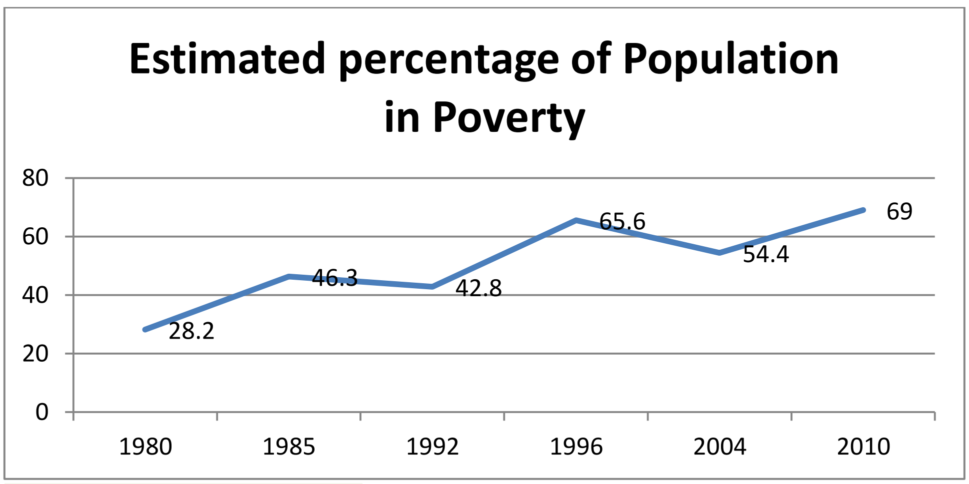
Table 1: Estimated poverty trend in the population of Nigeria.[2]

Year	Estimated total population (Millions)	Population in Poverty (Millions)	Percentage of Population in Poverty
1980	65	18.3	28.2
1985	75	34.7	46.3
1992	91.5	39.2	42.8
1996	102.3	67.1	65.6
2004	126.3	68.7	54.4
2010	163	112.47	69

Source: Federal Office of statistics and National Bureau of Statistics

Table 1 shows the estimated income poverty[3] trend in the country rising from 18.3 million of the population in 1980 to 34.7million in 1985 and 112.47 million in 2010.

Figure 2: Estimated percentage of population in poverty.



Source: Self-extracted from table 1

Figure 2 signifies a percentage increase of income poverty trend in Nigeria at the rate of 28.2% in 1980 to 42.8% in 1992 and by 2010 there was an increase of 26.2% which shot the estimated income poverty level to 69%.

[2] The estimated poverty trend in Nigeria was reported by the National Bureau of Statistics using poverty headcount ratio at national level with a $1 standard as at the time of report and the method has not changed overtime.

[3] Income poverty denotes the number of people living below poverty threshold e.g. $1 or $2. It encompasses working poverty which is as a result of low wages and jobless poverty caused by unemployment.

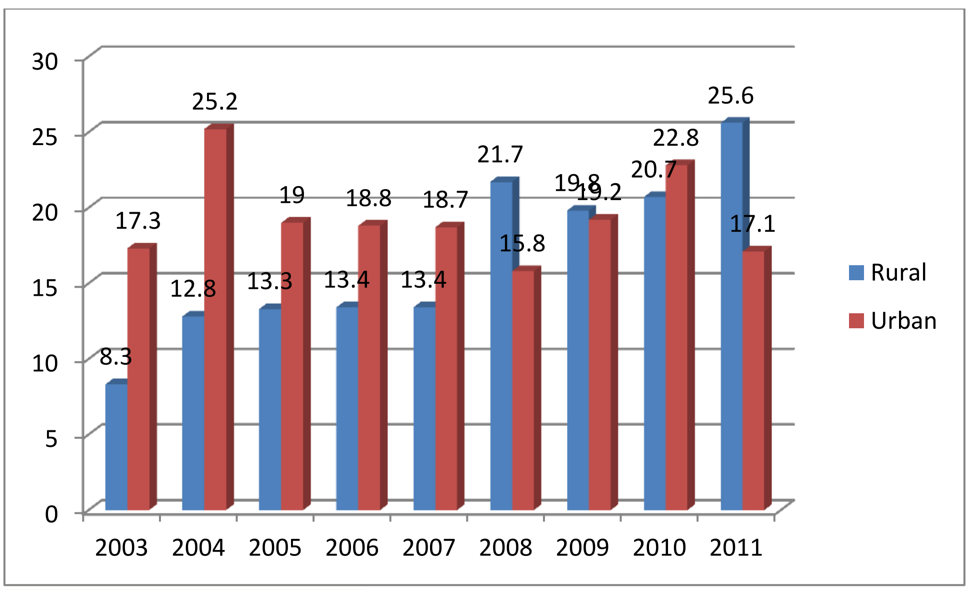
Table 2: Estimated graduate unemployment trend in Nigeria (%).[4]

Year	Rural	Urban	Total
2003	8.3	17.3	25.6
2004	12.8	25.2	38
2005	13.3	19	32.3
2006	13.4	18.8	32.2
2007	13.4	18.7	32.1
2008	21.7	15.8	37.5
2009	19.8	19.2	39
2010	20.7	22.8	43.5
2011	25.6	17.1	42.7

Source: National Bureau of Statistics (NBS 2010-2011) Socio-economic survey of unemployment

Table 2 shows the estimated number of Nigerian graduates suffering from jobless poverty[5] as a result of unemployment between 2003 and 2011 as the trend increases at 17.3% from 8.3% in 2003 to 25.6% in 2011 in the rural area, while it shot from 17.3% to 22.8% in the urban centres between 2003 and 2010. Figure 3 also shows the graphical movement in the trend of rural and urban graduate unemployment level which is adding to the depth of the unemployment profile of Nigeria.

Figure 3: Estimated rural and urban graduate unemployment trend in Nigeria (%).

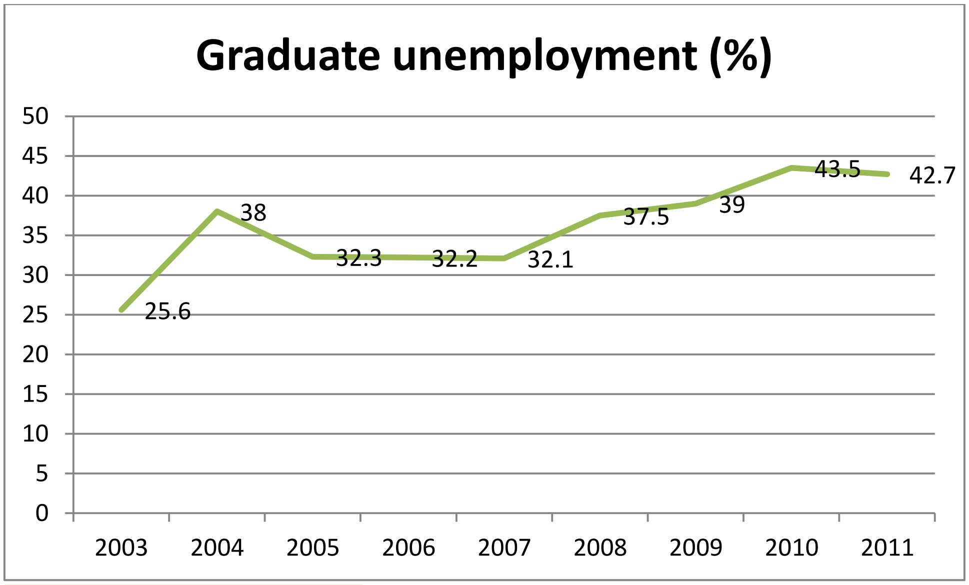


Source: Self-extracted from table 2

[4] The estimated percentage of graduate unemployment was reported by the National Bureau of Statistics from their social-economic survey of development conducted in 2011 using a baseline of 40hours per week to determine the estimated percentage of unemployed Nigerian graduates.

[5] Jobless poverty occurs as a result of unemployment.

Figure 4: Estimated trend of total graduate unemployment in Nigeria



Source: Self-extracted from table 2

Figure 4 shows the estimated total trend of graduate unemployment in both the rural and urban areas of Nigeria. The trend shows an increase of 6.5% between 2003 and 2007. Furthermore, the trend tends to have risen at 10.6% between 32.1% in 2007 and 42.7% in 2011. This situation confirms the extent of unemployment which results into income and job poverty thereby leaving graduates at the mercies of few employers. Unemployment is the major root-cause of poverty (Koffarnus et al. 2013:582), jobless people are mostly found at the lowest point of income strata and job provision seems to be the viable solution to job poverty and income poverty (Marx et al. 2013:3). The recent incident of several PhD and Masters Graduates who applied for truck driving jobs in Dangote group of companies showcases the level of unemployment cum jobless poverty in the country.[6]Also, the Nigerian immigration recruitment test stampede that occurred in March,2014 which claimed the lives of about 10 people further buttresses the extent of jobless poverty ravaging the Nigerian youths as a result of unemployment which led to over 56,000 graduates applying for job vacancies of 1,000 candidates.[7]

Provision of access to credit may be one of the most productive ways to emancipate human capacity and reduction of income poverty. As stated by the former World Bank president; James Wolfensohn, microfinance fits directly to the aim of poverty reduction and standard of living improvement through the provision of loans and technical assistance to the poor (Mishra et al. 2013 : 237). Financial inclusion may be an antidote to procure income generation which calls for soft loans in the spectrum of credit allocation which may play a vital role in generating more productive self-employment, fulfilment of basic needs and protection in an event of economic shock (Fouillet et al. 2013:S2) as, "life might be difficult without access to financial services; no deposit account, no debit

[6] http://www.thisdaylive.com/articles/phd-mba-holders-apply-as-truck-drivers-at-dangote-group/129518/ Accessed on 31 October 2014 at 7:35pm.

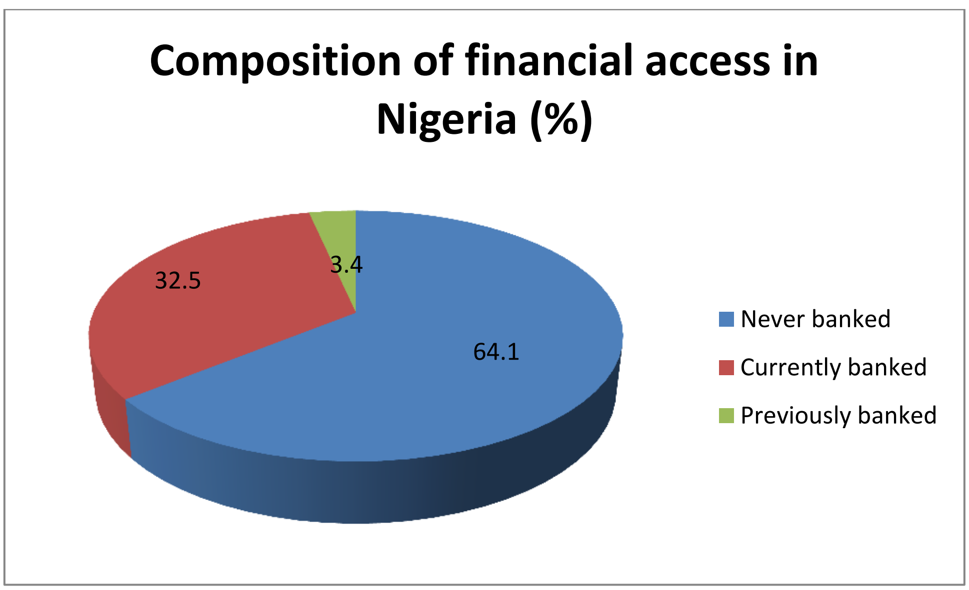
[7] http://www.bellanaija.com/2014/03/16/which-way-nigeria-tragedy-strikes-as-stampede-at-the-nigerian-immigration-service-recruitment-test-centres-claims-more-than-10-lives-minister-reportedly-states-impatience-as-cause/ Accessed on 31 October 2014 at 7:51pm.

card, no insurance premium, no save for school scheme, no mortgage facilities" (Ledgerwood 1999: 1).

When attempting to source credit, the poor often encounter their greatest disappointment from the credit units of the commercial banks when bank managers request collateral securities to reduce the risk of loss from defaults (Ray 1998: 546). However, it is rational behaviour to undertake due diligent protocol in credit appraisal in order to reduce issues of moral hazards and adverse selection. Commercial banks sometimes find it difficult to gather accurate information about the borrower which may enable them to actually assess the credit worthiness, repayment capabilities, credit history and the character of the borrower. Obtaining reliable information enables the lender to screen the personality and history of the borrower ex ante and monitor the loan proceedings and utilizations ex post (Lin 2009: 5).

The inertia of information asymmetries hence forms fear of moral hazards and adverse selection which in turn makes the commercial banks ignore the small entrepreneurs and low income earners for more lucrative prospects. Hence, in the Nigerian context, commercial banks opt to transact with the better-offs among the poor and the well-to-dos in the society, this can be ascribed to the issues of financial capacity, financial literacy and most of all information asymmetries of the poor. This is corroborated by the below graph which shows the composition of the financial access of Nigeria.

Figure 5: Composition of financial access in Nigeria.[8]



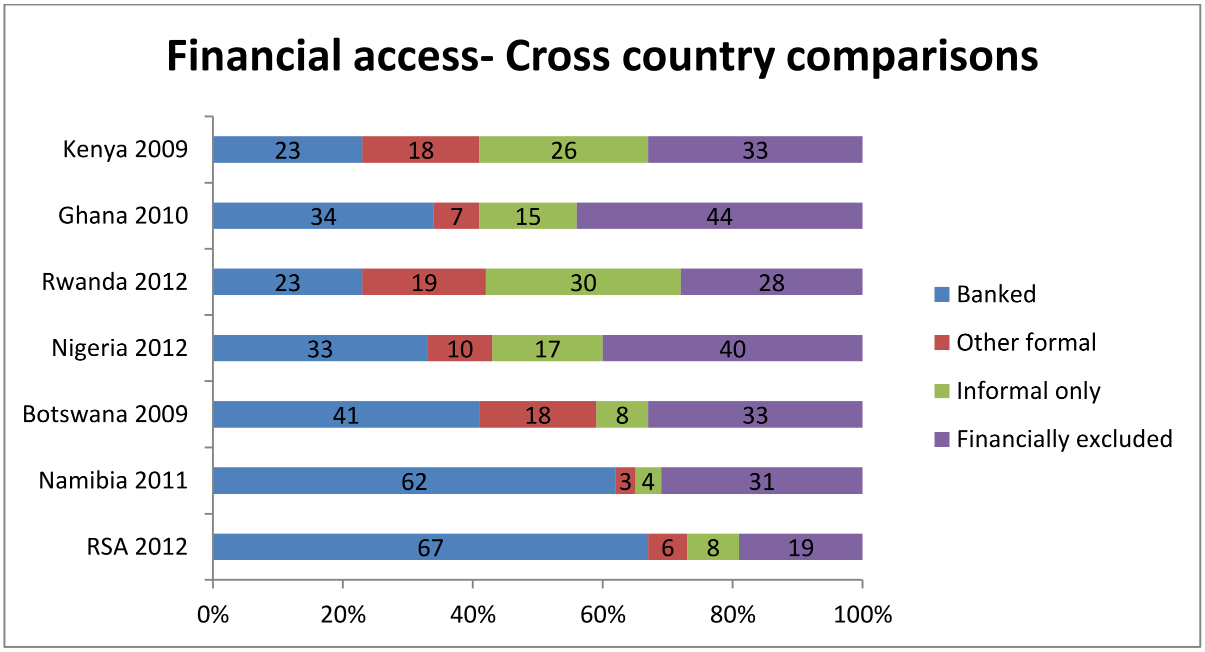
Source: Enhancing Financial Innovation and Access (EFInA) Access to Financial Services in Nigeria 2012 survey

Figure 5 shows the estimated financial access composition of 87.9million economically active adult population of Nigeria. The graph signifies that 64.1 % of the purported population in the

[8] The survey was conducted by the Enhancing Financial Innovation Access Board for the purpose of assessing and promoting financial inclusion in the Nigerian financial sector. The basis of the percentage of the finding is premised on the customer base profile report of Nigerian banks.

labour force is unbanked which amounts to 56.3 million people, while 3.4% which connotes that 3million people are previously banked and 32.5% which is 28.6million of the said group are currently banked. Furthermore, the stance of financial access in Nigeria needs deep insight and review if one takes cognizant of its status in comparison with elsewhere in the world.

Figure 6: Financial access composition-Cross country comparisons.[9]



Source: Enhancing Financial Innovation and Access; (EFInA) Access to Financial Services in Nigeria 2012 survey.

Figure 6 shows the lagging banking financial access position of the active population in Nigeria as at 2012 in comparison with the likes of South-Africa and Rwanda in 2012. It also shows that the financial inclusion position of Nigeria is far behind that of Kenya as at 2009. This is evident as 40% Nigerians are financially excluded in comparison with the status of Kenya in 2009, South-Africa in 2012 and Rwanda in 2012 at 33%, 19% and 28% respectively.

The reason for the low financial access in the Nigerian context might be as a result of the risk involved in terms of default rate and inability of the borrowers to provide viable collateral. Some borrowers involve in highly risky businesses or out-rightly shift from the written condition and purpose of the loan thereby resulting into involuntary default. However, the hiccups of information asymmetries which lead to adverse selection and moral hazards however necessitate the need for accurate information gathering of the lender. The cost of sourcing substantial information about the borrower is sometimes quite high, which involves the uses of several resources and electronic means named CRC and KYC meaning credit risk certification and know your customer which allows the loan administrative officials to read the credit worthiness of the proposed through the use of six Cs of credit. The use of six Cs might be cumbersome to undertake by the formal banks in dealing with the poor, hence they opt to focus on the better-offs.

[9] The survey was conducted by EFInA using the customer base of all the formal banks in the selected countries for the stated period.

Furthermore, in order to create an enabling environment for the low income earners, several occurrences ensued to bridge the gap between the commercial banks and the small entrepreneurs. The low income earners in Nigeria for instance raise small loans through thrift and credit co-operative societies, communal risk pooling, religious organizational contributions and several other trust funds. However, the highlighted fund raising schemes are not without its challenges premised on the fact that the book keeping procedure is poor because the system of fund raising portfolio is based on trust and culture.

The challenges of financial exclusion as stated above due to lack of accurate information sourcing of the commercial banks and lack of proper conduct of the informal lending platforms led to the creation of specialist microfinance institutions in Nigeria as an alternative for financial access provision to the poor. Microfinance is defined as a medium to enable capital formation which in the long-run leads to job creation and self-sustenance which cannot be over-emphasized. A "microfinance institution is a social enterprise, whose primary mission is to improve the lives of poor people through provision of financial services" (Ahmed et al. 2013:210). Microfinance is an emerging market in the financial industry whose aim is to give loans at low interest rates to small business enterprises and low income earners to start-up their own businesses (Pierce 2013: 202). These loans sometimes serve as fixed and working capital for the poor (Ray 1998: 531).

The micro-finance is quite beneficial to the low-income earners in the economy estimating its unquantifiable merits ranging from self-sufficiency, self-sustenance, self-management, job creation, reduction of vulnerability, economic opportunities, women empowerment, income generation and social impacts (Pierce 2013 : 203). The largest microfinance institution in the U.S named Accion has facilitated over $305 million worth credit since its inception with an average loan advanced amounting to $7,000 with an interest rate ranging from 8.99 % to 15.99% which is affordable in terms of interest payable for the borrowers and seemingly enough to start a business. They also aid business planning and community development (Pierce 2013: 209).

Pioneered by the Grameen bank in Bangladesh and heartedly embraced in different parts of the world, microfinance has massively helped to resuscitate the employment and financial status of several people (Toby and Akani 2014:157). According to Khandker, the Grameen bank has granted over 86% of micro-lending through group-lending strategies which reduces the transaction costs as a result of peer-monitoring of the borrowers while only 14% of loans were granted by the commercial banks (Khandker 2005:265). Also in Peru, microfinance has enabled the development of microenterprises through provisions of loan facilities; hence microenterprises have employed over 74% of the economically active labour force owing to the growth and well regulated institutions. The Peruvian government took cognizant of the need to improve the lives of the populace by creating the microfinance as a separate entity with regulations guiding the operational framework of the institutions (Pierce 2013: 215).

The microfinance institutions of Nigeria were formerly named community banks, but the name and regulation was changed due to the malpractices in the whole banking sector and the envisaged imminent doom in the Nigerian Financial sector which necessitated an infusion of new banking regulations and capital requirement increase. The regulation did not particularly augur well with the microfinance banks in terms of consequences of illiquidity and limited funds to transact with. Owing to the liquidity portfolio of the microfinance banks, the financial literacy and borrowers' capacity of their supposed target client, the MFIs in Nigeria found themselves at the cross-roads of trade-off between sustainability and outreach which happens to MFIs owing to their capital base and transaction cost on the verge of expansion which is a consequence of their compliance to prudential supervision and regulation (Cull et al. 2011:961).

1.2 Statement of the Problem

It is a common knowledge in Nigeria that the microfinance institutions have become a cheap way to own and run a commercial bank without having to part with 25 billion naira minimum reserve as specified by the Central Bank of Nigeria[10]. The regulatory framework bestowed on the MFIs somewhat deviated them from the mission statement as they are competing with the commercial banks in getting large accounts from prospective customers and also recycling loan advances to more lucrative investors in order to make more profits instead of focusing on the primary social goal of giving loans to the poor in the society.

Could this be a problem of pressure for sustenance due to their funding structure? It is a puzzle that microfinance institutions now pitch their tents on the broad streets of Lagos, Victoria Island, Ikoyi and Ibadan and so on; where most of the headquarters of the 23 active functional commercial banks are situated. The pertinent question is why are these MFIs not found mostly in places where there are lots of artisans, small scale entrepreneurs, retailers, hawkers and motorcycle parks and low-income earners with small businesses?

Despite the efforts of the government to ensure probity in the operating systems of the MFIs, all reforms instilled have yielded adverse effects so far as the MFIs seem to be maximising profits by focusing on more lucrative customers at the expense of the multitude that need funds to survive. However, bearing in mind the possible efficacy of the microfinance in poverty reduction, it is imperative that problem diagnosis of the MFIs needs to be done to curtail any mission drifted practice of the MFIs in order to enable financial inclusion in the economy.

1.3 Objective of the Study:

My research paper mainly aims to unravel the consequence(s) of the microfinance regulation in respect of their mission drift. The specific objectives are as follows below:

- To find out if the lending pattern of the MFIs is tilted towards the better-offs at the expense of the poor.
- To find out the cause(s) of mission drift of the microfinance institutions in Nigeria.
- To find out the deficiency in the outreach regulation/monitoring of the MFIs.
- To find out the level of interest charged by the MFIs.

[10] http://www.vanguardngr.com/2011/09/seven-fundamental-flaws-with-microfinance-banking-in-nigeria/ accessed on 30 October 2014 at 4:41pm.

1.4 The Main Research Question:

Why are microfinance institutions in Nigeria reaching so few poor people?

Sub-questions:

- Why is the customer base of the MFIs urban biased or better-off customers targeted?
- Did MFI capital adequacy requirement lead to competition with the commercial banks/ mission drift?
- What is the repayment experience of MFIs with the poor?
- Is the MFI's outreach measured and monitored?
- Are Nigerian MFIs charging high interest and why?

1.5 Justification of the Study:

The rising trend in the unemployment and poverty level of developing countries especially Nigeria calls for insightful attention through fined-tuned financial inclusion strategy. However, as microfinance may be a tool of ensuring poverty increase reversal, its practice in Nigeria is not yet yielding expected results and there is few or no academic literature delving insight into its administration and possible regulatory outcomes.

1.6 Methodology:

The source of data collection is mainly qualitative and also quantitative through the use of structured interviews and secondary data mainly from the Central Bank of Nigeria report and National Bureau of Statistics of Nigeria. The sources of data enabled the researcher to obtain substantial information on the possible causes of the mission drift of the MFIs in Nigeria. The area of study is focused on Ibadan in the south-western part of Nigeria being one of the predominant business centres for the MFIs. Ibadan is the second largest city in Africa in terms of land mass with an imminent business growth. The interviews were conducted with four managers of selected MFBs. The basic reason for the selection of these MFIs is premised on their length of existence in the business.

1.7 Limitation of the Study:

Some of the interviewees were evasive to divulge sensitive information about their scope of operations considering the code of secrecy undertaking in the banking sector and the sensitivity of such information, but the data was eventually collected against all odds having promised the interviewees anonymity of their assertions. Also, the findings should be digested with caution in respect of generalisation premised on the reason that the area of study is just a capital of a state out of the 36 states in the country. Nevertheless, that does not rule out similarities in the factors that surround MFIs in the country.

1.8 Structure of the Paper:

The second chapter is based on the theoretical framework which underlines the economic theories of banking that showcases why the poor have challenges in accessing banking credit. The third chapter is divided into three parts; the first part reviews the global mixed evidence of microfinance as a poverty reduction tool using cases of Bangladesh and India, the second part reviews the issues surrounding income poverty and the need for microfinance in Nigeria and the third part takes on the literature review as regards the trade-off between sustainability and outreach goals of the microfinance institution as a result of the regulation. The fourth chapter undertakes the microfinance provision in Nigeria through the banking system and the changing regulatory structure distinguishing MFIs from other banks. Chapter five presents the findings of the study as regards the small scale of the MFI sector in Nigeria and their causes of mission drift e.g. limited funds, size of collateral versus risk of default, individual rather than collective lending and transaction costs. Lastly, chapter six takes the conclusion.

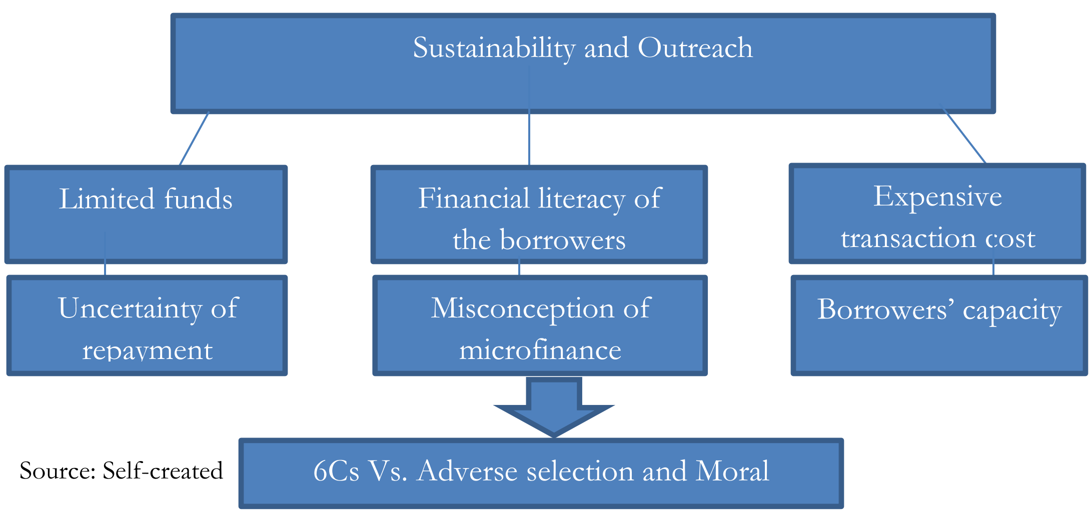
Chapter 2: Theoretical Framework

2.0 Economic Theories of Banking and Why the Poor Have Challenges in Accessing Banking Credit (The 6 Cs as an Obstacle to the Poor in Respect of Moral Hazard, Adverse Selection, Scale and Transaction Costs)

The problems of loan repayment default alongside limited funds for credit administration and allocation is a major factor that affects the outreach of the banking institutions. Banks have penchants for dealing with more lucrative clients whom they believe will cost less in terms of operational costs. The managerial discretion of the banks to focus on the more promising prospects of the market is embedded in the analysis of transaction cost which is more expensive while dealing with the financially constrained customers especially in process of individual lending unlike the use of social capital of small groups which enables the lending institution to counter the issues of adverse selection and moral hazards. The trade-off between sustainability and outreach of the bank come to being as a result of limited funds available for operation, financial literacy of the borrowers and expensive transaction cost which stand as point of concerns to MFIs as regards uncertainty of repayment, misconception of the microfinance and entrepreneurial capacity/acumen of the borrowers which culminates into adverse selection and moral hazards. This explains that borrowers' misconception about microfinance can lead to voluntary default and also, the transaction cost that measures the loan size becomes a cause of concern for the MFI if the repayment ability of the borrower is doubtful especially when the working fund of the MFI is limited.

However, the concept of six Cs tends to be the pathway to subdue the problems of adverse selection and moral hazards but its remains a cause of bother to the small borrowers who don't often meet the criteria of the six Cs. The diagram below showcases the inter-linkage of the concept six Cs and adverse selection as a fall out of the trade-off between sustainability and outreach of the financial institutions which comes to being due to limited funds, expensive cost of transaction and financial literacy of the market.

Figure 7: The inter-linkage of Six Cs with Adverse Selection and Moral Hazards



Source: Self-created

In an attempt to select the right customers with repayment capabilities, the banking institutions undertake the concept of six Cs of credit. The six Cs techniques enable the bank to measure the competencies of the borrowers as regards the latter's prospect as a credit worthy client. The Six Cs is divided into six facets of prerequisite attribute expected to be possessed by the credit seeking customer. The Six Cs concept is premised on; character, capacity, capital, conditions, collateral and common sense/confidence.

Character explains the personal feature of the customer which attributes him/her as a credit worthy person. The character of a borrower showcases the level his responsibility in the general facets of life especially as it concerns willingness of the person to repay a loan facility. The credit history can be of significant help to obtain the necessary credit information of the customer. However, information asymmetries have always been the problem of the financial industry especially on the advent of credit allocation and appraisal (Lin 2009: 5) as it is an evident bottleneck for banks to access accurate information about the customer.

Also, the stiff competition among banks does not give room to undertake extra due diligence as to unravelling the true character of the credit seeking customer by the bank marketer/credit unit personnel. However, customers especially the dubious ones may take advantage of deficits in the operation and pressure of the banks to secure multiple loans (Assefa et al. 2013: 769). This however posits a problem of moral hazard which actually accentuates the condition as a voluntary default and this forms the basis of trade-off between sustainability and outreach of the MFIs.

Every financial intermediary that fills the gap between the surplus and the deficit in the system through credit creation is earnestly concerned with the capacity of the borrowers. The extent of the borrower's capacity may determine the level of confidence the lender reposes in the borrower as regards loan repayment. However, the lender becomes confident when the performance of the borrowers shows that he/she is able to meet up with the monthly repayment after payments on merchandise, over-head costs and whatsoever fixed expenses incurred in the line of business transactions must have transpired. If the cost of running the business out-weighs the capital or the scope of operation of the borrower is excessively enormous, the borrower might not be able to meet up with the repayment obligation.

The status of the borrower's profit flow is an indicator of repayment ability or foreseen fore-closure of a credit facility. Failure of the financial sector to meticulously examine the capacity of the customer might be detrimental for the lending institutions as the failure of undermining the capacity of the borrower's business may lead to adverse selection.

Capital is a complicated factor in definition, but in this perspective of credit analysis, it will be considered as the net-worth of properties and assets owned after deducting the debts incurred as liabilities in the course of running the business which should be sufficient enough to make payment for other bills. The borrower must be in possession of assets that are valuable to execute payment of loans par-adventure the business proceedings declines. The capital base of the customer showcases the strength of the borrower's repayment ability and credit worthiness. In an event of granting a credit facility to a low capital based customer, the financial institution is bound to encounter a problem of adverse selection which implies an involuntary repayment default owing to information asymmetries. Based on managerial discretion, the banks opt to trade with the better-offs if information as regards the capital base of the borrower is doubtful.

The conditions associated with the borrower are also worth being considered in order to avert the adverse selection of borrowers. Conditions are factors that might affect the fulfilment of repayment obligation like current employment status, other debts or loans incurred elsewhere, stability and profitability of the business. Also the purpose of the loan is all vital in analysing the credit worthiness of the borrower. However, customers sometimes tend to shift from the stated purpose of the loan of which the signed agreement is conditioned (Ray 1998: 532).

Both repayment problems of adverse selection and moral hazard are synonymous to the failure of the bank to properly assess the conditions of the borrower and the purpose of the loan itself, and this is one of the bases of trade-off between sustainability and outreach because the banks are certain of their credit risk being secured with the better-offs.

Other conditional components of probability of getting access to loan facility comprises gender, age and employment status of the borrower. For instance, in the context of loan administration in South-Asia, MFBs in Bangladesh prefer to offer loans to group of women based on the expectation of promising repayment ability they experience with women, though some of the loans allocated to households through women are utilised by the male head of household, but the salient point is that repayment experience is often impressive with women as a target beneficiary (Chakravarty et al. 2013:23) and financial inclusion is also believed to enable them to renegotiate improvement in gender relations in the society owing to self-empowerment obtained through credit (Holvoet 2013 :47) .

The perspective of giving loans to women in Bangladesh is on a basis of group-lending which entails peer-monitoring. In the process of granting a loan to women in Bangladesh, a group of women with mutual trust would come together to form a group and a sum of money will be given to them payable in instalments at an agreed interest rate and the group will be mandated to make a weekly savings from the proceeds of their businesses as well. This process of group-lending reduces the cost of transaction of the lender in terms of loan monitoring and it also relieves the borrowers of collateral provision premised on the fact that each member of the group stands surety for one another. Aside from the fact that loans given to women enhance household development based on judicious use of credit by women (Goetz and Gupta 1996:61), the act of group lending to women also provides a behavioural solution to the problems of moral hazards and information asymmetries (Aggarwal et al. 2014: 3) due to the fact that loans granted to women is embedded with higher trust premised on their self-will of repayment. However, group-lending enables the lowering of associated risks with pro-poor lending especially for women because MFIs with more female borrowers often record less risky portfolio and their experience of loan write-off is minimal (D'espallier et al. 2011:769). Also, the compulsory savings of the borrowers ensures the liquidity of the MFI as the members of the group are mandated to make weekly savings from their proceeds, it indirectly adds to the liquidity platform of the MFIs.

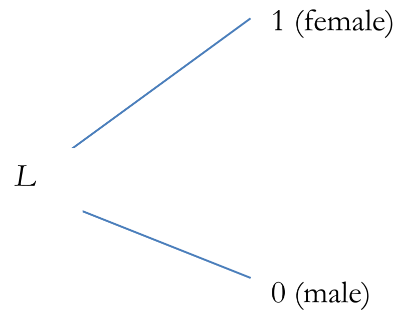
The model below shows the lenders' perspective of loan disbursement probability which depends on the gender of the proposed borrower. See below:

Equation (1) $P(L) = f(G^1)$ denotes that probability securing a loan takes a preference for women, where L represents loan; G^1 represents the coefficient of women getting a loan.

$L_1 = 1$ represents the probability of women getting a loan

$L_2 = 0$ represents the probability of men getting a loan

Figure 8: Loan access probability (Gender based)



Source: Self-created

Equation (2) $L_1 = \mathrm{f}\,(G^1) = \mathrm{Pr}$

Equation (3) $L_2 = \mathrm{f}\,(G) = 1\text{-}\mathrm{Pr}$

The above model signifies that women are more at advantage to securing credit facilities than men in some countries. Equation 2, f (G^1) denotes that women are considered more for repayment obligation than men f (G) and this is evident in some countries in the South Asia as mentioned above.

Also, age is another criterion for credit access. In most developing countries where adulthood starts from 18, most lending institutions would prefer to allocate loans to borrowers who are above 18 years. Furthermore, other criteria like gender as mentioned above and employments status determine the probability of loan access. Where A^* denotes age above 18, G^1 signifies gender; female and e stands for employment status which implies the kind of business the borrower engages in, the number of years the business has served in its current location and capacity of the business. See the model below:

$\mathrm{P}\,(L) = \mathrm{f}\,(G^1, A^*, e)$

Collateral is the property, asset or possession that can be mortgaged as security for loan repayment. This is often in form of a valuable asset which can be repossessed by the lending institutions in case of repayment default. Banks require the provision of a collateral security from the borrower as an asset of corresponding value to fall back upon in an event of the latter's inability to repay the loan.

In the course of safeguarding the sustainability of the lending institutions, the management take cognizant of the loan size that is being applied for by the customer to measure the risks that encompass the credit facility. Some customers seek for massive loan size beyond their capacity of repayment which leads to involuntary default especially when the credit administration is devoid of accurate information of the borrower.

In the process of lending, considering the repayment risk of the customer in respect of the loan size, the lender requires collateral from the borrower to ensure the recovery of the credit allocated to the client, but the collateral itself has a way of reducing or aggravating default rates. If the collateral is of less value, the borrower might not be bothered to repay; voluntary default. And in the other sense, if the collateral is high in value, the lender might prefer to hold on to the collateral regardless of a default scenario.

Using the theories of informal credit market by Debraj Ray (1998), let assume a scenario where a borrower seeks for credit facility of loan size L from an informal lender with collateral of land at an interest rate denoted by i. The lender places a value of V_B which is expected to be a big value on the asset that is being used as collateral and the borrower places a value of V_S which is relatively a smaller value. In case the borrower loses the asset to the lender on whatsoever circumstance or the fear of being blacklisted for credit by the lender if default occurs is denoted as F. However, there are two sides to the likely outcome of the above assumptions. There might be either voluntary or involuntary defaults, depending on the value that is placed on the collateralized asset by either the lender or the borrower (Ray 1998: 547).

The borrower would prefer to abscond with the loan if the cost of fear associated with the repayment default and the smaller value $V_{S+}F$ placed on the loan is less than the entire principal and interest of the loan $L(1+i)$. See below:

Equation (4) $$L(1+i) < V_{S+}F.$$

In a situation that the value placed on the collateral by the lender is more than the borrower's valuation, the lender would prefer a repayment default. See below:

Equation (5) $$V_B > V_{S+}F.$$

But, if the value placed by the lender on the asset is of less value compared to the amount of the principal and interest, the lender would opt to have his loan repaid. See below:

Equation (6) $$L(1+i) > V_B$$

In case the loan repayment is in the interest of both the lender and the borrower, we then join equation 4 and 6 to arrive at:

Equation (7) $$V_B < V_{S+}F$$

The above denotes that the collateral is a formality put in place to secure the loan, and it does not commensurate with the credit in terms of measure of quality, this is however from the perspective of the lender. Therefore, the borrower on the other side attaches a value to the loss of the collateral and fear of being tagged as a debtor which is detrimental to his continuous patronage from the lender and elsewhere. This situation necessitates the essence of the loan repayment on the sides of both parties which implies that the lender wants his loan repaid and the borrower cannot afford to jettison his collateral and future credit access.

However, in a situation where the loan size is enormous and there is likelihood of information asymmetries, collateral security plays a vital role. Nevertheless, the value estimate of the asset by the lender must not be exceedingly greater than the valuation of the borrower even if the loss of the asset and fear of not forfeiting credit access from the lender means nothing to the borrower, that is $F=0$ (Ray 1998: 548).

Furthermore, in a situation that the value placed on the collateral by the lender is extremely high as shown in equation 5; the lender will induce repayment default of the loan deliberately. A way of ensuring this on the side of the lender is to inflate the interest rate of the loan. Even though, the borrower does not intend to default, the high interest rate might force the borrower into involuntary default (Ray 1998: 548).

Lastly, common sense/confidence is the individual trait possessed by the borrower in terms of managerial ability and acumen to make prolific decisions that will make the business to be more profitable. This characteristic of the borrower can be inferred by the bank manager or the credit unit appraisal staff in an interview session. The common sense inference of the bank manager about the customer enhances the confidence reposed by the bank manager and the credit analyst in the borrower to do a productive business and make loan repayments, and the decision to rate the customer as credit worthy is endorsed once the customer scales through the criteria of six Cs hypothesis.

The analysis of the six Cs allows banks to examine the credit worthiness of the customer and also enables them to avert the issues of adverse selection and moral hazard of the borrowers. However, the lending institutions prefer to opt for more lucrative customers because the process of the six Cs consumes time and resources which may be expensive in practice. However, the six Cs seems to be an obstacle of borrowing for the poor especially when the MFIs are practising more of individual-lending owing to limited funds, expensive transaction cost and poor financial literacy of the market as the case of Nigeria. The avoidance of the rigours of the six Cs theory forms the basis of trade-off between sustainability and outreach of the microfinance.

Chapter 3: The Mixed Global Evidence on Microfinance as a Poverty Reduction Tool

3.1 Microfinance Practice in Bangladesh and India

This aspect takes a dissection of the international discourse around the context of microfinance with a focus on Bangladesh and India. The purpose for the selection of these countries is based on the prominence of microfinance in the selected countries. This chapter intends to review the impacts and views as regards microfinance elsewhere outside Nigeria.

The need to curtail the income poverty level in Bangladesh is crucial considering the number of people living below poverty line which enumerates about 50% of a population of 128 million people actually suffering from chronic poverty (Rahman 2000: 1). There are lots of active poor people who wish to start a business venture to ensure better living standard but are incapacitated as a result of lack of access to financial resources, despite the increase of commercial banks and agricultural development banks in the country ranging from 854 to 3,225 between 1975 and 1984 with amount of loan disbursed shooting from TK 461 million to TK 10,087 million which were mostly offered to few selected medium and large land owners; whom are obviously best understood as the better offs in the society (Hossain 1988 :21).

In the course of ensuring capacity development, women empowerment and self-sufficiency, the Grameen model takes the reference point in respect of its achievement in credit administration to the poor in Bangladesh, though there are several microfinance banks plying the trade of bridging the poverty gap between the rich and poor through group-lending which involves social capital that reduces the transaction cost owing to peer-monitoring of the group members that might help to resolve the problems of adverse selection and moral hazard and nonetheless enhances the liquidity of MFI as a result of compulsory micro-savings of the borrowers. The Grameen bank lived up to its bidding as a poverty alleviation oriented establishment by substantially helping people to own businesses and also supporting their continuity in the business ventures with liquidity through the provision of affordable credit facilities at an interest rate of 16% per annum (Hossain 1988:9). As at 1987, the Grameen bank recorded 298 branches comprising over 250,000 households. Annually, the loan disbursed increased from Tk99 million to Tk542 million between 1983 and 1986, and also microfinance enhanced its outreach at a low cost especially towards women in Bangladesh (Khandker 2005: 1-3).

The strategies used by the microfinance are formed on the basis of collateral free credit allocation, group-lending and savings mobilization with massive impacts on individuals and households. However, as much as the microfinance helps the poor, it does not benefit all the participants (Khandker 2005: 1-3). Microfinance in Bangladesh in retrospect aids the per-capita consumption of its beneficiaries especially on food consumption and non-land assets, helps income redistribution and also reduce income poverty in some of the households of the beneficiaries, but the significance remains unpromising as regards the entire households in the nation (Khandker 2005: 22, Zaman 2004: 15).

However, the macroeconomic stability of Bangladesh in terms of the interest and inflation rates that were kept undeterred aided the growth of microfinance, hence benefitted the populace immensely to a minimum. But, the Grameen model is not an ends to the means of income poverty because the fixed repayment pattern may not favour the extreme poor whose periodic savings which they don't have access to until they leave the credit group could be used for consumption smoothing. Sometimes, the initial loans issued to the extreme poor might be too large for their income to commensurate with in terms of repayment and also, group members don't often like to stand surety for the extreme poor which however obstruct their access to loans (Zaman 2004 :6-7).

In the context of India as regards microfinance, there are lots of people living in income poverty and this resulted to the situation that most poor people rely on large farm owners, merchants and money lenders to get income in order to make ends meet. But the interest rate charged by the money lenders in India is high (Mahajan and Navin 2013: 2).

The Indian government came up with several development agendas but all proved to be abortive. Credit based asset acquisition programmes like NREP, food for work and IRPD to mention a few further worsen the inequality level in the nation. In order to improve the agricultural production capacity and standard of living of the poor, the government decided to encourage capacity development by nationalizing the banks. This was done in recognition of the substantial role credit plays in the trajectory of enhancing the lives of the majority poor. However, the result of the proceedings of the development strategy was not impressive enough.

The need to infuse the practice of microfinance into the system to increase crop production to feed the growing population was imperative for the Indian government which led to the abolition of money-lending in 1975 due to inability of the poor borrowers to sustain their business with the high interest rate of the money lenders. The government established some banks in the rural region to enhance the agricultural productivity performance of the small scale farmers and the extreme poor. The banking services expanded massively in the rural area as expected, but the poor and the low scale farmers were not benefitted from the financial improvement schemes as majority of the borrowers were large scale farmers, small scale industrial moguls, exporters and self-employed professionals (Mahajan and Navin 2013: 1-4).

The microfinance industry was concretely supported by the Small Industries Development Bank of India (SIDBI) and other commercial banks in terms of fund provision under the priority lending bestowed on them in 2010. This led to the achievement of the MFIs within 15 years where borrowers increased from 3,000 to 31.7 million between 1995 and 2010[11] (Mahajan and Navin 2013: 6-7).

The performance and impacts of microfinance was not without its obvious flaws as reflected in the Andrha Pradesh crisis that led to the decline in the growth of loans and number of borrowers from 95% and 57% respectively to 17% for both which was as a result of about 57 branches of microfinance banks including SHARE and Spandana microfinance that were shut down owing to the havoc they caused through their coercive loan recovery strategies which led to the death of about 10 customers who committed suicide having being disgraced publicly for loan repayment (Kaur and Dey 2013 :696-697).

Following the incidence of microfinance borrowers' suicide in Andrha Pradesh; a state with an existence of prolific MFIs, the government enforced a regulation that sanctions any MFI that is caught using force on any customer in the process of loan recovery. They were also mandated to take monthly instalments instead of weekly repayments from their borrowers. As it became punitive for any microfinance that harasses its customer, the microfinance were unable to recover most of their

[11] The report was generated by MIX market data for Bangladesh.

outstanding loans which caused the negative net worth of the likes of SHARE microfinance, Spandana Sphoorty financial and Trident microfinance and so on (Kaur and Dey 2013 :696-698). However, the consequence of the Andrha Pradesh crisis and the impacts of the regulation were severely borne by the 450 million people of India living below the poverty line (Kaur and Dey 2013:698).

Though microfinance aids the liquidity and continuity of businesses and fixed capital provision, it does not really ensure an escape from income poverty because it favours the larger business owners more (Banerjee et al. 2013: 5-33). Banerjee further argues that microfinance in India has no apparent effect on education, health and women empowerment. His conclusions were derived from the research conducted on several households by using Spandana microfinance as a case study. He concluded that, microfinance basically helps households to make inter-temporal choices in consumption which particularly connotes shifting the tastes of the benefitted borrowers from luxuries to more durable goods (Banerjee et al. 2013: 34).

3.2 Poverty and the Need for Microfinance Regulation in Nigeria

The survey conducted by the microfinance development office of the CBN in 2006 anchored by Dr. Olaitan[12] shows that about 70% of the working population in Nigeria is involved in the informal sector as artisans, retailers, petty traders, part-time trading and so on (Olaitan 2006 : 2). The incessant lay-off of workers from both the public and private sectors which can be attributed to the introduction of the structural adjustment programme in 1986 and the massive growth of jobless graduates from schools and colleges are pushing a large proportion of the population into informal sector activities (Anyanwu 2004 : 7). This is corroborated by reflecting on table 1 which shows the trend in the poverty status of Nigerians as it shoots from 68.7million to 112.5million people between 2004 and 2010.

The mass of people involved in the informal sectors necessitated the intervention of the government to establish some structural programs like agricultural development projects and better life for rural women amongst others. These programs were in form of business development advisory schemes and cash transfers targeted at the low-income earners to ensure that they rise above the poverty line.

[12] Dr. Olaitan is the head and senior manager of microfinance development office, Development finance department of the Central Bank of Nigeria. The survey was conducted to underline the need for SME financing in Nigeria.

Table 3: Composition of poverty alleviation programme in Nigeria.

Sponsor Administration	**Dates of Programmes**	**Poverty Alleviation Programme**	**Main Focus**	**Microfinance Component**	**Current Status**
1) General Yakubu Gowon	1972	* National Accelerated Food Production Programme (NAFPP) * Nigerian Agricultural and Cooperative Bank (NACB)	Funding of agriculture Funding of agriculture and cooperatives	Low Moderate	Disbanded Restructured
2) General Olusegun Obasanjo	1976	Operation Feed the Nation (OFN)	Created awareness of food shortage	Nil	Disbanded
3) Alhaji Shehu Shagari	1979	Green Revolution	Big mechanised farming	Nil	Disbanded
4) General Muhamadu Buhari	1983	Back-to-land Programme	Aggressive graduate involvement in agriculture	Nil	Disbanded
5) General Ibrahim Babangida	1986	* Directorate for food, Roads & Rural Infrastructure (DFRRI) * Nigerian Agricultural Land Development Authority (NALDA) * Better Life for Rural women * National Directorate on Employment	Feeder roads, electricity, portable water and toilet facilities for rural dwellers. Large-scale commercial farming Gender elevation Combating mass unemployment	Nil Moderate Moderate Moderate	Disbanded Disbanded Disbanded Epileptic

		(NDE)			
6) General Sani Abacha	1993	Family Economic Advancement Programme (FEAP)	Assisting Nigerians in low- income group in subsistence agriculture and small businesses	High	Disbanded
7) General Olusegun Obasanjo	2001	National Poverty Eradication Programme (NAPEP)	Youth empowerment, Social welfare services and National resources development and conservation	Low	Epileptic

Source: Self-compilation.

Table 3 shows the efforts various government administrations have effected in ensuring poverty alleviation but unfortunately, all the efforts and activities enthused towards the course of the projects proved abortive because none of them was able to fulfil its expectations and this out-rightly led to the introduction of the microfinance institution in Nigeria with the primary aim of extending credits to the microenterprises and encouraging small investments (Toby and Akani 2014:161).

However, the performance of the Nigerian MFIs remains suspect owing to the low financial access of the poor which undermines the existence of the SMEs. "One possible explanation for the relative absence of SMEs in the poor economies is the difficulty of obtaining access to finance. Large firms in these countries can secure financial assistance because they have assets that can serve as collaterals for loans" (Olu 2009: 538). The early MFIs were NGOs with non-resource loans, but in recent times, the MFIs have grown so large all over the world with fledging financial activities spreading their tentacles all over the economy. However, the MFIs seem to have shifted from its definition (Ahmed et al. 2013: 210). This necessitates the improvement of the microfinance sector under proper regulation in order to focus on the growing number of poor in the society.

However, "to create an environment that is conducive for financial intermediation, government and policy makers must ensure that financial regulation does not result in financial repression" (Ledgerwood 1999:23). This corroborates the issue of mission drift which sometimes happen to MFIs in the course of widening their scope of outreach and liquidity under the regulation of the institution but encounter trade-off between sustainability and outreach (Cull et al. 2011:961).

3.3 The Sustainability and Outreach Dilemma of Microfinance

In 2005, the Central Bank governor; Charles Soludo mandated the microfinance institutions in the economy to maintain a minimum reserve not less than twenty million naira (N20m) with an insurance deposit of N100,000 for every depositor with the NDIC; Nigerian Insurance Deposit Commission at a deadline of compliance dated 2007.

This step was taken in the direction of boosting the image of the microfinance institution to secure the interest of the customers of the institutions. It was enforced to aid the objective of giving microcredit to an avalanche of people considering the number of people living below the poverty line and also maintain the sustainability of the microfinance.

In 2006, a Central Bank of Nigeria report stated that 35% of the poor segment of the population was provided with financial services while the remaining 65% were excluded (Toby and Akani 2014:167). Despite the regulation of the Central Bank of Nigeria to improve the MFI outreach to the poor, with over 986 licensed MFIs in 2007, the effect of the microfinance in the economy is yet inconclusive (Abraham and Balogun 2012: 172).

Owing to the rapid expansion and malpractices of management after the regulation, the Nigerian MFIs may not have been as prolific as expected in terms of contribution to poverty alleviation due to issues related to their system of operations which led to the trade-off between sustainability and outreach. However, it is argued that MFIs who comply with prudential supervision in line with the regulation in terms of capital adequacy and other operational prerequisites are bound to restrain their focus of outreach from the poor based on the inherent issues of information asymmetries and commercialized limited funds (Cull et al. 2011: 961).

The funding aspect of the activities of the microfinance is a major concern in this research as micro-lending and micro-saving seem to be a major issue in the Nigerian context as a result of the changes in the regulation. Most of the MFIs start their operations with donor funding and later shift towards commercialized funding structure based on the enlargement of the institutions' portfolio of operations in terms of demand from their clients (Rosenberg et al. 2010:146).

To ensure sustainability and outreach, the MFIs run their business with credits from commercial banks (Assefa et al. 2013:768). Hence the pressure from the commercialized donor engages the microfinance in competition with other financial market operators in order to make ends meet, this however results into the mission drift of the MFIs. Increased competition in microfinance and the resulting pressure to become financially sustainable may occur at the expense of social objective of the institution (Assefa et al. 2013: 768), this is also supported by Abate et al. (2013) that increase in commercialization of funds and competition alongside removal of subsidies from the microfinance leads to drift for cost-efficiency and sustainability which often divert the MFIs' focus away from outreach (Abate et al. 2013: 924).

This implies that commercialization of MFI funding increases their transaction cost which might need to be recouped by enhancing profitability of the business. However, considering the fact that the cost of small loan is almost equivalent to the cost of a larger loan (Ahmed et al. 2013:6), and also premised on the scepticism of repayment ability of the poor borrower, the lender therefore prefers to opt for the better-offs whose repayment obligation is certain.

Bearing in mind that the limited sources of funds and loan repayment problems inhibit the sustainability, growth, liquidity and the going concern of the MFIs (Morduch 2000: 625), microfinance are bound to divert from their social goal if they encounter limited sources of fund and repayment problems which makes them source for commercialized loan and the pressure to keep up to the sustainability and profitability aims of the financier might lead to a shift of lending paradigm from the poor to the better-offs in the society whom are of less risks in terms of ability to repay (Otero1999: 14).

Also considering the fact that the provision of loans and advances to the poor is cost intensive and it entails persistent loan monitoring and enforcement cost (Abate et al. 2013: 923), the MFIs tend to prudently execute their loan disbursement to the richer segment of the population to avert the issues of adverse selection and moral hazards. On the verge of ensuring improvement of sustainability prospects, MFIs tend to shift their target off the poor to ascertain financial sustainability (Zeller and Meyer 2002: 6). Crawford et al. (2012) says that MFI that focus on sustainability and profitability achieve same at the expense of outreach to the poor (Crawford et al. 2012: 22). While Kipesha and Zhang (2013) argues that MFIs can focus on both side of the objectives of financial inclusion activities for the poor and also remain sustainable in the business (Kipesha and Zhang 2013:144).

Chapter 4: Microfinance Provision in Nigeria through the Banking System and the Changing Regulatory Structure Distinguishing Microfinance from Other Banks

4.1 MFIs' Outreach Performance

The MFIs in Nigeria like elsewhere in the world encounters the issues of mission drift as the Nigerian microfinance institutions reach one million out of forty million potential clients (CBN 2005:9). This however negates the expected performance of the MFIs considering the lag in the financial intermediation in the system especially as it concerns business finance. The table below shows the level of financial access of firms in Nigeria.

Table 4: Sources of SME finance in Nigeria.[13]

Percentage of financing from:	Total	Small	Med.	Large
Own Funds/Retained Earnings	70	70	71	61
Borrowed from banks and other financial Institutions	1	1	2	2
Purchases on credit from suppliers and advances from customers	25	25	25	35
Borrowed from family, friends and other informal sources	4	4	2	1

Source: ICA Survey 2008

Table 4 shows that most of the source of finance of the SMEs is from retained earnings followed by purchases on credit from suppliers alongside borrowings from the bank which takes 1% for the majority of the selected firms of the survey and only 2% for both medium and large firms. When compared with source of business financing elsewhere in the world, Nigeria seems far behind in terms of financial intermediation for the SMEs. See below table.

Table 5: Sources of SME financing (International comparison)[14]

Percentage of short term financing from :	Nigeria	Brazil	China	India	Indonesia	Kenya	RSA
Internal funds/ Retained earnings	70	44	13	47	38	73	66
Borrowed from banks and other financial institutions	1	30	27	32	16	7	17
Purchases on credit and advances from customers	25	15	2	9	4	17	12
Borrowed from family, friends and other informal sources	4	5	8	9	20	3	1
Issued new equity /debt		4	12	2	2		1

Source: ICA Survey 2008

[13] The survey was conducted by Investment Climate Assessment (ICA) for World Bank to identify the constraints of SMEs in Nigeria as regards investment finance. It was conducted by taking samples of some SMEs in the economy.
[14] The survey was conducted using samples of SMEs in the selected countries. However, there is likelihood of missing data as the total sample of China reads 62%.

Table 5 reflects the lag in the financial access of Nigerian SMEs in global comparison as it is shown that Nigeria is behind some of the fellow African economies like Kenya and South-Africa as 1% of the firms in Nigeria are being financed by the banks against 7% and 17% of Kenya and South-Africa respectively. Not to be mistaken, microfinance is not opined as a means to end poverty, but the point is that a better outreach of the MFIs can ensure financial inclusion thereby alleviating the extent of income poverty in the economy.

The liberalization of the microfinance institutions came up after the failure of the People's Bank of Nigeria. The People's Bank was established to provide loans to the low income earners in the society with about 169 branches spread all over the country, but the bank failed to survive as a result of massive loan repayment defaults as the loan/deposit ratio declined by 21.5% in 2000 (Toby and Akani 2014:165). The unimpressive performance of the People's Bank of Nigeria led to the establishment of the community banks in 1990 whose branches and portfolio increased gradually, as at 2003 there were 615 community banks. In 2005, the Central Bank of Nigeria Governor realised that the community banks were operating without any cogent regulation, and then infused the reserve requirement re-capitalisation of N20m which was subsequently implemented after the regulation of the commercial banks in Nigeria with a re-capitalisation requirement of N25billion.

The rate of distress and insolvency of the Nigerian banks was the main reason for the re-capitalisation reserve requirement policy which at that time caused distrust in the Nigerian banking industry especially after the collapse of the some commercial banks which led to the impoverishment of some people (Ningi and Dutse 2008:27). However, the microfinance regulation was implemented for the main purpose of improving the outreach of the MFIs to the poor and also to promote synergy between the microfinance and other financial institutions. However, the business pattern of the microfinance in Nigeria especially since 2005 has been suspect as the income poverty level is growing and their loan/deposit portfolio is simultaneously rising, but the figures are yet to reflect in the lives of the people. The below table shows the assets and liabilities of the Nigerian MFIs between 2004 and 2013 in comparison to its expected impacts in terms of poverty alleviation.

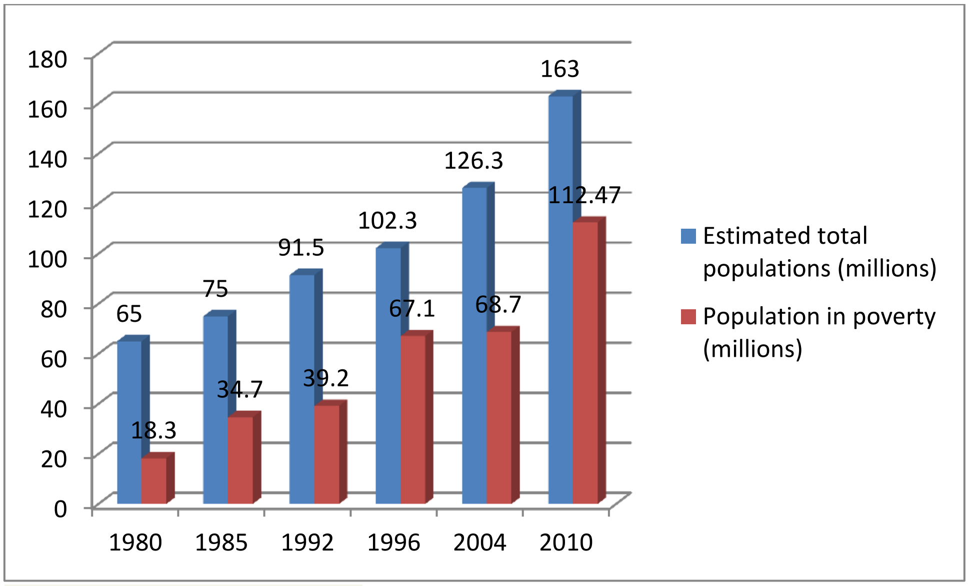
Table 6: Balance sheet of Nigerian MFIs (in millions)

Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total Assets	34,162.30	82,866.90	55,145.80	75,549.80	122,753.80	151,610.00	170,338.90	117,872.10	189,293.40	237,837.60
Loans & Adv.	11,353.80	28,504.80	16,450.20	22,850.20	42,753.10	58,215.70	52,867.50	50,928.30	80,127.90	94,055.60
Total Liabilities	34,162.30	82,866.90	55,145.80	75,549.90	122,753.70	151,610.00	170,338.90	117,872.10	189,293.40	237,837.60
Equities	8,156.40	18,107.30	12,829.80	21,810.70	37,021.80	45,166.00	43,997.50	29,094.80	42,829.10	64,939.00

Source: Central Bank of Nigeria.

Table 6 shows that the balance sheet of the MFI to answer the pertinent question of its purported potential in respect of poverty alleviation which is yet to be fulfilled. Table shows the trend in which the business portfolio of the MFIs in Nigeria is growing from an asset base of 34m to 237,838m between 2004 and 2013. Also, the total liabilities and equities figures are impressive on paper with 34m and 8m in 2004 shooting up to 237,838m and 64,939m in 2013. However, it remains a puzzle that the impressive balance sheet figures of the Nigerian MFIs do not reflect in the lives of the supposed segment of the population on which the impact should be felt as the income poverty trend in the country is simultaneously rising as time progresses.

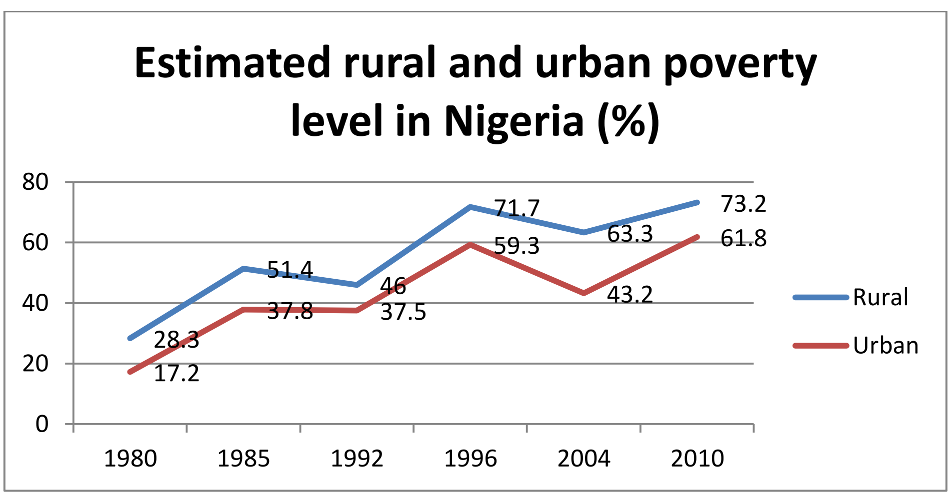
Figure 9: Estimated poverty trend in comparison with estimated population



Source: Self-extracted from table 1

Figure 9 shows that income poverty has been on the rise in Nigeria since 1980 to 2010. The estimated trend shows an increase in the number of poor people which signified that there is an upshot of 94.17 million people in poverty as at 2010 which means that 69% of the estimated 163million people are in poverty in comparison to what is was in 1980 with 18.3million people in poverty.

Figure 10: Estimated rural and urban poverty level in Nigeria



Source: National Bureau of Statistics

Figure 10 shows the estimated income poverty trend in both rural and urban parts of Nigeria. The prevalence of poverty is higher in the rural setting compared to the urban centres as the trend moves from 28.3% to 71.7% between 1980 and 1996 in comparison with 17.2% to 59.3% in the urban cities.

However, most of the microfinance banks in Nigeria especially in the commercial cities are located in broad streets; a place of bank convergence for the most thriving formal banking institutions in the country and the flamboyant outlook of their offices and assets depict their scope of operations.

In the course of ensuring of survival and sustainability, the microfinance in Nigeria transact with the better-offs in the society who are tagged as less risky on credit rating, this is a reflection of the interplay of the six Cs of credit which is the mechanism that determines the credit risk rating of the customer especially in individual-lending process.

Dissecting the likelihood of trade-off of the microfinance mission from the perspective of funding of the running costs, the MFIs are mostly private owned whose source of funds are from family members, friends, personal savings which is not certain and steady in supply, therefore the microfinance shifts to the formal financial institutions for funds to ensure liquidity. The commercial funding of the microfinance puts the microfinance on the pressure of sustainability which may affect their mission of outreach. This is supported by Hartarska and Nadolnyak (2007) that the impact of regulation on poverty alleviation may be unsuccessful if there is a drift in operational pattern due to the demand for capital adequacy diverting MFI's attention to the richer clients instead of reaching the poor (Hartarska and Nadolnyak 2007: 1208).

The Microfinance in Nigeria is encountered with the challenge of profitability and outreach and the main point of the issue premises on the analysis of trade-off between sustainability and outreach of the institution. However, the fact is that the MFIs need to sustain in order to remain in the business to serve their target customers but the pertinence of their questionable outreach remains the jolt that needs to be unravelled.

The reflection on the trend of the MFI performance since 2005 shows that there is no visible difference between the MFIs and the commercial banks in the country in terms of structure and style of operation, hence the possible cause of the problem is worth being unleashed. Could it be that the microfinance mission drift is a bounded rationality as a result of the managerial discretion to maintain their profitability in order to remain in business at the inevitable expense of the poor people outreach whose cost of service might be expensive premised especially on the doubt of their repayment abilities?, could adverse selection and moral hazard be the factor limiting the chances of the poor from having access to loans from the MFIs being unable to scale through the six Cs?, and are there other possible reasons behind MFI's below expectation social objective performance?

4.2 Commercial Banks Lending to the Better-Offs at the Expense of MFIs (Accidental Microfinance)

Since the advent of the regulation witnessed by the financial sector of Nigeria in 2005, there have been lots of events in the industry especially as regards banking. The commercial banks that were known to be repulsive of transacting with the poor due to inability of the poor to justify repayment capacity on the hypothesis of the six Cs of credit assessment are beginning to extend their tentacles of operations to those above the poverty line. The paradox lies in the extensive banking activities of the formal banks owing to the increasing need for their profitability which put them back to the segment that was abandoned due to the risk of adverse selection resulting from information asymmetry.

Commercial banks have expanded their operational framework to cover their operation cost by developing banking products to capture the better-offs among the poor. The better-offs are offered temporary overdrafts which is payable at the end of the month. Temporary overdraft are offered by the formal banks to the better-offs both in the rural and urban in form of the microfinance's group lending as introduced by the Grameen bank of Bangladesh which is tied to all members monitoring responsibility for the purpose of peer-surveillance to avert default and also reduce monitoring cost of the formal banks. The default of any member denies other members the opportunity to access credit facilities in subsequent months until the defaulted customer pays-up.

The commercial banks can afford to grant credit facilities to the richer segments of the un-bankable groups at a lower interest rate having minimized the cost incurred in terms of monitoring the loan usage through overdraft group-lending. This situation may lead to crowding-out of the microfinance institutions, therefore the microfinance institutions might be left with no choice than to compete with the formal banking institutions in the system (Vanroose and D'espallier 2013: 1968).

The salient point is that, the sustainability fate of the MFIs is doubtful if their most profitable prospects are taken over by the commercial banks in the name of banking the unbanked approach of the formal banks.

4.3 Commercial Banks Lending to the MFIs.

Due to the financial constraint of the MFIs in terms of covering their running costs and ensuring sustainability, they increasingly use the funds provided by the formal banks as a result of increasing scale of operations which the shareholders' paid-up capital might not be able to capture. However, the likely pressure MFIs might encounter from their financier is a likely cause of mission drift. As earlier stated in the previous chapter, the MFIs who target sustainability achieve same at the expense of outreach (Crawford et al. 2012: 22). The point is, it might be dicey of an individual or group of people who invest a sum of N20m and probably indebted to a commercial bank or other financiers to focus on the expected performance of giving loans to the poor in the society bearing in mind that it is more costly and riskier to serve the poor (Abate et al. 2013: 923), than concentrating on the richer customers with a positive expectation of repayment capacities premised on their abilities to scale through the six Cs of credit.

4.4 The Microfinance CBN Regulation

The spill-over of the microfinance regulation is as a result of the envisaged crisis that engulfed some of the commercial banks in Nigeria which resulted into decline in the liquidity of their portfolio. Having realized the potential havoc the failure to regulate the activities of the microfinance could cause bearing in mind the distress of some of the commercial banks in Nigeria and the unyielding reaction of the public to the microfinance patronage which underlines the need to clarify the misconstrued notions of taking microfinance loans as cash transfer schemes and the essential necessity to improve the standard of the microfinance practices to its expected level as it is done elsewhere in the world especially following the Grameen model. The Central Bank came up with new strategies to improve the performance of the microfinance especially in the facet of outreach to the active poor in the society. The regulation intends to shape the microfinance in the aspects of ownership requirements, licensing requirements and scope of operations; which underlines the areas of their businesses and their prohibited functions.

4.4.1 The Ownership Requirements

A microfinance bank can be formed by an individual, group of individuals, private corporate entities, community development associations and foreign investors. However, no individual or group of people in persons or proxies or corporate entities is allowed to own more than one microfinance bank except approved otherwise under the jurisdiction of the CBN. Also, any of the afore-mentioned qualified entities interested to establish a microfinance bank shall be required by the CBN ordinance to provide the prescribed requisite capital and adhere strictly to other stipulated requirements within the guidelines of the CBN (CBN 2012: 12).

4.4.2 The Licensing Requirements

The licensing requirement of the Central Bank of Nigeria as regards the microfinance establishment is categorically divided into three namely; Unit microfinance bank, State microfinance bank and national microfinance bank. The Unit microfinance bank establishment entails the provision of N20m paid up capital to obtain a license. The unit microfinance is however restricted within its locality of operation in terms of branch network spread and the extension of their tentacles in terms of cash centres are also prohibited.

The State microfinance bank is issued a license to start operation with a paid-up capital of N100m. They are ordained to operate within the state of their location or in the Federal capital territory; Abuja. The State microfinance is allowed to open branches within the state of their location after the consent of the regulatory body must have been sought for the approval to establish another branch or cash centre.

A national microfinance bank takes a bigger platform of operation which indicates that they can spread their tentacles across the 36 states of the country but with a sum of (N2b) two billion naira paid up capital. A national microfinance bank as well would consent the approval of the CBN for every new branch or cash centre that is to be established anywhere in the country. A Unit microfinance that wishes to transform to a State microfinance bank will tender its license alongside the fulfilment of other stipulated requirements especially the N100m paid-up capital. For the State microfinance that intends to turn national will also have its license being relinquished by the CBN and will be issued another one which legitimizes them to operate all across the nation having also met with the other stipulated requirements alongside the N2b paid up capital (CBN 2012: 12-13).

4.4.3 CBN Approved and Prohibited MFB Activities

The microfinance banks under the regulation are enabled to accept deposits such as savings, time deposit and demand deposits from individuals, group of individuals and associations, except deposits from the public sector. Provision of credit facilities to their customers is enlisted mainly as one of their core functions alongside other features like monitoring the usage of loans procured by the customers, provision of payment services such as salary, pensions and gratuity for civil servants of various tiers of government. However, the microfinance banks are deprived of some transactions like foreign exchange transactions, dealing in international commercial papers, international corporate finance, provision of international electronic funds transfer, clearing house activities, dealing in land and other facilities whatsoever for speculative purposes (CBN 2012: 10-11).

Chapter 5: The Small Scale of the MFI Sector in Nigeria and the Pressures on the MFI Sector which Deter Its Expansion and Outreach.

5.1 Overview of the Findings

The findings of this study underline the factors that lead to the dilemma of sustainability and outreach of the MFIs which causes low outreach. The study undertakes four interview sessions with the managers of the selected MFBs which are MMFB, CREST, APEX and SEED-VEST. The following findings ensued in the course of the interviews.

i. Unregulated Lending Practice of MFBs before the Regulation cum Liquidity Problem

The supervisory framework of the CBN before the 2005 regulation was poor. In fact, according to the managing director of MMFB, the microfinance system was barely regulated. The National board of community banks was saddled with the responsibility to oversee the activities of the microfinance before the conception of the regulation. The NBCB was merely a dormant board whose function is to sporadically oversee the activities of the microfinance through perennial meetings and spot-checks. This led to unregulated activities of the microfinance banks that were formerly named community banks to grant loans to highly risky borrowers without proper monitoring techniques and this led to a high degree of adverse selection and moral hazards scenarios. As at the lapse of the paid up capital regulation ultimatum in 2007, lots of MFIs could not meet up. MMFB encountered some challenges to raise the N20m paid-up capital owing to inherited loss from the previous management of the microfinance which amounted to N11m. However, according to the M.D of the MMFB, the CBN was interested only in the paid up capital that is unimpaired by losses. This indicates that the N20m must be in the books of the MFB to begin a microfinance business and must remain in their books at all times. In the case of the MMFB, the management had to raise an additional N11m to the required N20m as a result of their capital which was already impaired by losses owing to the poor lending practice of the previous management. This pinpoints the length at which the failure of adverse selection and moral hazard hamper the existence of the MFBs in terms of their sustainability and outreach.

Also, the regulation of the CBN was misconstrued by some people especially the poor customers of the MFBs. The news around the nation as regards the capitalisation of the MFBs made some of the unbanked in the society to form a notion that the MFBs are about to distress, and this resulted in loss of deposits as some customers withdrew their monies forcefully. Also, the reaction of the active better offs in the society was quite unyielding as regards the deposit sourcing endeavours of the microfinance because everybody was looking for the safest custody of their fund during that period as some customers even lost confidence in some commercial banks as it was unsure to confidently find a standardized bank that will not distress.

ii. Repayment Default Problem

The microfinance banks prefer to deal with customers that can ascertain repayment of credit facilities. The capacity of the customer to fulfil repayment obligation is germane to the MFBs considering the fact that, the more defaults they encounter owing to adverse selection and moral hazards, the more eroded their capital base becomes and the risker their sustainability turns. This underlines the efficacy of the adoption of the six Cs to confirm the true credit position of the borrower in individual-lending practice. Premised on this reason, the microfinance banks tend to avert adverse selection of customers that will exacerbate their capital base. This is also corroborated by Otero (1999) that microfinance shifts their lending paradigm off the poor when faced with the problems of limited funds and repayment obligation (Otero1999: 14). According to the M.D of APEX and MMFB, there were instances where some customers fled with the loans; hence some loans have actually been tagged bad or written-off because they are irrevocable.

iii. Misconception of the Poor on Microfinance

The average unbanked poor in the society somewhat misconstrue the loan disbursed to them by the microfinance as their share of the uncirculated national cake in the economy. They seemingly fail to understand that they are to repay the loan and most efforts undertaken by the MFB loan recovery team often prove abortive despite the offer letter of repayment signed by them. The poor customer would pretend to vividly understand and promise to abide by the repayment conditions, but once the credit facility is availed to them, they exhibit moral hazards as they become difficult. This is one of the reasons MFBs prefer not to bother on the use of six Cs knowing that the poor cannot scale through the hurdle of the six Cs, hence they are subsequently faced with the trade-off between sustainability and outreach.

iv. Expensive Running Cost

The cost of transacting with the extreme poor in the society is quite expensive for the Nigerian MFBs to deal with considering the possible default rate of the poor. This is supported by Abate et al (2013) that the provision of loans and advances to the poor is expensive and it needs strict monitoring which gulps cost and may lead to mission drift (Abate et al 2013: 923). The MFBs incur costs like transportation, telephone and other logistics to ensure the recovery of the loan. The hectic nature of loan recovery tends to make account officers opt for the better-offs who could do business at a low risk level and consistently meet up with the repayment expectations.

v. Competition from Commercial Banks

The MFBs number one competitor tends to be the commercial banks instead of those in line of their business. The commercial banks in the attempt to get more customers to meet up with their management's high targets go all out to create several products that capture the entire market. They contest the businesses of the microfinance on the entire spectrum of the market. The SMEs that seem to be the most viable customer of the microfinance are being contested by the commercial banks who offer them series of products and credit facilities often at a lower interest rate which the microfinance might be unable to afford. The competition from the commercial banks leads to the MFBs engaging in commercial activities that are being practised by the formal financial institutions and this conforms to the assertion of Assefa et al. (2013) that increased competition in microfinance and the resulting pressure of the MFI to become financially sustainable may occur at the expense of social goal of the institution (Assefa et al. 2013: 768). My interviewees reiterated further that the better-offs are the essence of their sustainability and continued existence in the industry.

vi. The Challenge of Corporate Governance

The corporate governance of the microfinance is challenging as stated by the M.D of the MMFB. He asserted that the overbearing effect of the directors of the microfinance banks is detrimental to the sustainability of the institution. He further cited examples of a former director owing N6.4m since 2006 and he has refused to pay despite his capacity to do so. Also, he gave another example in a particular microfinance where one of the directors influenced a transfer of N10m for a transaction since 2010 and the fund is yet to be recovered by the bank. The influence of the director using bureaucracy in the practice of microfinance operation has a huge negative impact on the capital base and sustainability of the MFBs as it constitutes a high degree of moral hazards. This however, pushes the MFBs to prudently channel their funds to where they are assured of repayment tendencies.

vii. Liquidity Challenge

The Nigerian microfinance banks are not well embellished with robust capital base which could make them focus on poor people outreach, this is supported by Otero (1999) that microfinance tend to shift from their social goal if they encounter limited sources of fund and repayment problems (Otero1999: 14). It is difficult for the MFBs to raise deposits from customers premised on the aforementioned points like the competition encountered with the commercial banks, unyielding reaction of the public to microfinance, misconception of the public etc.

Also, it is challenging sourcing for deposits from customers especially the better-offs in the society except the financial institution is willing to offer higher interest more than what is already offered by its competitor. On this basis, the MFBs have challenges of having enough in their capital base in terms of fund to lend to the poor; hence several MFBs are now operating as a commercial bank with a nomenclature of a microfinance bank to ensure liquidity as asserted by the APEX MFB boss.

viii. Aggressive Deposit Mobilization

In the name of sustainability, the microfinance banks engage in rigorous marketing by enforcing stiff deposit targets on both the marketing and operations staffs with an ultimatum to meet up with. However, failure to meet up with these targets attract a penalty of not being paid full salary or not being paid at all depending on the percentage of the target the said staff is able to meet up with. In the context of this practice, the outreach to the poor in terms of credit allocation does not come to being because the marketing staffs tend to avoid adverse selection and moral hazards to meet up with their targets and also ensure job security.

ix. The Difficulty of Borrowing from the Commercial Banks

It was recalled that it is very difficult to borrow from the commercial banks as an MFB in Nigeria. The commercial banks see the MFBs as strong competitors; thereby borrowing from the formal banks is challenging premised on the fact that the procedure involved is cumbersome. Furthermore, peradventure the MFBs access funds from the commercial banks, the interest rate is often too high to cover their transaction costs which may be expensive premised on their practice of individual lending. The APEX MFB interviewee accentuates more on the challenges encountered by MFBs in accessing funds from the commercial banks which contributes to the inability of the MFBs to reach out to the poor masses considering their limitations in terms of capital base.

x. Credit Repayment Pressure from the Commercial Bank

The MFBs source for funds from private investors, corporate bodies, rich individuals to finance the running cost of their businesses, but encounter pressures of repayment from their financiers thereby channel the pressure down to the borrower in terms of loan recovery. Based on this reason, having taken credit to finance their operations, the MFBs eschew the concepts of six Cs for the poor and rather opt for viable customers who can meet up with repayment obligation so that as soon as they are being pressured to repay, they easily fall back on some leverage of assured repayment from their debtors whom are preferred to be the lucrative small and medium enterprises. This is supported by Assefa et al. (2013) that pressure of financial sustainability and competition may snowball into trade-off between profitability and outreach of the MFIs (Assefa et al. 2013: 769).

xi. Compulsory Collateral and Loan Disbursement Procedures

The interview conducted with the M.D of SEED-VEST MFB shows that the borrowers seeking for credit facilities are expected to open two accounts; savings and current with N2, 000 and N3, 000 respectively. The accounts will be run for three months in order to ascertain the eligibility of the customer's turnover for the requested loan. A functioning vehicle is mandatory to be presented as collateral. In case the customer is unable to secure his/her loan with a collateral of vehicle, a land property can be used instead with or without a certificate of occupancy depending on the amount of the loan requested for which ranges from N100,000 to N200,000.

The loan is issued at 4% interest rate monthly for 6 months with a weekly mandatory savings of N1, 000 which is accessible by the client at the lapse of the loan tenor. The customer also needs to present two guarantors who would drop a cheque each to cover the face value of the loan disbursed.

The above mentioned loan access criteria signifies the assessment of six Cs of credit which enables the MFIs to ascertain the credit worthiness of the customers. The pertinent question is how does someone who cannot procure the basic needs of life provide collateral of vehicle or land property? This simply identifies the kind of client the MFBs prefer to transact with and this shows that the adoption of the six Cs is an obstacle for the poor to access credit facilities. This supports the viewpoint that the value of collateral must be not be skewed to any of the parties involved in credit (Ray 1998: 547).

xii. High Interest Rate on Loans

It was gathered from all the sampled MFIs that they charge high interest. The claim of my interviewees is that the cost of funding the operations of the MFI is high, thus they charge somewhat high interest rate to cover operation cost. However, as stated by Ray (1998) that high interest rate can push the borrower towards unintended default (Ray 1998: 548), the consciousness of this fact tends to make the MFIs to keep-off from transacting with the poor knowing that they might not be able to off-set the repayment obligation.

xiii. Microfinance Intervention Fund

In recognition of the need to reach the numerous unbanked and under-served people, the government came up with Micro, Small and Medium Enterprises Development Fund which amounts to N220b which is yet to be accessed by MFBs since 2007. However, it has been reviewed recently this year; 2014 to ensure access by the MFBs. The credit is meant to be offered on the basis of 60% to women and the rest to other sectors through MFBs and NGOs.

The kind of enterprises stated to be financed by the participating financial institutions are mechanized agricultural sector, cottage industries, artisans, commerce, service sectors and any other prospective projects. However, the categories of eligible enterprises are microenterprises and SMEs, the microenterprises are expected to have not less than 10 employees with a total asset of N5million naira excluding land and buildings and an SME of an asset base between N5million and N500million naira with employees numbered between 11 and 200.

However, as stated by the interviewed MFB managers, the conditions are actually more difficult than it appears on paper, thereby making it uneasy for them to access the MSMEDF intervention fund and also, the active poor are conspicuously absent in the list of beneficiaries speculated by the regulatory body for the subvention of the microfinance intervention fund.

xiiii. MFBs' Outreach out of Sight

The regulatory body is not supervising or measuring the width and depth of the MFBs outreach to the supposed active poor. The CBN makes annual routine visitations to ascertain the conformity of the MFBs with the required paid-up capital instead of ensuring the social goal of the MFBs. It was gathered that the MFBs actually give out loans on the basis of ratio 30:70 to the poor and prospective customers respectively against the stipulated 80:20 directive of the CBN which is the other way round.

5.2 Linking Findings to the Literature

As stated by Cull et al. (2011) that the compliance of the MFIs to the prudential supervision and new regulation leads to the reduction of lending rate to the poor whose cost of service is expensive (Cull et al. 2011: 961), the aftermath of the Nigerian microfinance regulation that took effect in 2007 snowballed the MFIs to encounter the trade-off of sustainability and outreach as a result of limited and commercialised funds which accentuated the challenges of pro-poor lending due to the default rate of the poor in Nigeria which is alarming as lots of borrowers take loans and flee with the banks money which may excavate a huge hole of impaired loss in the capital base of the MFBs according the findings that ensued from the interviews conducted in this study. This supports the statements of Morduch (2000) that the limited availability of MFI funds and repayment problems can hamper the sustainability, growth and growing concerns of the MFIs (Morduch 2000: 625). However, as pointed out by Stiglitz and Weiss (1981) that banks fail to serve majority of the population due to information asymmetries (Vanroose and D'espallier 2013:1967), the MFBs want to be assured of the ability of their customers to make repayment of the credit facility as at when due.

The experience of the MFBs sampled in the data shows that the sustainability of the MFIs is dicey if their transactions are largely based on the poor in the society which corroborates the points of Crawford et al. (2012), Hermes et al. (2011), Annim (2012) that sustainability and profitability of the MFIs are attained at the expense of their outreach objective (Crawford et al. 2012: 22, Hermes et al. 2011: 945, Annim 2012: 23) and also Kaur 2014 who stated that trade-off occurs between sustainability and the width of outreach (Kaur 2014: 571). This however criticizes the standpoint of Cull and Morduch (2007) that sustainability and outreach goes together if the MFBs don't focus on the absolute poor (Cull and Morduch 2007:131-132) and it also negates the view of Adhikary and Papachristou (2014) that there is positive relationship between MFIs sustainability and social goal (Adhikary and Papachristou 2014: 398), it also opines against the work of Louis et al (2013) of a positive relationship between sustainability and outreach (Louis et al 2013: 209) and nevertheless criticizes the assertions of Kipesha and Zhang 2013 that MFIs can target social objectives without jettisoning profitability (Kipesha and Zhang 2013: 138-144).

The MFBs incur expensive transaction cost in dealing with the poor which affects their sustainability and profitability. This establishes the argument of Ahmed et al. (2013) that the overhead-cost of a small loan is almost equivalent to that of a large credit facility (Ahmed et al. 2013:6). Also, MFBs believe it's more expensive to serve the poor (Assefa et al. 2013: 769). The MFBs incur costs like transportation, communication and other logistics in sensitising the poor to engage in banking activities before loans are being given to them, they also incur cost on recovery of the credit facilities where an average account officer goes around tracking customers on loan repayment, hence this may lead to mission drift.

Premised on the aforementioned issues surrounding the travails of MFBs loan recovery in respect of the poor customers, they prefer to transact with the better-offs who can fulfil repayment obligation. This accentuates the claim of Assefa et al. (2013) that the pressure on cost-efficiency may shift the focus of the credit allocation to the richer clients (Assefa et al. 2013: 769). This is also corroborated by Abate et al. (2013) that the provision of credit facilities channelled to the small borrowers attracts high cost which entails strict loan monitoring and enforcement costs (Abate et al. 2013: 923).

Also, the attitude of the poor in the society to the microfinance loan may be a problem. Some of them misconstrue the loans disbursed to them as bonus gifts and they tag it government money. This contributes to their moral hazard of engaging in voluntary default. This is one of the reasons MFBs encounter difficulty in recovering the loans administered to the poor in the society. The misconception of the poor as regards loan repayment dissuades the MFBs from allocating credit facilities to them and this leads to the adoption of six Cs to forestall adverse selection and moral hazards because their misconception culminates into high degree of repayment default.

Sequel to the regulation, Nigerian MFBs' liquidity platform and consolidation of capital base becomes a challenging task for the management of the bank to accomplish. Based on the fact that it takes them through difficulties to raise the required paid-up capital, especially huge deposits from the viable clients and premised on the fact that they have a compulsorily levied treasury deposit which lies fallow with commercial banks and the paid-up capital which is not available to them to trade with, the MFBs choose to avert risky customers who are not guaranteed to repay their loans, hence they opt for the prospective customers in the society, this conforms to the point that increased MFIs' competition, commercialised fund and limited sources of funds may enhance the mission drift of the MFI off their social goal (Assefa et al. 2013: 768, Abate et al. 2013: 924, Otero 1999: 14). However, this criticizes the view of Hartarska and Nadolnyak (2007) which states that the prudential or entry regulation does not pose any threat to either sustainability or outreach of the MFIs (Hartarska and Nadolnyak 2007:1220).

However, the quest for improved capital formation and liquidity platform of the MFBs seems a germane essence of existence of the MFBs which snowballs into a situation where MFBs are operating as commercial banks by competing with the latter for the affluent customers and also placing outrageous targets on their staffs. The rationale for the outreach of the MFBs in Nigeria to the poor on the basis of 30% of their loan portfolio against the 80% specification of the CBN can be attributed to the reasons mentioned above as it surrounds the need for sustainability, this confirms the argument of Assefa et al et al. (2013) that there might be a trade-off between profitability and social goal premised on the increased competition in microfinance and the resulting pressure to ensure sustainability (Assefa et al. 2013: 768).

The lag in the supervisory roles of the regulatory body to monitor and measure the outreach of the MFBs to the poor further exacerbates the mission drift of the MFBs and also enhances them to practically operate as formal financial institutions whose feature is conspicuously depicted in the outlook of their banking premises and system of operations just as it was pointed out by Abraham and Balogun (2012) that the high profile operation of the MFIs depicts high cost of operations which does not portray the replica of a microfinance bank (Abraham and Balogun 2012: 175).

The interest charged on loan by MFIs is determined by the cost incurred on funds sourcing, the provisions earmarked for foreseen loan losses and administrative operating cost of delivering loans to the borrowers. This is supported by Rosenberg et al. (2013) that MFIs inflate their interest rate due to cost of funds, loan losses and operating expenses (Rosenberg et al. 2013:72-98). As it is established that MFIs commercialize their funding due to limited funds which culminates into high costs of borrowing from their financiers. It is important to point out that the available fund of the lending institutions is provided by the postponed consumption of some individuals who in turn deserves attractive interest for their funds. Though the interest charged by commercial banks on loans lent to the MFIs may not be as high provided it's in large quantity, the commercial bank will still have to pay a price of real interest to its customers who save their monies as an alternative future consumption which is tantamount to investment i.e. S=I, hence the MFIs bear the price of the loan usage which is the interest charged by formal banks and this subsequently contributes to the level of interest charged by the MFIs. However, the costs of borrowing from the commercial banks alongside the administrative expenses like staff salaries, depreciation of fixed assets, other miscellaneous expenses and the provision set aside in case of loan loss mainly constitute the interest charged on loans. In essence, Figure 11 below illustrates the determinants of interest rate which enables the sustainability of the MFIs through high loan income.

Figure 11: Interest rate determinant

Loan Income = **Loan Size (Principal +interest)-(Cost of Funds +Loan Loss Provision + Operating Expenses)**

Source: Self-created

The loanable funds of the banks showcases the interplay of supply and demand of money while the interest rate is the price charged on the use of such credit facilities by the borrower which stands as the compensation for the sacrifice of postponed consumption and opportunity cost of the savers. Furthermore, as the loanable funds theory of interest states that savers are indirectly the driver of investment, the lender will ensure an interest that will incline more savings, cover his transaction cost and cost of funds, but on the perspective of the borrower, the rate of returns of the borrowers determines the ability of the latter to access loan and make repayment obligations which implies that the rate of return on capital which stands as the loan borrowed must be equal or greater than the interest rate. Also, high interest rate might gulp the saving-down of the borrowers which is set aside for repayment; therefore the borrower's economic status remains the-same or worse-off after accessing loans.

However, the consciousness that high interest rate charged on loan might result in high rate of defaults which is sometimes involuntary tends to make MFBs to be extra cautious or out-rightly avoid dealing with those customers whose repayment ability is highly doubtful. However, the solution to high interest charged by the MFIs is not interest ceilings by the government because it worsens the financial performance and subsequently the outreach of the MFIs (Kar and Swain 2014: 106), the MFIs might need to reconsider reducing their transaction costs by stimulating group-lending technique through the use of social capital in order to ensure sustainability and simultaneously maintain outreach.

Poor corporate governance in the MFBs' operations which is as a result of the lapse in CBN regulation that does not take cognizant of the limits of the board of directors on the activities of the MFBs contributes to their poor performance in terms of poor people outreach. The directors of the MFBs influence bureaucracy in the allocation of credit facilities to certain clients and for themselves. Some of these loans are never repaid and some are declared as bad debts. Such practice affects the sustainability of the MFIs and thereby takes them farther from their social goal of reaching to the poor.

The stiff competition between banks especially the MFBs and the commercial bank on the trajectory of survival and sustainability further positions the MFBs aloof from the outreach of the poor. The microfinance banks are performing and contesting the functions of the commercial banks in essence to sustain their businesses which seem bleak when their operation is pro-poor. The competition between the banks makes it difficult for the MFBs to borrow from the commercial banks and sometimes when they do, they encounter pressure of repayment from their creditors which makes the MFBs to channel their limited funds to prospective customers who would repay their loans. This corroborates the standpoint of Assefa et al. (2013) that, competition of MFIs can aggravate the extent of default rates of the poor customers which may allow them to take multiple loans owing to the survival pressure of the banks, this posits a justification for the MFIs to opt for credible clients (Assefa et al. 2013: 768-769). Also, Vanroose and D'espallier (2013) emphasized that commercial banks can create credit at a lower interest rate which MFIs cannot afford due to costs and this may snowball into crowd-out of MFIs. Hence, MFIs compete for survival (Vanroose and D'espallier 2013: 1968).

Also, it was gathered that MFBs in Nigeria seek collateral especially movables to ensure repayment of their loans, which simply signify the category of people they have penchant to transact with. Though, it was established in the findings that the default rate of the poor is high, but accepting collateral like movables and landed properties will further extricate the MFBs from their outreach objective to the poor. Premised on this fact, the use of six Cs seems an obstacle for the poor in respect of loan access in the practice of individual-lending.

As it was gathered that the microfinance intervention fund is not accessible for the MFBs as regards the stringent conditions attached to its access, this makes the MFIs to contribute less to pro-poor lending owing to their challenges of liquidity. Also, the extreme poor in the society are conspicuously omitted in the target list of the supposed beneficiaries of the microfinance intervention fund as stated by the regulatory body.

Furthermore, as stated by Shaw (1967) that financial institutions enhance the economic growth of a nation through effective financial intermediation which facilitates real investment. Also, as argued by Schumpeter (1934) that access to credit flourishes the rapid growth of a nation through innovative entrepreneurship owing to capacity development which credit creates (Nwakanma et al. 2014:73), the Nigerian microfinance institutions outreach remains unimpressive in respect of their expected performance despite the flourishing figures of assets and liabilities balance sheet of N237, 837.6m churned by the MFIs in the 2013 financial year end as reflected in Table 6. The findings above show that the vacuum in the financial sector as it concerns the poor is yet to be filled. Better-still, the level of the financial market in the Nigerian context like elsewhere especially as regards financial inclusion of the poor is an indication of the true position of a country's economic development level which questions the rising GDP at 7% without creating jobs for the millions of graduating youths joining the enormous unemployed masses of the population as reflected on table 2, figures 3 and 4. The implication of this is that Nigeria is experiencing a redundant economic growth which is reflective on paper but evidently not transforming into prolific economic indicators, hence there is need for a review of financial inclusion strategies as regards the poor in the spectrum of efficient microfinance.

Chapter 6: Conclusion

6.0 Can MFI ever be Effective as a Way of Reversing Increasing Poverty in Nigeria?

The above chapters have shown the efficacy of microfinance in the trajectory of sustainable development in the developing countries with a case study of Nigeria. Microfinance can serve as a catalyst to empower the active poor out of poverty in the face of a challenging economy especially as regards Nigeria whose GDP figure is rising simultaneously with an increasing unemployment and income poverty trend. Though microfinance should not be mistaken as a conclusive means to end financial constraints but its possible efficacy can ensure life improvement through financial inclusion if an effective regulatory focus is channelled into the administration and practice of the institution.

Premised on the envisaged disaster of the banking sector in Nigeria, in 2005 the CBN enforced changes in the administration of the banks especially in the aspect of capital adequacy in order to promote public confidence and healthier banking practice. The regulation did not particularly augur well with the microfinance especially in the facet of liquidity and other resultant encompassed issues as stated in the earlier chapters. The increase in the capital requirement base of the MFIs was meant to improve their standard and patterns of operations as regards their outreach to the poor but the impact of the regulation witnessed an adverse indication as lots of microfinance became commercial banks in proxy and the eventuality snowballed into a trade-off between sustainability and outreach mission of the MFIs.

The findings revealed that MFIs in Nigeria focus and attain sustainability at the expense of their social goal of outreach which corroborates some assertions in the existing literature. Furthermore, it was established that MFIs cannot accomplish both sustainability and outreach except either goal is jettisoned for another in an event of limited fund. This is as a result of the issues of adverse selection and moral hazards associated with disbursing credit facilities to the poor in the society who often don't pass the credit assessment of the six Cs. The MFIs in Nigeria encounter challenges in the course of raising capital and deposit to ensure their liquidity hence prefer to allocate loans to the better-offs who are reliable in terms of repayment. The Nigerian MFIs also encounter high default rate from the poor customers which dissuades the lending platform of the institution especially in an event of limited funds. To ensure better practice and outreach accomplishment, the deposit sourcing base of the MFIs needs to be widened to enhance better liquidity of the institution. The more liquid the MFIs are, the better the likelihood of their business growth as regards recouping higher profits which in turn enables them to increase their outreach to the poor provided that the regulatory body ensures the supervision of their activities. Also, as it was revealed that Nigerian MFIs are conducting less of micro-savings which is tied to group-lending. This might be detrimental to their liquidity premised on the fact that group-lending might be a vital source of solving the liquidity problem and reducing their transaction costs. The gamut of this assertion is that as long as the deposit sourcing of the MFIs is limited, the poor as the supposed prime target of MFIs' outreach will bear the brunt and this renders the microfinance ineffective in Nigeria as a tool to reverse the increasing income poverty trend in the economy.

The corporate governance of the Nigerian MFIs is not regulated and the outreach is not well monitored either, this however culminates into farther operation position of the MFIs from the poor as the MFIs have tendencies of drifting away from their social goal if their performance especially as regards outreach and corporate governance are not monitored and regulated. More so, the MFIs need to ensure a scheme of transaction cost reduction which is achievable in the practice of group-lending through the use of social capital of small groups which ensures self-policing and peer-monitoring of individual business performances as a panacea to adverse selection and moral hazards unlike individual-lending that attracts high transaction cost rather than charging high interest rate to cover the expensive transaction cost which is detrimental to the achievement of microfinance goal in terms sustainability and outreach. Also, the adoption of the six Cs by the MFIs to ascertain the accurate financial worth and credibility of the borrower at the point of credit assessment seem an obstacle for the poor in their trajectory of credit access especially in the individual-lending practice of the MFIs.

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