PROSPECTS AND CHALLENGES OF MICROFINANCE BANKS IN ZARIA METROPOLIS

BY

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BEING A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER DEGREE IN SOCIOLOGY

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DECLARATION

I, **OBADAHUN A. DAVID (MSC/SOC-SCI/25963/2012-2013)** hereby declare that this research thesis titled "**Prospects and Challenges of Microfinance Banks in Zaria Metropolis**" was conducted by me and to the best of my knowledge has not been presented anywhere for the award of Bachelor Degree or Master Degree in any institution of learning. All sources of information, materials and quotations used for this study have been duly acknowledged in the bibliography.

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CERTIFICATION

This is to certify that this research thesis "PROSPECTS AND CHALLENGES OF MICROFINANCE BANKS IN ZARIA METROPOLIS" conducted by Obadahun A. David meets the requirements for the award of a Master Degree in Sociology by the School of Postgraduate Studies, Ahmadu Bello University, Zaria. The thesis work is this day approved for its contribution to knowledge and literally presentation.

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DEDICATION

This thesis is dedicated to my parent Mr. and Mrs. Obadahun

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Of a truth, it is not of him that willet or him that runeth but it is of the lord that showeth mercy. I deeply appreciate and acknowledge God Almighty for his grace and mercies upon my life, who ensured that the good work he started in me concerning this programme was successfully completed, contrary to scheming of the devil to God alone be all the glory.

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ABSTRACT

A vibrant microfinance institution is capable of eliminating income disparities and creation of opportunities leading to increase in employment generation as was noticed in Grameen Bank in Bangladesh. Although, several studies have been conducted on the institution of Microfinance Bank in Nigeria, but very few of these works did justice to the distinctive pattern of operation of the three categories of Microfinance Banks in Nigeria. Therefore, this research investigated the prospects and challenges of Microfinance Bank in Zaria metropolis in terms of its pattern of credit disbursement to its clients the extent to which microfinance banks comply with the legal framework that established them and the peculiar challenges of the institution. The political economy theory of class conflict and welfare state theory were used. Purposive and systematic sampling techniques were adopted to draw 300 clients across the three categories of microfinance banks (Nakowa, Microcred and Lapo) within Zaria metropolis. Six in-depth interview sessions were conducted with the staff and clients of each of these microfinance banks and the Secretary of National Association of Microfinance Bank, Kaduna Chapter. The results of the quantitative data were analyzed through frequency distribution, tables and percentages and these showed that majority of the clients engaged in Small and Medium Scale businesses, while the qualitative data revealed the various conditions and criteria required by various microfinance banks before loan disbursement to the client. The result of the research established that, the clients of microfinance banks were individuals engaging in various forms of Small and Medium Scale business with no special attention given to any gender in accessing the microfinance credit facilities. High rate of interest, low business turns out are the major challenges faced by clients of microfinance banks, while high rate of loan delinquencies, low level of savings and unconducive business environment represent the precarious challenges of these microfinance banks in the study area. Hence, the research recommended that arrangement should be made by the various microfinance banks to educate the clients and sensitize them on the use and implications of microfinance credit facilities and that government should ensure that the activities of microfinance banks are subjected to close and periodic monitoring by the Central Bank of Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the drive to reposition African economies and curb widespread poverty amongst the population, African leaders including Nigeria designed policies and programmes to help in improving the standard of living of their citizens. These programmes include: National Development Plans, and other poverty alleviation policies which emphasize increase in real income for citizens as well as income generation as a means to reduce income inequality. Other are: The River Basin Development Authority (RBDA), Agricultural Development Programme (ADP), Agricultural Credit Guarantee Scheme (ACGS), Rural Electrification Scheme (RES), Operation Feed the Nation (OFN), Directorate for Food, Roads and Rural Infrastructure (DFRRI), Better Life Programme (BLP), Peoples Bank (PB) and Community Bank (CBs). These programmes were designed to specifically address such issues as employment generation, enhancement of agricultural output and reduction in income inequality and curb rural urban migration (Ogwumike, 2013; CBN, 1998). However, these programmes could not achieve their stated goals and objectives for national development and income generation (Forea, 2005).

For instance, the People's Bank (PB) was established as a deposit taking and lending institution for the poor by the Federal Government. It was mandated to operate in urban and rural branches. According to Peoples Bank of Nigeria Act of 1990, the following are the central functions of the bank: the provision of basic credit requirement for the under privileged Nigerians who are involved in legitimate economic activities in both urban and rural areas, who are deprived of services from commercial banks; the acceptance of savings from the same group of customers and making repayment of such savings. In a nutshell, the People's Bank is a bank established to serve the people and help them break out of their poverty circle by impacting positively on their various endeavours. As a result of the establishment of Peoples' Bank, the rural dwellers were exposed to the culture of banking which they were deprived of. Also, some petty traders were given loan to boost their businesses. However, less attention was given to agricultural activities as many farmers have little or nothing to benefit from the programme. More so, in just 15months of operation, the People' Bank incurred a loss of N2.208million with assets/liabilities of N245.790 million. Within the same period, 140,000 people (84,000 women and 56,000 men all over the country) benefited from the loan, a number considered inadequate in the face of prevalent mass poverty in the country (Anyanwu and Uwatt, 1993). There was also the issue of fraud and financial misappropriation with the banks and their activities were hampered by bureaucracy of government (Anyanwu and Uwatt, 1993). There is however contention over the abolishment of the Peoples' Bank of Nigeria. It is as a result of these and other shortcomings that led to the introduction of Community Banks.

The Community Bank was conceived to answer some of the observed weaknesses in credit delivery to the grassroots. The institution of Community Bank was inaugurated in 1990 and was assigned with the following functions: promoting rural development via the provision of finance and banking services; improving the economic status of small scale producers both in rural and urban areas; and enhancing the rapid development of productive activities; especially in rural areas (Community Bank Act, 1990). The Community Banks as a unity bank owned by individual communities succeeded in serving as a credit mobilization and provision mechanism to the people who hitherto were marginalized by commercial banks. By de-emphasizing on assets collateral and security, as well as the promotion of trust, character witnessing and social mobilization, the people at the grassroot level were being brought into the ambit of wealth creation directed towards improving the quality of life and ultimately creating the bedrock for sustainable development (Yunus, 1998). The sum total of the activities of community banks show that the banks were able to reform little or nothing regarding solving credit shortage to the rural dwellers (Soludo, 2008). The reasons are not farfetched from inadequacy of loans and other administrative constraints and also, illiteracy and ignorance on the part of rural populace. Hence in 2005, the minimum capital base for community banks was raised to N5million and was later converted to microfinance banks. (CBN 2004)

Due to the unsatisfactory performance of previous policies and programmes geared towards improving the standard of living and the desire to achieve the Millennium Development Goals (MDGs) set by the United Nations Organization (UNO) to which Nigeria is a signatory, the United Nation Economic and Social Council (one of the organ of (UNO) proclaimed 2005 as the international year of micro credit to call for building inclusive financial sectors and strengthen the powerful but often untapped entrepreneurial spirit that exist in the communities around the world (Uwanyanwu, 2011). This declaration coincided with the reform and the bank reconsolidation called out by the Central Bank of Nigeria (CBN) in the banking sector, which culminated in the establishment of Microfinance Banks in 2005 (Olowe, 2008), According to Hassan and Ismaila (2010), microfinance is the provision of a broad range of financial services to low income micro enterprises and households. These are savings loans, insurance, leasing money, transfer and others. At its inception, microfinance started as social innovators to offer financial services to the "active poor" (those who were regarded and described as "not bankable" because of their lack of ''collateral''. Security pledge for the payment of loan or borrower's pledge of specific property to a lender to secure repayment of loan). This effort was put in place to reduce poverty and financial deprivation of the rural and urban poor dwellers hence, micro finance provides financial services like saving micro-credit (loan, money transfer and insurance product to the poor and low income people as well as to their micro and small enterprises. This aspect of financial intermediary or intermediation has been traditionally neglected by the conventional commercial banks over the years (Anyanwu, 2004; Ashcroft, 2008; and Azanga 2007).

Historically, the idea of micro credit has manifested in different parts of the country before the arrival of the British government in Nigeria (Taiwo, 2012; Uwanyanwu, 2011; and Ehigiamusoe, 2004, 2007). Although, the financial intermediation that existed during that period was not as reformed as what we have now. However, this financial institution had distinctive name base in part of the country where it was found e.g. Iwofa, Isusu, Esusu etc (Olowe, 2008). The modern microfinance bank in the world is associated with the establishment of Grameen bank by Muhammad Yunus in Bangladesh, in 1983. He began Grameen bank by using his own money in a town called Jobra to deliver small loans at low-interest rates to the rural low income earners (Esty, 2011). Though, the Grameen bank at its inception began as a non-profit organization and depended upon government subsidies. With the passage of time, it later became a corporate entity. Because of the success recorded by Grameen within a short period of time, microfinance became a popular tool for economic development and a potent weapon to combat poverty in the Third World Countries. By 1986 modern microcredit had reached Latin America, parts of Asia and some African countries (Lafocade et al 2005). The importance of microfinance in reducing poor standard of living made the Federal Government of Nigeria to adopt it as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy frameworks for the operation of microfinance bank (Jegede, Kehinde and Akinlabi, 2011). The Federal Government of Nigeria in December 15 2005 showed its seriousness in repositioning and using microfinance as a panacea to ravaging poverty in the country by lunching microfinance policy regulatory and supervisory framework. Existing Community Banks were immediately ordered to be converted to micro finance banks. A licensed microfinance bank was required to add microfinance bank after its name. All such names must be registered with the Cooperate Affairs Commission (CAC), in compliance with the Companies and Allied Matters Act (CAMA) 1990 (Olowe, 2008).

In exercising the powers conferred on it by the Provisions of Section 33 sub-section (1) (b) of the CBN Act 7 of 2007 and in pursuance of the provision of Section 61-63 of the Banks and other Financial Institutions Act (BOFIA) 25 of 1999 (as amended), the CBN through the Microfinance Policy Regulatory and Supervisory Framework for Nigeria highlighted the functions of microfinance banks as follows: acceptance of various types of deposits i.e. savings, time, target, from individuals, groups and associations; provision of credit to its customer, including formal and informal self help groups, individuals and associations; promotion and monitoring of loan usage among its customers by providing ancillary capacity building in the area of record keeping and small business management; provision of micro finance related guarantees for the customers to enable them have greater access to credit and other resources; provision of payment services such as salaries, gratuities, pensions etc for the various tiers of government; buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to poor persons on credit and to act as agent for any association for sale of such goods or livestock; provision of services and facilities to low income earners regarding investments and small businesses, rendering managerial marketing technical and administrative advice to customers and assisting them in obtaining services in such fields, mobilize and provide financial assistance and training to micro enterprises; provision of loans to microfinance clients for home improvement and consumer credit; performance of non-banking functions that relate to micro finance related business development services such as co-operatives and group formation activities; rural industrialization and other support services needed by micro enterprises; provision of loan disbursement services for the delivery of credit programme of government agencies, groups and individuals for poverty alleviation on non-recourse basis (CBN 2011). By this framework, there exists enormous opportunities in microfinance sub-sector in Nigerian. According to Olaitan (2006) and Oluyumbo and Ogundimu (2006), microfinance stands to benefit greatly from many untapped market available in Nigeria's economy, because about 70% of the Nigeria's population are engaged in small and medium business and agriculture (CBN, 2005). That is not less than 105 million Nigerians are in this sector. Access to microfinance credit facility around the world is regarded as the most popular tool to assist the low income earners and under privileged population (Brau and wuller 2004). This can play a vital role in smoothing household income and increase consumption level of low income earners. A vibrant microfinance institution is capable of eliminating income disparities and creation of opportunities leading to increase in employment generation, increase in household income, assets holding and induced saving at the grassroots. But, a weak financial and microfinance institution represents a bane to micro entrepreneurs and the entire economy at large (Nadeem, 2014). As a typical city in Nigeria, the economy of Zaria is dominated by individuals who are mostly farmers and operating small business ventures. Therefore it is incumbent to conduct a study relating to the prospects and challenges of microfinance banks amongst the 3 categories of microfinance banks available in Zaria metropolis.

1.2 Statement of Research Problem

There is consensus amongst many scholars and prominent writers Soludo (2008), Yunus (1994) and Ehigiamusoe, (2007) that the provision of capital and availability of credit to the active poor and small medium scale business can foster the fight against low standard of living in Third World Countries. According to World Bank (2006), the major and fundamental causes of poverty around the globe is the lack of access to financial services to a large proportion of people, mainly rural and some portion of urban dwellers.

The situation in Nigeria is pathetic because according to CBN (2005), the formal financial system provides services to about 35 percent of the economically active population thereby excluding the remaining 65 percent from access to financial services. These 65 percent active poor are left to the mercy of informal financial sectors like the NGOs, credit unions, cooperative and microfinance institutions (Hassan and Ismaila, 2010). Although there has been an improvement in lives and business of beneficiaries of microfinance credit, the proportion of those beneficiaries are insignificant when compared to the yearning of people in need of microfinance services (Jegede, Kehinde and Akinlabi, 2001). According to Irobi (2008) it has been estimated that formal microfinance bank only serves less than one million clients in a country where over 70 percent of the country population of 140 million live below poverty line. Also the skewed distributing of microfinance banks (MFB) in the Northern Nigeria as a matter of fact limits the access of a vast majority of the economically active poor to credit. Even in the states of Northern Nigeria with sizeable number of Microfinance Banks (MFB), most of the institutions are located in urban areas to the neglect of the rural areas because of pure profit making consideration (Lindsay 2010). Most loan given by micro finance banks are usually channelled to recognized and registered groups. That is, for an individual to obtain a micro finance credit, he/she must be a member of this recognised and registered groups. There are many situations and instances where few members or leaders of such groups having obtained the loan in the name of the group absconds from the city leaving other members the burden of paying the debt. No doubt, this experience has hindered the efficacy of micro finance banks in Kaduna State, Nigeria (Osuala, 2008).

Clearly, both the 2005 and 2011 microfinance policies identified the prohibited activities of microfinance bank and transformation pathway from unit microfinance bank to state and state microfinance bank to national, but in a bid to generate savings, increase their capital base and profit margin, some of these microfinance bank engaged in activities that are countrary to the policy framework. For instance some unit and state microfinance banks open cash centres and other financial centres which contravene the law. One of the professed aim of Microfinance Bank (MFB) when it was established in 2005 is to improve the welfare of the poor as a result of better access to small loan with low interest rate and other conditionalities and bottlenecks that are associated with commercial banks (Jabar 2014). But it has been observed that the conditions and criteria given by microfinance banks operating within Kaduna state are such that before an individual can obtain small loan one must observe protocols similar to that of the conventional commercial banks. This in most cases scare many people from approaching the microfinance banks for assistance. More so, by engaging in contract financing and charging more than 5-7 percent interest rate per anuum on loan given to the clients. Microfinance banks are largely growing into a financial institution oriented for profit making and not an agent of poverty alleviation. According to Anyanwah (2004), the interest rate of microfinance institution is much higher than the prevailing rates in the commercial banks, this range between 32-48%. During this period most microfinance banks are charging between 19.5% and 21.6%. To this end most SMEs and rural dwellers recourse to other self help groups and co-operative whose manifestos look attractive and enticing for financial assistance and custody of their money which is mostly promised to be doubled within short period of time. Also, the clients who obtained credit at this interest rate faced problems of repayment leading to loan delinquency because of low return from business ventures and high rate of interest charged by the microfinance bank. Some of the micro business operators also have a number of contraints which prevent them from investing the loan on high return activities. Others consume the fund provided for business which eventually leads to loan default and consequently create serious bottleneck to Microfinance Banks.

In the study of social problem such as unemployment, drugs, corruption, poverty etc. The economist, the artist, the psychologist and theologians all look at these social problem from their own distinctive perspectives. But because all social problems are socially rooted in the structure and working of society, it's the sociologist who is uniquely equipped to analyze them (Mills, 2000 and Robertson, 1980). Shortage of credit facilities exacerbate the issue of unemployment, unemployment threathens standard of living, poor standard of living threatens our sense of economic security and raises concern about government obligations to help those without job and challenges our belief that everyone can work hard to succeed.

From the foregoing, this study examines and analyzes the institution of microfinance banks in respect to their pattern of credit disbursement as well as the extent to which microfinance banks in Zaria metropolis comply with the guiding principles and regulatory law that established them.

1.3 Research Questions

The following research questions are drawn to stream line the entire area in which the research will revolve;

a. What is the pattern of credit disbursement by Microfinance Banks in Zaria metropolis?
b. To what extent do Microfinance Banks in Zaria metropolis comply with laid down operational legal framework in relation to meeting the needs of their clients?
c. What are the challenges facing microfinance banks in the disbursement of credit facilities in Zaria metropolis?
d. How can the operation of Microfinance Banks be improved in the study area?

1.4 Research Objectives

a. To investigate the patterns of credit disbursement by Microfinance Banks in Zaria metropolis.
b. To determine the extent to which Microfinance Banks in Zaria metropolis comply with laid down operational legal framework in relation to meeting the needs of these clients.
c. To identify the challenges facing microfinance banks in the disbursement of credit facilities.
d. To suggests possible ways of improving the operations of Microfinance Banks in Zaira metropolis.

1.5 Significance of the Study

In addition to contributing to enormous literature written about the prospects and challenges of Microfinance Bank, this research through its findings will provide basis to sensitizing and educating the stakeholders of microfinance institutions (i.e. staff, clients and management), government and general public on the specific and distinctive role that is desirable and expedient in running Microfinance Banks to ensure vibrancy in the institutions. Through critical observation of similar programmes like Peoples Banks, Better Life for Rural Women and Community Bank geared toward the low income earners, this research work through its findings will provide requisite information on how policy makers of both state and federal government can properly put in place laws and other related mechanisms that will make the institution of microfinance achieve its desired goal and not to end up as previous failed programmes.

1.6 Scope and Limitations of the Study

This research work is aimed at examining the nature and pattern of credit facilities, available for client of microfinance bank, the conditions and requirement that must be met before credit facilities are disburse to the client, the extent to which microfinance bank in Zaria comply with the regulating that establish microfinance banks and the possible challenges that ensue in the process microfinance credit disbursement to their clients. The study focuses its attention on only those three (3) categories of Microfinance Bank in the study area. The limitation of this research work lies in time and finance which are limited to the researcher and prevent him from extending his area of study to cover the entire state.

1.7 Definition of Key Concepts

i. Delinquency: It is the situation that occurs when loan payment is past due. A deliquent loan (or loan in arrears) is a loan on which payment are past due.

ii. Micro Loan: A micro loan is a facility granted to a micro client. In Nigeria the maximum principal amount that can be granted as micro loan to an individual is ₦500,000

iii. Micro Enterprise: It is a business that requires micro credit loans to operate. The operations and management of micro enterprise revolve around the sole owner, the micro entrepreneur, who most times works alone or provides employment for a few people, typically the immediate family members. A micro enterprise also does not require formal registration to start.

iv. Microfinance Client: Generally, a microfinance client is typically a self employed, low income entrepreneur domiciled in either a rural or urban setting. In Nigeria, a micro finance client should be aged between 18 and 60 years and is expected to have a monthly income of not more than twice the monthly national per capital income.

v. Microfinance Service: These are services which microfinance institutions (Microfinance Banks) can render like savings mobilization, loan creation and payment facilities. Microfinance in Nigeria are allowed to engage in some non-banking activities that are geared towards the alleviation of poverty like buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw material to poor persons on credit and acting as agents for any association for sale of such goods or livestock's.

vi. Microfinance: Microfinance is about providing financial services to the poor who are traditionally sideline by conventional financial institutions. Three features distinguish microfinance from other formal financial products; first, the smallness of loan advanced and or savings collected; second, the absence of asset base collateral; and third, simplicity of operations (CBN, 2005) Microfinance therefore, implies the provision of financial services to the group of people who are neglected and consider unbankable by commercial banks.

vii. Credit (Loan): The term credit and loan have been used interchangeably; credit is a payable loan, either in cash or kind, given out by banks or other sources. The loan is given to individual or group to enable them improve their operations Akintola (2005). There is no doubt about the role of credit in expansion of income especially if it is used for productive purposes and not for consumption purposes.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

This chapter reviews literature related to the problem under study. It is important to start by stating the fact that a good number of researches have been carried out on the activity of Microfinance Banks and its poverty alleviation role. However, this review specifically focuses on those directly related to the objectives of this study, hence the review is divided into sections. The first section focuses on the historical origin of Microfinance Banks. The second deals with the pattern of credit disbursement of Microfinance Banks. The third section deals with legal framework of Microfinance Banks. The fourth section focuses on the problem associated with Microfinance credit facilities. Section five deals with strategy to enhance the operation of Microfinance Banks. Section six focuses on the theoretical framework.

2.2 The Concept of Microfinance Bank and its Origin

According to Oluwasanya (2014) microfinance is a communal credit programme designed by countries and new institutions to eradicate poverty from the grassroots. Its practices are aimed at economic development of beneficiary and the country by extension. NAna, (2008) defines microfinance as banking the unbankable, bringing credit, savings and other financial services within the reach of hundred millions of people who are too poor to be served by regular or conventional commercial banks, in most cases because they are unable to offer sufficient collateral. The term according to Ehigiamusoe (2006) refers to the supply of loans, savings and other financial services to the poor. This is because commercial banks traditionally tend to provide banking services to the public, but tend to concentrate on medium and large scale enterprises, which are considered to be more profitable and viable. The Central Bank of

Nigeria's Microfinance Policy, Regulatory and Supervisory Framework for Nigeria (2012) sees microfinance as "any company licensed by the Central Bank of Nigeria (CBN) to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfer, other financial and non financial services to microfinance clients". Therefore, microfinance bank can be seen as a formal financial institution established by law to serve the poor who are deficient of collateral and are regarded as unbankable by other formal financial institution like commercial banks and insurance companies.

The establishment of Share Bank in 1973 in Chicago is regarded as the first fully Microfinance Bank. The Share Bank was said to be purchased by Million Davis, James, Fletcher, Mary Houghton and Ron Gruwinski at 71st street. This bank was alleged to have helped finance the purchase and renovation of 49,000 affordable housing residences and in 2006 it issued nearly 900 million in loans to the citizens in Chicago. However, the modern structure and function of microfinance banks especially in the Third World countries owe their activity to the works of Professor Muhammed Yunus. He was credited with housing the first micro loan in Bangladesh in 1974. He later went on to fund the Grameen Bank (GB) and was awarded in 2006 with the Noble prize for his effort. The Grameen Bank was chartered to operate as a National Bank in 1983, with 75 branches spread in five districts of the country. As at 1997, the bank reached about 2.5 million clients in 37,000 villages and the total amount of loan disbursed amounted to US $ 2billion with a repayment rate of 97% (Yunus, 2001).

Commenting on the data compiled in 1998 Randhawa and Gallardo (2003) maintained that about 97% of the banks' members were women and 6% of them belonged to households with less than 0.1 acre of land and 31% owned no cultivating land at all and 87% did not go to school at all. GB lending system is a purely grouped base and participatory. It also offers other integrated services in addition to credit like training and education in health nutrition and home food production (Esty, 2011). The bank has a highly decentralize organization with branches that are independent profit maximizing units. The bank provides financial services to the poor to grow their small businesses and overcome poverty. The borrowers of the loan pay interest on the loans as its return (Taiwo, 2012). For a reason that can be described as eurocentrism, the American and European countries show little interest in the Grameen type of microfinance and therefore contributed to it as donors initially. There was doubt as well as pessimism about whether anything would actually raise people out of their poverty rather than merely alleviating it. Many Americans argue that their welfare state has created lazy under dysfunctional individuals who would never be interested or capable of starting their own businesses or supporting themselves (Yunus, 2003). Notwithstanding, the idea of Grameen still found its way in some American and European societies. For instance, in 1985 a group of bankers in Chicago area advised Bill Clinton to adopt a Grameen type programme as answer to the poverty problem in Arkansas State. The move eventually gave birth to the Grameen pilot project in Pine Bluff, Arkansas manned by Julia Vindasivs. The name was however changed from Grameen fund to Good Faith Fund (GFF) suggesting that the bank does not rely on collateral but rather on good faith of the borrowers. This bank eventually grew and reached hundreds at low-income people (Yunus, 1999). Similarly, Bodil Maal in 1977 of Norway setup the micro credit project in Loften Island of Norway with the collaboration of Norwagian government. Mainly the project targeted at the young women (girls) of the Islands in order for them to remove boredom and encourage them to stay on the Islands so as not to depopulate them (Yunus, 2003 and Taiwo, 2012). Without much hesitation, African countries were more than willing to adopt the Grameen model of Microfinance Bank. Although the project in this African country is yet to record significant success as Grameen did in Bangledash. The review of the activities of Grameen bank in Bagledash, Good Faith Fund in American and Micro Credit Project in Norway shows that the programme was designed not for capitalist interest of profit maximization but primarily to help salvage the plight of low income earners. Secondly, collateral was not required to obtain credit as loan given was to the poor. Also, the programme gives special attention to women and disbursed their credit to client on group basis.

2.3 The Pattern of Credit Disbursement of Grameen Bank in Bangladesh

> *He was not the first one that came up with the idea of small loans to the poor, but he was the one who showed the world that they could work on a large scale. He was the one who demonstrated that the people bottom of the economic pyramid could be brought into mainstream of financial services. And he was the one whose work of Grameen provided the major model and impetus for a worldwide microcredit movement (Esty, 2011).*

Muhammed Yunus returned to Banyladesh in 1972 after eight years in USA as student and a professor in economics. Seeking for a practical way of helping the poor, Yunus took groups of his students and colleagues for numerous field trips to Jobra to learn about poverty. In the course of time he lent some small amounts of money, less than twenty seven dollars in all, to forty-two impoverished villagers. Surprisingly to him, they paid him back. He discovered over the next months and years that not only do the poor pay back their loans even without collateral, but also they pay back at rates far higher than the 60% rate that was typical of commercial banks. This was the defining movement and gate way to the establishment of Grammen Bank whose impacts eventually won Muhammed Yunus Nobel peace prize (Yunus, 1999 sited in Esty, 2011).

In 1993, the Grameen Bank was incorporated as a bank after the government had passed legislation allowing Grameen Bank to accept deposits. The distinctive characteristic of Grameen

Bank in Bangladash is identified by Evaristus, Schuyler, Apajita, and Qiulin (2004) and can be better understood in terms of the following;

Credit Delivery System: Grameen Bank targets the poorest of the poor, with particular interest on women, who receive 95 percent of the bank loans. This is because it is assumed that women have less access to alternatives, such as traditional credit lines and salaries, they are more likely to be credit constrained and they have an inequitable share of power in household decision making. Another important purpose for Grameen exclusive focus on women is to empower the marginalized segment of the society in which women are mostly victims (Yunus, 1998). Since Grameen Bank is not-for-profit organization owned by it borrowers, lending which start at $35 and average $200, depend on the needs of the borrowers and level of credit (determined by previous borrowing and repayment record). Interests are kept relatively low and as close as possible to prevailing commercial rates although this rate is put is such a reasonable and bearable manner that can cover the risk inherent i.e. uncollateralized loans or credit.

Group lending clients enter the credit system through a self selected lending group of between 5 and 10 members. Participants rank their fellow group members according to financial strength and use this ranking to determine the order in which members receive their loans, with the neediest members receiving loan first. The members of the group elect a chairperson, who receives his or her loan only after the neediest member of the group have met the term of their loans, including the after weekly schedule for repayments.

Risk Management: Grameen bank maintains its own regulation system outside the preview of central bank of Bangladesh and relies heavily on social pressure among the group members to keep default rate low. The members of each leading pressure group experience great peer pressure to meet the terms of their loans, as they know everyone in the group well enough to understand the importance they place on disbursement. Hence, the combination of peer pressure from the group provides borrowers enough motivation to meet the terms of their loan. In order to leave no stone untouched, a Center Manager is assigned to visits borrowers regularly to monitor loan payments Center managers are extremely active throughout the process of loan disbursement and repayment and play a large role in selecting borrowers, approving lending groups and supervising income generating projects. As an added risk management measure, Branch Manager must also approve lending groups during the approval process (Esty, 2011).

2.4 The Pattern of Credit Disbursement of Microfinance Banks in Kenya

In reacting to the industrialization policy that comes as a result of implementation of structural adjustment programme which bequeathed negative social impacts and hardship especially among the low income earners, the government of Kenya identified areas and project needing external donor support, small scale enterprises was identified as critical issues that requires urgent and immediate attention. Lack of access to credit were considered as a major bottleneck for entrepreneurial development, hence Kenya's government fashioned out policy in this direction. According to Huspes, Musinga, and Ong'ayo, (2002) Kenya's rural enterprise programme (K-REP) is considered as the pioneer of microfinance bank in Kenya with generous support from USAID. K-REP was designed as an intermediary NGO in 1984 to provide credit and technical assistance to other NGOs in Kenya. Due to the pioneering and supportive role of K-Rep as well as donors much appreciating NGOs imitating the Grameen Bank approach, Kenya witnessed the emergence of quite some NGO microfinance agencies in the early 1970s using adopted version of the Grameen Bank group lending model.

Depending on the purpose, two approaches are generally used to categorize the different providers of microfinance services in Kenya. The first and most commonly used one is on the basis of formality where providers are categorized as formal and informal depending on the extent to which the provider is registered and regulated under the formal law and transactions are governed under the various statues of the law of contract. The second categorization is based on the customer/provider relationship in the management and ownership of financial service providing entities. Based on this categorization, microfinance providers in Kenya are dichotomized into Client-based Microfinance Agency (CMFAs) and Member-based Microfinance Agencies (MMFAs). Client based microfinance agencies comprise of all microfinance providers, formal or informal, where customers are not also owners of the institution and therefore have little direct involvement in the management of the institution and do not have share in the returns made by the institutions. Member-based microfinance agencies on the other hand, comprises of formal and informal mechanisms where resources are mobilized from members, managements of the arrangement is in the hands of members and it is the members who constitute the main target group for service providers. Although there is relative and mutual confidence and understanding in member-base microfinance bank since members can determine how fund can be raise as well as area where fund can be channel to. But interm of coverage, client base microfinance bank is better and more efficient and effective in rendering bank services to the low income earners. Client base microfinance bank is regarded as the most popular in Nigeria and it is also less risky to the active poor.

Kenyan rural enterprise programme influences other NGOs and microfinance agencies evolved to meet specific goals and specific clients. These are K-Rep Development Agency (KDA) this microfinance institution sewed the original mission of Kenya Rural Enterprise Programme. Jitegemea Credit Scheme (JCS) is a programme of Presbyterian Church of East Africa (PCEA) which started in 1998 to provide financial services to poor people operating Micro and Small

Enterprises (MSES) in Nairobi's low income area of Eastlands. **Pride Africa:** Pride means Promotion of Rural Initiatives and Development Enterprises. It is a microfinance and information group registered in the United States with operations in different East African countries including Tanzania, Uganda, Zambian and Kenya. One of the most unique microfinance banks that evolved in Kenya in the early 1980's the Kenyan Women Finance Trust (KWFT). This microfinance institution is an affiliate of Women's World Banking (WWB) by professional women in Kenya to provide financial services to women in the country (Ledgerwood, 1999).

The KWFT credit scheme aims at providing women with credit and technical assistance as means of facilitating integration into development (Musunga, 2001). It is interesting to note that Kenyan Microfinance Banks share some unique characteristics and feature as the Grameen Bank in Bangladesh, these are;

Group-lending approach: That is organization of client into groups or use of informal groups for purposes of attaining economics scale from the small size transaction. Secondly, credit appraisal is based on the character assessment, rather than traditional collateral (ownership of land or other assets) and viability of projects to be financed. Thirdly, special focus on financing very small business and active poor (McCormick, 1996). In this connect therefore, one might say Kenya microfinance evolved as the Bangladesh of Africa.

2.5 The Pattern of Credit Disbursement by Microfinance Banks in Nigeria

The Nigerian financial system is broadly classified into informal and formal. The informal financial system revolves around traditional rural groups that work together for the mutual benefits of participants. The operators of this informal financial system transact business under different names in different parts of Nigeria. These include 'ESUSU' among the Yorubas, ‘Etoto’ among the Igbos, ‘Adashi’ for the Hausas. The formal financial system on the other hand, represent credit agencies that includes the Central Banks, Commercial Banks, Development Banks, Microfinance Banks as well as other financial intermediaries such as insurance companies and credit society. This formal financial system falls directly under the control of monetary authorities. Its roles on economic growth and as well as it capacity to identify profitable and growth enhancing investment, exert corporate control and mobilize savings for promising investment; gives it an edge over the informal (Robinson, 2003). Furthermore, Emigiamusoe (2006) posits that Nigerian microfinance institutions integrate some of the best practices of traditional scheme into its operational procedures. These include giving credit loans to clients on the basis of their membership of a recognized group and adopting the traditional supply-led subsidized credit. Unlike commercial banks microfinance banks are regarded to as 'poverty lending' (although should not be taken as charity despite its appellation) because microfinance banks primarily seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market (commercial institutions) by reasons of their poverty that is, lack of command over assets. But like commercial institutions microfinance banks place on their clients who borrow the obligation for proper utilization and complete repayment of the borrowed amount even at the commercial interest rate. Alani and Sani (2014).

Additionally, Aisbokhan and Asemota (2011) put forward the importance of group lending adopted by microfinance banks in making credit accessible and loan refundable to the 'active poor' who bank with them. Group lending, refers to an arrangement by individuals without collateral that get together and form groups with the aim of obtaining loans from lenders (Morduch et al 2003). According to Aigbokhan and Asemota the loan given to the poor client is called 'solidarity group' loan. This type of loan is aimed at solving the problem of the absence of material sureties. The institution then grants a loan to a group of some twenty people each standing as surety for the others, and if a problem arises, all are responsible for dealing with it. This system according to them has the advantage of allowing poor people to access credit by enabling the institution to obtain a repayment rate close to 100 percent; the clients repay their loans at bi-weekly meetings. In the same line of thought, Kahpana (2004) confirms that group lending approach is a key feature of the innovative institutional design" credited for addressing the problems of screening incentives and enforcement of reduced transaction cost to the microfinance institutions. According to him in group leading, joint liability, poor monitoring and poor pressure are built into organizational structure and these help to address the problem of adverse selection (hidden information), moral hazard (hidden action) emanating from information asymmetries between lenders and borrowers (Soludo, 2008). Also with group lending approach women benefit significantly and are empowered economically. At the heart of operation and characteristics of microfinance banks is the issue of risk taking or risk management. Risk taking is an inherent element and integral part of financial system or services. Risk management according to National Bank of Ethiopia (NBE), (2010) is a continual process of systematically identifying, measuring, monitoring and managing risks in the organization. Risk management does not mean minimizing risk; rather goal of risk management is to optimize risk-reward trade off. This according to NBE, can be achieved through putting in place an effective risk management framework which will enable it overcome the challenges of risk taking. NBE maintains that, microfinance institutions consciously take risk as they perform their role of financial intermediator in the economy. Consequently they are exposed to a number of risks, which include credit risk, interest rate risk, liquidity risk and operational risk. How these risks are managed determines the survival of any given microfinance bank. In addition, Adaju (2006) presents a very clear cut partner of microfinance activities. This is a model of credit lending position of a "90 – between" organization between lenders and borrowers' intermediary plays a critical role in generating credit awareness and education among the borrowers including starting savings. In this model, activities are geared towards raising credit worthiness of the borrowers to a level that is sufficient to attract borrowers. The links developed by the intermediaries is assumed to be sufficient to cover funds, programme links, training and educating and research (Ehigiamusoe, 2007). These approaches can be employed at individual, local, regional and international levels. Furthermore, a target community can form an association through which various microfinance activities are initiated, the association can be composed of youth only or women only. The association may be a savings group, religious group, political cultural or professional. The important thing is that the group should have something similar in common in order to foster smooth interrelationship. Credits are usually arranged in such a manner that some members of the association a group take loan facilities in turn such as that while some members enjoy loan facilities, the other members of the group provides security for the loan by standing as guarantors.

Another pattern of operation is through bank guarantees. Bank guarantee is used to obtain a loan from a bank and may be arranged externally through donors, government agency or internally that is within members of a savings group using guarantee is a credit collateral loans obtained may be given directly to an individual beneficiary or to a self formed group several international and UN organizations have created funds which bank and NGOs can subscribe to form onward lending (Taiwo, 2012).

Ehigiamusoe (2000) highlighted certain approaches used by microfinance banks to deliver microfinance services to the rural dwellers for rural development. These approaches include; Exclusive focus on owners of micro enterprises; Here focus is centered on poor households to provide them with financial services. The criteria used is the integrated targeting tool, which discriminates on the basis of regularity of household incomes, nutritional statues and condition of dwelling places of potential clients.

Focus on women: Women are primary targets of microfinance banks because they are relatively more deprived are more economically productive and have a high repayment rate of borrowed funds. Again, they tend to undertake small enterprises, which are usually supported with small loans. Institutions like County Women Association of Nigeria (COWAN) and Women Development Institute (WDI) focus exclusively on women.

Door-staff service delivery: Credit delivery method is characterized by small size of loan, repayment by installment, simple and quick loan appraisals, direct disbursement and repayment procedures. Branches and centre (meeting places) are located near their dwelling places and business. This is designed to reducing services access cost for clients (Musa and Aisha, 2012).

Collateral substitution: Microfinance institutions, believe that motivation for repayment can be created by means other than collateral. Such means include requirements that clients form self-selecting groups, adequate loan utilization monitoring and approval at larger subsequent loans

Group methodology: Clients are organized into self-selecting groups of borrowers. Group methodology is currently the most popular and is obviously a feature borrowed from the traditional microfinance institution and cooperative movement (Olowe, 2008).

Counter funding through public private partnership: It is a new strategy for providing funds and other service needs of the rural active poor. It is a demand driven strategy aimed at addressing specific needs at small businesses and individuals in the rural areas through government Microfinance banks' assisted approach microfinance institution provides the loans which government guarantees and subsidizes its cost is the rural dweller and monitors the utilization and repayment of such loans.

2.6 Legal Framework of Microfinance Banks in Nigeria

The microfinance activities were performed by co-operative, nongovernmental organizations and more importantly by community banks spread across various regions of Nigeria before 2005 (CBN, 2008). But because of some perceived and associated problems ranging from (a) weak institutional capacity (b) weak capital base and the existence of a huge unserved market, necessitated the Federal Government of Nigeria to come up with new policy of microfinance in Nigeria (CBN, 2005). The policy was prepared in exercise of the powers conferred on the Central Bank of Nigeria by the provision of section 28, sub section (1) (b) of the CBN Act 24 of 1991 (as amended) and in pursuance of the provision of sections 54-60 (a) of the banks and other financial Act BOFIA 25 of 1991 (Microfinance Legal Framework, 2007).

The new microfinance policy was launched in December 2005 but was realized in 2011 and 2012, by CBN. Based on the latest version three (3) categories of microfinance banks were identified; Unit microfinance bank is authorized to operate in one location. It is required to have a minimum paid up capital of 20 million and is prohibited from having branches and/or cash centres within the same state. Example of this type of microfinance bank in Kaduna is Zazzau Microfinance Bank, Sang and Nenzit Microfinance Banks etc. State microfinance bank on the other hand is authorized to operate in one state or the Federal Capital Territory (FCT). It is required to have a minimum paid up capital of ₦100 million and is allowed to open branches within the same state or the FCT, subject to prior written approval of the CBN for each new branch or cash centre (CBN, 2005). An example of this category in Kaduna is ABU Microfinance bank, NUT, EUDWELL and Microcred Finance Bank. While National Microfinance Bank is authorized to operate in more than one state including the FCT. It is required to have a minimum paid up capital of N2 billion and is allowed to open branches in all states of the federation and the FCT. It is subject to prior written approval of the CBN for each new branch or cash centre (CBN, 2012). However, the Nigeria policy frame work offer blueprint that must be followed before a Unit Microfinance Bank can be transformed to a State and State to the National. While a Unit Microfinance Bank that intends to transformed to a State Microfinance Banks shall be required to surrender its license and obtain a state microfinance bank license subject to fulfilling stipulated requirements. A State Microfinance Bank on the other hand that intends to transform to a National Microfinance Bank must have at least 5 branches which are spread across local government areas in the state. This is to ensure that the microfinance bank has gained experience necessary to mange a National Microfinance Bank. It shall also be required to surrender its license and fulfill other stipulated requirements.

According to CGAP (2009), the minimum capital requirement is mostly imposed high enough to fund appropriate infrastructure and systems and to cover startup losses. Although, in some countries, the capital requirements depend on geographic scope, with the lowest requirement for local or district based institution, followed by regional, provincial and national… Microfinance advocates who see regulation primarily as promotion usually want a very low minimum capital requirement making it easier to obtain new licenses. Although, allowing more licenses tends to faster completion and access to services, but this does not necessarily mean that the right policy is to enable the formation of many small deposit takers.

2.7 Policy target of Microfinance Banks in Nigeria

Policy target of microfinance bank includes; Cover, by 2020 the majority of poor people but economically active population and thereby create million of jobs and reduce poverty. Increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020 and share of micro-credit as percentage of G.D.P from 0.2 percent in 2005 to at least 5 percent in 2020. Promote the participation of at least two third of the state and local government in micro credit financing by 2015. Eliminate gender disparities by improving women's access to financial services by 5 percent annually. Increase the number of linkage among universal banks, development bank, specialized finance institution and microfinance banks by 10 percent annually (Microfinance Policy Framework, 2007).

The establishment of microfinance bank is made open for any individual, group of individuals, community development associations, private corporate entities, NGO-MFIS or foreign investor (CBN, 2008). However, no individual or group of individuals, their proxies or cooperate entities and/or their subsidiaries, shall own, control interest in more than one Microfinance Bank, except as approved by the Central Bank of Nigeria. This measure is aimed at minimizing malpractices by operators and owners of Microfinance Banks and ensures that the purpose for which the institution is established is pursued and not high jacked by greedy individuals. Furthermore, in recognition of the peculiarities of microfinance practices and activities, the CBN implements appropriate regulatory and prudential regime to guide the operations and activities of microfinance banks. Some of the prudential requirements are; compulsory investment in treasury bills, liquidity ratio, capital adequacy ratio, fixed assets/long term investments and branch expansion, maintenance of capital funds, limit of lending to a single borrowers and related party, maximum equity investment holding ratio, provision for classified assets and unsecured lending limit amongst others. Therefore, the framework makes it mandatory for microfinance bank to disclose their sources of funds in compliance with the Money Laundering Prohibition Act 2004 (Microfinance Policy Framework, 2007).

In most countries, the interest rate of microfinance is not subjected to control or ceilings by the legal framework. The argument for regulation of interest rate charged by microfinance bank is that such regulation will guard against exorbitant interest rates and pricing of microfinance institution services that would exploit the poor. According to Danis Lewa (2010) it is usually the case that when faced with an interest ceiling, companies and NGOs providing financial services to the poor people will often retreat from the market, grow more slowly and reduce their work in rural areas or other more costly market segments because they cannot cover their operating costs. Similarly, Godwin (2005) maintains that:

> *The interest rate ceilings discourage commercial banks from expanding into higher cost rural or microcredit market. For example, evidence of market contraction was seen in Nicaragua after National parliament introduced an interest rate ceiling for specific types of lenders including NGO-MFIs, in 2001.*

The outcome of this ceiling shows that an annual portfolio growth of these MFIs fell from 30% to less than 2%, the imposition of interest rate ceilings also caused several microfinance institutions to leave rural areas where risk and operational costs are higher (Yunus, 2013). In religious Marxist and Keynesian understanding, higher interest rates are looked upon as either intrinsically unjust or potentially harmful as it has plunged many clients of microfinance into indebtedness and scared many away from the institution.

In the case of lending business, the legal framework covering the minimum lending or credit that a micro finance can grant to an individual varies from country to country, some countries stipulate a maximum loan size expressed as a percentage rate of capital or as absolute amounts.

Although, in some countries this limit depends on the kind of security available (Stefan Staschen, 2002). In Uganda for instance, the minimum loan size depends on whether the loan is granted to an individual (1% of core capital). The rationale for this is that group loans are typically longer and that the regulatory framework should not favour one lending technology over the other. Nepal on the other hand allows longer consecutive loans with the second loan being double the amount of the first and the third and all following being again double the size of the second. Pakistan however, limits the size of loans to a single borrower to a fixed amount of USD 1,725 irrespective of the size of the microfinance institution (Hanning and Nalleita 2000). Statutorily, in Nigeria microfinance bank is not allowed to lend more than ₦500,000 to a single individual or business. Hence microfinance credit classification in Nigeria is more strengthened than the mega bank, because while a mega bank may classify an account as loss if it stays unpaid for interest and capital for up to 365 days, microfinance banks mostly classify such loans as loss if they remain unpaid for 90 days (Thom-Otuya and Chukuigwe, 2014). The main philosophy for limiting one loan size is to contain risk concentration. A few large loans that turn back can pose a great risk to soundness of any microfinance bank. More so, scope it makes it unattractive to larger banks to apply for license under these windows.

2.8 Challenges of Microfinance Bank in Nigeria

Microfinance Bank has been in existence for the period of about ten years. Researchers and social commentators have identified certain challenges that slow the pace of microfinance banks in their attempt to subdue the scourge of poverty. In the view of Jegede, Kehinde and Akinlabi (2011), the activities of microfinance in Nigeria have been hampered by a number of difficulties. These include communication gaps and inadequate awareness, insufficient support from government, inadequate donor funding, less attention on funds, high turnover of microfinance staff, limited support for human and institutional capacity building, illegal government and Non Government Organization (NGO) operation that spoil the market and lack of standardized reporting performance monitoring system for microfinance banks (Irubi, 2008, Yunus, 2009). Similarly in the work of Audu and Achegbulu (2011) on microfinance and poverty reduction posits that the current operational strategies of microfinance banks in Nigeria has serious challenges as many of the banks are yet to come to terms with the tenets of practical microfinance principles instead, they opted for malpractices that enable them make profit at the expense of the general goal of poverty reduction. According to Audu and Achegbulu, this owes to lack of technical skills and capacity. The banks are engaged in lending and saving practices that could ration out the low income clients that they were designed to serve. In the account of microfinance Mango and Mango (2009), rural lending of microfinance is very minimal, because most of the banks are located in the cities and urban areas and as a result, they could not ensure a clean break from community and commercial banking which have defeated the aim of ensuring that the active poor is able to save, borrow and repay loan price that is below the conventional banking market rates.

The typical characteristics of microfinance clients are that, they are in most cases self employed, low income entrepreneurs residing mainly in the rural and semi urban city. These clients are often traders, street vendors, small farmers, services providers (hairdresser, car pusher), artisan and small producers such as black smiths (Oluwasanya, 2014; Yunus, 2010). Although they are often regarded as low income earners and they represent about 70% of the Nigeria economic sector CBN (2009). Therefore, these microfinance entrepreneurs need a safe and secure place to keep their excess income, they require credit for business expansion and growth, and they also require access to insurance to ensure the sustainability of their businesses. Hence, the absence of favourable condition in terms of infrastructural facilities, vibrant and functional financial institution i.e. microfinance banks and the presence of pervasive corruption and manipulation in the credit system designed to serve the low income earner will know so without negative consequences in the economy. According to Lafourcade et al (2005) the challenges that are associated with microfinance banks in Africa makes operating and financial expenses too high and average and revenues remain lower than in other regions of the world. Efficiency in terms of cost per borrower remain the lowest for African microfinance banks Kimotho (2007) observed that despite the growth of microfinance sector over the years, the overall outreach of microfinance banks remain relatively low as a result of lack of favourable conditions. According to him, the entire microfinance activities in Nigeria contribute to a meager of 0.2 percent to Gross Domestic Product (GDP) and account for only 0.9 percent of the total credit, compared to about 22 percent in South Africa.

Commenting on the issue of corruption, Okafor (2013) in a study titled, corruption and implication for industrial development in Nigeria asserted that corruption has a number of implications for industrial development in Nigeria. According to him, corruption has made the country to be economically backward in industrial development due to infrastructural problems and other challenges such as inadequate power supply. The implication of this precarious condition is that microfinance banks have to provide their own infrastructure, hence making the cost of their activities very exorbitant. This therefore makes Nigeria economic and production environment hostile to manufacturing and production and subsequently leads to underdevelopment of SMEs in Nigeria (Alegieuno 2007).

Furthermore, CBN (2005) and Osuala (2008) identified the inability of microfinance banks to reach a greater number of the poor in time and in a form acceptable to them as serious challenges confronting microfinance. According to CBN report, the existing microfinance banks in Nigeria serve less than 1 million people out of 40 million potential people that need the services. What account for this low service is that majority of the rural active poor in Nigeria reject most of the conventional microfinance measures because they are not tailored in line with their particular need.

Adaju (2006) in a seminar and stakeholder forum titled "Opportunity and Challenges from the Microfinance" observed that the following challenges befall operation of microfinance banks; nongovernmental support and effective framework; non conducive environment. In order for microfinance to thrive, there ought to be a condition which permits the growth of microfinance industry where there are no legal constraints on interest rates, and there are no distortions on the competitive framework by the preserve of state run financial entities offering subsidized interest rates or laxity in the recovery of outstanding loan. Furthermore, Eluhaiwa (2007) in his contribution to seminar on "institutional reforms for efficient microfinance intermediation in Nigeria" identified low level access to capital, limited range due to informal non-structured framework and low savings, as challenges to microfinance success. To Odaga (2009), the most important challenges of microfinance is achieving financial sustainability. He also identified integrating the microfinance industry into the formal financial sector as a challenge. To him, despite the high loan recovery rates, the small scale microfinance operations, combined with the cost of reaching out to client, purchase of operating cost can absorb most of the interest margins.

To Ehigiamosoe (2007) the activities and goals of microfinance banks are seriously jeopardized by small unit of services which pose the challenges of high operating cost making several loan applications to be processed; numerous accounts to be made and monitored, repayment collection to be made from several locations especially in rural community. Secondly, is the issue of loan delinquency. This represents threat to the microfinance banks sustainability because it demoralizes staff and deprives other beneficiaries of valuable services. Thirdly, inadequate experienced staff limits expansion and institutional performance of the banks. In a study conducted by Idowu and Salami (2010) on "Impact of Microfinance Banks on Standard of Living of Hairdresser in Ogbomosho North local government". It was discovered that the impact of credit loan was not felt in both the standard of living and the expansion of the business because of the shortness of between obtaining of credit and repayment. The shortness of time did not give room for loan to generate future income. This is because according to the respondent before the end of loan repayment the business would have almost collapsed.

Furthermore, Achu (2012) in a study of Microfinance Banking in Nigeria; Problem and Prospects argued that the fundamental challenges of microfinance banks include; new absence of basic infrastructure. This lack of basic infrastructure compounds operational difficulties of these banks. According to Achu by dealing with many small clients microfinance banks transaction cost are usually higher than conventional banks. The constant change in government policy and programme according to Achu, is the consolidation of commercial banks' in 2007 makes these conventional banks so big, leaving the not wealthy clients segment to microfinance bank. Corruption according to him, has wrecked-havoc in the microfinance subsector, this is manifested in many areas such as; corporate government failures, frauds and forgery, theft and refusal by customers to repay loan (Ogujiuba, Fadila and Stiegler 2013; Yunus, 2009). Board members in some instances are known to use their position to obtain facilities way above the resolution limit for insider related loans with no intention of repaying such facilities. They also use their position to influence the recruitment process to ensure that their candidates are given perpetual treatment and attention.

2.9 Strategies to enhance Operation of Microfinance in Nigeria

Ibrahim and Abdullahi (2010) concluded in their work on contribution of microfinance banks in poverty reduction in Niger state that although microfinance banks have positive impact in the state, but more needed to be done to make their condition to be felt by all and sundry. Therefore they suggested; a more realistic arrangement between microfinance banks and the state government in the disbursement of poverty reduction funds. They should also ensure that there is proper accountability and actualization of the main objectives of such arrangement. The government should make efforts in the provision of deserved infrastructure especially energy and access to roads in the rural areas so as to help reduce operational cost of economic agents (MFBs, SMEs and others) based in such areas. The microfinance banks should intensify effort towards the provision of customized financial products that suit the rural dwellers at a competitive rate in order to gain more patronage of the populace.

Furthermore, Soludo (2008) argued that it is important for microfinance institutions to have access to reliable and recent information about clients. They further maintain that this is a key to lending. According to Ogujiuba, Fadila and Stiegler (2013) in their contribution to Mediterranean Journal of Social Sciences titled “Challenges of Microfinance Access in Nigeria”. A streamlined and transparent calculation method of recovery rate of the microfinance institutions is required to ensure adequate information on defaulting clients. This according to them can be achieved by establishing credit bureaus which adopt and maintain clear and simple accounting standards for lending to SMEs. Additionally, a viable strategy would also be needed to expand the scope of micro credit institutions to often services to small businesses. Because many of this microfinance institutions have limited funding and since they rely on deposits that are short term in nature, their assets and liabilities serve as a constraint for them to convert their deposit into longer term loans. Among many things identified Oluwasanya (2014) proposed that there is an urgent need to have in place a policy framework that will regulate the establishment, operation and activities of microfinance banks in Nigeria. This according to him is very important for any microfinance institution that accepts deposits from the pubic for which there is need for confident building, efficiency of operations and safety of deposits. He added that a comprehensive study on the study of microfinance bank in Nigeria will be required such that it will cover the entire population; estimate the level of financial activities and number of clients and determine the financial and operational sustainability of the microfinance sector.

Quoting Obadan (1997) Akewushola and Akinlabi (2013) in International Journal of Economic and Management Science; a study conducted in Ijebu-Ode, it is not sufficient to assist the chronically poor with capital but investments in human capital are necessary to equip the poor with education/training which they require to enable them share in the benefits of development. By educating the poor, they can take advantage of technologies which will improve their health and international states which will invariably enhance their earning power. So far, the literature reviewed in this research work outlined and present a clearer view and broader perspective on the concept of poverty and microfinance institution and it has without any gainsay offered and established a connection or relationship that exist between credit loan and level of poverty. Even though, there exist divergent views on the conceptualization and relationship which exist between poverty and credit facilities made available by microfinance banks, the entire exercise carried out in this chapter can be said to be profitable since it has shed more light on what is known about microfinance bank and consequently shaped the direction of this research. What is missing however, is the inability of the various literature reviewed to clearly identify the salient dialectic relationship that is in existence between the operators of Microfinance Banks and the ‘active poor’ which microfinance bank is targeted for and the implication of this dialectic relationship on the action of the operators of microfinance bank and the active poor. The understanding of this relationship and it implication will enable a proper account of the role of microfinance banks as agents of poverty alleviation and employment generation. While most of the literatures reviewed tend to focus their attention on studying a particular category of microfinance bank, this research identifies and study’s the three (3) categories of Microfinance Banks as identified by the Microfinance Regulatory Framework 2011 with the sole aim of pinpointing their unique pattern of operation and challenges.

2.10 Theoretical Framework: Political Economic Theory of Class Conflict

Political economy theory is rooted in the structural conflict perspective in sociology. This theory attempt to explain why people in society behave the way they do, by focusing on the relationships between the various institutions that make up society e.g. education, law, religion etc. The main proponents of political economy theory of conflict are Karl Max and Fredrick Engels. The theory has following as it assumptions: there are two classes in society, the proletariat (the group without means) and Bourgeoisie the class that possess the means of production; dominant groups disproportionately influence, resources allocation and societal structure; between individual or group conflict emerges from having opposing interest or competing for limited resources; struggle and conflict typically lead to some groups and individuals controlling and dominating others, and that patterns of subordination and domination are self perpetrating.

According to the Marxist, in a society, there are sub-groups and in each of these groups, members have different sets of belief, value and norms given this conditions group conflicts are inevitable. That is, there must be conflicts or challenges between two groups having different opinion or beliefs on a specific issue and competing for a given resources (Money)

Microfinance banks was established against the backdrop that conventional banks tactical sideline the small and medium scale businesses that are in rural and semi urban city in their disbursement of credit facilities. This is because the services of these commercial banks are usually channeled to the mega business venture who can afford to meet the criteria and conditions (which are relatively high) required to obtain their services. The major operators in microfinance institutions are the governments who design the legal framework of microfinance bank, the individual or group who own and manage this bank i.e. the administrator and the clients who patronizes them. The management of microfinance banks owns these credit facilities and as such determines the people that should benefit as well as the conditions for benefiting from the credit. The clients on the other hands are at the mercy of the microfinance management. Although the government design policy on the amount of cash or credit that any microfinance bank can give to a particular individual client and the criteria for obtaining such credit facility, yet microfinance banks operate more like profit oriented commercial banks in the disbursement of their credit facility to the active poor i.e. the clients. For instance some microfinance bank engage in contract financing of bigger business ventures at the expense of the smaller business enterprises that they were established for because of high and quick return of profit from them. Again, because there is no ceiling on the interest rate that microfinance can charge on any given loan to a client, their interest is usually put at double digit figure this usually scares some client from obtaining loan and those who still patronize them encounter difficulties in the process of loan repayment.

The clients of microfinance bank in a bit to obtain credit facilities from microfinance bank tend to present false information about their nature of business and credit worthiness in order to obtain cash at all cost and regardless of the financial implication and consequences of such credit. No doubt, it is this arrangement that is responsible for some damaging challenges that are associated with the operation of microfinance bank in Kaduna Nigeria.

Going by the Marxian thinking, despite the large economic prospects that microfinance banks stand to explore and the recent proliferation of numbers of microfinance bank in the country (CBN, 2005-2011) the microfinance banks therefore cannot escape from been trapped by the same antithesis tendency that led to its establishment in the first place. Hence these challenges that manifested in form of high interest rate, corruption, illiteracy, frequent change in government policies and program etc. which eventually culminated in rendering microfinance banks handicapped in economic transformation and industrialization of Nigeria economy is the handy work of the dominant groups i.e. (the capitalist) in which most prominent members of the government are in partnership with. The consequence of this gimmicks schemed up by the ruling class of the society is the continuous decrease in the standard of living, teaming unemployment among the youth, low GDP and underdevelopment of the economy. The end product of this kind of arrangement according to Marx will be revolution (Marshall, 1950) which is disastrous to the ruling class. Reacting to the prediction made by Marx, Yunus (1994) in a bid to incite and conscientice the lower class, said:

> *If collateral alone can provide the basis for banking business, then the society should without hesitation mark out the banks as a harmful engines for creating economic, social and political inequality by making the rich richer and poor poorer.*

Although, Marx theory on class struggle have been heavily criticized for failing to see the changes that could take place in order to avoid his ultimate prediction of revolution. Notwithstanding, the researcher find the idea of Marx relevant in explaining the challenges that ensue in the process of microfinance bank meeting the objectives of credit disbursement to their clients. The importance of this theory to the study lies in its ability to explain the exploitative tendency inherits in microfinance bank in Nigeria. The theory also explains the reasons for the challenges that befall and hamper the smooth operation of microfinance bank.

2.10.1 The Welfare State theory (Nordic Model)

Most governments of the world provide various forms of aid and assistance to members of their society who cannot earn their up keep. In the present day of modernization most of these services are monetarized and come under the control of the state. This can be seen clearly in the welfare packages for the unemployed, the sick, the low income earners and the elderly. Lord Keynes, Beveridge and Otto Von Bismark are the earlier proponent of the welfare state theory. Otto Von Bismak introduced old age pensions, accident insurance and medical care. In the United Kingdom, welfare programme started to emerge with the liberal welfare reform of 1906-1914 under the leadership of Prime Minister Herbert Asquith. These programmes included the passing of Old Age Pensions Act in 1908, the introduction of Free School Meal in 1909, the 1909 labour exchanges Act, insurance Act of 1911 which set up a national insurance for unemployment and health benefit of workers (Veenhoven, 2000). The Scandinavia country of Denmark, Finland, Sweden and Norway represents the modern practical example of the welfare state theory or Nordic model. In the mid 19 century Denmark introduce an old age pension scheme, while Sweden first introduced sickness insurance and Norway and Finland introduced accident insurance packages for industrial workers (Marshall, 1950). These paternalistic approach which were aimed at gaining the support of the European working class and to avert the prediction of Karl Max as regards to workers revolutionary movement against the ruling class which will ultimately leads to classless socialism (Veenhoven, 2000). The Kaynessais economic doctrine was a major catalyst and driving force of the welfare state policies in western Europe and North America during the inter war years from 1939-1945. The welfare state theory can be seen as a middle way between the extremes of communism on the left and the unregulated laizzaz-faire capitalism on the right (Briggs, 1991). According to Marshall (1950) the modern welfare state is a distinctive combination of democracy, welfare and capitalism. He argued that citizenship must encompass access to social life as well as to political and civil rights. Examples of such states are Germany, all the Nordic countries, the Netherland, Uruguay etc. The activities of present day welfare states extend to the provision of both cash welfare benefit (such as old age, pension or unemployment benefits) and in kind welfare services (such as health or child care and availability of credit facilities to the low income earners with little emphasis on collateral). It is believed that through these provisions, welfare state can affect the distribution of income, increase standard of living and personal autonomy among their citizens as well as influence how the citizens consume and how they spend their time. The impact of welfare packages on the wellbeing of people has been and is still a subject of controversy among scholars. However, the goals and objectives of this arrangement are similar across different countries and societies.

According to Briggs (1961), a welfare state is a state in which organized power is deliberated and used to (through politics and administration) in an effort to modify the play of market forces in at least three directions. First, by guaranteeing individuals and families, a minimum income irrespective of the market value of their work or their prosperity. Second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for example old age, unemployment sickness and access to credit with little constraints) which leads otherwise to individual and family crisis. Finally, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to certain agreed range of social services (Jamil, 2008). Social policies and programmes are usually developed and designed in responses to social problems experienced within societies. The establishment of various poverty alleviation and income generation policies (e.g. Directorate of Food, Road and Rural Infrastructure (DFFRI) in 1989 Better Life for Women (BF) in 1990 Microfinance Banks in 2005 in Nigeria were in responses and direct consequences to social ills (such as unemployment, poor standard of living rural-urban migration and shortages of credit facilities to micro entrepreneurs) that entangled the citizens of the “most populous black nation on earth”.

Although, the patterns of these programmes in Nigeria differ in one way or the other compared to the welfare programme designed for the less priviledged in Europeans countries. However, its goals are similar in the sense that these programmes seek to address the issues of income distribution and achieve wellbeing among her people, ultimately to help calm down the agitation of the low income earners which could be menace to the economy. It is important to submit at this juncture that the extent to which “welfare state” actually contribute to wellbeing and income redistribution in both developed and developing nations has been criticized and subjected to endless debate. Without contemplation or gainsaying welfare state theory or Nordic model explained the exigency and the rationale for the establishment of microfinance banks to favour the low income earners and the operators of small and medium scale businesses residing in the rural areas. This theory has seen to be a social rebellious, strong revolutionary movement and prevent extensive poverty among many countries. However the model has been heavily criticized for encouraging laziness and tends to shield some segment of the population against the implication of operation of the forces of demand and supply in an economy (Yunus, 2010).

According to one of the earliest advocates of laissez faire Herbert Spencer;

> *Furthering the good for noting at the expense of the good is extreme cruelty. It is a deliberate stirring up of miseries for future generations……… if they are not sufficiently complete to live, they die and it is best they should die (Spencer, cited in Abraham 1968)*

This theory provides the rationale for establishing microfinance banks which is basically for the active poor who are unable to meet the conditions of obtaining credit services from conventional commercial banks. The theory therefore explains and justifies the pattern of credit disbursement to the clients.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology used for this research. Issues covered in this chapter include; location of the study area, the type and sources of data, the techniques of data collection, the population and sampling procedures adopted and techniques of data analysis used in the next chapter.

3.2 Location of the study

The location of the study is Zaria, Kaduna state. Zaria comprises of two local government areas which are Sabon Gari and Zaria Local Governments, Kaduna State of Northern Nigeria. This area shares boundary with Igabi local government to the south, Makarfi, Kudan and Giwa to the North and West Soba to the North-East. The major communities within the study area include; Wusasa, Samaru, Kongo, Shika, Hanwa, Zaria City, PZ and Danmagaji with a population of 695,069 (NPC, 2006). These communities harbour thousands of shops which are used for both small and large scales businesses. While Sabon Gari is considered as the major market within these areas, foreign products such as food items, foreign clothings and materials and electronic spare parts are mostly sold there. PZ on the other hand accommodates numerous banks and can be considered as a centre for most banks within the study area. Also, various types of electronics, phone and phone accessories, laptop and industrial materials are sold at PZ. While craft service such as blacksmithing, fashion designing, etc are done mostly in Zaria City where the Palace of the Emir of Zaria is located. Hence the study area is considered a centre for commercial activities within Zaria Emirate (i.e. Makarfi, Kudan, Giwa) where semi-urban market for agriculture produces and wide range of finished consumer products are readily available. Hence, the area is saturated with numerous small and medium scale businesses ranging from tailoring, artisans, shoe making etc.

Zaria is endowed with rich socio-cultural and economic history especially in commerce and agricultural activities. The fertile and agricultural rich soil of the area alongside the favourable weather condition has sufficient annual rainfall which favours the production of food crops such as maize, guinea corn, millet, rice, yam, cocoyam, potato etc. Cash crops such as soyabeans, groundnut, cassava, sugar cane, ginger, cotton etc., are also popular here. The people also engage in poultry farming and cattle rearing. The major ethnic groups in the study area are Hausa and Fulani along with other tribes like Yoruba, Igbo, Nupe etc. Most of the people within the study area are Muslims. The choice of the study area however, is based on Kaduna State being ranked as one of the states with low and poor standard of living (Soludo, 2007). Also, the selection of Zaria metropolis is based on the fact that there are in existence 5 licensed microfinance banks in which National, State and Unit microfinance bank can be seen as at the time of commencement of the study.

3.3 Research Design

This research adopted both qualitative and quantitative method of data collection. The quantitative method makes use of questionnaires as its instrument of data collection. The questionnaire is designed in line with the thrust of the research objectives and were addressed and administered to the client of microfinance banks. The questions in the questionnaire revolve around issues on how they obtain the credit facilities of microfinance banks, conditions of such facilities and challenges that ensue as a result of their relationship with these banks. Qualitative method on the other hand was designed using observation, indepth-interview which were directed to the staff and clients of microfinance banks within the study area. The questions asked were tailored around issues relating to the credit facilities microfinance banks disbursed to the clients and peculiar conditions or criteria attached to these credit facilities. Lastly the challenges confronted in the attempt to balance profit maximization for their organization as well as complying with the operational legal frameworks of microfinance banks. The staff and clients of microfinance banks within the study area therefore represent the focal point and essential means of obtaining the information for this study, this is so because they are in a better position to provide answer to the objectives of this study.

3.4 Population of the study

The population of the study consist of clients of the three categories (3) (i.e. Unit, State and National) of licensed Microfinance Banks found in Zaria. As at the time of this study, there are five licensed Microfinance Banks in the study area. These are: Nakowa Microfinance bank (unit) located in Kongo; LAPO Microfinance Bank (National) with two branches both in Hanwa along MTD; ABU Micro Finance Bank (State) in Samaru Main campus, Microcred Microfinance Bank (state) located in PZ and Zazzau Microfinance Bank (unit) found in Zaria city. That is, two States, one National and 2 Unit microfinance banks can be found in the study area. Mostly, these clients have small business ventures which require little capital setup and are not necessary registered with Corporate Affairs Commission (CAC). The clients also engaged in various forms of agricultural practices but this also is not usually in commercial size. To this end the staff and clients of these microfinance banks represent the population of study for this research work. This is because, microfinance facilities are disbursed by the staff of microfinance bank to their clients making both of them to be in a better position to provide requisite data for this research.

3.5 Sample and sampling procedure

The sampling technique that was employed for this study was purposive and systematic sampling techniques. Purposive sampling is a non-probability sampling technique that relies on judgment of the researcher when it comes to selecting the units that are to be studied. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which was best in answering the research questions. This technique was used to select Microcred Microfinance Bank in PZ, the Head of Operation of LAPO Microfinance Bank in Hanwa and Nakowa Microfinance Banks located in Kongo. This was considered appropriate first because the study intends to examine; the pattern of credit disbursement of Microfinance Banks, investigate the extent to which microfinance management complies with operational frameworks with meeting the needs of their clients and to also examine the peculiar challenges of the 3 micro finance banks in Zaria Metropolis. Secondly, LAPO Microfinance Bank is the only National Microfinance Bank present in the study area and lastly, it is believed that the selection of Microcred as against ABU Microfinance Bank will reflect the true nature of credit facilities and services available in the state microfinance bank especially, those without link with any state or federal institution like ABU Microfinance Bank. Nakowa Microfinance Bank was selected to represent the Unit Microfinance Bank in the study area. However, the clients of the selected Microfinance Banks were selected using systematic method. The questionnaires were distributed to the clients during their bank loans disbursement and repayment as well as during the various banks union meeting was made known by the bank management. The clients were arranged in a single queue and first client was picked and interval of one client was observed before another client was picked. Also, purposive sampling was employed to select a member of National

Association of Microfinance Bank, Kaduna chapter. One information officer and a client from LAPO, Microcred and Nakowa Microfinance Bank as key informants for the in-depth interview.

3.6 Type and sources of data

In an attempt to carry out a scientific study, the research made use of the primary source of data. These are data a researcher collects by himself, which have not been used for any study and are collected for the first time for the purpose of an ongoing study. This type of data becomes imperative because it enables the researcher to design the instrument that was convenient for obtaining information which suit the thrust of the study. Hence, the primary data of this work was sourced from clients and staff of microfinance banks in Zaria metropolis via the questionnaire, through in-depth interview and observation. The choice of clients and staff is due to the fact that by banking with these banks and working for the banks gives them an opportunity to know their mode of operation and the importance of their banking services over other commercial banks. Therefore, it makes them capable of providing the needed information for the study. The research also makes use of secondary data from the official documents of microfinance banks and microfinance regulatory policies of 2005 and 2012.

3.7 Methods of Data Collection

Both quantitative and qualitative methods of data collection were adopted for the research. Hence survey, in-depth interview and observation were employed to obtain the required information for this study.

Survey technique: The survey technique comprises of a single set of questionnaires, this comprises questions which are directed to the client of Lapo, Microcred and Nakowa Microfinance Banks. These questions revolved around issues on availability, accessibility and challenges of the credit facilities in this microfinance bank. To this end, 300 questionnaires were designed and administered to the clients of the microfinance banks in the study area. Hence, LAPO, Microcred and Nakowa were allocated with 100 questionnaires each. This questionnaire was made up of open and closed ended questions. The close-ended question restricts respondents to a particular option provided, while the open ended questions allows respondents to freely express themselves. More so, the questionnaires were self-administered and directly administered to the clients of the various microfinance bank selected, due to the fact some of the clients were able to fill the questionnaires while those that were unable to fill the questionnaires, the researcher read the questions to the respondents and also interpreted it in hausa language for those who do not understand English in other to fill and tick the appropriate options. This technique therefore, helps in generating data in mass from the clients of LAPO, Microcred and Nakowa Microfinance Banks and provides direction for generalization to be made.

In-depth Interview: The in-depth interview was carried out, where questions tailored towards the objectives of the study was asked. This is done in view of enriching the data that were obtained from the questionnaire. While conducting the interview, the researcher made use of tape recording to record the verbal responses of the interviewees. Also, note taking as well as observation of non verbal communications such as smile, laugh and other gesture were taken into cognizance. Six (6) key informants were purposively selected and these are; one (1) clients who has been banking with LAPO, Microcred and Nakowa for five years and one (1) senior staff from each of these bank. The secretary of the National Association of Microfinance bank Kaduna chapter was also interviewed. The instrument for IDI was the interview guide which consisted of services of open ended questions. The IDI involved oral questioning of informants individually. This instrument, gives room for flexibility and probing of responses of responses that seems ambiguous and sensitive to the interviewees.

3.8 Techniques for Data Analysis

For the quantitative data, the raw data were edited and coded using coding sheet and transferring into excel word as percentages and frequencies. That is, the information obtained from 269 questionnaires was organized in frequency tables and percentages to enable the researcher make informed and organized interpretation of the results.

For the qualitative data (data obtained through in-depth interviews) the analysis was done through description. The first step used to analyze qualitative data was the transcription of the interview from the recorded tape into paper or written form, which was done within 24 hours of each interview. After the transcription, the researcher carefully read both the transcribed documents and the field notes or hand written record with solitary aim of identifying informed responses. Also, the non verbal expression of the informants was linked to their responses during the interview and observation. Lastly, the analytical summary, based on critical observation of these issues by the researcher was captured in the field pertaining to the main objective under study. After the separate analysis of qualitative and qualitative data have been carefully done, the researcher identified and synergized the area of convergence and divergence between the data generated from these two methods and the presentation was done in prose form.

3.9 Difficulties Encountered at the Field

In the process of obtaining the data and information relevance for the objective of the study in Lapo, Nakowa and Microcred Microfinance Bank of Zaria metropolis some challenges were encountered. First, the banks refused to disclose the number of their customer base because they consider it as classified information that should not be disclose to the member of general public. This information would have provide insight to the coverage of microfinance bank within Zaria as well as a good platform for sampling method. Again, several weeks were taken before the various banks approved the process of data collection in their bank, this is because the banks' management perceived the researcher as a spy working for other microfinance banks which they considered harmful to their operation. However, by presenting the letter headed paper from the department and visiting their head office in Kaduna and Abuja, the bank eventually gave their approval to the researcher. After permission was finally granted to the researcher to meeting the clients of the various microfinance bank selected, the clients were reluctant in collecting the questionnaire claiming that they do not have time for such activity and that they were there just to obtain money and as such anything that will not give them money they will not attend to it, while some other claimed they cannot read nor even understand some of the question. But by the persuasion of the banks staff and the researcher these problems were overcame and the data was successfully collected as planned.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter relates with the presentation, analysis and interpretation of data collected from respondents. The analyses are done and organized in five (5) sections based on the objectives of the study; section "A" deals with socio demographic information of the clients of microfinance banks, section "B" relates to questions concerned patterns of credit disbursement of microfinance banks and section "C" deals with the extent to which microfinance banks complies with the legal frameworks that established them, while section "D" deals with challenges and ways of repositioning the operation of microfinance banks, the last section attempts to relate the findings of this research work to the literature and theories used in order to assess their relevance and importance for the study.

4.1 Socio Demographic Characteristics of Respondents

Table 4.1.1: Distribution of the Respondents Gender

Sex	**Frequency**	**Percentage (%)**
Male	173	64.3
Female	90	33.3
No response	6	2.2
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.1 shows that 64.3% of the respondents are males, while 33.3% of the respondents are females. In an interview conducted with the staff of Lapo microfinance bank. He revealed that: "we only give our facilities and render our services to an individual who approaches us for assistance regardless of their gender". This depict that beneficiary of microfinance credit are mostly male. This is partly so because the culture and belief of this part of the country and the inability of the various microfinance bank to design special microfinance bank exclusively for women. By implication, women will continue to be lag behind and deny the access of credit which could make them to assist them husband in providing family needs and improve their standard of living.

Table 4.1.2: Distribution of Respondents Base on Age (year)

Age (year)	**Frequency**	**Percentage (%)**
16-24	68	25.3
25-34	116	43.1
35-44	50	18.6
45 and above	18	6.7
No response	17	6.3
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.2 revealed that 43% of the respondent, from the 3 banks are within the age 25-34years, while respondent whose age are within 16-24 is 25%. 18.6% of the respondents are age between 35-44years and those who are above age of 45 represent 6.7% of the client studied. This shows that majority of the respondents are within the age of 25-34years. This age bracket represent the active labour force of any population, hence if adequately empower interm of credit facility will boost the GDP and reduce the level of unemployment in the study area and the entire country at large.

Table 4.1.3: Distribution of Respondents Based on Marital Status

Marital Status	**Frequency**	**Percentage (%)**
Single	94	34.9
Married	163	60.6
Divorced	6	2.2
No response	6	2.2
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.3 indicate that 60.6% of the respondents from 3 banks studied are married, while 34.9% of the entire studied population are single, only 2% are either divorced or are staying separately with their spouses. Further investigates also revealed that 50.6% of those married are in a monogamous form of marriage, while 11.9% of these respondent that are married are polygamous. This revealed that overwhelming majority of the respondents are married and are in monogamous from of marriage. By implication, they are responsible or are expected to cater for the up keep of their entire fairly in term of food and shelter. These responsibilities therefore can affect the usage of microfinance credit facilities obtain from the bank.

Table 4.1.4: Distribution of Respondents Based on Number of Children

Number of Children	**Frequency**	**Percentage (%)**
1-4	106	39.4
5-8	71	26.4
9-12	11	4.1
12 and above	4	1.5
No response	77	28.6
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.4 displays that 39.4% respondents from the 3 banks have between 1-4 children, while those within 5-8 children represent 26.4%, those with 9-12 children are 4% of the entire respondent. It can be inferred that the majority of the respondent have at least one child at most 4 children. This family size can be said to be relatively large since the parent are expected to provide food, health, clothes, shelter and education for all the children. The implication of this to microfinance institution is that funds made for business could be easily diverted to cater for immediate family needs.

Table 4.1.5: Distribution of Respondents Based on Religion

Religion	Frequency	Percentage (%)
Muslim	134	49.8
Christianity	120	44.6
Traditional	4	1.3
No response	11	4.1
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.5 displays that 49.8% of the respondents are Muslim, while 44.6% of the respondents are Christians. This suggest that majority of the client of microfinance bank in Zaria metropolis are Muslim and by implication their adherence to the teaching of Islam can affects their accessibility to credit facilities as well as the usage of the funds obtain from microfinance bank.

Table 4.1.6: Distribution of Respondents Based on Educational Background

				Banks	
Educational Background	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Primary education	97	36.1	29(32.2)	30(32.6)	38(43.6)
Secondary education	119	44.2	35(38.8)	40(43.4)	44(50.5)
Tertiary education	29	10.1	11(12.2)	15(16.3)	3(3.4)
Non formal	9	3.3	5(5.5)	3(3.2)	1(1.1)
No response	15	5.6	10(11.1)	4(4.3)	1(1.1)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.1.6 shows that (38%) of the respondents from Lapo have attained secondary education, while (32%) of the client studied have attained primary education, also (12%) of the respondents have attained tertiary education and (5.5%) of the clients studied have non-formal educational background.

Microcred:

The table shows that (43%) of the respondents from Microcred have attained secondary education, while (32%) of the clients studied have attained primary education, also (6%) of the respondents have attained tertiary education and (3%) of the clients have non-formal education background.

Nakowa:

Table 4.1.6 shows that (50.5%) of the respondents from Nakowa have attained secondary education, while (43.6%) of the clients studied have attained primary education, also (3%) of the respondents have attained tertiary education and (1%) of the clients have non-formal educational background. During an in-depth interview with a staff of Nakowa microfinance bank revealed that:

> *Some of our clients cannot read or write, in most cases when they want to obtain any of our credit facilities it is their union leaders or the guarantors that are more learned that explain the conditions and requirement of the bank to them and also help them to fill the necessary information that is required.*

This reveals that the majority of the clients of microfinance banks are secondary school graduate and some of them can still not write nor read.

Table 4.1.7: Distribution of Respondents Based on Accommodation

Accommodation Status	**Frequency**	**Percentage (%)**
Owned house	26	9.7
Rented house	160	59.5
Sharing house	80	29.7
Other specify	1	4
No response	2	7
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.1.7 indicates that, 59.5% of the respondents are living in a rented apartment while 29.7% are sharing houses with their relatives or extended family and 9.7% of the respondent own their personal house. This depicts that majority of client of microfinance bank live in rented houses in which they either pay monthly or yearly depending on the agreement with their landlord. This suggest that client of microfinance bank who live in a rented house can divert significant part of the credit obtain from bank (depending on the number of rooms used) to settle house rent especially when the landlord mount pressure on them. This no doubt increases the level of loan defaultment.

Table 4.1.8: Relationship between Marital Status and Difficulties in Repaying Credit Facilities

		Marital Status		
		Married	**Single**	**Total**
Loan difficulties	Yes	147 (77%)	43 (23%)	190
	No	20 (28%)	51 (72%)	71
Total	**-**	**167**	**94**	**261**

Table 4.1.8 displays that 77% of the respondents who are married encountered difficulties in the process of loan repayment, while only 23% of the respondent who are single faced challenges in process of loan repayment. Furthermore, just 20% of married respondent never faced difficulties in repaying their credit to the bank, while 72% of the respondents that are single never encountered difficulties in loan repayment. This depicts that majority of the respondent who are married faced financial problems in the process of repaying their loan, while majority of their single counterpart never faced any difficulties in repaying back what was obtained in the bank. This therefore affirmed that marital status can affect the usage of credit facilities because a married client with responsibility of take care of member of his/her family in term of food, health, shelter and education can divert money obtain in the bank for business to take care of his/her immediate family needs. Hence there is a significant relationship between marital status and management of credit facilities.

4.2 SECTION B: PATTERN OF LOAN DISBURSEMENT

Table 4.2.1: Distribution of Respondents With Respect to the Length of Time with Microfinance Bank

			Banks		
Year of Operation	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
0-1 years	64	23.8	21(23.3)	24(26.0)	19(21.8)
2-3 years	145	53.9	48(53.3)	42(45.6)	55(63.2)
4 years and above	55	20.4	20(22.2)	23(25)	12(13.7)
No response	5	1.9	1(1.1)	3(3.2)	1(1.1)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.2.1 depict that (53%) of the respondents from Lapo started operating with microfinance banks within 2-3 years, while (23%) of the client studied started operating with the microfinance banks within 0-1 years and (22%) of the respondents started operating with the microfinance banks about 4 years and above.

Microcred:

The table also shows that (46%) of the respondents from Microcred started operating with microfinance banks within 2-3 years, while (26%) of the clients studied started operating with the microfinance banks within 0-1 years and (25%) of the respondents started operating with the microfinance banks about 4 years and above.

Nakowa:

Again table 4.2.1 shows that (63%) of the respondents from Nakowa started operating with microfinance banks within 2-3 years, while (22%) of the clients studied started operating with microfinance banks within 0-1 years and (14%) of the respondents started operating with microfinance banks about 4 years and above. From the above result the majority of the clients across the 3 categories of microfinance banks studied have been with the various banks for at least 3 years. This suggests that most of the clients of these banks recently join the microfinance institution.

Table 4.2.2: Distribution of Respondents Based on Nature of their Business Activities

			Banks		
Nature of Business	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Petty trading	86	32.0	24(26.6)	40(43.4)	22(25.5)
Small scale farming	63	23.0	33(36.6)	2(2.1)	28(32.1)
Commercial farming	47	17.5	23(25.5)	22(23.9)	2(2.2)
Handiwork	62	23.0	9(10)	24(26.0)	29(33.3)
No response	11	4.1	1(1.1)	4(4.3)	6(6.8)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.2.2 displays, that (37%) of the respondents from Lapo are engaged in small scale farming in their nature of business activities, while (27%) of the clients studied are engaged in petty trading (24%) of the respondents are engage in commercial farming and (10%) of the clients studied are engage in handiwork which is the nature of their business activities.

Microcred:

The table also shows that (40%) of the respondents from Microcred are petty traders, in their nature of business activities, while (24%) of the clients studied have handiwork, also (22) of the respondents are commercial farmers and (2%) of the clients studied are small scale farmers as their nature of their business activities.

Nakowa:

Again, table 4.2.2 reveals, that (33%) of the respondents from Nakowa are engaged in handiwork, while (32%) of the clients studied are engaged in small scale farming also (26%) of the respondents are engaged in petty trading and (2%) of the clients studied are engaged in commercial farming as their nature of their business activities. Although majority of the clients from the microfinance bank studied engage in petty trading that is selling of provision, farm produce, however the distribution of the business activities of these clients varies according to the categories of these microfinance banks. While petty traders dominated the client of Microcred Microfinance Bank, small scale farmers are the majority of the client of Lapo Microfinance Bank and the clients who involve in tailoring, hairdressing, cobblers, blacksmith etc. are the majority of the client in Nakowa Microfinance Bank. This suggests that microfinance bank actually deals more with large check of active poor or small and medium scale business. The implication of this is that as more microfinance banks increase in their numbers and expand in their services delivery the more likely people at the rural and urban area will be catered for in relation to their credit needs for business.

Table 4.2.3: Distribution of Respondents Based on Facility Received from the Bank

			Banks		
Facilities	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Money	104	38.7	23(25.5)	60(65.2)	21(24.1)
Agricultural facilities	18	6.7	10(11.1)	1(1.0)	7(8.0)
Machines	15	5.6	5(5.5)	2(2.2)	8(9.1)
Money/Agric facilities	70	26.3	27(30)	13(14.1)	30(34.4)
Money/Machine	60	22.3	24(26.6)	15(16.3)	21(24.1)
No response	2	0.7	1(1.1)	1(1.0)	0(0)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.2.3 displays that (30%) of the respondents from Lapo have received money/agricultural facilities e.g. fertilizers and other farm tools, while (27%) of the clients studied have received money/machine facilities ranging from motorcycles, bicycles etc. as credit facilities from the bank, while (27%) of the respondents have received credit in form of money, (11%) of the respondents have also received only agricultural facilities e.g. fertilizer, treated seeds etc. and (5) of the clients only received machines as credit from the bank. In an indepth interview section with the staff of Lapo Microfinance Bank revealed that:

> *Individual clients stand a chance of receiving any form of credit facilities from us immediately after opening account with us. For our clients who are into agriculture we supply them with treated seeds, fertilizer and other agricultural implement and for those who are drivers and okada riders we give them motors and motorcycles according to their needs while those who are into petty trading we give them money to boost their business*.

Microcred:

The table also reveals that (65%) of the respondents from Lapo have received credit in form of money (16%) of the clients studied have received money/machine ranging from motorcycles, bicycles etc. as credit facilities from the bank, also (14%) of the respondents have received money/agricultural facilities e.g. fertilizer and other farm instruments while (2%) of the clients studied only received machines as credit from bank, and (1%) of the respondents have received only agricultural facilities e.g. fertilizer and treated seeds etc.

Credit from the bank, in an interview session with the staff of Microcred microfinance bank revealed that: "*Basically we render monetary assistance to our clients as loan".*

Nakowa:

Again table 4.2.3 shows that (34%) of the respondents from Nakowa have received money/agricultural facilities e.g. fertilizer and other farm instruments while (24%) of the clients studied received money/machines ranging from motorcycles, bicycles etc. as credit facilities from the bank (24%) of the client also studied received credit in form of money from the bank while (9%) of the respondents received machines as credit from the bank and (8%) received only agricultural facilities e.g. fertilizer and treated seeds etc. as credit from the bank.

In an interview section the staff of Nakowa it was revealed that:

> *"We offer virtually all forms of credit to our clients depending on their needs and the availability of what they demand".*

Base on the data displays on table 4.2.3, it is glaring that the majority of the respondents received cash in form of money as credit from the three (3) microfinance banks. Although respondents receive credit in form of cash from Microcred microfinance bank because the bank do not give loan inform of agricultural tools or machines and this is because bank is located in semi urban centre compare to Lapo and Nakowa who give credit in both money and agricultural aids e.g. treated seeds, fertilizers etc. to their client are located in rural area. The implication of this is that it is the location as well as the available programme services of the banks that determine the form of credit facilities that any client can apply for or get.

4.3 SECTION C: EXTENT TO WHICH MICROFINANCE BANK COMPLY WITH LEGAL FRAMEWORK

This is examined in terms of: the maximum amount of loan that an individual client can be given (₦500,000); the condition or requirement and collateral of such credit facilities (absent of fixed or capital collateral); the targeted client of microfinance bank (special attention to women, small scale business and farmer); and the number of branches allowed by each category of microfinance banks which is based on their capital base. The state and unit microfinance banks are expected to operate only within a state while State Microfinance bank can have more than 2 branches within a state, a unit microfinance bank is not expected to have more than a branch or any other cash centre in the state where it is located (CBN, 2005, 2007 and 2011). Lapo which is a National category of Microfinance banks is allowed to have wider coverage across the whole states of the federation.

Based on the observation made during the course of data gathering for this study it was discovered that; Lapo Microfinance Banks has two (2) branches both of which are located along PZ road, Hanwa. The head branch is located immediately after over head bridge of Kwangila, while the other branch is located about half kilometer along the same MTD junction. Microcred Microfinance Bank has just a branch in the entire Zaria metropolis and its located at PZ where most commercial banks are located, though both Microcred and Lapo are operating within the guideline of microfinance framework with regard to their capital base and the number of branches that is permitted under the law, their locations however suggest that only people residing in this commercial areas are more likely to benefit from their services as in the case of the commercial banks. By implication therefore, the rural people that this institution are designed for are tactically exempted from benefiting from the programme. Nakowa Microfinance Bank which is a unit microfinance bank has from its inception operated two (2) branches. One at Gylallesu opposite ABU, Kongo and the second at Kudan local government. In each of these branches, same services are rendered to the client who patronizes them. Although, the two (2) branches of Nakowa Microfinance Banks are located in rural area of Zaria metropolis unlike Lapo and Microcred Microfinance Banks. But based on the categorization of Nakowa Microfinance Bank which is Unit Microfinance Bank, such activities and actions are considered malpractice and contrary to the legal framework that establish Microfinance Bank in Nigeria.

Table 4.3.1: Distribution of Respondents Based on the Amount of Money Received from the Bank

			Banks		
Amount received	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
₦100,000 – ₦290,000	56	20.8	21(23.3)	15(16.3)	20(22.9)
₦300,000 – ₦490,000	134	49.8	44(48.8)	48(52.1)	42(48.2)
₦500,000 and above	65	24.2	19(21.1)	28(30.4)	18(20.6)
No response	14	5.2	6(6.6)	1(1.0)	7(8.0)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.3.1 displays that (49%) of the respondents from Lapo received ₦300,000 – ₦490,000 amount in cash loan from the microfinance bank, while (23%) of the clients studied received ₦100,000 – ₦290,000 in cash loan from the microfinance bank and (21%) of the respondents received ₦500,000 and above in cash loan from the microfinance bank. In an interview with the staff Lapo, he said

> *We can give any amount of money or other credit facilities to our client, depending on the type of loan they subscribe for and the type of business they are into. For those who subscribe for regular loan, the lowest we give them is ₦20,000 the highest we give them is ₦50,000 while an individual who subscribe for special loan can obtain more than ₦1,000,000. However before disbursing the money to them regardless of the type of loan we must verify the source of their income in terms of their business venture and they must have shown some level of commitment to the bank. The repayment can either be weekly or monthly depending on the convenience of the client.*

Microcred:

The table also shows that (52%) of the respondents from microcred received ₦300,000 – ₦490,000 in cash loan from the microfinance bank, while (30%) of the clients studied received ₦500,000 and above in cash loan from the microfinance bank and (16%) of the respondents received ₦100,000 – ₦290,000 in cash loan from the microfinance bank. In an interview with the staff the bank maintains that:

> *Basically we have two types of loan given to our clients mini/micro loan and Small and Medium Enterprise (SME) loan for any individual clients who subscribe for mini micro loan, the highest they get from us is ₦500,000 while individuals who subscribe for (SME) can get more than ₦2,000,000 and we can also sponsor or finance contracts for our individual clients so long as we verify that their business venture can comfortably pay back with interest accrued to it.*

Nakowa:

Table 4.3.1 reveals that (48%) of the respondents from Nakowa received ₦300,000 – ₦490,000 in cash loan from the microfinance bank while (23%) of the clients studied received ₦100,000 – ₦290,000 in cash loan from the microfinance bank and (21%) of the respondents received ₦500,000 and above as cash loans from the microfinance bank. From the interview with the staff of the bank who revealed that:

> *The least we give our clients is ₦20,000 and there is no limit to the amount you can give to our individual clients. Our bank can afford to give ₦2milliion, ₦5 million to individual clients and also sponsor or finance special project. Recently we successfully financed a capital project for an organization that worth ₦10 million.*

Form these results it can be inferred that the highest amount that Nakowa, Lapo and Microcred Microfinance gives to their individual clients is determined by the type of loan that the client subscribes for and the highest given to the client based on the above results is between ₦300,000 – ₦490,000. However, these banks also give an individual over a million naira and also help in financing capital project worth more than 1 million naira. It can be infer that these banks are operating outside the legal framework that established microfinance bank which clearly stated that no individual clients should be given an amount that exceed ₦500,000 or finance project that exceed such an amount. The implication of this is that when large amount of money especially one that exceed 1 million or 2million is given to a single clients many other smaller business operators that requires small funds may not be cater for or their credit need will not be meet, since the capital base of microfinance bank is small compare to conventional bank.

Table 4.3.2: Distribution of Respondents Based on the Condition they met before given Credit Facilities

			Banks		
Conditions	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Guarantors	131	48.7	3(3.3)	78(86.7)	50(57.4)
Belonging to recognized groups	85	31.6	65(72.2)	0(0)	20(22.9)
Certificate of landed property	26	9.7	16(17.7)	3(3.2)	7(8.0)
Employment cover	221	8.2	5(5.5)	11(11.9)	6(6.8)
No response	5	1.8	1(1.1)	0(0)	4(4.5)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.3.2 reveals that (75%) of the respondents from Lapo said that the condition they met before accessing credit facilities in the microfinance bank was belonging to a recognized group, while (18%) of the clients studied said the condition they met before accessing credit facilities in the microfinance bank was bringing a certificate of landed property e.g. land, house, motorcycle, also (5%) of the respondents said that the condition they met before accessing credit facilities in the microfinance bank was bringing an employment cover and (3) of the clients studied said that the condition they met before accessing the credit facilities in the microfinance bank was having guarantors. From the interview with the staff of the bank revealed that:

> *Most of client that intend to benefit from our credit facilities must first and foremost have savings account with us and must belong to recognized union or group of the bank who will present and verified such individual as eligible to enjoy any services the group therefore represent the guarantor of such members for a group or an individual who want the bank to finance capital project must have an account and a recognized and registered business. In addition to these such individual or group must have a track record of the depositing certain amounts to the bank weekly or monthly for a period not less than 6 months.*

Microcred:

The table also shows that (87%) of the respondents from Microcred said that the condition they met before accessing credit facilities in the microfinance bank was having guarantor, while (12%) of the clients studied said the condition they met before accessing credit facilities in the microfinance bank was bringing an employment cover letter and (3%) of the respondents said that the condition they met accessing given credit facilities was bringing certificate of land properties e.g. house, land, motor vehicle etc. In an interview with the staff of the bank review that:

> *Three (3) guarantors are required from any of our client who wants our facilities and these guarantors must be either a traditional leader, a top politician or business tycoon and must physical appear to guarantee a client who wants our credit facilities. Importantly, the bank must attest and access the business venture that the clients are engages in.*

Nakowa:

Again, table 4.3.2 shows that (57%) of the respondents from Nakowa said the condition they met before accessing the loan in the microfinance bank was having guarantors, while (23%)

of the clients studied said the condition they met before accessing the loan in the microfinance bank was belonging to a recognized group, also (8%) of the respondents said the condition they met before accessing the loan in the microfinance bank was bringing a certificate of landed property e.g. house, land, motor vehicle etc. and also (7%) of the clients studied said the condition they met before given the loan in the microfinance bank was bringing an employment cover. In an interview with the staff of the bank said that:

> *Belonging to a recognized group or union, providing guarantors as well as having an employment cover letter are the requirement for any individual client who wants to benefit from our credit facilities for the individual who do not belong to a recognized group or union and wants our facilities, they have to open an account with us which we will observe their level of faithfulness and commitment and pattern of their transactions and business venture for relatively long period of time before facility is disbursed to them.*

It can therefore be infer that the condition and the criteria for obtaining credit facility in these microfinance banks varies according to the category, while Lapo require an individual to first and foremost open account with them and belonging to a recognized group who will stand as suretee for them, microcred required 3 guarantors in addition to having a business venture and account with them before credit facility is granted to them. Nakowa on the other hand required belonging to a group providing two (2) guarantors and having an employment cover letter for a civil servant before credit is given to them. The implication of these condition or requirement is that individual clients may not be able to meet these conditions especially when the credit needs is urgent which may discourage such clients from accessing microfinance credit facilities.

Table 4.3.3: Distribution of Respondents Based on how long the Application was Granted

			Banks		
Time frame	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Less than 1 month	146	54.3	51(56.6)	47(51.0)	48(55.1)
2 – 4 months	64	23.8	20(22.2)	21(22.8)	23(26.4)
5 months and above	52	19.3	17(18.8)	19(20.6)	16(18.3)
No response	7	2.6	2(2.2)	5(5.4)	0(0)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.3.3 displays that (57%) of the respondents from Lapo said that it takes less than 1 month for the application of a loan to be granted in the microfinance bank, while (22%) of the clients studied said it takes 2 – 4 months for the application of a loan to be granted in the microfinance bank, while (19%) of the respondents said it takes 5 months and above for the application of a loan to be granted in the microfinance bank.

Microcred:

The table also shows that (51%) of the respondents from Microcred said that it takes less than 1 month for the application of a loan to be granted in the microfinance bank, while (23%) of the clients studied said it takes 2 – 4 months for the application of a loan to be granted in the microfinance bank, while (21%) of the respondents said it takes 5 months and above for the application of a loan to be granted in the microfinance bank.

Nakowa:

It can be seen from table 4.3.3 that (55%) of the respondents from Nakowa said that it takes less than 1 month for the application of a loan to be granted in the microfinance bank, while (26%) of the clients studied said it takes 2 – 4 months for the application of a loan to be granted in the microfinance bank, while (18%) of the respondents said it takes 5 months and above for the application of a loan to be granted in the microfinance bank.

Contrary to the opinion of the overwhelming majority of the client which shows that their application was granted within a month, an interview with the clients of Microcred revealed that:

> *The condition given by my bank to bring 3 guarantors was very difficult for me, it took me some months before I was able to convinced my guarantors to follow me to the bank, because most of them were scared of getting implicated should I fail to pay back the loan. Right now, many of my friends and colleagues in the business who wants the microfinance credit facility but are still unable to do so because of the requirements of the credits loan from the bank.*

In the same vein a client of Nakowa Microfinance Bank reveals that:

> *Getting accepted in a group or union even after opening the bank account was difficult because the other members of the group were not ready to accept me as a member in other to access the loan from the bank.*

This implies that although the application of the majority of the people study reveal that majority of the clients from Lapo, Microcred and Nakowa applications were met within a month but not without facing difficulties in meeting the condition required from these various banks. Hence the condition given from the various microfinance banks could delay the accessibility of the loan and may scare away the operators of Small and Medium Scale Enterprises from approaching the banks.

4.4 SECTION D: CHALLENGES AND WAY TO REPOSITION THE OPERATION OF MICROFINANCE BANKS

Table 4.4.1: Distribution of Respondents Based on what they Consider as Major Challenges of Microfinance Facilities

			Banks		
Major Challenges	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
High rate of interest	84	31.2	27(30)	30(32.6)	27(31.0)
Accessibility of the loan	130	40.3	42(46.6)	44(47.8)	44(50.5)
Distance of the bank to any place	42	15.6	16(17.7)	14(15.2)	12(13.7)
No response	13	4.8	5(5.5)	4(4.3)	4(4.5)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.4.1 shows that (47%) of the respondents from Lapo says the major challenges of microfinance facilities is accessibility of the loan, while (30%) of the clients studied says the major challenge of microfinance facilities is the high rate of interest on the loan, and (18%) of the respondents says the major challenges of microfinance facilities is the distance of the bank to any place.

Microcred:

The table also displays that (48%) of the respondents from Microcred says the major challenges of microfinance facilities is accessibility of the loan, while (33%) of clients studied says the major challenges of microfinance facilities is the high rate of interest and (15%) of the respondents says the major challenges of microfinance facilities is the distance of the bank to their place.

Nakowa:

Table 4.4.2 reveals that (51%) of the respondents from Nakowa said the major challenges of microfinance facilities is the accessibility of the loan, while (31%) of the clients studied said the major challenges of microfinance facilities is the high rate of interest and (14%) of the respondents said the major challenges of microfinance bank is the distance of the bank to any place.

From this result it can be inferred that the majority of clients from Lapo, Microcred recognized that access to credit facilities in terms of the distance to where the bank is situated, the criteria and condition for obtaining the credit facilities which is usually difficult to meet represents their major difficulties in microfinance. The implication of these arrangements is that many clients would have to travel long distance to the place where the microfinance bank is situated and may not be able to meet the condition of credit requirement which may scare them or discourage them or other people from approaching microfinance bank. Moreso from the observation it was observed that Microcred, Lapo and Nakowa are located in the commercial areas that is (PZ) with no microfinance bank or branch in places like Samaru, Bomo, Biye and other neighboring community of Zaria metropolis.

Table 4.4.2: Opinion of Respondents on whether they Encounter Difficulties in Repaying the Microfinance Loan given to them

				Banks	
Opinion	**Frequency**	**Percentage (%)**	**Lapo**	**Microcred**	**Nakowa**
Yes	190	70.5	60(66.6)	66(71.7)	64(73.5)
No	146	17.2	15(16.6)	17(18.4)	14(16.0)
No response	33	12.3	15(16.6)	9(9.7)	9(10.3)
Total	**269**	**100**	**90(100%)**	**92(100%)**	**87(100%)**

Source: Field Survey, 2016

Lapo:

Table 4.4.2 displays that (67%) of the respondents from Lapo said “Yes” that they encounter difficulties in repaying the microfinance loan given to them while (17%) of the clients studied said “No” that they do not encounter difficulties in repaying the microfinance loan given to them. Further investigation reveals that (48%) of the clients from Lapo microfinance bank associates the difficulties faced in repaying the credit obtain from the bank to high rate of interest while (29%) of the respondents sees these difficulties in terms of low patronage in their business while (25%) of the clients studied said the difficulties faced is based on the short period of loan repayment with an interview with the staff of Lapo of the microfinance bank.

Microcred:

The table also shows that (72%) of the respondents from Microcred said “Yes” that they encounter difficulties in repaying the microfinance loan given to them while (18%) of the clients studied said “No” that they do not encounter difficulties in repaying the microfinance loan given to them. Further investigation reveals that (60%) of the clients from Microcred microfinance bank associated the difficulty face in repaying the credit obtain from the bank to high rate of interest while (21%) of the respondents sees the difficulties in terms of low patronage in their businesses while (19%) of the clients studied said the difficulties faced is based on the short period of loan repayment of the microfinance bank. In an interview with the staff of Microcred;

> *The interest for mini micro loan is 20% while that of the small and medium enterprises is 22% and any monthly or weekly default attracts additional charges.*

Nakowa:

Again, table 4.4.2 depict that (74%) of the respondents from Nakowa said “Yes” that they encounter difficulties in repaying the microfinance loan given to them, while (16%) of the clients studied said “No” they do not encounter difficulties in repaying the microfinance loan given to them. Further investigation reveals that (56%) of the clients from Nakowa Microfinance Banks associated the difficulty faced in repaying the credit obtain from the bank to high rate of interest while (22%) of the respondents sees this difficulties in terms of low patronage in their business while (22%) of the clients studied said the difficulties faced is based on the short period of loan repayment of the microfinance bank. In an interview with the Nakowa Microfinance Bank maintain that:

> *Our interest rate is based on the type of loan the customer subscribe for; personal loan interest is 21%; for staff loan interest is 12% which is in accordance with the rules of International Labour Organization (ILO) while our agricultural loan is 18%.*

These implies that the major difficulties encounter by the clients in the process of loan repayment is connected to the rate of interest charged by these banks and low patronage and returns from their business ventures. Although there is no legislative policy against the amount of interest microfinance can charge for loan rendered to its clients; that is there is no interest rate ceiling placed on microfinance institution, this is done to encourage investors in the sectors.

However, an interest rate that is above 20% in Microcred and 21% in Nakowa Microfinance Banks to the client who is into agriculture and small scale business is more likely to hamper their business and may lead to indebtedness or loan delinquency. Given these circumstances the microfinance loan or credit facilities would do more harm to the active poor who are recipient of these credit facilities and invariably defeat the aim and purpose for establishing microfinance bank.

Table 4.4.3: Perception of Respondents on whether they think Pre-borrowing Training is Necessary for a Successful Loan Usage

Perception	Frequency	Percentage (%)
Yes	175	65.0
No	73	27.0
No response	21	7.9
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.4.3 displays that (65%) of the respondents agree that pre-borrowing training is necessary for a successful loan usage and management. While (27%) of the respondent dismiss the importance of pre-borrowing training in loan usage and success in business. From an interview with administrative secretary of National Association of Microfinance Bank (NAMB), He said:

> *Most of the clients of microfinance bank do not really know the purpose of microfinance credit facilities while some of the client use the credit obtain from microfinance bank to get new wife or take care of their immediate family needs, other consider microfinance credit as their share of the national cake which should be spent as they sole wish instead of investing or injecting it in a business ventures even those clients who obtain the money for the purpose of their business venture do not really know the amount of credit that their business required per time and therefore take or demand credit that their business venture cannot handle. In fact, some clients can obtain credit loan from two different branches of our bank and still go to other bank to collect credit loans.*

This shows that the majority of the respondents believe that there is information gap between the management and clients of microfinance banks in relation to the needs of proper usage of credit facility therefore, pre-borrowing training is necessary for a successful loan usage as its likely to help them to invest the credit obtain from these banks to the appropriate business venture that such credit is meant. Such arrangement will give the client clear focus on how well to invest the fund received.

Table 4.4.4: Distribution of Respondents Based on Whether They Think That Staff of Microfinance Banks Will Perform Their Functions Better if They Undergo Training from Time To Time

Perform function	**Frequency**	**Percentage (%)**
Yes	211	78.4
No	35	13.0
No response	23	8.6
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.4.4 displays that (78%) of the respondents agreed that a trained microfinance bank will perform their work better and will be in better position to relate well with the clients and help them to achieve their set out business goals, while (13%) of the respondents dismiss the significance and impact of a trained microfinance banks staff in their businesses or how to make use of their funds. Interview with the administrative secretary of National Association of Microfinance Bank Kaduna Chapter (NAMB) maintained that:

> *Most operators of microfinance banks that is the owners, staff and management of microfinance bank do not really have requisite knowledge about the operation of microfinance institution. They often assumed that microfinance can be operated like commercial banks. Hence, the management often employed ex-commercial bank staffs or a professional of other financial institution to Mann the microfinance bank.*

Although microfinance bank takes deposit and operates savings and current accounts just like conventional banks but the operations of microfinance bank is totally different from how commercial bank is run, this is because microfinance banks deals with clients who are basically into substance agriculture and small and medium scale business with little or no formal education and are mostly in rural areas, these is not the case of commercial bank who operated in urban areas therefore the individual that should handle microfinance bank most have adequate information and knowledge on how to deal with those category of clients. These implies that the majority of the clients of microfinance bank see and understand the impact of a trained microfinance staff in the smooth operation of the institution as well as positive impact in their various businesses. This is particularly true in the sense that the clients of microfinance banks are different from clients of the conventional banks hence training from time to time would be required on the best practices of microfinance in relation to their clients.

Table 4.4.5: Distribution of Respondents Based on Ways They Think Can Help to Reposition Microfinance Bank

Ways	Frequency	Percentage (%)
Introduction of modern bank services	112	41.6
Establishment of more microfinance banks in rural areas	70	26.1
Strict monitory by government	74	27.5
No response	13	4.8
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.4.5 displays that (6.42%) of the respondents are of the opinion that introductions of modern banks services like ATM machines, internet banking etc. while (27%) of the respondent hold the view that strict monitory of the activities of microfinance bank by government officials and (26%) of the respondents maintained that establishment of more microfinance bank especially in rural area with aid and facilitate the operation of microfinance bank in the study area. In an interview with the Administrative Secretary of National Association of Microfinance Bank Kaduna Chapter (NAMB) said that:

> *The introduction of some modern banking services like ATM, E-Banking, POS etc. and development of centralized data based for all the microfinance bank in a state and country can improve the services rendered to the clients of microfinance bank and also encourage other member of the public to patronize microfinance banks.*

It is lucid therefore that the majority microfinance bank believes that introduction of modern banking serviced can improve and reposition the quality of services rendered by microfinance banks to their clients. It was observed that all the microfinance banks studied that is Lapo, Microcred and Nakowa have no ATM machines, POS and E-Banking services as at the time of the data was obtained. This implies that the clients of microfinance banks will have to travel with their cash or when leaving the area where these banks are not located or transfer their money to other commercial banks for accessibility.

Table 4.4.6: Distribution of Respondents Based on What They Think Government Can Do To Reposition Microfinance Bank

Areas	Frequency	Percentage (%)
Invest more in microfinance bank	125	46.5
Discourage microfinance bank from charging high interest rate	67	24.9
Sensitize people on the need to patronizing microfinance bank	39	14.5
No response	38	14.1
Total	**269**	**100**

Source: Field Survey, 2016

Table 4.4.6 shows that (47%) of the respondents are of the view that government should invest (especially familiarly) to the institution of microfinance bank so that the client of these banks can always get the amount needed each time they approach microfinance bank for loan. On the other hand, (25%) of the respondents maintained that, what government should do is to discourage microfinance bank from charging high interest rate on credit facilities given to their client. While, (15%) opined that government should enlighten and sensitize the general public on the need and advantage of patronizing microfinance bank. From the interview with the administrative secretary of microfinance bank Kaduna chapter, he said:

> *What microfinance bank needs in Nigeria as a whole is not money but that there is an attitudinal problem that is; corruption, laziness etc. as well as hostile environment for business which is endangering the full actualization of enormous potential that microfinance institution can benefit from.*

It can be inferred therefore that, the majority of the respondents feel where government need to come into reposition smooth operation of microfinance bank is by investing more funds in the institution in other to expand the coverage as well as efficiency of microfinance bank. However, other areas that need urgent attention and immediate response by government in the institution of microfinance bank is attitudinal i.e. corruption among the management of microfinance bank and laziness and misappropriation of funds on the part of the client. More so, government should provide enabling environment such that business can flourish and grow.

4.5 Discussion of Major Findings

This attempts to relate the outcome of the findings to the literature used in the course of the study. This will be done in view of establishing point of convergence and divergence between the literature and the finding of this research. With regards to the pattern of credit disbursement of Lapo, Microcred and Nakowa Microfinance Bank, the study revealed that the client of microfinance banks are dominated by individuals who can be regarded as active poor and low income earners as revealed by socio demographic information across the banks of this research with particular reference to level of the education and the kind of businesses they are into and their accommodation status. Although the business activities of various clients of microfinance banks studied varies in terms of specific specialization of the banks. However, the distribution of the various business ventures of these clients from the study area shows that: most of the clients of Microcred Microfinance Banks are into petty trading, while the clients of Nakowa Microfinance Banks are majorly into small scale farming. This is in line with the work of (Oluwasanya, 2014) which he asserted that the client of microfinance banks are often petty traders, street vendors, small farmers, services providers hair dresser, car pushers, artisans and small producers such as black smiths and often seen stressed. Contrary to the outcome of this study that revealed that no special consideration or priority was given to the females in ensuring that they have more access to microfinance credit facilities compared to the male counterparts. Choudun (2001), shows in his work on activities of Grameen bank that about 97% of the banks members were women and 6% of them belong to household with less than 0.1 acre of land. This idea is also reflected in the work of Musuga (2001) on the activities of Kenya Women Financial Trust (KWFT) which gives priority to women and provides them with technical assistance. According to Aigbokhan and Asomuta (2011) microfinance banks disburse their credit facilities on the basis of group in which individuals join or belong. Furthermore, Morduch et al (2003) suggest that the institution of microfinance banks grant a loan to a group of some twenty (20) people each standing for others, and if a problem arises, all are responsible for dealing with it. This scenario only manifested in the activities of Lapo and Nakowa Microfinance Banks, whose customers or clients are required to join a union before they can enjoy the credit services of the banks. And by belonging to a group or union the issue of collateral is solved. But, in Microcred Microfinance Bank, before a client can benefit from credit services of the bank he or she must provide three (3) guarantors who must be present at the bank before the credit facilities is disburse to them.

In connection to the extent in which microfinance bank complies to legal framework of microfinance bank, Audu and Achegbulu (2011) opined that the current operational strategies of microfinance banks in Nigeria has series of loopholes as many of the banks are yet to come to terms with the goals and regulatory principle of microfinance bank instead, they opted for malpractices that enable them make more profit in expense of the general goal of poverty reduction, this according to them is due to lack of technical skills and capacity. Similarly, this study found out that the microfinance banks studied engaged in some malpractices which include: giving to an individual amount more than ₦500,000 and also help in financing contract of individual or group whose business venture is not in category of small scale enterprises and required amount that is over 2 million naira. These banks engaged in these malpractices to further increase the profit margin of their organization and neglect the goals in which it was established. These attributes feature across the entire microfinance banks studied. Specifically, Nakowa Microfinance Bank was observed to have been operating two (2) branches since its inception, this run contrary to the directive of microfinance bank in regards Unit microfinance bank.

Furthermore, Otto Houspes et al, (2002), Newsletter (2009), reveal that rural lending of microfinance is very minimal, since they are located in the cities and urban area as a result, they could not ensure a clean break from community and commercial banking which therefore defeated the aim of ensuring that the active poor is able to save, borrow and repay loan price that is below the conventional banking rate. This assertion tends to be in agreement with the outcome of this research which shows that the average interest rate of Lapo, Microcred and Nakowa Microfinance Bank is above 20% which is higher than the prime rate of Diamond Bank (17%) and consequently reflecting the usage as well as the ability of the individual client to pay back the credit within the stipulated time. Also from the observation of the distribution of these microfinance banks in the study area, it was noticed that Lapo and Microcred Microfinance

Banks are located in the commercial area of Zaria metropolis while the rural communities that required microfinance services are neglected. In line with the challenges associated with microfinance bank in study area. According to Ehigianusoe (2007), loan delinquency which demoralize staff and deprived other beneficiaries of microfinance services represent serious issues. Secondly according to him is the problem associated with inadequate experience of staff which limit expansion and institutional performance of the bank. This is in consonance with the findings of this study that reveal that loan default is posing danger to the smooth operation of microfinance bank and their expansion. Also that, the inadequate experience of the staff of microfinance banks in Zaria metropolis hampered on the extent to which the institution is able to make meaningful and positive changes in the life and conditions of their customers who access their credit facilities. Although the argument of Achu (2012) may not be true that the state and level of poor infrastructural facilities contribute majorly to the inability of microfinance banks to revolutionalize the economy, because according to him, absence of good road, electricity makes the cost of transaction of the banks with small clients and low income earner higher than other conventional banks. In contrast to this assertion by Achu, the report of this study revealed that lack of business orientation or sense coupled with the poor attitude of both the staff and clients are major challenges that hampered and represent danger to the smooth operation of microfinance bank in Zaria metropolis.

Theoretically, two (2) approaches were used to address issues around prospect and challenges of microfinance bank in the study area. These theories include political economy theory of class struggle and welfare state theory. The political economy of class struggle which believed and hold that individual and group behaviour is determined by the structure and the position of individual in the structure of the society, was able to explained and unearth the purpose why microfinance's client will always agitate for more credit facilities to be given to them even though this clients do not necessary have a business venture to invest the money into, and the management on the other hands charges a high interest rate to increase their profit margin even when they know that such tactics could affect the clients business. This contradictory intension and action, therefore leads to a situation that hampered the smooth operation of microfinance bank and consequently leading to enormous challenges affecting microfinance banks in Zaria metropolis. These challenges include malpractices on the part of microfinance banks' management and high rate of loan default on the part of the clients, will no doubt lead to serious damage to the Nigeria society and its economy.

The second theory i.e. "The welfare state" explained the rationale and the continuous existence of microfinance institutions even in the present of challenges that affect its operation. The theory shows that because microfinance banks are almost no collateral financial institution that do not necessary need landed property as surety before a loan can be given to the clients make them better option to the "active poor" whose business is small, and often lack the criteria of obtaining any credit assistance from commercial banks. Although microfinance banks in the studied area required an individual to meet certain conditions (joining a group or providing three (3) guarantors as the case may be). These conditions can be said to be relatively easier and comfortable compare to what may be required of an individual to obtain same financial assistance from conventional commercial banks.

The relevance of these two (2) theories can be seen in area where one (i.e. political economy) underscore the intricacies that ensue where two opposing individuals are in a relationship and both are aiming for a better outcome in such union. While the other i.e. "welfare state" provides justification for the need and rationale for which certain groups or member of the society must be given special consideration in the process of pursuing their life surviving activities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This research examined the prospects and challenges of microfinance banks in Zaria metropolis by investigating the pattern of microfinance banks credit disbursement to the client, the extent to which microfinance bank complies to operational framework that establish them in relation to credit disbursement to the client and challenges facing the disbursement of credit facilities. Data were collected from the staff and client of microfinance bank through questionnaire and indepth interview and were analyzed through frequency distribution tables, percentage and cross tabulation. The result shows that microfinance banks in the study area offer savings and current accounts services to their clients and also give cash as well as other items which include; fertilizer and farm implement to farmers and purchase of cars or motorcycles to their clients who desire them for business. The conditions or criteria of obtaining these microfinance credit facilities from the banks by the clients vary according to the category of the bank studied. The period of loan repayment which can either be weekly or monthly is determined by the agreement between the bank and clients during loan disbursement.

The research also established that, there is a noticeable slight difference in the pattern of credit disbursement amongst Lapo, Microcred and Nakowa Microfinance Banks to their clients but all these microfinance studied are guilty of some malpractices. Aside from not giving special consideration to women in accessing their credit facilities which makes men benefit more, Nakowa, Lapo and Microcred microfinance banks give out credit loan that exceed ₦500,000 worth of cash to an individual client and also financed capital projects and contracts that exceed 2 million; a practice that negate the operational principle of microfinance bank as stated by

Central Bank of Nigeria (CBN) in the regulatory framework of Microfinance Bank in Nigeria. The patterns of credit disbursement and malpractices amongst the microfinance banks within the study area can be said to have degenerated and culminated into numbers of challenges that befall the smooth operation of Microfinance Banks in Zaria metropolis. These challenges among others include; insincerity of purpose on the part of client on the need for credit facilities leading to loan delinquencies; this also is connected to lack of business orientations of the clients. The staffs of these microfinance banks also lack the special training and knowledge of operating microfinance banks. Hence behave more like commercial banks staff in a bid to generate savings and lure customers to their various banks. The government failure in enforcing and implementing a workable microfinance programme in the country through CBN can be said to be the root of all the other challenges like corruption, nepotism etc. noticed in the microfinance banks in Zaria metropolis.

5.2 Conclusion

Although microfinance bank in the study area render services more to the operators of small and medium scale businesses and by so doing expose the rural people to banking programme and services which facilitate their business and agricultural activities which in turn improve their lives and that of their family. However, given the perceived malpractices and challenges noticed in the operations of these microfinance banks which is more tilted toward a profit making organization similar to commercial bank as against an institutional panacea of social inequality and poverty, there is a high tendency that the fate that befell the Peoples Bank and Community Banks, is likely to befall the microfinance institution.

5.3 Recommendations

Based on the findings and conclusion of this study, the following are therefore recommended:

i. For proper loan management, credit usage and reduction in the rate of loan default, microfinance banks should engage in series of training and sensitization with their client before disbursing and giving them any credit facilities. This will enable the clients to invest in the right place and manage such facilities very well and also reduce the level of loan default.

ii. Microfinance banks should introduce some modern banking services in their banks e.g. ATM, POS and mobile or internet banking. This will enable clients of microfinance banks transact their businesses anywhere in the country and also make their services attractive to other member of the public.

iii. State and National microfinance bank should extend their branch and cash centre to rural area to make banking services accessible to the people.

iv. Government through Central Bank of Nigeria should invest more financially to microfinance banks and restrict their lending interest rates.

v. Central Bank of Nigeria should step up their surveillance on the activities of microfinance banks in other to reduce the high level of malpractices among them.

vi. Introduction of special programme and microfinance banks that would exclusively render affordable services to women in order to increase and improve their accessibility to credit facilities.

vii. Microfinance banks should insure certain percentages at the total amount of credit facilities given to the clients in insurance company before disbursing it to the client. This will help to mitigate risk and cushion lost.

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APPENDIX I

QUESTIONNAIRE FOR MICROFINANCE BANK CLIENTS

Dear respondent,

I am a postgraduate student undergoing a research on ***Prospects and Challenges of Micro Finance Banks in Zaria metropolis.*** Kindly spare few minutes of your time to complete the attached questionnaire. Your honest opinion will be considerable assistance and will be greatly appreciated. Your response will be used only for the purpose of this study, and will be greatly treated highly confidential and strictly for academic purpose only.

Thanks for your cooperation

Yours sincerely,

David Obadahun

SOCIO-DEMOGRAPHIC PROFILE OF RESPONDENTS

1. SEX (a) Male { } (b) Female { }
2. Age (a)16-24 { } (b) 24-34 { } (c) 45-54 { } (d) 55 and above { }
3. Marital status (a) Single{ } (b) Married{ } (c) divorced { }
4. Type of marriage (a)Monogamous { }(b)Polygamous { } (c) Others specify ______________
5. Number of children (a) 1-4 { } (b) 5-8 { } (c) 9-12 { } (d) 12 and Above { }
6. Religion (a) Christianity { } (b) Muslim { } (c) Traditional { }
7. Educational background (a) primary education { } (b) secondary education { } (c)tertiary education { } (d) non formal { }

8. Accommodation status (a)owned house{ } (b) rented house{ } (c)sharing house{ } (d)others specify ____

SECTION B

9. Since when have you been operating with the bank? (a) 1 year { } (b) 2 years { } (c) 4 years { } (d) others specify____
10. How do you get information about the credit facilities of MFB? (a) Mass media { } (b) Friends { } (c) Opinion leader { } (d) Poster bills { }
11. What is the nature of your business activity (a) petty trading { } (b) small scale farming { } (c) commercial farming { } (d) Handwork { }
12. Which facility did you obtain from your bank (a) money{ } (b) agricultural facilities { } (c) machines { } (d) money and agricultural facilities { } (e) money and machines { } (f) All of the above { }
13. Do you think the success of small scale business lie in the microfinance and not in big banks (a) Yes { } (No) { }
14. What do you consider as the direct impact of loan to your business? (a) change in average monthly income { } (b) in the business but not making profit { } (c) no longer in business { } (d)business expansion { } (e) indebtedness { }

SECTION C

15. What is the largest amount of loan received from the bank? (a)N10,000{ } (b)N20,000{ }(c) N30,000(d) N50,000 (e) N100,000{ }
16. What is the least amount of loan received from your bank?(a)N1000{ }(b)N5000{ } (c) Others specify ____

17. What kind of condition did you meet before the loan was given to you? (a) Land { } (b) employment cover { }(c)guarantors{ } (d) membership of a group { }
18. Will the amount given to you as loan enable you improve your business

    (a) Yes { } (b) No{ }
19. Why? ____
20. How long did it take for application to be granted (a) less than 1 month (b) 1 month{ } (c)2 months{ } (d) 3 months{ } (e) above 6 months { }
21. What is the repayment period (a) 0-6 months{ } (b)6-12 months { } (c)12-18 months { }(d) above 18 months { }
22. Were you subjected to training before loan was given to you (a) Yes { } (b)No{ }
23. How often do the bank officials visit your business centre after loan has been given to you (a) weekly{ } (b) 2 week interval{ } (c) Monthly { } (d) Don't come at all { }
24. Has your business witness any significant improvement since the introduction of microfinance loan (a) Yes{ } (b)No{ }
25. What are the things you are able to achieve since making the loan (a) pay school fees of children{ } (b) built a small persona{ }l house{ } (c)acquire a bicycle a motor cycle/car { }(d)able to adequately feed my family{ }
26. Why do you think so? ____

SECTION D

27. What do you consider as major challenges of microfinance credit{ } (a) high rate of interest { }(b)accessibility of the loan{ } (c)distance of the bank to any place { }
28. Do you considered the amount given to you as credit sufficient for the exposition of your business (a) Yes { } (b) No { }

29. Why? ____

30. Do you encounter difficulty in repaying the loan given to you? (a) Yes{ } (b) No{ }

31. How? ____

SECTION E

32. What do you think can be done to improve the services of microfinance bank (a) introduction of modern bank services { }(b) establishment of more microfinance bank{ }(c)strict monitory of the institutions { }

33. Do you think that staff of microfinance bank will perform their functions better if the undergo training from time to time (a) Yes{ } (b)No{ }

34. Why? ____

35. Do you agree that pre-borrowing training is necessary for a successful loan usage ?

    (a) Yes{ } (b) No{ }

36. Why? ____

37. What do you think government can do to reposition microfinance bank to achieve is objective of poverty alleviation?

    ____

    ____

APPENDIX II

IDI GUIDE FOR CLIENTS OF MICROFINANCE BANK

1. What are the basic credit facilities you are have enjoyed from your bank? In respect to; your business and to your for level of income
2. What are the requirements and conditions that you met before the loan was given to you i.e. collateral and the time taken.
3. What are the conditions attach to the repayment and the implication of not meeting them? In regards to interest rate, and the time of repayment
4. What are the major challenges associated with the credit facilities of your bank in respect to: location of the bank, and conditions of obtaining and repayment of credit facilities
5. How does the interest rate of these credit facilities affect:
   a. Your business your ability to pay back promptly
   b. The development of your business
6. In what ways can the operation of microfinance bank be improved:
   a. In respect to coverage
   b. The role of the bank staffs the role of the clients
7. How can government interfere in strengthens the institution of microfinance bank?

APPENDIX III

IDI GUIDE FOR STAFF OF MICROFINANCE BANK

1. What are the basic facilities you provide for your clients or customers? In other to enhance small and medium scale business and reduce poverty and income inequality.
2. What are the requirements or conditions of obtaining credit services from your bank? The age, the sex, the educational level and the collateral
3. How is the repayment of your services done: In regards to time; the interest rate change and the implication of default to the clients
4. How do you operate as microfinance bank in regards to: Types of loan you give to your clients; the amount of credit you provide for individual or groups; the type of business your financed and provide credit for and your coverage within Kaduna state.
5. What are the major challenges confronted by your bank; In the process of sourcing of funds; in disbursing credit facilities and loan repayment by the clients.
6. How does the level of loan delinquency affect your operation as microfinance banks? In regards; to your outreach to the client; your statues in the category of microfinance bank in Nigeria and the level of your profit margin
7. In what way is your operation affected as a result of poor infrastructure in rural area?
8. In what ways can the operation of microfinance bank be enhanced? In regards to: clients, staffs and management.
9. How can the level of loan default be reduced? The role of the beneficiary of credit facilities, the impact of the staffs of microfinance banks
10. What can government do to strengthen the institution of microfinance of microfinance bank? In the area of infrastructure, sensitization, corruption, business policies.

APPENDIX IV

IDI GUIDE FOR SECRETARY OF NATIONAL ASSOCIATION OF MICROFINANCE BANK KADUNA CHAPTER

1. How microfinance banks do operates in Nigeria? In respect to their category; their targeted clients and customers; the credit facilities and the collateral or conditions required for their credit services.
2. What is the reason and implication of categorizing microfinance bank into three (3) levels. In regards to: capital base, the availability and disbursement at credit facilities, the individual beneficiary and the types of businesses they financed.
3. What are the major challenges confronted by your bank; In the process of sourcing of funds; in disbursing credit facilities and loan repayment by the clients.
4. How does the level of loan delinquency affect your operation as microfinance banks? In regards; to your outreach to the client; your statues in the category of microfinance bank in Nigeria and the level of your profit margin
5. In what ways can the operation of microfinance bank be enhanced? In regards to: clients, staffs and management.
6. How can the level of loan default be reduced? The role of the beneficiary of credit facilities, the impact of the staffs of microfinance banks
7. What can government do to strengthen the institution of microfinance of microfinance bank? In the area of infrastructure, sensitization, corruption, business policies.

APPENDIX V

BANK PROFILE:

1. Name of Bank:____
2. Bank Office Address:____
3. To what sector of the economy do you mostly channel your credit? (a) Agriculture { } (b) Industry { } (c) Trading { } (d) Personal { } (e) Other Specify____
4. What are your major sources of funds? (a) Borrowing from commercial banks { } (b)Grants from CBN { } (c)Direct grants from the government { } (d)Private donors { } (e) Shareholders funds { }
5. What is the range of facilities or products offered by your bank? (a) Small loan { } (b) Large loans { } (c) Saving opportunities { } (d) Insurance { } (e) Foreign exchange transaction { } (f) Other Specify__________________
6. What qualify a client for obtaining a loan in your bank? (a) Cash in account { } (b) Lended property { } (c) Statement of financial accounts { } (d) Certificate of occupancy { } (e) Guarantor { }
7. What are the reasons often advanced by your client for their need of loan? (a) To be able to build assets { } (b) To purchase equipment/or machineries { } (c) To grow small business { } (d) Commercial farming{ } (e) Other Specify____
8. The minimums amount you provide as loan in cash to your clients? (a) N5,000-N7,000 { } (b) N7,500-N10,000 { } (c) N12,000-20,000 { } (d) N25,000-50,000 { } (e)N100,000 and Above { }
9. In what other ways do you render credit apart from cash? (a) Input { } (b) ICT { } (c) Technical support { } (d) Client training { }
10. What is the tenure of loan? (a) Less than 3 months { } (b) 3 months { } (c) Six months { } (d) One year { } (e) Above 1 year { }
11. What is the rate of interest on the above tenure? (a) Less than 3months { } (b) Three months { } (c) Six months { } (d) One year { } (e) Above a year { }
12. What is the general rate of interest on any loan? (a) 5% { } (b) 7% { } (c) 10-12% { } (d) 20% and above { }

13. Which of the loan methods do your apply in your bank (a) Group leading { } (b) Individual lending { } (c) Co-operatives lending { } (d) Use of village money lenders { } (e) Other Specify_______________________________________

14. Can you say the operation of microfinance bank has help in poverty alleviation
    (a) Yes { } (b) No { }

15. Why?____
    ____

16. What challenges have you encountered in the process of providing services to your clients? (a) High rate at repayments default { } (b) High overhead cost { } (c) Difficulty in loan monetary { } (d) High clients business mutuality { } (e) Other Specify____

17. What uninsured can be put in place to ensure and reposition the operation of microfinance bank in Kaduna state?

18. How many loan officers is your bank having? (a) 5 { } (b) 10 { } (c) 15 { } (d) 20 and above { }

19. How many number of pension is allowed to form a group for loan assessment (a) Less than 5 { } (b) More than 5 { } (c) More than 10 { } (d) More than 20 { } (e) More than 30 { }

20. What is the vision of your bank?

21. Which group of micro enterprise do you give priority in your loan disbursement? (a) Agriculture { } (b) Artisan { } (c) Petty traders { }

22. Which group of gender do you give more attention in your credit delivery? (a) Male { } (b) Female { } (c) Both Equally { }

Reason for your answer____

23. Which of the following services do you engage in

(a) Acceptance of public sector deposit i.e. government

(b) Foreign exchange transactions

(c) International commercial papers

(d) Dealing in real estate business

(e) Dealing in land for speculative purpose

(f) All of the above

24. Do you engage in pre-loan training and research before loan disbursement to your client?

(a) Yes { } (b) No { }

If yes how____

25. Do you consider the activities of commercial bank as a treat to your activities?

(a) Yes { } (b) No { }

Why ____