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PERFORMANCE APPRAISAL OF MICROFINANCE BANKS IN NIGERIA: A CASE STUDY OF SELECTED MICROFINANCE BANKS (IN KWARA STATE)

Dr G.K. Jenyo
Dept. of Business Admin, Adeleke University, Ede

Dr. Ola Adebayo
Department Of Entrepreneurship
Joseph Ayo Babalola University
Ikeji-Arakeji – Osun State,Nigeria

ABSTRACT: *A study of selected MFB in Kwara State was undertaken in order to assess their performance over time with a view to evaluate their objectives, structure, and practicability as it affects their operations. The study also describes the profile of customers and staff of MFB in the selected areas so as to know whether or not their input had affected the performance of the MFB. In the same vein, it examines and evaluates the causes of failure of those banks in the study area and suggested solutions to ameliorate the problems identified. The method of data collected was based on the use of both descriptive survey and analytical presentation the study revealed that generally the liquidity position of MFB was weak as it was about 0.96 in 2007 and 0.88 in 2008 as against 2.00 (i.e. standard recommended for the industry). Similarly, the debt equity ratio revealed that these banks rely heavily on borrowed capital, hence, if for any reason the creditors withdraw their funds, the banks would be faced with a situation of imminent collapse. Similarly, there are strong relationships between their capital base, liquidity stability and relative income. It is thus concluded, therefore, that there is the need for greater cooperation between the central bank of Nigeria (CBN) and Nigeria Deposit Insurance Cooperation (NDIC).*

KEYWORDS: Microfinance banks (MFBS), Microfinance institutor(MFIS), Microfinance credits

INTRODUCTION

Many countries in both developed and developing economic have adopted different strategies, targeted at reducing poverty. The issue of poverty reduction occupies a central position in the economic policy of most government all over the world, especially in the developing countries. Emphasis on poverty reduction as a tool for sustainable development is based on the argument that, economic development is the responsiveness of every sector of a nation's economy toward the economic growth of the nation.In Nigeria, for example, different measures had been put in place to address this problem, unfortunately all of them failed. These were operation feed the nation (OFN) green revolution, petroleum trust fund (PTF), better life for the rural dwellers, peoples bank and community banks. The shortcoming and failure of community banks led to the introduction of MFB. The adoption of the MFB policy has raised a number of questions such as what are the challenges and prospects of micro financing in Nigeria? Will the policy succeed in equipping the poor for sustainable development or will it fail like the previous programmes?

METHODOLOGY

Ten microfinance banks were selected. The analysis of the data collected was presented in tables. The response recorded accordly and the scores counted in percentages for cosigners decouple and comparison. Interpretations were given based on the result for the tables

Objective of the Study

- Analyze roles played by MFB in the economy of rural few urban dwellers.
- Why microfinance was adopted in Nigeria
- Examine the causes of failure among microfinance banks in the study area and make suggestions with a view to ameliorating the problems identified.
- Evaluate and appraise the performance of the microfinance banks in the study area and to find out working tools (input) of microfinance banks and their performance (output).
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The aim of MFB includes extension of credits to beneficiaries, promote entrepreneurship and boost rural financial markets which will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them. MFB are institutions established as companies licensed to carry on the business of providing microfinance service such as collection of savings, loans provision, insurance money transfer services and other non-financial services that are needed by the poor as well as the micro enterprise.

Data and Results:

Table 1: Educational background of the bank staff

Level of educe on	**Frequency**	**Parentage %**
Below WASC	1	2
WASC/GCII	2	4
ND/NCE	22	44
Degree	21	42
Post graduate	4	8

Source: field survey 2012

Table 2: Banking experience of the MFB staff frequency percentage

Banking Experience

1-5 years	17	34%
6-10 years	23	46
11-15years	7	14
16-20years	1	2
Above 20years	2	4
Total	50	100%

Source: Field Survey

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Table 3: Various ratios for each MFB

Banks	Current Asset	Operating Ratio	New Capital Rate	Desk Equity
X1	2.24	0.90	1.20	4.94
X2	0.991	1.10	1.05	10.23
X3	1.871	0.32	1.57	1.43
X4	0.98	2.53	0.83	6.23
X5	1.19	1.06	0.81	2.47
X6	1.06	1.05	1.08	7.13
X7	1.34	0.68	1.62	5.96
X8	0.60	2.10	0.94	3.60
X9	0.86	0.56	1.26	3.39
X10	0.34	6.53	0.56	33.44

Source: field Survey

DISCUSSION

As shown in table 1, 25 (50%) of the staff do not have university degree, 21 (42%) have university degree in various fields while 4 (8%) have post-graduate qualification. the fact that 50% of the staff do not have university education has a negative effect on the performance of the ten banks. It was only bank x1 that four graduates, banks x_6 and x_7 have two graduates each, while banks x_2, x_3 and x_{10} do not have a single graduate. In modern banking, higher academic qualification is of great value as it enables the staff to use their own initiative in marketing and decision making. The era of armchair banking is over we are now in the computerage. To be more efficient, effective and therefore increase productivity, more training opportunities should be created for the staff at all cadre (level)

Average years of banking experience X =7.5
Standard deviation S.D = 4.61
Coefficient of deviation C.V% = 61.46

Table 2 revisable 80% of the bank staff have less than 11 years banking experience. The standard devices reveal that there is a wide variation in the banking experience of the staff. The importance of relevant education qualification and experience in the industry cannot be over emphasized.

Bank x1 has a current ratio of 2.24 as against 2 recommended for the industry. In other words this bank has a good current ratio. By implication she does not have liquidity problem. The bank is able to meet all her current obligations as are at when due but not so for banks x,4, x,8, x9, are x10.

The operating ratio of the bank was 90, put in another way; she expended 90kobo to serve an income of N1. This is not too good and for the bank to be able to remain in business and for her shareholders to have good return on their investment, she need to reduce her operating expenses. Bank x1 has net capital ratio of 1.2. The implication of this is that in case of liquidation, the bank will be able to pay all her liabilities, however, to be in a very safe position the bank should shrive to meet 2. None of the MFB has 2. Which is not good for the industry

Debt equity ratio of the bank is 4.94. By this it means for every N1 contributed by the shareholder N4.94 is borrowed from outside. This is not a good position for the bank. A lower ratio indicates a good leverage.

The desk equity ratio reveled that these banks rely heaving on borrowed capital; hence if for any reason the creditor's withdraw their funds the banks would be faced with a situation of imminent collapse.

Credit Delivery

This is perhaps one of the most important roles of MFB, as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2010) microfinance loans granted to clients is increasing from 2007 to date and most of it goes to financing micro enterprise in rural areas. Ketu (2008) observed that MFB have disbursed more than N800milion micro credits to over 13,000 farmers across the country to empower their productive capacities. As such it is expected that agricultural output will increase with the increase in funding. The entrepreneurial capacity of the farms will thus improve.

Boosting Small Scale Enterprises/Agriculture

About 60 percent of poor people in the country live in the rural areas and 80 percent of them are farmers (NBS, 2005). MFB have therefore been the main source of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, hence small scale agricultural practices and micro-enterprise is developed.

Governments go into co-operations to partner with the microfinance Banks to raise bulk loans to be disbursed to the beneficiaries. By so doing the banks are increasing and sustaining the number of people going into small businesses.

Improvement In Skill Acquisition

Microfinance banks assisted in large measure on improvement of skill acquisition especially for the rural women and adult-literacy. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefits analysis in the conduct of businesses. In most cases a profit sharing agreement is entered between a bank and entrepreneur. New methods and innovations are posted to the prospective entrepreneur by the banks professional, while at the end of the production period the proceed is shared and the entrepreneur, if so wishes, can continue on his/her own after the necessary skills and production techniques are acquired (Umer 2008)

Employment Generation

Agriculture and micro enterprises contribute immensely to job creation and are of particular interest to all microfinance banks in the rural areas. According to CBN report (2008). The promotion of employment in rural areas by microfinance banks covers the following areas. blacksmithing, gold-smith, watch repairing, bicycle repairing, basket wearing, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban area, these industries are more prominent in the rural areas.It has, therefore, been acknowledged that the rural setting is an area of many industries, which could be developed to contribute significantly to the national economy, just as rural people are more frequently self-employed than urban people (Ketu 2008).

Facilitates Poverty Alleviation

MFB have accelerated the operation of government poverty alleviation programmes and in doing that, promising entrepreneur are supported and new ones emerged. The federal governments' National Poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving it United Nation's Millennium Development Goals (MDGs) by 2015 required these microfinance institutions for success. The success of these programmes and projects for advancement for the MDGs are linked with the promotion of entrepreneurs in rural areas and subsequent reduction in the level of poverty (ketu 2008).

Despite all the above roles and functions perform by microfinance banks they still have some challenges.

Causes of Failure of Microfinance Banks

As a fall out of the system, distress ravages the banking and financial industry, the microfinance banks are not left out of this problem. Their dependence on conventional banks before they could serve their customers is one of the undoing factors inhibiting the operations of microfinance banks. It is the extent to which the conventional banks were sick, that the microfinance banks relying on their services were adversely affected and infected. What are the general causes of banks failure Peculiar to the microfinance Banks? This question was included in the questionnaire. Respondents were asked to rate the given causes of failure peculiar to microfinance banks given in the order of their importance. While the most important is 1st, the least important will be 10th. As stated earlier, a total number of 76 respondents (made up of 55 bank customers, 15 bank staff and 6 governing bodies staff i.e NDIC and CBN) were used.

Poor incompetent and at times fraudulent management. (73.68%) respondents ranked this factor as the most serious single factor responsible for the collapse of microfinance Banks. In most cases microfinance banks Managing Directors are either poor in terms of skills and experience or are fraudulent managers expelled from their formal banks who are now engaged by a microfinance bank. The consequences of engaging such poor or fraudulent managers are great. Out of the five randomly picked microfinance banks, 5% of their staff do not have university education. This has negative effect on the performance of these banks.Group manager of e-Barclay's Microfinance Bank, Kingsley Onvorah briefing newsmen at the sideline of the bank's one day retreat for its staff on banking ethnics, image management and customer service said.

When we came into the microfinance subsection, most of us came from the new generation commercial banks. These bankers own flashy cars with attendant flamboyance and so on. We came with that euphoria. 'Now the target audience is poor, no collateral, with high propensity to consume as well as high risk level. These guys from commercial banks were not used to that and when monies are pumped in there, it goes without return, coupled with the ostentations life style of the bank operators with smartly furnished offices, big cars, a high expenditure patterns. All these contributed to the collapse.

According to him "you must be shrewd in your expenditure pattern and must know that it is not all poor persons that are qualified to be given money. The people that are qualified are the active poor who have a means for survival and their businesses are calling for support and that when you give them money you will get them back."

Another reason advanced by Managing Director, God Neighbour Microfinance Bank Mr. l.k. Awa (was of the view that the reason why many microfinance banks in Nigeria failed) was lack of compliance to operations guideline. "Because people were not operating within the guideline of CBN, a lot of them entered into trouble and this is why the CBN revoked their licenses. One reason is in the area of credit, some people gave more than singular obligor requirement also they were taking loans that needed adequate collatarisation, to some limit, you needed to collaterized the loan.

Misuse of funds by managers and Board Members.

Out of the three bodies (customers, bank staff and regulators) that responded to the questionnaire, analyzing the result, 68% rated the factor as second important. Unlike community banks where ownership was divided into three (Community Development Association (CDA) 30% Trade Association such as co-operatives, farmer groups, social clubs etc and thirdly individual who should not own more than 5% of the share capital, with microfinance bank the law allows minimum of two people to own the bank. What does one expect where a family for example owns the bank? The bulk of the credits goes to the family members who may not be able to pay back the loan which eventually could lead to the death of the bank.

Poor Asset Management

Another by-product of poor and fraudulent management is poor assets quality. This factor is rated third. Credit books are not properly assessed or appraised. Unnecessary risk is taken and procedure in credit disbursement is often neglected for personal interest.

Liquidity problem

One hundred and three (103) microfinance banks had their operational licenses withdrawn in 2007 because they refused to adhere to sound and safe banking practices; coupled with non-maintenance of liquidity ratio stimulated by the financial regulators. (In case of microfinance bank, it is 30%) The end-result of severe liquidity problem is the microfinance banks inability to honour depositors' withdrawals as well as final closure of the banks. Liquidity is an important VIRUS in microfinance banks failures.

Poor Internal Control Measures

In view of the size and resources controlled by MFB it is often easier for staff to perpetuate fraudulent and irregular practices undetected for sometime. Poor internal control is also a by-product of poor, incompetent and fraudulent management. MFB are in most cases unable to attract good and competent management staff as they could not compete with conventional banks (As earlier stated above, above 50% of the five MFB staff do not have University Education). They therefore resort to recruiting dismissed bank staff or appoint inexperienced and unqualified managers. Where you have this type of management staff, you find disorganized, misclassified entries and other account documentation in shambles. Accounts in shambles is a fertile ground for fraudulent and irregular practices.

Under Capitalization

At inception in year 2005, Twenty million naira (N 20m) was the minimum capital required to float a MFB. As at today, this amount is grossly inadequate as cost of living and material has gone up seriously. Today any meaningful small project like block making industry, Bakery (bread) or paints (to name a few) require more capital. It then mean by the time two or three of such projects are financed there will be no money left. Besides, some MFB used part of this money to finance purchase of fixed assets and incure overhead expenses from depositors' funds. Such situation of symptoms is evident when the total value of fixed assets exceeds shareholders' fund. It is septic and suicidal to commence the business of banking without adequate capital. It is akin to denial of a suckling its mother's breast milk and failing to provide an alternative. That indeed is an effective recipe for failure. Thus, low capital, high operating costs as well as fraudulent and irregular banking practices combined to erode the small capital base of many MFB.

Lack of Adequate Training of Staff.
As stated above, 50% of the five MFB staff have neither university education nor offered courses, related to Banking. The training or workshops organized by CBN for MFB staff is grossly inadequate. Apart from the fact that the duration for the courses is short, the interval between one training or course and another is too wide. Some of the staff attended these courses once in five years. The staff strength of CBN is grossly inadequate to cope with the number of staff of MFB under them.None of the fifteen (15) staff, interviewed in the five banks had attended any workshops, seminars or training organized by any other body in the country. Thus, limiting their exposure to modern banking, there is no opportunity for cross fertilization of ideas. This factor has negative effect on the efficiency of staff.

Lack of Patronage
Just like the experience of commercial Banks with their rural branches, many of the MFB, especially those located in the rural areas, lack patronage from the communities where they are sited and even from the government (federal, state or local). as a result of this, MFB incurred high overhead expenses which over the years erode the profit and share capital. MBF located in urban centre's face stiff competition with commercial Banks. The financial position of commercial Banks put them at an advantages over MFB. MFB clear their instruments (Cheques, Dividend warrant etc) through commercial banks because they do not have their own clearing house. This therefore put them at the mercy of commercial banks. For example a customer they brings a cheque to MFB will pay higher COT than one that goes directly to commercial bank.Commercial Banks have many branches, while a branch may not be performing well, others that are viable help to neutralize the loss. MFB is more like a unit bank, if the location does not favour it, little or nothing could be done. Unlike commercial Banks, which have access to CBN or interbank borrowing for short time when in financial problem, MFB does not have such opportunity. General economic climate in the country also have negative effect on MFB. When there is recession in the economy, propensity to save is low, as income received by people goes for feeding.

CONTRIBUTIONS

The study found out that the adoption of the MFB policy has raised a number of issues, E.g:-
- difficulties in raising adequate funds to run the bank,
- mismanagement of the funds,
- poorly paid bank workers,and;
- lack of qualified staff personnel.

The study has revealed that the MFB has succeeded in equipping a particular segment of the populace for sustainable development, especially the poor at the grass root level.

In view of the various lapses and problems encountered by the bank, the study also revealed that sometimes and in most cases, it is the only financial institution available in a particular local government area.

It is therefore recommended that:

- every local government area, as a matter of policy should have at least a microfinance bank, and;
- the authorities concerned should provide micro credit to those in need to reduce or eradicate poverty..

RECOMMENDATION/CONCLUSION

This study appraises the performance of MFB in Nigeria with particular reference to Kwara State. Various lapses and problem were identified by the study and for the ailing MFB to come back to life and the few healthy ones to remain in business the following general recommendations will be of great importance. Financial help could be advanced by CBN as matching loans or special liquidity support could be given to MFB. Considering the importance of MFB at the grassroots level which being sometimes could be the only financial institution in a whole local government, the federal government of Nigeria should continue to sustain, invigorate and financially empower the MFB scheme with CBN as supervisory body. Prominent MFB should as a matter of deliberate policy Endeavour to employ qualified persons, and of related discipline to man MFB. Financial matters are too delicate to be left in the hands of unqualified friends, relations. It is a different matter if such friends and relatives are actually qualified.

Every local government area as a matter of policy should own at least a microfinance bank and make provision of micro credits to those in need to reduce/eradicate poverty. Microfinance banks will perform better if but the regulatory (CBN, NDIC), commercial banks and personnels of the banks together with their customers are all preferred to play their roles and function as expected. If the economic climate of the nation also improves, it will go a long way in the stability, growth and performance of microfinance banks.

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