Problem and Prospect of Microfinance Banks in Ilorin Metropolis, Kwara State, Nigeria

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DOI: 10.22178/pos.79-4

JEL Classification: D53

Received 16.02.2022
Accepted 28.03.2022
Published online 31.03.2022

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Abstract. In 2005, the Nigerian government launched the Microfinance Banking Scheme to offer funding to economically active impoverished people who cannot obtain loans from traditional banks, create jobs, promote rural development, and alleviate poverty. This study looks at the theoretical issues these institutions have had to deal with since their creation. It also examines the business climate to analyze the potential of microfinance institutions in the Ilorin metropolis, Kwara State. According to the research, microfinance banking in the Ilorin metropolis faces enormous challenges due to inadequacies in infrastructure, social misconceptions, a poor legal and regulatory framework, unbridled competition from other financial institutions, abandonment of core microfinance functions, and a scarcity of qualified workforce. The research highlighted areas where these institutions might capitalize despite the numerous hurdles. Some of these potential include expanding entrepreneurial awareness, increased government involvement, significant unbanked rural areas, and a high number of disadvantaged individuals. According to the study, with correct regulatory interventions and the dedication of other stakeholders to the primary objective of microfinance banking, its issues may be solved, and its prospects may be improved. As a result, this study suggests that the future of microfinance banking in the Ilorin metropolis, Kwara State, and Nigeria is promising.

Keywords: Microfinance; Bank; Sector; Interest; Economic Development.

INTRODUCTION

Microfinance banking institutions provide services to the poor, lower-income earners, and small and medium-sized business owners who do not have other options for obtaining financial assistance from traditional banks [5]. On the other hand, these banks face many issues that make it challenging to achieve their goals. Nigeria is rich in natural and human resources, with over 150 million people mainly devoted to agriculture and small-scale business. Micro, small, and medium-sized enterprises (MSMES) and peasant farmers in need of financial assistance to improve their standard of living dominate the sector [6].

A microfinance bank is a financial institution that provides financial support to unemployed or small people and organizations who have not had other choices [6].

Microfinance is the most beneficial and widely used financial method on the planet. It gives loans to the poor and middle class, whom the government or any commercial bank would not lend, to help disadvantaged people with their financial problems. Microfinance aims to improve low-income, low-wealth persons' access to loans and savings services in both wealthy and developing countries worldwide. It is the fastest in the world and the most well-known technique for poverty alleviation [10]. The federal government has passed legislation that will boost the participation of rural and urban residents in economic growth programs: The Directorate of Food, Road, and Rural Infrastructure (DFRRI), the Better Life for Rural Women Program, the Family Economic Advancement Program, and the Peoples Bank Scheme Community Banking Program. It performs essential roles, especially in rural areas, such as giving loans, reducing poverty, creating jobs, strengthening small and medium enterprises (SMES), and increasing agricultural productivity [13].

On the other hand, microfinance banks in Ilorin Metropolis have been unable to achieve 40% of their corporate objectives due to the following risks: political concerns, marketing, economic issues, and technological factors. This study investigated microfinance banks' performance, issues, and prospects to determine their contribution to community economic development through savings mobilization and loan granting to agricultural producers, medium-sized enterprises, and other small and medium-sized businesses. A lack of banking culture in rural areas and among the urban poor is likely impeding the establishment of financial institutions. Traditionally, these people borrow money from friends and relatives and repay it in the same amount, no matter how long the loan lasts. As a result, individuals have trouble grasping the notion of bank loan interest payments. The high-interest rate charged by microfinance leaves something to be desired [2]. Microfinance institutions charge 30 to 100 % interest on loans and 4.5 to 6 % interest on savings, according to a UNDP survey from 2003. Microfinance bank rates are considered too high, which may be detrimental to the firm. Corruption is a cankerworm that has decimated Nigeria's economy in various ways. The impacts of corruption are not limited to the microfinance industry. Corporate governance, forgeries and frauds, theft, and consumer debt repayment refusal are all instances [1]. Another critical issue mentioned by the report is a lack of assistance for human and institutional capacity building [4, 9] both cited this as a factor limiting the operation of microfinance banks in Nigeria. Since the beginning of community banking in Nigeria, human capacity in the microfinance sub-sector has been challenging. This study aims to identify the issues that the microfinance scheme faces, analyze the scheme's prospects, and offer solutions for avoiding the pitfalls that its predecessors fell into and overcoming current challenges. The following are the precise objectives:

1. To identify the challenges that microfinance banks confront in Ilorin Metropolitan Area.

2. Determine how rural and urban microfinance banks have contributed to providing credit to the poor.

3. Evaluate the efficacy of various programs to foster entrepreneurship and its finance and how they have influenced the achievement of the goals.

4. Make recommendations based on the research findings.

History of Banking in Nigeria

Nigeria's first commercial bank was established in 1892 by the African Banking Corporation of England, afterwards renamed British West Africa Bank, and the International Journal of Management Science and Entrepreneurship, later called Bank of West of Africa, in 1894. Other

institutions such as Nation Bank Plc. were established to compete with international banks' monopolies. They are all governed by the Central Bank of Nigeria (CBN). This was done to aid the growth and prosperity of the country's economy and financial system. This is the responsibility of the Nigerian Central Bank (CBN). The central bank's (CBN) duties include the following:

1. Banker to the Government. The government requires a bank account with the central bank to deposit and withdraw funds. It also acts as the government's agent, receiving tax receipts and depositing them directly into the government's central bank account and making payments on behalf of the government.

2. Bankers Bank. The Central Bank owes money to commercial banks. They borrow from the central bank when they run out of cash.

3. Because commercial banks usually require liquid cash to meet their demands, the central bank serves as a lender of last resort for them.

4. To meet demand, they frequently require liquid cash. All monies released due to crude oil exports are received by the central bank and deposited in the government account for quick distribution when needed.

The reason for the installation of microfinance banks

Community development is critical at this stage of Nigeria's economic growth since the country must be built from the ground up. For rural households, obtaining decent funding is often difficult. Several governments have tried to address these concerns by expanding financial services to rural areas. This idea was spurred by President Ibrahim Babangida's government's founding of the People's Bank of Nigeria to bridge the gap between regular banking and the people's bank and the idea for microfinance in 1991. One of the project's objectives is to

1. To promote local development

2. To create public knowledge about rural community banking

3. To teach rural and low-income people about credit and savings and dissuade them from relying on local money lenders, which is typical among rural residents?

4. To promote rural sectors such as farming, trade, art and craft, and small-scale investors.

Agree on an efficient fiscal system that meets the national economy's need for proper second orientation for rural populations.

The impacts of microfinance on socio-economic development

Microfinance banks contribute to a society's, a state's, or a country's overall socio-economic development. It also aids firms in expanding their operations by increasing inventory, revenue, salaries, and the ability to stay in business [3]. As a result, people's standard of living rises. Microfinance banks, on the other hand, have the following consequences in Ilorin Metropolis:

Poverty Alleviation. The word "poverty alleviation" refers to the process of reducing poverty. Microfinance plays a crucial role in a country's attempts to eradicate poverty. This is because the government's primary purpose in alleviating poverty is to provide as many job opportunities as possible and a revenue-generating mechanism for enterprises. In the microfinance business, microfinance banks play an essential role. They offer loans with reasonable monthly instalments, making debt repayment more manageable. LAPO has aided several small business owners in acquiring funding for their endeavours [13].

Job opportunities include persons, groups, and enterprises that get loans from microfinance banks and employ others in their activities, creating job possibilities for those individuals, organizations, and businesses. On the whole, small companies tend to give individuals opportunities to work. Secretaries, receptionists, sales officers, cleaners, and other professionals are just a few of the jobs available in small firms [11].

Increasing small and micro enterprises (SMES). People with business ideas might use microfinance institutions as a platform to make their ambitions a reality. Gone are when people believed that business was solely for the wealthy and powerful. Anyone can now create a small business and apply for a loan from any microfinance institution. Take, for example, FBN Microfinance Bank, a Nigerian affiliate of First Bank. This microfinance bank offers lending products to small enterprises, artisans, petty traders, and individuals to help them manage their businesses daily. They provide various credit options for multiple demographics. The following are some of the items available: "Level Don Change" is a short-term facility for long-term customers with a good track record, designed to help them acquire company assets and increase their revenue. "Kia-Kia Loan" is a lending facility designed to help existing clients with good credit history with urgent requirements. "Easy Loan" is a short-term loan for salaried individuals to acquire household necessities and various other financing options [13].

Boosting agricultural production. Agriculture is a realistic choice for most disadvantaged individuals living in rural areas. Microfinance institutions can also help farmers acquire funding. They can get loans to buy sophisticated farming equipment like tractors and ploughs, among other things. Microfinance institutions can help farmers feed their families and market their agricultural products by providing loans [13]. SMEs are essential to the economy because many of their manufacturing inputs are sourced locally, reducing the load on limited foreign exchange earnings and helping to close a portion of the trade imbalance:

- SMEs are the backbone of the country's economy;

- make domestic savings available and use them to foster indigenous entrepreneurship by developing local technologies;

- assist manufacturers in obtaining high-quality parts, components, and intermediate goods, allowing them to improve their worldwide competitiveness;

- promote technological innovations; manufacture customized items in small numbers to meet today's and tomorrow's needs;

- the ability to expand export options and successfully replace imported goods.

Who needs microfinance?

Robust economic growth is hard to achieve without well-targeted measures that provide access to production factors, particularly financing, for the poor and low-income. Microfinance provides financial services to the underprivileged who have been overlooked by traditional financial institutions [14]. A large section of the Nigerian populace still lacks access to financial services. The number of persons served by traditional financial markets increased marginally from 35.0 % in 2005 to 36.3 % in 2010, according to 2010 Enhancing Financial Innovation and Access [14]. Those in financial hardship might use their resources to help others through clubs/pools, Asusu, Ajo, and money lenders; in 2010, the overall access rate was 53.7 %, suggesting that 46.3 % of Nigeria's adult population, or 39.2 million adults, were financially excluded. (34.9 million people, or 39.7% of the adult population, are economically disadvantaged, according to the EFInA access to financial services in Nigeria 2012 survey. Only 28.6 million people were banked, or 32.5 % of the adult population [7].

In addition, a 2014 poll found that 36.9 million Nigerians, or 39.5 % of the adult population, have access to financial services. Financial services are available to only 33.9 million people, or 36.3 % of the adult population. However, the number of financially disadvantaged people continues to rise: 36.9 million (39.5 % of the adult population) lack access to financial services. The questionnaire also includes questions about Adult Nigerians' knowledge and perceptions of financial services and current financial behaviours. Such as saving, borrowing, and sending remittances), income sources and levels, and use of a variety of financial services, including mobile money, insurance, microfinance, and informal credit services, are all included in the study [7].

METHODOLOGY

Primary and secondary sources will be used to compile the data for this study. The preliminary data was gained using a questionnaire and a personal interview, while the secondary data was gathered through a survey of relevant resources on the study's subject. A non-probability sampling approach was used to choose respondents from the study's target demographic.

RESULTS AND DISCUSSION

In response to their difficulties, they devised the microfinance plan. Many of these problems continue to afflict microfinance banking. On the other hand, this section deals with some of these concerns.

1. *There is a lack of banking culture in impoverished rural and urban communities*. A lack of banking culture in rural areas and among the urban poor is one factor against microfinance banks. Traditionally, these people borrow money from friends and family and repay the same amount borrowed over the life of the loan, regardless of the length of the loan. As a result, they have difficulty grasping the concept of interest payments on bank loans.

2. *Inadequate basic infrastructure*. Microfinance banks in Nigeria face several challenges: a lack of basic infrastructure. The lack of fundamental infrastructure exacerbates these banks' operational issues, which are already burdened by high operating costs due to their business model.

3. *Community and microfinance bank failures and withdrawals in 2010*. The loss of several community banks and the suspension of the licenses of 224 microfinance banks in 2010 severely harmed public trust in these institutions. Many microfinance banks that have opened in areas where failed community banks have operated face an uphill battle in convincing these people that they would not lose money in a bank failure. The unexpected revocation of 224 microfinance bank licenses has heightened public distrust of financial institutions.

4. *Inadequate support for human and institutional capacity development*. Another major issue that has been identified as impeding the success of microfinance banks in Ilorin is a lack of assistance for human and institutional capacity building. Human capacity has been a problem in Ilorin's microfinance industry since the days of

community banking. According to [8], one of the primary issues in the microfinance sub-sector is the recruitment of a competent and appropriate workforce. He attributed this to the industry's failure to compensate employees fairly. Microfinance institutions may face human resource issues such as a lack of training opportunities and poor working conditions. These banks reflect human characteristics.

5. *Corruption in the microfinance sector and among customers*. Corruption is a cankerworm that has wreaked havoc on the Nigerian economy. Corruption hurts the microfinance industry. Examples are flaws in corporate governance, frauds and forgeries, theft, and consumer unwillingness to repay debts.

Prospects of microfinance banking in Ilorin metropolis:

1. The government's renewed interest in the microfinance sub-sector and the improved regulatory environment improve microfinance banks' prospects for growth and success. One example is the CBN's training program development for regulators, promoters, and practitioners.

2. The inclusion of microfinance bank deposits in the deposit insurance system demonstrates regulatory intention to keep the micro-finance and banking sub-sector thriving. The public's trust in the sector has risen as a result. Furthermore, as specified by the NDIC Act of 2006, the increase in the deposit insurance maximum from one hundred thousand nairas to two hundred thousand nairas is a further predictor of regulation intended to instil trust in these institutions.

3. It is indisputable that Nigeria's microfinance sub-sector offers numerous opportunities. Researchers concur that microfinance institutions have a sizable emerging market. According to [12], approximately 70% of Nigerians function in the informal sector or agricultural production. Based on the nation's population of about 150 million people, we estimate that at least 105 million people are working in this industry.

CONCLUSIONS

Nigeria is a nation with enormous resources; however, despite its large population, it remains impoverished. In an attempt to address this, the government issued microfinance policy recommendations in 2005. One of the provisions of this guideline was the permission of microfinance banks. As a result, Nigeria's microfinance banking sub-sector is still relatively new, beginning in 2007. It is going through a difficult and attempting stage, as many innovative concepts do. In Nigeria, microfinance banks face several challenges, including frequent changes in policy, inadequate infrastructure, and cultural misconceptions. Banks are also hampered by corruption, fraud, forgery, and poor corporate governance. Regulators, organizers, professionals, and other microfinance financial services stakeholders must work collaboratively to overcome these challenges. This ensures that they do not suffocate the sub-sector as previous government microfinance initiatives did. Given their potential for poverty alleviation, all these institutions must thrive and grow. The magnitude of poverty in the country, the massive impromptu finance sector, the largely rural community, and the participation of much more than 70% of the community in agricultural production and tiny to medium enterprises point to a vast untapped economy for these banks. If the massive market issues outlined above are overcome, microfinance financial institutions in Nigeria will have a bright future.

The following recommendations are suggested to alleviate the problems that microfinance banks in Nigeria face for them to capitalize on the enormous market prospects: Capacity building for practitioners by the CBN and NDIC is a positive step forward which should be lengthened for the boards of directors of these institutions. This will ensure that the directors who develop these banks' policies and top management are on the same page.

They should be educated on microfinance banks' operating parameters, techniques, and priorities.

They should be notified that these banks are not small commercial banks and that microfinance institutions have financial and social goals.

The government must follow through with its promises to improve its infrastructural facilities.

Even though power is a significant expense for microfinance banks, it should be given special consideration because one of the fundamental issues affecting microfinance finance in Nigeria is a lack of banking culture.

These banks must start educating their customers on financial literacy before making loans. Clients should be educated on the complexities of such facilities, such as repayment options, interest rates, and the advantages of adhering to the terms of the credit service agreement. Microfinance institutions, particularly those from northern Nigeria, should be assertive in product design. Because so many people in the region conform to religious beliefs that forbid them from paying interest on loans, banks should provide them with interest-free loans. As with traditional banks, officials must encourage interest-free micro-finance banking by creating success criteria.

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