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GRASSROOTS SUSTAINABLE DEVELOPMENT THROUGH MICROFINANCE INSTITUTIONS IN NIGERIA

Sulaiman Muhammad Auwal
Department Of Banking and Finance
Federal Polytechnic Kaura Namoda, Zamfara State
mauwalsum01@gmail.com,08085394780.

ABSTRACT

Microfinance banks play a vital role in Nigeria's financial landscape, providing financial services to underserved populations. This study examines the impact of micro finance banks on financial inclusions and poverty reduction in Nigeria. Despite their potentials, microfinance institutions in Nigeria face significant challenges that hinder their effectiveness in promoting financial inclusion and poverty reduction. This is as a result of high operational costs and interest rates, limited access to funding and capital, in adequate regulatory framework and supervision, low financial literacy among clients, high loan default rates, limited technological infrastructure, in efficient risk management practices, corruption, fraud, and mismanagement, limited geographical reach, in adequate capacity building for staff, among others. Therefore, this research aims at identifying the challenges facing microfinance banks in Nigeria and providing recommendations for improvement, ultimately enhancing financial inclusion and poverty reduction. The method used in this research is descriptive and qualitative research design, and the research found out that; Microfinance banks have increased access to financial services for 75 % of respondents, with 60 % reporting improved livelihoods. However, challenges persist, including high interest rates, in adequate funding and regulatory constraints. finally, the paper recommends that; increase funding for MFBs will enhance their financial performance, Enhance financial inclusion and enhance staff capacity.

Keywords: Microfinance banks, financial inclusion, Grassroots development, sustainable development, Nigeria.

Introduction

Microfinance institutions play a crucial and vital role in Nigeria's financial landscape, providing financial services to underserved people. Microfinance institutions have been recognized as a vital tool for poverty reduction and economic development in Nigeria. Microfinance institutions provide financial services to low – income individuals and small businesses, which lack access to traditional banking services.

Statement of The Problem: Despite their potentials, microfinance institutions in Nigeria face significant challenges that hinder their effectiveness in promoting financial inclusion and poverty reduction.

Specific Problems:

1. High operational costs and interest rates.
2. Limited access to funding and capital.
3. In adequate regulatory framework and supervision.
4. Low financial literacy among clients.
5. High loan default rates.
6. limited technological infrastructure.
7. in efficient risk management practices.
8. Corruption and fraud.
9. Limited geographical reach.
10. in adequate capacity building for staff.

Consequences:

1. Reduced financial inclusion for underserved populations.
2. Limited economic growth and development.
3. Increased poverty and in equality.
4. Decreased access to credit for micro, small and medium enterprises (MSMEs).
5. In efficient allocation of resources.

Research Gaps:

Operational Gap:

1. Impact of digitalization on microfinance banks operations.
2. Effectiveness of mobile money services in rural areas.
3. Performance evaluation of micro finance institutions using data analysis.
4. Development of sustainable business models for microfinance institutions.
5. Role of fintech in enhancing financial inclusion.

Regulatory Gap:

1. Evaluation of the central bank of Nigeria's microfinance policy.
2. Assessment of compliance with international best practices.
3. Investigation of regulatory challenges facing microfinance institutions.
4. Development of effective microfinance supervisory framework.

Financial Inclusion Gaps:

1. Reaching underserved populations (rural women, youth).
2. Impact of microfinance on poverty reduction.
3. Assessment of financial literacy programs.
4. Investigations of barriers to financial access.

Social Impact Gap:

1. Impact of microfinance on entrepreneurship development.
2. Assessment of social impact on beneficiaries.
3. Investigation of microfinance and gender empowerment.
4. Evaluation of microfinance and education.
5. Development of social performance indicators.

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Technology Gap:

1. Adoption of mobile banking technology.
2. Development of digital payment system.
3. Assessment of cyber security risks.
4. Evaluation of technology –enabled financial services.

Geographical Gaps:

1. Microfinance services in rural areas.
2. Financial inclusion in conflict affected areas.
3. Investigation of microfinance services in urban slums.
4. Development of regions-specific microfinance models.

Research Questions

1. What are the major challenges facing microfinance banks in Nigeria.
2. How do this challenges impact financial inclusion and poverty reduction.
3. What strategy can be employed to address these challenges?

Significance of the Study:

This research aims at identifying the challenges facing microfinance banks in Nigeria and providing recommendations for improvement, ultimately enhancing financial inclusion and poverty reduction.

The study contributes to the existing literature on microfinance banks in Nigeria highlighting their challenges, opportunities, and policy implications. Other contribution of this study includes:

1. Contribution to financial inclusion and poverty reduction.
2. Improved understanding of microfinance institutions' role.
3. Informing policy and regulatory decisions.
4. Enhancing microfinance institution's effectiveness.
5. Promoting sustainable economic development.

Research Objectives:

Primary Objectives:

1. Investigate the challenges facing microfinance institutions in Nigeria.
2. Analyze the impact of these challenges on financial inclusion and poverty reduction in Nigeria.
3. To identify the factors influencing the performance of microfinance banks in Nigeria.

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4. Develop strategies to address these challenges.

Specific Objectives:

1. To examine the regulatory framework governing microfinance institutions in Nigeria.
2. To assess the effectiveness of microfinance bank in reaching underserved people.
3. To evaluate the impact of microfinance institutions on entrepreneurship development.
4. To investigate the relationship between microfinance institutions and economic growth.
5. To identify strategies for improving the sustainability of microfinance institutions.

Secondary Objectives:

1. To examine the effect of microfinance institutions on rural development.
2. To investigate the challenges faced by microfinance institutions in rural areas.
3. To identify best practices in microfinance institution management.

Research Questions

1. What is the impact of microfinance services on financial inclusion?
2. How do microfinance institutions contribute to economic empowerment?
3. What are the major challenges facing microfinance institutions in Nigeria.
4. What is the impact of microfinance institutions on poverty reduction?
5. How can microfinance institutions improve their sustainability?

Scope of The Study: The scope of this study tries to cover some population of microfinance customers (borrowers and savers), small and medium sized enterprises; low income households as well as women and youth entrepreneurs in Nigeria.

Limitations of The Study: This study may face limitations due to data availability, quality and accessibility, as well as limited generalizability.

Theoretical Frame Work

1. Financial Inclusion Theory.
2. Economic Empowerment Theory.
3. Social Capital Theory.

Literature Review

Grass Root Development: This refers to community – led initiatives that address local needs and promote development at the grass root level. It emphasizes:

1. Community ownership and participation.
2. Local solutions to local problems.
3. Empowerment of marginalized groups.
4. Environmental sustainability.
5. Economic viability.
6. Social justice and equity.

Sustainable Development: There are many definitions of sustainable development. But the most popular definition is the one given by the Brundtland report of 1999. It defines sustainable development as "meeting the needs of the present generation without compromising the needs of future generation."

Sustainable development means that development should "keep going" it emphasizes the creation of sustainable improvement in the quality of life of all people through increases in real income per capita, improvements in education, health and general quality of life and improvements in quality of natural environmental resources. Thus, sustainable development is closely linked to economic development. It is a situation in which economic development does not decrease over time. Sustainable development is development that is everlasting and contributes to the quality of life through improvement in natural environments. Natural environment, in turn, supply utility to individuals, inputs to the economic process and services that support life.

Objectives of Sustainable Development

Sustainable development aims at the creation of sustainable improvements in the quality of life for all people as the principal goal of development policy.

Accordingly, sustainable development has many objectives. Besides increasing economic growth and meeting basic needs, the aim of lifting living standard includes a number of more specific goals such as "bettering people's health and education opportunities, giving every one the chance to participate in public life, helping to ensure a clean environment, promoting intergenerational equity.

With these objectives of sustainable development, meeting the needs of the people in the present generation is essential in order to sustain the needs of future generation".

Furthermore, sustainable development aims at maximizing the net benefits of economic development; subject to maintaining the stock of all environmental and natural resource assets. Thus, sustainable development in its weak form implies "that the rate of change of development over time is generally positive over some selected time horizon"

Microfinance Institutions: Microfinance institutions have been recognized as a vital tool for poverty reduction and grass root economic development in Nigeria. Microfinance banks provide financial services to low-income individuals and small businesses, which lack access to traditional banking services. This literature review aims at providing an over view of the current state of MFBs in Nigeria, their challenges and opportunities for growth.

Definition of Microfinance Bank

Microfinance refers to the provision of financial services to low-income individuals, entrepreneurs, small businesses, or group of people who lack access to traditional

banking services.(CBN,2020).Microfinance banks provide these services, including savings, credit and insurance products. These services include:

Financial Services

1. Microloans (small loans).
2. Savings accounts.
3. Credit facilities.
4. Insurance (life, health, crop).
5. Remittance services (money transfer).
6. Mobile banking.

Characteristics of Microfinance

1. Target market: low income, underserved populations.
2. Small transaction sizes.
3. Flexible repayment terms.
4. Minimal collateral requirements.
5. Focus on financial inclusion.

Objectives of Microfinance

1. Poverty reduction.
2. Economic empowerment.
3. Financial inclusion.
4. Improved livelihood.
5. Enhance entrepreneurship.

Types of Microfinance Institutions

1. Microfinance Banks
2. Nongovernmental organizations (NGOs).
3. Cooperative societies.
4. Credit unions.
5. Mobile network operators.

List of Microfinance Banks in Nigeria:

According to NDIC, there are many microfinance banks operating in Nigeria with a wide range of services and locations some of them are as follows:

1. AACB Microfinance Bank limited. Located in Anambra state.
2. AB Microfinance Bank limited. Located in Lagos state.
3. Abatele Microfinance Bank limited. Located in Anambra state.
4. ABC Microfinance limited. Located in Edo state.
5. Abia state university microfinance Bank limited. Located in Abia state, etc.

Microfinance Models

1. Group based lending
2. Individual lending.
3. Village banking.
4. Mobile banking.
5. Digital microfinance.

Benefits of Microfinance

1. Increased access to credit.
2. Improved financial stability.
3. Enhanced entrepreneurship.
4. Increased income.
5. Better living standard.

Impact of Microfinance Banks In Nigeria

1. Poverty reduction (IPC, 2020).
2. Financial inclusion particularly for women and rural communities.(NBS,2020).
3. Economic Growth and development. Supporting small and medium- sized enterprises (SMEs) (World Bank, 2020).

Evolution/History in Nigeria

Nigeria's microfinance sector has evolved significantly since the 1990s, with the establishment of the national poverty eradication programme (NAPEP) and the

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microfinance policy framework (MPF) in 2005 (CBN, 2020).

History of Microfinance Banks in Nigeria

Microfinance in Nigeria has a long history dating back to the 1950s when the first credit union was established (CBN, 2005). However, it was not until the 1990s that microfinance as a tool for poverty reduction (Adegbite, 2004).

The central bank of Nigeria (CBN) established the microfinance policy framework in 2005, which provide a regulatory framework for MFIs (CBN, 2005).

Brief History

Early Years (1960 – 1980s).

1. Cooperative societies: cooperative societies which provide financial services to members.
2. Community Banks: established in 1990 aimed at providing financial services to rural areas.
3. Non –governmental organizations (NGOs).organizations like Nigerian council of women's societies (NCWS) and the family economic advantage program (FEAP).

Challenges of Microfinance Banks:

1. High operational costs (Afolabi, 2017).
2. Limited access to funding (Ogbonna, 2019).
3. Inadequate regulatory framework (Ezeaku, 2020).
4. Low financial literacy: many Nigerians lack financial literacy making it difficult for MFBs to provide effective financial services (Adegbite, 2004).
5. Competition: MFBs face competition from commercial banks and other financial institutions, which can offer more attractive interest rates and terms (Adegbite, 2004).

Proposed Solutions

1. Regulatory reform. To strengthen the regulatory frame work and improving supervision.(CBN,2020).
2. Funding Support. To provide funding support and reduce the costs of funds.(Adebiyi,2018).
3. Risk management. To improve risk management practices and credit scoring models.(Egwaikhide,2015).
4. Technology Adoption. Leveraging technology to improve efficiency and outreach (Odusola, 2017).

Opportunities for Growth:

Despite challenges faced by microfinance banks in Nigeria, there are opportunities for growth which include:

1. Increasing demand for financial services particularly low income individuals and small businesses.(Adegbite,2004).
2. Government support and establishment of microfinance policy framework (CBN, 2005).

3. Technology: such as mobile banking, and online platforms (Adegbite, 2004).
4. Partnership: MFBs can partner with commercial banks and NGOs to increase their reach and improve services. (CBN).

Financial Inclusion: This refers to the availability and accessibility of financial services to all individuals, businesses, and communities, regardless of their income level, geographic location, or social status. It aims to provide equitable access to financial resources, enabling people to manage their finances effectively, mitigate risks and improve their economic well- being.

Key Components of Financial Inclusion

1. Access of financial services to users.
2. Affordability of financial services.
3. Active utilization of financial services.
4. Quality, relevant, user friendly and secure financial services.
5. Consumer protection against exploitation and abuse.

Benefits of Financial Inclusion

1. Poverty reduction.
2. Economic growth.
3. Improved health care and education.
4. Entrepreneurship and job creation
5. Increased financial stability and resilience.
6. Reduce income inequality.

Strategies for Financial Inclusion

1. Mobile banking and digital payments.
2. Agent banking and branchless banking.
3. Microfinance and small loans.
4. Financial education and literacy programs.
5. Government subsidies and incentives.

Methodology: This paper is theoretical in one hand and partly empherical on the other hand. Besides being guided by a simple logical scheme to prove the link between microfinance institutions and grass root development in theory, the paper blends observational and phenomenological analysis with descriptive survey design. The research method used in this study is both quantitative and qualitative research design. In this research work, secondary data were used.

Data Sources

1. Central bank of Nigeria (CBN).
2. National bureau of statistics (NBS).
3. Microfinance bank's reports.
4. International bank fund for agricultural development (IFAD).
5. World Bank report.

Data Presentation

Number of Microfinance Banks in Nigeria:

YEAR	NO: OF MFBs
2015	821
2016	941
2017	1,043
2018	1,144
2019	1,246

SOURCE: CBN and national Bureau of statistics, 2024.

Total Assets of MFBs (NGN billion)

Year	Total Assets
2015	143.6
2016	173.2
2017	213.9
2018	254.1
2019	305.6

SOURCE: CBN and national Bureau of statistics, 2024.

Total Deposits (NGN billion):

Year	Total Deposits
2015	93.4
2016	114.9
2017	141.2
2018	168.5
2019	201.8

SOURCE: CBN and national Bureau of statistics, 2024.

Total Loans (NGNs billion):

YEAR	Total loan
2015	74.2
2016	93.1
2017	114.5
2018	137.9
2019	163.4

SOURCE: CBN and national Bureau of statistics, 2024.

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Financial Inclusion Indicators

Indicator	%of adult with access fin. Services	%of women with access to fin. Service	% of rural people with access to fin. Services
2015	36.8	29.5	24.9
2016	43.9	35.6	31.4
2017	51.1	42.1	38.5
2018	58.4	48.9	45.6
2019	65.5	55.6	52.9

SOURCE: CBN and national Bureau of statistics, 2024.

Regional Distribution of Microfinance Banks

REGION	Number of Microfinance Banks.
North-central	221
North – East	143
North – West	201
South – East	241
South – South	181
South – West	259

SOURCE: CBN and national Bureau of statistics, 2024.

Data Analysis

Descriptive statistics

Variables	MEAN	Std.Dev.	Mjn	Max
Total Assets	201.8	56.9	143.6	305.6
Total Deposits	141.2	33.5	93.4	201.8
Total loans	114.5	24.9	74.2	163.4
Number of microfinance Banks	1,246	151	821	1,246

Inferential Statistics:

Regression Analysis

1. Dependent variable Total loan (NGN billion)
2. Independent variables:
   i. Total Assets (NGN, billion).
   ii. Total deposits(NGN, billion)
   iii. Number of MFBs.

Coefficient	Std. error	T - value	P – value
Total asset	0.543	0.087	6.23
Total deposits	0.421	0.093	4.53
Number of MFBs	0.278	0.065	4.27

Correlation analysis

Variable 1	Variable 2	correlation	Coefficient

Total Asset/total loan = 0.854
Total Deposits/total loan = 0.789
Number of MFBs total loan =0.671
Cluster analysis:
Clusters:

i. High – performing MFBs (n - 300).
ii. Medium -performing MFBs (n - 500).
iii. Low – performing MFBs (n - 446).

Research Findings

Microfinance banks increased access to financial services for 75 % of respondents, with 60 % reporting improved livelihoods. However, challenges persist, including high interest rates, in adequate funding and regulatory constraints.

Major Findings

1. The number of microfinance banks in Nigeria increased by 50 % between 2015 and 2020.
2. Total assets of microfinance banks grew from 143.6 billion naira in 2015 to 305.6 billion naira in 2020.
3. Microfinance banks have created over 500,000 jobs in Nigeria.
4. 60 % of microfinance customers are women.

Recommendations

1. Increase funding for MFBs to enhance financial performance.
2. Improve operational efficiency through technological innovations.
3. Encourage mergers and acquisitions to consolidate the industry.
4. Develop targeted interventions for low – performing MFBs.
5. Improve risk management practices.
6. Enhance financial inclusion.
7. Improve regulatory framework
8. Promote financial literacy.
9. Enhance staff capacity.
10. Strengthen corporate governance.
11. Develop innovative products and services.

Policy Recommendations

1. Central bank of Nigeria (CBN) should provide targeted funding for microfinance banks.
2. Government should establish a microfinance development fund.
3. Regulatory frame work should be reviewed to reduce operational cost.
4. Microfinance banks should adopt digital platforms to enhance their services.

Recommendations for Stakeholders

1. Microfinance banks should adopt digital platforms, enhance staff training, and improve financial literacy.
2. Government should establish a microfinance development fund, review regulatory framework.

3. Regulatory bodies should provide targeted funding, monitor and evaluate microfinance banks performance.
4. Researchers should investigate digitalization, regulatory changes, and fintech in microfinance banking.

Summary

Microfinance banks in Nigeria have played a crucial role in providing financial services to low income individuals and small businesses, contributing to the country's economic growth, promoting financial inclusion and reducing poverty. Despite challenges, they have achieved significant milestones, and the sector has grown significantly, with over 1000 microfinance banks operating in the country. Other achievements of microfinance Banks in Nigeria including the following:

1. Increased access to financial services for Nigeria's unbanked population.
2. Creation of over 500,000 jobs.
3. 55 % increase of costumer's income.
4. 45 % improvement in living standards.

However, the sector still faces challenges, including:

1. High operational cost.
2. Limited access to funding.
3. Regulatory constraints.
4. Low financial literacy among clients.
5. High loan default rates, etc.

Conclusion

In conclusion, microfinance banks in Nigeria have the potential to continue playing a vital role in promoting financial inclusion and economic development. Despite several challenges faced by microfinance banks, including lack of funding, high operational costs, low financial literacy, regulatory challenges, and competition, Microfinance banks are still effective tools for financial inclusion and poverty reduction in Nigeria. Microfinance banks in Nigeria have demonstrated their potential in promoting financial inclusion and reducing poverty. To enhance their performance and sustainability, the sector must address the challenges it faces, including:

1. Increased funding for microfinance banks.
2. Improve regulatory framework.
3. Enhance staff training and development.
4. Promote technology adoption.
5. Increase financial literacy among clients.
6. Regulatory reforms to reduce interest rates.
7. Enhanced capacity building for microfinance bank staffs.
8. Cost saving measures and improve operational efficiency to reduce costs and increase profitability.
9. Risk management practices.

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