

Problems and Prospects in Microfinance Banks in the Bauchi Metropolis, Nigeria

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Abstract

The Microfinance Banking scheme was initiated by the Nigerian government back in 2005 with the purpose of providing funds to economically active, impoverished people who are unable to obtain credit through banking institutions to decrease poverty, create jobs and support rural development. This research examines the theoretical problems that have plagued these institution from their inception. It also examines the business environment to determine the potential of microfinance institutions in Bauchi Metropolis. According to this study, microfinance financial sector in Bauchi faces major difficulties because of inadequate facilities, social misconceptions, a weak legal and regulatory framework, unrestricted competition from other financial institutions, abandonment of core microfinance functions, and a lack of skilled manpower. Despite the numerous challenges, the investigation found prospects for these institutes. Increasing government involvement, rural areas without banks, a sizable population of people living in poverty, and an increase in entrepreneurial knowledge are a few of these potentials. In accordance with the study, with the correct regulatory interventions and the dedication of other actors toward its main goal, issues with microfinance banking may be rectified and future prospects may be improved. To sum up, this research indicates that micro banking has a bright future in Bauchi and throughout Nigeria.

Keywords: Bank, Microfinance, Business, Economic Development, Bauchi Metropolis.

Introduction

Microfinance banks are financial institutions that offer services to the underprivileged, those with low incomes, and owners of small and medium-sized enterprises that lack other avenues to access traditional banks' financial services. However, a variety of issues that these banks face make it difficult for them to accomplish their commercial goals. With a population of over 150 million people, Nigeria is a country rich in both human and natural resources. The majority of its citizens work in agriculture and small-scale enterprise. Micro, small, and medium-sized enterprises (MSMES) and peasant farmers who want financial assistance to raise their standard of living predominate the sector.

A micro finance bank is a bank that provides financial services to unemployed or under privileged people or groups who have no other alternatives (Begum, Alam,, Mia, Bhuiyan & Ghani, 2018). The world's largest most beneficial and well-liked financial system is microfinance. It gives loans to the poor and middle class, whom the government or any commercial bank would not lend to, to help poor people in their financial difficulties. The extremely fast and most well-known method of eradicating poverty is microfinance, which

aims to increase low-income, low-wealth people's access to loans and savings services in both affluent and developing countries (Begum *et al.*, 2018). The federal government has enacted regulations that will broaden participation in economic planning processes among urban and rural communities. These include the Better Life for Rural Women Program, the Family Economic Advancement Program, the Directorate of Food Road and Rural Infrastructure (DFRRI), in addition to the Peoples Bank Scheme Micro Finance Program, which was created in December 2007 as a microfinance bank. It performs crucial tasks, especially in rural areas, like providing loans, reducing poverty, creating more jobs, supporting small and medium-sized businesses (SMES) and enhancing agricultural productivity (Begum *et al.*, 2018). The main concerns, meanwhile, had prevented microfinance banks from achieving 40% of its company objectives: political considerations, marketing, economic problems, and technology issues (Yusuf, Muhammad, Otunola, & Kayode, 2021).

And through mobilization of savings and the granting of loans to those engaged in agriculture, small and medium-sized businesses, and other small and medium-sized businesses, microfinance banks have been shown to contribute to the economic development of their communities. The performance, issues, and future prospects of these institutions are being examined in this study to ascertain their role inside this growth. The development of micro - finance institutions is probably being hampered by the lack of a banking culture in rural areas and among the urban poor. Such people typically borrow money from family and friends and repay it in the same amount, no regardless of how long the debt was outstanding. As a result, people find it difficult to understand how interest on bank loans works. The high rate of interest charged by microfinance is unattractive. Microfinance institutions charge 30 percent to 100 percent interest on loans and 4.5 percent to 6% return on savings, according to a 2003 UNDP survey. It has been established that microfinance bank rates are excessively high, which could be bad for business. Nigeria's economy has been devastated by the cankerworm of corruption in various ways. The repercussions of corruption are not unaffected by the microfinance sector. Instances of this include corporate governance, forgeries and frauds, theft, and consumer debt repayment resistance. Another significant issue cited as impeding the operation of microfinance banks in Nigeria by the Zafar and Muhammad (2022) is a lack of assistance for the development of human and institutional capacity. Since the beginning of community banking in Nigeria, the human capacity in the micro finance particular sector has been a problem. This study intends to identify the issues which that microfinance program faces, evaluate the program's prospects, and suggest methods for avoiding the pitfalls of its forebears and overcoming present obstacles. The precise objectives are to:

- i. Identify the challenges microfinance banks in Bauchi Metropolis confront.
- ii. Assess the contribution that microfinance banks have made to the distribution of credit to the underprivileged in rural and urban areas.

- iii. To evaluate the success of various funding and entrepreneurship promotion programs, as well as how they have influenced the achievement of the goals.
- iv. Provide recommendations based on the study's findings.

Statement of the Problem

Prior to 2005, the country's microfinance institutions were unable to sufficiently close the gap in terms of lending, savings, and other financial services. The CBN reported that microcredit accounted for 0.9% of all credit while making a meager 0.2% contribution to GDP (CBN, 2005). The CBN identified the main causes of previous microfinance initiatives in the nation's failure in 2005, including the unwillingness of conventional banks to support micro-enterprises, a lack of loan able funds, a lack of support institutions in the sector, as well as weak institutional and managerial capacity of existing microfinance institutions. The Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) for Nigeria was introduced by CBN in 2005 to address the issue and offer micro-business owners sustainable financial services. However, despite the fact that microfinance has demonstrated to be one method of closing the resource gap generated in the Nigerian economy, the nation has not fully reaped its rewards as a result of issues that hindered proper implementation. It has been challenging to create supportive programs for the expansion of the sector in Nigeria due to the lack of documentation of the country's microfinance industry. Because of this, developing economies are very concerned about the high percentage of SMEs failing. According to a 2002 International Finance Corporation (IFC) report, only two out of every ten newly founded enterprises in Nigeria make it to their fifth year. The Small and Medium Enterprise Development Agency of Nigeria (SMEDAN, 2007) confirmed the report's finding that just 15% of newly founded enterprises in Nigeria survive their first five years. This serves as a warning sign that there is a problem. It is crucial to research how much microfinance is used because of the crucial role that finance plays in the development and performance of SMEs and the use of microfinance as the primary source of financing for SMEs in Nigeria. Additionally, a lot of microfinance programs in Nigeria offer non-financial services to SMEs, including advisory services, managerial and technical training, monthly meetings, pre-loan training, etc (Obamuyi, 2017). Although there is no question about the importance of such non-financial services, it has not yet been determined how much they contribute in Nigeria.

History of Banking in Nigeria

Nigeria's first commercial bank was established in 1892 by the African Banking Corporation of England (later called British West Africa Bank) and the International Journal of Management Science and Entrepreneurship (later renamed Bank of West of Africa in 1894). Among the other banks participating were the United Bank for Africa and the Angolo Union Bank. Native financial institutions, including Nation Bank Plc was established in 1959 to compete with the monopoly of foreign banks (Adegoke, 2017). The Central Bank of Nigeria

oversees all of these institutions (CBN). The goal of doing this was to advance but also strengthen the nation's financial and economic systems. This falls under the control of the CBN of Nigeria. The following are a few of the duties performed by the central bank (CBN):

- a. Bankers Bank: The Central Bank is owed money by the Commercial banks. They borrow money from the central bank when they run into low liquidity.
- b. Banker to the Government: In order to deposit and withdraw money from central bank, the government needs a bank account. Additionally, it serves as the government's agent, collecting tax receipts and processing payments on the government's behalf. Tax receipts are collected and put directly into the government's account at the central bank.
- c. Commercial banks typically need liquid capital to meet their demands, therefore the central bank serves as a lender of last resort for them.
- d. Bankers Bank: The Commercial banks are indebted to the Central Bank. When they have liquidity issues, they obtain loans from the central bank. To meet demand, they often need access to liquid funds. The monies released as a result of crude oil exports are received by the central bank, where they are deposited in the government account for quick disbursement as needed.

Functions of Microfinance Banks

At this point in Nigeria's economic development, community development is crucial since the nation needs to be built from the bottom up. For rural populations, it is often difficult to get commendable funding. Through the expansion of financial services into rural areas, numerous administrations had made an effort to address these problems. The concept was prompted by the 1991 invention of microfinance in addition to the establishment of the People's Bank of Nigeria by President Ibrahim Babangida's administration to bridge the gap between the traditional banking system and the people bank. Among the projects objectives is to:

- i. To assist grassroots development
- ii. To increase public knowledge of rural community banking
- iii. To teach low- and rural-income people about credit and saving habits and to dissuade them from depending on local money lenders, which is a typical practice among rural residents.
- iv. To assist rural businesses, such as farmers, traders, artists, and small-scale investors.
- v. To come to a consensus on a sound financial system that provides rural dwellers with a sound second orientation as required by the country's economy.

Microfinance's Influences on Socio-Economic Development

Microfinance institutions support the socioeconomic development of a whole society, state, or nation. Additionally, by increasing inventory, income, salaries and survival of the

business, it aids in the expansion of companies' operations. As a result, living standards improve. The impacts of microfinance banks in Bauchi State, however, are as follows:

A term used to describe the process of eradicating poverty is "poverty alleviation." An important part of a nation's attempts to eradicate poverty is microfinance. This is due to the fact that the government's main objective in eradicating poverty is to produce as many employment opportunities as is feasible, along with a means for companies to make income. In the microfinance sector, microfinance banks play a significant role. They lend money based on modest monthly installment payments, which lessens the burden of debt payment. LAPO has helped several small business entrepreneurs secure funding for their initiatives (Akinola, 2018).

Possibilities for employment: People, organizations, and businesses who receive credit from microfinance banks will utilise other people's services in their operations, creating employment chances for those people, groups, and organizations. On the general, small businesses prefer to give people job opportunities. Worker occupations at small enterprises include secretaries, receptionists, sales associates, cleaners, and so on (Yahaya, & Osemene, 2017).

Increasing small and micro enterprises (SMES); People with company ideas might use microfinance institutions as a platform for turning their visions a reality. People no longer believe that business is exclusively for the powerful and wealthy. Anybody can now open a small business and apply for a loan at any microfinance institution. Consider FBN Microfinance Bank, a Nigerian First Bank subsidiary (Eneh, & Okezie, 2017). To help small enterprises, craftsmen, small traders, and people with their day-to-day operations, this microfinance bank offers lending services. They offer a range of credit options for various consumer groups. One of the products is "Level Don Change," a short-term facility for loyal clients with a good record intended for the purchase of commercial assets to increase revenue creation. There are various credit products available, including "Kia-Kia Loan," a credit facility designed to help current clients with good credit with urgent needs, "Easy Loan," a short-term loan for salaried individuals to help them buy home items, and many more (Akinola, 2018).

Increasing agricultural output: For the bulk of the poor living in rural areas, agriculture is a realistic choice. Microfinance organizations also offer money to farmers. They can get loans to buy tractors, ploughs, and other pieces of modern farming equipment. Farmer can use microfinance organizations to promote their agricultural products by granting loans, in addition to using them to feed their families (Bracking, 2019). Because a large majority of their manufacturing inputs are acquired domestically, SMEs are essential to the economy since they reduce the load on the country's meager foreign exchange revenues and help close some of the balance of payment deficit.

- The very foundation of the national economy is made up of SMEs.
- Offer a practical means of fostering indigenous entrepreneurship through the creation of homegrown technologies.
- Make available and utilise domestic savings.
- Helping manufacturers find high-quality parts, components, and intermediate goods will increase their competitiveness on a global scale.
- The ability to expand export opportunities and successfully replace imports; promote technological improvements and breakthroughs; produce specialized goods in small quantities to satisfy current and future needs.

Who Needs Microfinance?

Absent carefully focused programs that increase poor and low-income people's access to key production elements, notably financing, robust economic growth cannot be attained. Microfinance is the provision of financial services to the underserved populations that traditional established banking institutions have overlooked (Cull & Morduch, 2018). A sizable segment of the population in Nigeria still lacks access to banking services. The number of persons serviced by formal financial markets slightly grew from 35.0 percent in 2005 to 36.3 percent in 2010, five years after the micro finance strategy was put into place, based on the 2010 Enhancing Financial Innovation and Access (EFInA) research. With clubs/pools, Asusu, Ajo, and money lenders, those who were having financial difficulties might use their resources to help others; the overall access rate for 2010 was 53.7 percent, indicating that 46.3% of Nigeria's adult population, or 39.2 million adults, were financially excluded (Cull & Morduch, 2018). The EFInA access to financial services in Nigeria 2012 study indicates that 34.9 million people, or 39.7% of the adult population, live in poverty. Only 28.6 million people, or 32.5% of adults, were enrolled in banks (Cull & Morduch, 2018). In addition, a 2014 survey found that 36.9 million Nigerians, or 39.5% of the adult population, have access to financial services. Among adults, just 33.9 million people, or 36.3 percentage, have access to financial services. But there are still a lot of people who are financially excluded: 36.9 million adults, or 39.5% of the populace, without access to financial services. The survey asks about the experiences and knowledge of financial services among adult Nigerians as well as their current financial habits (such as saving, borrowing, and remittance sending), their sources of income and levels, as well as their use of a range of financial services, including mobile money, insurance, microfinance, and unofficial financial services (Bracking, 2019).

Theoretical Framework

The Life Cycle Model: Weston and Brigham created this model (1981). They claimed that a small company's rapid expansion might leave it with insufficient capital. This was due to the fact that small businesses are typically founded using just owner cash. As the company expands, the owners' equity can no longer support it, and the company would need to turn

to other sources of funding in order to survive. Therefore, rapid expansion could lead to illiquidity, and the company would then have to decide whether to slow down its growth pace or risk becoming illiquid and seeking outside funding. Therefore, Weston and Brigham (1981) came to the conclusion that SMEs that expand will almost certainly see a rise in their debt structure. This life cycle model hypothesis is pertinent since it reveals the genuine nature of small business enterprises.

Research Methodology

This research was conducted with particular emphasis on existing and current theoretical body of knowledge on microfinance its prospect and difficulties. This research reviewed the existing literature on issues and prospects of microfinance bank as it is in the world.

The Challenges of Microfinance Banks in Bauchi Metropolis

In response to the challenges they faced, the microfinance plan was created. Many of these problems still affect microfinance banking. On the other hand, several of these difficulties are covered in this section.

- i. **There is lack of a banking ethic in both rural and urban poor communities:** A barrier to microfinance banks is the absence of a banking culture in rural areas and among urban poor people. These people usually take out loans from friends and relatives, repaying the same amount over the term of the loan, regardless of how long it is outstanding. As a result, people find it difficult to understand how interest on bank loans works.
- ii. **Lack of fundamental infrastructure:** One of the problems facing microfinance banks in Nigeria is the almost complete lack of fundamental facilities. The running problems of these banks that are already hampered by high operational costs because of their mode of operation are made worse by the lack of key infrastructure.
- iii. **Community and microfinance banks failed and withdrew:** The people's interest in such organizations was severely damaged in 2010 by the failure of many community banks and the license suspensions of 224 microfinance institutions. To persuade these people that they wouldn't lose money in a bank failure, many microfinance institutions that have emerged where defunct credit unions once existed face an uphill battle. The sudden cancellation of 224 permits for microfinance institutions has increased public mistrust in local banks.
- iv. **Limited support for human and institutional capacity building:** Another significant issue that has been highlighted as inhibiting the viability of microfinance banks in Bauchi is a lack of support for the development of human and institutional capacity. Since the era of local banking, Bauchi's microfinance industry has struggled with a shortage of human

capability. The hiring of qualified and suitable staff, According to Bracking (2019), is one of the major problems in the microfinance sub-sector. He linked this to industry's failure to pay workers adequately. Microfinance institutions may experience problems with their human resources, such as a lack of possibilities for retraining and unfavorable working conditions. Those banks reflect human characteristics.

v. **Corruption among microfinance sub-sector and customers:** Nigeria's industry has been ravaged by the cankerworm of corruption in various ways. The repercussions of corruption are really not affected by the microfinance sector. Examples of this include deficiencies in corporate governance, forgeries and frauds, theft, and customer reluctance to recoup debts (Dahir, 2015).

Prospects of Microfinance Banking in Bauchi State

The prospects for expansion and success of microfinance institutions are increased by the government's renewed interest in the microfinance subsector and the improved regulatory environment. One instance of this is the development by CBN of a training course for practitioners, marketers, and regulators (Alawattage, Graham, & Wickramasinghe, 2019).

ii. Another sign of regulatory intent to maintain the health of the microfinance and banking sub-sector is the inclusion of microfinance bank deposits in the deposit insurance scheme. The wider populace now has more faith in the industry. The NDIC Act of 2006's requirement that the deposit insurance ceiling be increased from 100,000 to 250,000 Naira is another sign that the government is trying to build up these institutions' reputations through regulation.

iii. It is evident that Nigeria's financial sector has a number of opportunities. Scholars all concur that there is a sizable untapped market for microfinance banks. Approximately 70% of Nigerians, are employed within the informal economy or in agricultural production. Based on the country's estimated 150 million population, we can assume that 105 million people are working in this sector.

Conclusion

Regardless of the fact that Nigeria has abundant resources and a massive population, the nation is nonetheless destitute. In an effort to address this, the government released microfinance policy guidelines in 2005. One of the requirements of this guideline was the licensing of microfinance banks. As a result, Nigeria's microfinance banking business, which debuted in 2007, is still quite young. As is the case with many novel notions, it is going through a difficult and hard stage. Nigerian microfinance banks have a number of challenges, such as frequently changing government regulations, insufficient facilities, and socio-cultural misconceptions. Insufficient governance, fraud, and corruption are among issues that hinder banks. Regulators, promoters, practitioners, and other players in the microfinance banking sector must work in order to address these challenges. This is to ensure that they do not destabilize the economy like earlier government microfinance

programs did. It is essential that these institutions flourish and grow given their ability to reduce poverty. There is a sizable untapped market for these banks as evidenced by the depth of the country's poverty, the size of the informal finance sector, the size of the rural community, and the participation of over 70% of the population in agriculture and small and medium-sized businesses. Microfinance banking in Nigeria has a promising future if the significant market challenges mentioned are resolved.

Recommendation

In order to allow microfinance banks in Nigeria to capitalize on the large market potentials, the following suggestions are made to address the problems they are currently facing;

- The development of practitioners' capacity by the CBN and NDIC is a step in the right direction, and it need to be extended to the boards of directors of these institutions. This will ensure that the management team of these banks and the directors who develop their policies are on the same page. They ought to be made aware of the constraints, procedures, and objectives of microfinance institutions.
- People should be specifically informed that these banks are not tiny commercial institutions and that microfinance institutions have both financial and social goals. The government needs to follow through on its promises to develop the nation's social infrastructure. Since power supply represents a sizable expense for microfinance organizations, it should be given special consideration. It is essential for these banks to educate their customers in financial literacy prior to disbursing loans to them because one of the fundamental issues affecting microfinance banking in Nigeria is a lack of banking ethic. The intricacies of such facilities, including repayment choices, interest rates, and the benefits of sticking to the terms of the lending contract, must be explained to clientele.
- Micro finance institutions must be aggressive in their product development, especially those in the country's north. Banks should offer them interest-free loans because many people in the area adhere to religious principles that forbid them from paying interest on loans. Even more, government agencies can assist interest-free microfinance banking by creating standards to ensure its success, just like commercial banks do.

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