Czech University of Life Sciences Prague

Faculty of Tropical AgriSciences

Department of Economics and Development

CHALLENGES OF INTERNATIONAL FINANCIAL SOURCES SUPPORTS TO MICROFINANCE IN NIGERIA

MASTER'S THESIS

Prague 2017

Supervisor: Ing. Václav Kožený, MBA, Ph.D.

Author: B.Ed. B.Sc. Adediran T. Arogundade

Declaration of Integrity

I confirm that work in this thesis titled “Challenges of International Financial Sources Supports to Microfinance in Nigeria’’ is original and has been carried out by me as part of my program of study. I also confirm that all secondary materials has been properly acknowledged by me and referenced in this work with the help of my supervisor.

26th April 2017, Prague ……………..…………………

B.Ed. B.Sc. Adediran Temitayo Arogundade

Acknowledgement

My sincere appreciation goes to Almighty God who gave me the opportunity to write this research work, my warm acknowledgment goes out to my parents; Mr and Chief (Mrs) Arogundade, Siblings; Arogundade Toyin, Dr. Arogundade Bidemi and Engr. Arogundade Seun, my darling; Dr. Adedigba Toluwalope G., my relatives and friends, thank you all for your support throughout my years of study. Special thank to my supervisor; Ing. Václav Kožený, MBA, Ph.D.**,** for sharing his precious time with me towards making this research work worthy and acceptable.

ABSTRACT

Microfinance has acclaimed knowledge of being a tool for poverty reduction and development of many developing countries. However, the industry is faced with many challenges in its quest to provide its acclaimed service to the poor. One of such challenge is the access to financial support.

The purpose of the study was to analyse empirically, the challenges of microfinance institutions in Nigeria towards access to international financial support. The main objectives of the study were to examine the ways to how international financial sources can help to contribute to the developmental impact on microfinance sector in Nigeria, to identify the types of international financial institutions that support microfinance sector in Nigeria and finally to determine the major threats and challenges facing the microfinance sector in Nigeria.

Data used for the study was primary and was collected via the use of structured and unstructured questionnaires. Questionnaires were distributed to 165 MFIs for data collection. Data collected was analyzed using Statistical Package for Social Sciences (SPSS v 20) employing the use of Chi-Square statistical tool to answer the proposed hypothesis of the study.

Obtained results showed that, operational year, good financial report, ability to provide a guarantor and asset base, as well as the ability to pay customers the requested amount were the challenges faced by Microfinance Institutions in Nigeria in terms of receiving financial support from international financial institutions and donors. Furthermore, the research also revealed that, accessing international financial support has helped most of the Microfinance Institutions to increase their outreach capability and thereby achieving their aim of supporting SMEs and reducing poverty in Nigeria. Empirically, the research proved that, the years of operation, time taken for loan to be approved and fulfillment of conditions of the international financial donors notably affects the amount of loan requested. Based on the results obtained, it was recommended that creation of credit schemes will immensely help to enhance the access of credit by Microfinance institution in Nigeria.

Keywords: International financial sources, Nigeria, Developmental impact, Microfinance sector, International Financial Institutions; Major threats and challenges.

CONTENTS

LIST OF FIGURES AND TABLES

LIST OF FIGURES

LIST OF TABLE

LIST OF ABBREVIATIONS

MFIs	Microfinance Institutions
IFIs	International Financial Institutions
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
NPC	National Population Commission
NDIC	National Deposit Insurance Corporation
ADB	Asian development Bank
USAID	United State Agency for International Development
SIDA	Swedish International Development Agency
ADB	Agricultural Development Bank
UNCDF	United Nations Capital Development Fund
IMF	International Monetary Fund
NGO	Non Governmental Organization

1. INTRODUCTION

Nigeria as noted as one of the most promising growing economies in the sub-Saharan region can boast of microfinance institutions, banks and several finance institutions that provide financial aid for the poor in the country (Attah, 2008).

International financial institutions (IFIs) are institutions created by some countries which are subject to international law (World Bank, 2008). The essence behind the establishment of these international financial institutions (IFIs) is to provide financial support either through giving out grants or loan for economic and social development activities in developing countries (Helms, 2006). The main owners or the highest shareholders of these financial institutions are mainly national governments, though some other international institutions and organizations occasionally identify as shareholders. According to Alegieuno (2008), the most prominent international financial institutions (IFIs) are established by multiple nations, some as bilateral financial institutions, and are technically referred to as IFIs (Alegieuno, 2008). The best known international financial institution was established after World War II to assist in the rejuvenation/reconstruction of Europe and towards providing mechanisms for international cooperation to manage the global financial system and to facilitate transactions from different nations to provide lending services to developing countries around the world that encourages economic development and international trade (Lewis, et al., 2005).

Hossain (2004) describes microfinance as the practice of giving microloans, micro credits without collateral to the poor and low income earners who doesn’t have the access to the capital needed to start SMEs, small business or other income generating activities. This view is too narrow, since it not only excludes such services as saving accounts and insurances, but also ignores the possibility of collateral demanding MFIs. Although it is true that many MFIs do not take collateral, especially if they are focusing on the poorest that normally do not possess any collateral, several MFIs in fact do require some forms of collateral (Hossain, 2004).

Microfinance shows up as a long sustainable and successful program, in which millions of people in developing and developed countries around the world are involved. The expansion of microfinance is a priority of the United Nations as part of the Millennium Development Goals. However, microfinance has been expanding more and more from the local level to the global (Alberto, 2011). The portfolios of microfinance institutions include commercial banks, which are recognized as a lucrative market of the future. The year 2005 also saw the introduction into the stock market (securitization) package of Asian, Latin American and African micro-credit and a capacity of tens of millions of dollars. The investment in microfinance can help to bring more opportunity such as self-employment, improving household level, market link (Alberto, 2011).

A study done by the Central Bank of Nigeria identified that, as of 2001, there were 160 registered Microfinance Institutions (MFIs) with an outstanding credit potential of ₦649.6 millions despite its aggregate saving of ₦99.4 million, which indicates success and huge business transactions in the microfinance sector (Anyanwu, 2007). Government, public sector, NGO, traditional or a mixture of two or more of these constitute the institutional structure that provides micro credits as microfinance institution.

Microfinance institutions (MFIs) are regarded as a specialized unique financial institutions (Mosley & Hulme, 1998). MFIs are institutions which are established by government, private, donor agencies, NGOs, individuals with the sole intent of ensuring financial inclusion. The priorities of microfinance institutions are to provide services such as provision of microloan, micro insurance, transfer services, micro savings and other financial services targeted mainly at the or low income individuals and the poor (Kurfi, 2008). Microfinance is defined as financial institution lending small amount of money for SMEs development so as to attain an income potential above poverty line (Lashley, 2004). It provides small amount of finance to the poor and low income earners constrained from mainstream financial system (Ehigiamusoe, 2008).

The relevance of this study to the intended microfinance sub-sector and to the Nigerian economy cannot be overemphasized. This is a sub-sector established to improve productivity and livelihood of the active poor and directly the populace at large. This research intends to provide resources and serve as a point of reference to any research embarked upon by stakeholders in International Financial Institutions, Commercial Banks and the Microfinance industry (operators, customers etc.). The study will also proffer probable solutions to the various challenges, e.g. poor liquidity, inadequate capital, etc suffered by this subsector.

Secondly, the study would also reveal hidden knowledge which may not be made known to the public at large which may help to find solutions to pending quests within the industry. This would bridge the gap that exists between the regulatory body and the operators in the system or between the operators and the customers of the industry as this is vital to the growth of this subsector and to the overall industry. Finally, the study would serve as a source of information to other researchers studying or carrying out further studies on related topics.

2. LITERATURE REVIEW

This chapter presents the review of related literature on challenges of international financial sources supports to microfinance in Nigeria. In the previous chapter, efforts were made to introduce the research title. Underlying issues relating to the research work were examined. In this chapter, the researcher reviewed previous research works conducted by various researchers, scholars and authors on international financial and microfinance industry in Nigeria, its concepts, problems and chances of survival.

2.1Nigeria's Macroeconomic overview

The microfinance industry as a financial institution operates in an economy. This section of the study is focused on the current state of the economy of Nigeria. Economic statistics have enormous influence on the state of a business as all businesses operate in an economy and as well the microfinance industry in Nigeria. Nigeria is noted to be an oil dependent country and with the fall in oil prices, the country's economic growth has been adversely affected and has resulted in the slow growth of the economy accounting for only 3.5% in 2015 (ADB, 2015). The slow growth as reported by the African Development Bank Report (2015), affected many key economic indicators such as Gross Domestic Product (GDP), Inflation, Interest Rates, Exchange Rates and other economic indicators.

2.1.1 Nigeria's Gross Domestic Product (GDP) Growth

The Gross Domestic Product measures the monetary aspects of all final goods and services of a country and as stated by Lemma and Negash (2013), the development of an economy mirrors its wealth disparity and therefore attributes to access of finance in such an economy. Further, Murray and Vidhan (2009) stresses that, as the economy of a country grows, there is a reciprocal growth in the assets of businesses operating in such economy. This stipulates that, the borrowing capacity of businesses are increased as there are collateral available for such activities. Adding to this, Mokhova and Zinecker (2013) opined that, a growth in the GDP of a country as a result of economic growth will lead to increase in economic productivity. This implies that, there will be an increase in internally generated funds for companies which can be reinvested for expansion of their businesses. The figure below illustrates the GDP growth of Nigeria from 2000 to 2015.

Figure 1: GDP growth rate of Nigeria (2000-2015).

Source: World Bank data, 2016.

2.1.2 Inflation Rate of Nigeria

The rate of inflation of an economy is described as the rate of decline in the purchasing power of an economy due to general rise in price of goods and services in an economy. Inflation plays a critical role in determining the health of an economy as it affects the inability of businesses to repay their debt. A rise in inflation corresponds to a general rise in interest rate and this affects the willingness of many financial providers to give out financial support due to the risk of low repayment rate (Gungoraydinoglu & Öztekin, 2011). The figure below illustrates the inflation rate of Nigeria from 2000 to 2015.

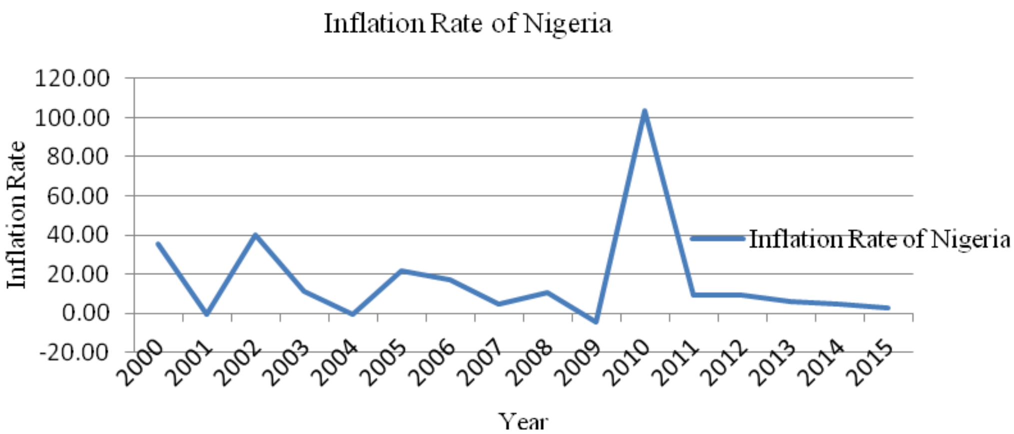

Figure 2: Inflation rate of Nigeria (2000-2015).

Source: World Bank data, 2016.

2.1.3. Nigeria's Interest Rate overview

Interest rate is known as the proportion of a loan amount paid to a borrower by a lender. It denotes the percentage of the principal amount borrowed which is paid to the borrower for the use of a particular asset normally measured in monetary terms (Patterson & Lygnerud, 2015). An increase in the rate of interest deters businesses from borrowing as risk of defaulting is high. The unwillingness of businesses to borrow will lead to a general decrease in the growth of companies since low liquidity is available for expansion (Deesomsak, 2009). The figure below illustrates the interest rate of Nigeria from 2000 to 2015.

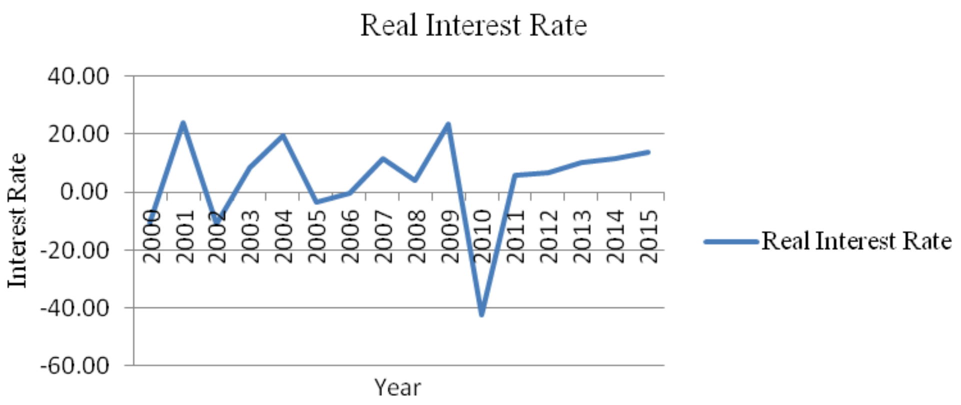

Figure 3: Real Interest Rate of Nigeria (2000-2015).
Source: World Bank data, 2016.

2.2 The Concept of Microfinancing

Microfinancing since its inception as a way to reduce poverty and kick start the economy of many developing countries such as Nigeria has been defined by many authors in this field of research. The definition over the years has changed from not only the provision of small loans to the poor who are excluded from access to such finance service to a broader view. Microfinance during the 1960s and 1970s as stated by Churchill (2011) was the provision of small loans and services to low income generating entrepreneurs who are usually involved in farm household activities or fishing activities with the primary aim of poverty eradication. Microfinance is defined according to Micro Credit Summit (2007) as people for self employment projects that generate income; allowing them to care for themselves and their families (Ojo, 2009). Microfinance refers to the availability of financial services to low income clients including consumers and the self employed. The term also refers to the practice of sustainably delivering those service, more broadly it refers to a movement that envisions a situation in which many poor and low income earners are opportune to have permanent access to an appropriate range of high quality financial services such as savings, fund transfer, insurance, and not just all about credit alone (Alegieuno, 2008). Hossain (2004) describes microfinance as the practice of offering small, collateral free loans to members of cooperatives who otherwise would not have access to the capital necessary to begin a small business or other income generating activities. This view is too narrow, since it not only excludes such services as savings accounts and insurances, but also ignores the possibility of collateral demanding MFIs. Although it is true that many MFIs do not take collateral, especially if they are focusing on the poorest that normally do not possess any collateral, several MFIs in fact do require some form of collateral (Hossain, 2004). Kurfi (2008) gives a more general definition. The author described microfinance as the provision of a wide range of financial services like saving accounts, loans, payment services and insurances for people with no regular access to financial services through traditional financial institutions (Kurfi, 2008).

Putzeys (2008), in his definition stated that, microfinance is the provision of different types of financial services which includes; loans, insurance, deposits, money allocations and disbursement service to low income generating rural entrepreneurs (Putzeys, 2008). Adding to this, Ledgerwood (1999), who is noted to be a pioneer in the area of Microfinancing defined the term by including the provision of insurance and other payment services to poor clients as a means of Microfinancing and not only the provision of loans and savings. In support of the views of Putzeys (2008) and Ledgerwood (1999), Schreiner (2001), emphasized that; microfinance can be viewed as a channel which enables poor households to have access to financial services which are most often not provided by the formal financial banks to them. Microfinance based on the definitions given by the authors above, could be said to encompass the delivering of financial services such as deposits, savings, insurance and loans to the poor both in rural and urban areas who lack access to such financial services.

As noted in the introductory part of this study, microfinance is not new to this world but can be traced as far back as the 1950s and 1960s (Ledgerwood, 1999). The phenomenon has greatly evolved over the years and the microfinance being practice in the 21st century was developed from community based mutual credit transactions which utilized peer-based trust, non-collateral borrowing and repayment methods of financial service provision (Putzeys, 2008). The origin as stated by Schreiner (2001) can be traced from the numerous traditional systems and informal credit systems of operation being used in many developing countries (Schreiner, 2011).

Microfinance according to Ferka (2010) has the potential as an economic tool to alleviate poverty through the provision of financial services to low income generating clients by the means of an institutional approach. Some of these services include; credit, savings insurance. Wrenn (2009) also identified other social services and other financial service provision to their clients. The author mentioned the provision of educational training, health training, entrepreneurial skills training and organizational support which are in accordance to the aims of MFIs, as other social services rendered to their clients. Confirming this claim of social service provision, Owusu et al., (2015) cited that, other assistance such as skill training, insurance provision, savings and other capacity building strategies are provided other than only financial assistance. The author therefore described microfinance institutions as an institution that provide a wide array of financial and other complementary services to the poor and the rich in society that needs such services.

Based on the above given definitions of microfinance, this study will define microfinance as a development tool that can harness the eradication of poverty through the provision of financial and non financial services to the poor as well as the rich in society who require such services. These wide ranges of services include the provision of loans, savings, deposits, insurance, and money transfer as the financial aspect of their services and the provision of educational, health and entrepreneurial training and advisory services to the poor as part of the non-financial aspect of service provision. Therefore, the study sees microfinance as a tool that can empower the poor in society by boosting their moral and self-confidence to feel more confident and geared towards entering into the socio economic as well as the political environment of the society.

2.3 Theoretical Framework of Microfinance in Nigeria

Babajide, (2011) and Hubbard, (1998) are noted as the pioneers to test for the difference in sensitivity of investment in enterprise and informational opacity level by splitting a sampled enterprise into subsamples. They defined it accordingly into a suitable theoretical priors that characterize unconstrained firms and constrained, that is, age and size (Hubbard, 1998). A reduced- form investment equation is estimated for each subsamples, where investment is modeled as a function of the enterprise’s internal funds, defined as revenues minus expenses while taxes are used as a proxy for changes in net worth, it controls enterprise-specific characteristics and as well influences investment opportunities determined from a variety of theoretical perspectives(Hubbard, 1998). This constraint in theoretical form supports recent developments in the literatures on investment unlike its in empirical approach. Fazzari et al., (2007) showed that, positive or slightly negative levels of enterprise wealth, investment are positively related to internal finance.

Financing constraints approach has overtime been used to study SMEs in developing countries (Budina, et al., 2000). Empirical analysis in this research work adopted the financing constraints approach to fit the nature of the data, household microenterprises, and the MFIs market in Nigeria using two states in South-western region, Lagos and Ekiti States. Lagos state has ample significant presence of MFBs. According to CBN record, March 2009, Lagos states has a total of 147 microfinance institutions which represents the highest number compared to other states in the country, out of which 74 have obtained their final license, while in Ekiti state, there are 13 microfinance institutions with only 7 having their final license. According to the 2006 census figure, 9,013,534 inhabitants and 2,384,212 inhabitants are in Lagos and Ekiti state respectively. Therefore, Ekiti state has average MFB banking density of one financial institution to183,401inhabitants while Lagos State has an average MFB banking density of one financial to 61,317 inhabitants, which implies Ekiti state can be referred to as financial constraint area while Lagos state as financial unconstrained area in this research.

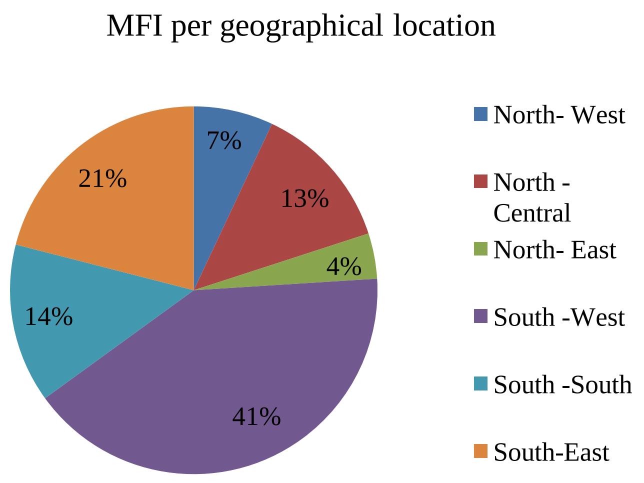

Figure 4: Percentage of MFIs per Geographical location.

Source: www.nigerianews.com.

Having compared two states (Lagos state and Ekiti state) within the same geographical area (south-west) above, the pie chat above gives a broader perspective of regional comparison thereby comparing south west region compared to other geographical regions in the country in terms of microfinance presence and activities as far as the country is concerned at large.

According to Cleary et al., (2007), their model assumes that the cost of debt financing is endogenously determined and investments are scalable, meaning change in the marginal cost of debt finance affects both the choice of investment and the decision to invest. This model allows the use of a logic model similar to Johnson et al., (2002) to study by SMEs investment decisions in transition economies.

2.4 Empirical review of Microfinance in Nigeria

Hulme and Mosley (1996) found out that the threats and challenges of microfinance institutions includes: problem of re-payment tracking, the inaccessibility of MFIs services to the low income earners and the poor, demand and supply gap in provision of microcredit and micro saving the capital inadequacy of MFIs, non availability of documentary evidence and high transaction cost Therefore suggested that these threats and challenges can be tackled by business angel participation in the area of capital adequacy, provision of needed facilities by every relevant stakeholder, creating more awareness to the poor and low income earners on the essence of microcredit, assessment of integrity of clients before approval and granting them credits and training of micro entrepreneurs on the significance of business documentation (Babajide, 2011).

Nasir, (2013) indicated the threats and challenges facing microfinance institution. This includes: low outreach, inadequate funding, high interest rate, lack of products diversification, delay in payment or late payment, high cost of transaction and neglecting urban poor. Attah (2008), Thus postulated that these problems can be solved by involving every form of low income earner and poor regardless of their location (urban or rural) without discrimination, participation of business angels, moderate interest rate, ensuring product diversification and considering client with high sense of integrity.

According to Mabhungu, et-al. (2011) they investigated the criteria microfinance institutions follow in granting micro credits using SMEs as the population of the study. Among the criteria used by MFIs includes business formality, operating period and financial performance, business sector and value of assets. It shows business formality as the prerequisite criteria used by microfinance institutions in granting loan whereas large number of SMEs is operating at informal level which by implication could cause havoc to the SMEs access to micro credit by MFIs. Government in this case needs to participate in training of SMEs on the formalization of their businesses ((Attah, 2008).

Nawai and Shariff, (2013),identified the main threat and challenge of microfinance institutions activities as loan re-payment. They further pinpointed the remote causes of loan re-payment problem ranging from borrowers` attitude toward their loan, business experience, amount received to family background. The study shows that late payment or delay in payment is the major problem experienced in the operation of microfinance institutions. However, the study suggested that clients with high sense of integrity should be considered when approving micro credits by MFIs.

Acha Ikechukwu, (2012) examined the problems of MFIs as: detestation of interest rate, lack of banking culture among their customers, bad infrastructures such as electricity, limited support for human and institutional capacity and lack of confidence on the part of prospective clients. Furthermore, these problems can be corrected through inculcating the banking culture to the low income earners and the poor, building confidence of MFIs clients by NGOs, government participation particular in the area of infrastructure.

According to Ikeanyibe (2010), the threats and challenges of microfinance institutions examined have to do with human resources. Arun (2005), indicated that the main threat and challenges of microfinance institution is related to regulations of the institutions. Employment of credible and reliable staff and setting regulatory framework that can suit the operations of the institution are the solutions to their problems.

The main aim of MFIs is to provide loan to small and medium sized enterprise (SMEs) to invest in their businesses thereby allowing them to grow economically. Credit policies for the poor involve practically lots of difficulties arising from household financial needs, followed operations by financial institutions and the economic peculiarities (Budina, et al., 2000). For example, commercial banking institutions expect that borrowers have a stable source of income in which payment of loan (Principal) and the agreed interest can be paid back in agreed terms. Unfortunately, income of many self employed and poor is not stable (Alberto, 2011).

A huge number of microloans, micro credits are needed by microfinance institutions to serve the poor, but commercial banks prefers to deal with big loans clients in smaller numbers compared to MFIs thereby reducing administrative/operational expenses (Okezie, et al., 2013). They consider collateral with clear title greatly which many low-income earners don't have. In addition low income earners are considered a bad risk by bankers thereby imposing unattainable information monitoring costs on operation (Okezie, et al., 2013).

Also, low capital base is another identified problem of microfinance in Nigeria, the level of capital base cannot satisfy the percentage of the low income population which represents the target groups of the microfinance institutions thereby making microfinance banks finance their fixed assets and operate with customers deposits, other problems include change in government policies, focusing on wrong group of customers, insider abuse, inadequate business opportunity in Nigeria (Kanu & Idume, 2016).

Despite several reasons identified for the persisting bridge in access to financial services, distribution of MFIs in Nigeria is not even, many of the microfinance institutions are congested in the south-western region of the country, which investors seems to have high business volume and profit potentials (Mabhungu, et al., 2010). Also, challenges, setback, threats and inefficiencies experienced during the community banking era was carried over by many of the banks, sort of funds for intermediation as a result of inability to attract commercial capital, lack of aggressive savings mobilization and the non establishment of the Microfinance Development Fund. Microfinance, in addition, banks is affected with the lack of required knowledge and skills in micro financing which ends up influencing their performance (Anyanwu, 2007).

2.5 International Financial Institutions Sources, Support, Types and Challenges of Microfinance Sector

2.5.1 Financial Institutions Sources and Support to Microfinance Sector

2.5.1.1 Savings and Deposits

Microfinance institution's main products are savings and deposits, which are also known as retail deposits, offered by microfinance institutions which alternatively serves as a low cost source of funding. It is a common practice in countries like Kenya, Pakistan, the Philippines, Uganda and Peru and funding Sources for Microfinance Institutions (Jayadev & Narasimha, 2010). The potential effect of these deposit products is that microfinance institutions may fail to provide instantaneous liquidity.

2.5.1.2 Individual Philanthropic Sources and Social Investors

Non-profit investors, such as individuals interested purely in the social impact of microfinance, often lend their own money to MFIs through peer-to-peer online platforms, internationally the most famous of these are Kiva and MicroPlace (Jayadev & Narasimha, 2010). Similarly, high net worth individuals who are interested in philanthropy often give away great sums of money to MFIs, in acts known as 'venture philanthropy'. Social investors are individuals or institutions (high net worth, foundations, endowments, and retirement plans) which choose to apply non-financial characteristics to their investment decision making. (Jayadev & Narasimha, 2010).

These non-financial characteristics are often related to the investors' value system or social mission, and may include concern for environmental protection, social and economic development of the poor, education and health, as priorities. For example, in India Rang De, an MFI raises money from social investors. Commercial institutions also participate in such social investment. For example, Citibank provides charitable contributions to three local MFIs in Haiti to help restore the country's microfinance industry which has suffered severe challenges in the aftermath of the 2010 earthquake (Attah, 2008).

2.5.1.3 Soft Loans and Grants

Concessionary or soft loans (low cost debt) or grants are another source of funds from socially responsible investors, which include national and regional development banks, international NGOs, non-profit corporations, charitable trusts, or funds held by donor and development agencies, such as the Grameen Trust, Swedish International Development Agency (SIDA), United States Agency for International Development(USAID), United Nations Capital Development Fund (UNCDF), the Asian Development Bank (ADB), the World Bank, the Bill and Melinda Gates Foundation, Ford Foundation, the International Monetary Fund (IMF), ACCION and CARE. Some development agencies only interact with governments, but their funds can be accessed either directly or indirectly by MFIs (Jayadev & Narasimha, 2010).

2.5.1.4 Investment Funds

Internationally there are many investment funds that specialize in microfinance. These funds are concentrated in the lending institutions in Latin America and Eastern Europe, but their pool of available capital is growing fast. Big banks are also entering the field: Citigroup, Deutsche Bank, TIAACREF, Morgan Stanley, ABN AMRO and Societe Generale are deploying their structuring and fund-management skills to offer investment products that appeal to a broad range of investor risk profiles and social motivations (Kamath & Srinivasan, 2012).

2.5.2 Types of International Financial Sources to Microfinance Sector

A financial institution is an institution that involves in financial transactions which includes: loans, investments and deposits. Everyone on daily basis deals with financial institutions with activities ranging from exchanging currencies, taking out loans to depositing money which are been done through financial institutions (Kurfi, 2008). Below are the major types of financial institutions and their roles in the microfinance sector in Nigeria.

2.5.2.1 Commercial Banks

Commercial banks have the potential to accept deposits and provide security and convenience to their clients. Safe keeping customer’s money is part of the original purpose of banks. There is a high risk of theft, loss, accident and loss of possible income potentials from interest that could occur by keeping physical cash in a wallet or at home. Costumers hardly need to keep large amounts of cash at hand because transactions can be handled with cheques, and cards (Lieberman, et al., 2008). Commercial banks as well make loans that business and individuals could pay for goods and services, expand business width/operations, which invariably leads to more deposited funds that make their way to banks. Banks lending money at a higher interest rate than they have to pay for funds and operating costs thereby makes more money (Kamath & Srinivasan, 2012).

Banks do as well serve some under-appreciated roles as payment agents within a country and across border. Debit cards allow account holders to pay for goods with ordinary swipe of a card; wire transfers with other institutions are another role. Commercial banks essentially underwrite financial transactions by lending their reputation and credibility to the transaction; a cheque is basically a promissory note between two individual and parties, but without a bank's name, identity and information on such note, no one would accept it(Kamath & Srinivasan, 2012). Banks as payment agents make commercial transactions much more convenient; carrying large amounts of physical currency is not necessary when merchants will accept the cheque, cards that banks provide.

2.5.2.2 Investment Banks

Great Depression and stock market crash of 1929 caused the United States government to increase financial market regulation. The Glass-Steagall Act of 1933 caused the separation of commercial banking and investment banking (Oonagh, 2016).

Though investment banks may as well be referred to as “banks,” their operations are quite different from deposit-gathering commercial banks. Investment bank is a financial intermediary that performs a variety of services for both governments and some businesses (Nair, 2013). Such services include investing public, facilitating mergers and other corporate, and reorganizations, acting as an intermediary between an issuer of securities, making markets, underwriting debt and equity offerings and acting as a broker for institutional clients. They as well provide research and financial advisory services to companies. As a general rule, investment banks focus on large public and private share offerings and on Initial Public Offerings (IPOs). Investment banks do not deal with the general public. However, some of the big names in investment banking, such as, Bank of America and Citigroup which also operate commercial banks, JP Morgan Chase Morgan Stanley, Lehman Brothers ,First Boston and Goldman Sachs (Nair, 2013).

2.5.2.3 Insurance Companies

Insurance companies incurs risk by collecting premiums from a large group of people who indicate interest to protect themselves and/or their loved ones against a particular loss, such as lawsuit, death, illness, fire, disability, car, accident. Insurance helps their clients and companies preserve wealth and manage risk (Schreiner, 2011). By insuring a large number of people, insurance companies can operate profitably and as well pay for claims that may arise. Insurance companies use statistical analysis to foresee what their actual losses will be within a given class. They know that not all insured clients will suffer losses at the same time or at all (Schreiner, 2011).

2.5.2.4 Brokerages

A brokerage company acts as an intermediary between seller and buyers to facilitate securities transactions. These companies are compensated via commission after successful transaction. For example, when a trade order for a stock is carried out, client often pays a transaction fee for the brokerage company's efforts to execute the trade (Anyanwu, 2007).

A brokerage can be either discount or full service. Discount brokers allow investors to perform their own investment research and make their own decisions, the brokerage still executes the investor's trades, but since it doesn't provide the other services of a full-service brokerage, its trade commissions are much smaller. While a full service brokerage provides investment advice, portfolio management and trade execution. In exchange for this high level of service, customers pay significant commissions on each trade (Kanu & Idume, 2016).

2.5.2.5 Investment Companies

An investment company is an establishment or a trust through which customers invest in diversified, professionally managed portfolios of securities by engaging their finances with those of other investors. Instead of purchasing combinations of individual stocks and bonds for a portfolio, such individual can purchase securities indirectly through a package product like a mutual fund (Matthäus-Maier, 2007)

There are three main types of investment companies: managed investment companies unit, investment trusts (UITs) and face amount certificate companies. They all have the following features in common:

a) Specific investment objectives

b) Diversification in a large number of securities.
c) Professional management skills
d) An undivided interest in the fund proportional to the number of shares held.

2.6 Challenges faced by MFIs while seeking International Financial Supports in Nigeria

MFIs have been noted to depend on donors and as such, with the need to access more capital, micro finance institutions must be able to understand their sources as well as their clients (Davies, 2005). Commercial micro finance is an investment that requires easy access to medium and long term capital at convenient terms and conditions. Due to the enormous threats and challenges encountered by micro finance especially in relation to high interest rates by donors funding, commercial MFIs are quite challenging for an average Nigerian to operate without International financial support. It takes an average of six months to a year for average micro finance institution to successfully secure funding from International donors (Graphic Online, 2014). Countries tend to have advantage of accessing donor's fund when they well equipped with cheaper and innovative methods and are as well inclined to benefit from International financial support. MFIs in these countries are also equipped to apply for funds to sustain and maintain other investment opportunities through their institutional frameworks (BOG, 2012).

According to Nofsinger and Varma, (2011), several developing economies such as Nigeria's access to capital by International donors remain quite challenging due to the result of the high risk operating environment. There is high appreciation of the relevance of MFIs in contributing to the growth of the developing economies. However finance for commercial MFIsoperation in Nigeria has been by conventional method of obtaining loans from financial institutions.

2.6.1 Oriented Language

One of the greatest challenges faced by micro finance institutions is Language. Nowadays language has been one of the requirements for the access of funds for most international finance institutions which have lead to the gap existing between MFIs and international financial institutions. As the debate on the sustainability of the MFI industry is ongoing, micro finance institutions need to transform and prevail over the language issue that will guarantee access to funds needed for the industry to continue in the act as a tool for poverty reduction (Adonyah, 2007). In promoting identity, positioning and marketing, language may serve as an ideological concern that is faced by many MFIs. For instance, the MFI industry is more concerned about operational and financial self-sufficiency whiles donors emphasize on net income and profitability. In addition, donor institutions tend to often use the word customers while MFIs use it the same context as clients or outreach. Whiles donors make use of business plan for their sustainability, MFIs adopt the use of strategic plans to raise fund for their projects, and the failure of good communication between MFIs and donor organization tend to have a negative impact on micro finance industry success and development once the MFIs desired objectives cannot be easily achieved. Good communication is therefore a tool that could drive international financial institutions to support MFIs to achieve their aims and objectives (Kohlhepp, 2012).

Bulloch and Sullivan (2010) made a contrast between MFIs oriented language and donors oriented language which creates gap between both parties while seeking for financial support due to the wrong use of terms and language which aligns with that of the donors thereby affects the flow of idea between both parties.

Table 1 below show some terms used between international donors and MFIs.

Table 1: Operational terms used by MFIs and Donors.

MFIs Oriented Language	**Donors Oriented Language**
Financial Motivated Returns	Social Motivated Returns
Marketing	Outreach
Profitability	Sustainability
Customers	Clients

Source: The Microfinance Schism World Development, 2000.

2.6.2 Operational Year

Lin (2008) posited that, years of operation are very vital for the international donors. Unfortunately, most micro finance operation in developing countries have being in operation for a limited number of years, which makes it difficult for international donors to support financially, because years of operation which is an essential requirement for sustainability on the part of the donor must be like two years, which implies that infant MFIs cannot have access to financial support needed to provide enough funds for their customers and the poor to start up their business for a longer period of time. MFIs in most developing countries find it challenging to improve many entrepreneurs as MFIs can't allow customers have access to fund on long term financial independence, thereby not been able to improve the live hood of the poor and low income earners, coupled with high standard of the economy. Adjonyuh (2007) suggest that providing funds in small amount to poor entrepreneurs, assists to give a chance to lift them out of poverty which results in promoting supportive services to the entrepreneurs and gives a better standard of living condition.

2.6.3 Integrity and Bad Reputation

Negative images and impressions often discourage investors to invest their funds due to series of conventional negative images. Donors often see MFIs as non-profit organization despite true performance as a commercial entity with social mission. Weak balance sheet, mal-administration, lack of governance expertise with top management all characterize the negative impressions (Nkyi, 2012). High interest rates charged by MFIs has been widely criticized, its argued that high interest rates hurts the poor and low income earners unfairly, this charges compared to the regulatory cap established by government for traditional banking institution is high and claims that as the commercialization spread, the balance between business and development might fall in favor of business over development. As MFIs become commercialized, social programs could possibly be forgotten. Zhou, (2007), claims this phenomenon is often referred to as mission drift. Consequently, spreading among the public ultimately leading to MFI's bad reputation

2.6.4 Transparency and Track Records

As bad reputation seems to be portraying bad impression, track record and transparency is quite fundamental for international donors. Accuracy of the statistics provided have often been widely criticized, MFIs have reported loan losses, about 30-50% which is extremely bad in the financial system considering the awareness of the difficulty for business in poor areas (Smith, 2007). Investors demand documented performance while making investment decisions and that is why it’s quite fundamental for MFIs to have their financial records accurate and well arranged. Investors also find comparable sources helpful to evaluate against each other when making an investment decisions (Encarta, 2007). According to Balchin, (2010), only a few MFIs have sufficient and accurate track records for their financial operation. Lack of adequate information makes its challenging and discourages investor to compare regular investment to microfinance investment.

2.6.5 Lack of Adequate Knowledge

Donors seems not to be well informed or equipped with adequate knowledge about microfinance investment, investors are not generally enlightened enough to be encouraged to consider microfinance investment when MFIs promote their financial services(Sethumdhavan, 2007). Microfinance investments basically must be better than other investment alternative and also have equal risks return profile to attract donor’s attention.

2.7 Theoretical Overview of the Challenges

The conceptual framework below is a model which explains the relationship between specific variables of the study. The literature assessment above suggests that, MFIs in Nigeria encounter various challenges when seeking international financial support. Following the literature reviewed above, the following framework has been adopted for the study:

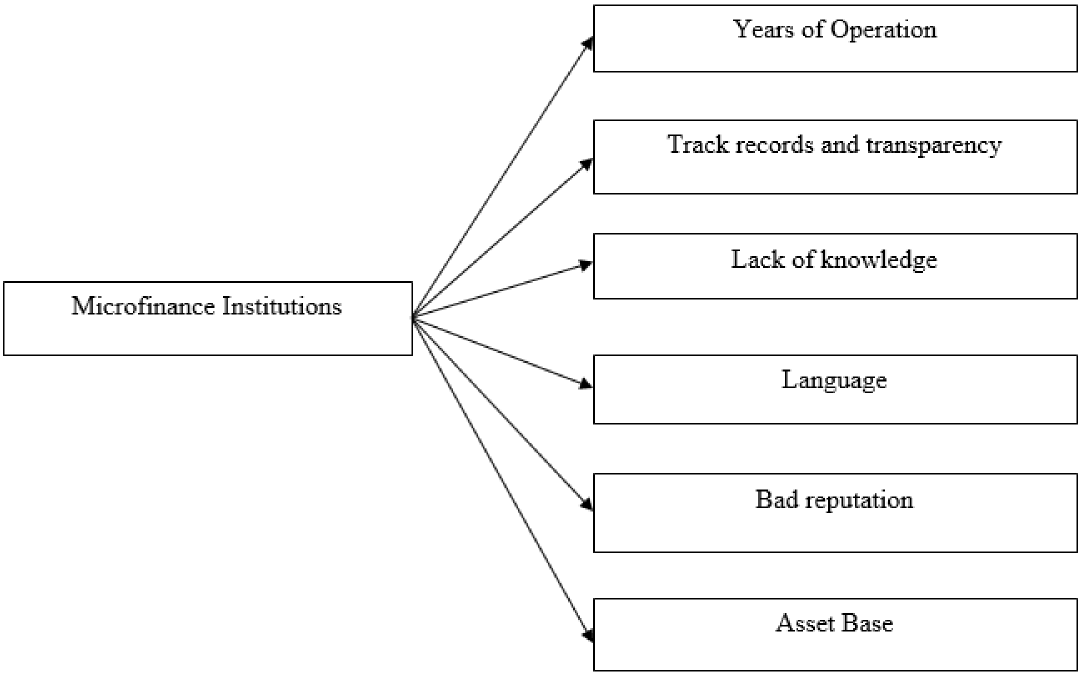

Figure 5: Conceptual Framework.

Source: Authors own.

2.8SWOT Analysis of commercial MFIs in Nigeria

SWOT analysis as a distinctive tool below gives an in-depth insight into the nature of the study. It helps to classify the strengths, weakness, opportunities and threats of a project. Identifying the weakness and strengths of a study, would be able to eliminate the threats and therefore leads to the success of the study (Weihrich, 1982). Table 2 below was adopted to give an insight into the nature of microfinance industry in Nigeria and as well successfully answer the objective questions of the study.

Table 2: Analysis of commercial MFI in Nigeria.

Stakeholder	**Characteristics**	**Strengths**	**Weaknesses**	**Opportunities / threats for the sector**
Rural Population	Vulnerability & scarcity, Undependable sources of Income, Lack	Community familiarity, knowledge, loyalty, commitment.	Inadequate understanding of complexities in	**Opportunities:** Increased access to markets, Increased employment opportunities,

	of collateral		credit system, Undeveloped infrastructure. Obsolete Technology, Illiteracy.	Development of group spirit, Increased access to inputs. **Threats:** Poor repayment culture, May create dispute in harmonious relations High interest rates.
MFIs	Institution in charge of finance. Guarantee access to finance, ensure good Financial operation.	Innovative and rich in Ideas, Support of local population and organizations, Coordinating Functions, Coverage of relevant aspects, Constitutional dedication,	Limited manpower capacity, obsolete technology, Inadequate institutional network, Lack of experience, Low field presence.	**Opportunities:** Effective management (in capacity building), Establish Financial Institutions, **Threats:** Failures due to inexperience, Corruption practices, Piling up of debts due to low debt servicerate, Isolated/Independent approaches.
Donors / Investors	Provision of Financial support, drive towards Development.	Provides Financial support, Policy support Financial and material assistance, Technical assistance	No direct access to local communities (due to low field presence)	**Opportunities:** Development of a network of financial institutions Financial framework to improve the economy Reliability in other projects, **Threats:** Unpredictability of continuous financial support,

				Increase in political disarray Political Policies.

Source: Authors own

2.9 Prospects of Microfinance Sector in Nigeria

To envisage that there is lot of opportunities in the microfinance sector in Nigeria is unarguable. Scholars in large numbers in the studies and researches are in all in agreement with the assertion that there exists a large lucrative market for MFIs in the country (Olaitan, 2006). Oluyombo and Ogundimu (2006), indicated that about 70% of the Nigerian population is engaged directly in the informal sector or agricultural production. With the country's population of over one hundred and sixty million people we can deduce that about one hundred and ten million are in this sector. Mohammed and Hassan, (2009), examined that MFIs in Nigeria only render service to less than 2million people against the over 50million that requires their services. The gap in this sector was further demonstrated by CBN, (2005), which shows that microcredit facilities in the country accounts for about 0.2 % of GDP and less than 1% of total credit to the economy.

The illustration above indicates an enormous market in which MFIs can take advantage of the large untapped/lucrative market in the microfinance sector is further enhanced by the fact that over 65% of Nigeria's population has no access to banking services (CBN, 2005). This leaves a lot of room for existing MFIs to expand their scope of operations and for new ones.

Government's improved regulatory environment and renewed interest in the microfinance sector also enhances the prospects for success and development of MFIs. One indication is the implementation of training programs for promoters, regulators by the central bank of Nigeria. CBN further went ahead to the suggestion of (Irobi, 2008) which subsidizes the training of practitioners in the microfinance sector so as to reduce the burden on the banks. CBN today pays 60 percent of the cost of training the management staff of these microfinance banks, which is aimed at improving capacity building in the industry. Central bank of Nigeria in run conjunction with Nigerian deposit insurance corporation (NDIC) culminate in these officials passing a certification examination set by the chartered institute of bankers of Nigeria (CIBN). These authorities are so serious with the certification/human capacity building program as they have enforce a guideline indicating that only certified person will be qualified to manage MFIs in the near future.

Inclusion of MFIs deposits in the deposit insurance scheme is another sign of regulatory measure which will ensure vibrancy in the microfinance sector. This has as well improved public confidence in the sector (Olaitan, 2006).

2.9.1 Impact of International Financial Supports to MFIs in Nigeria

International financial institutions has over the past years supported the growth and expansion of MFIs in developing countries especially in Nigeria, Investors funds has played an outstanding role to solve the problems faced by their start-ups in mobilizing funds to on-lending purposes which is increasingly needed in large amount (Ayeh, 2014). In reality MFIs in most cases at this stage (start-up) are unable to raise adequate liquidity to support their existence hence fall back to improve upon their outreach.

International investors support has significantly played a very important support to most MFIs in Nigeria microfinance industries. This supports increasingly has impacted positively to the expansion and growth of the microfinance industry in Nigeria.

2.9.1.1Humanitarian Aid

Investor's funds assist in serving as donations through rapid liquidity available as loan to the customer, Funds from donors contribute to an opportunity to create live hood and sustainable humanitarian aid indirectly which in turn reduce and elevate hardship and poverty in the world (Ayeh, 2012). MFIs benefit from automatic media attention with a world of increasing emphasis on corporate social responsibility which in turn goes to the investor publicity as against expensive campaign (Clark, 2008).

2.9.1.2 Growing Microfinance Industry

The financial industry is largely characterized by a large number of MFIs in Nigeria. International investors have helped most MFIs to expand and increase their outreach, thereby having the liquidity to meet up with their target group demand and as well increase their growing market potentials. Ratios show an unexploited growth possibility corresponding to a growth factor around 12 times indicating am emerging investment opportunity (Fraser, 2008).

Subsequently, it is apparent that microfinance is looking for more external resources to make their institutions more sustainable (Aryeetey, 2010).

2.9.1.3 Financial Benefit

MFIs are often seen as small financial institution compared to commercial banks, despite customer's lack of collateral, coupled with high default rate, and late repayment, International donors are increasing funding MFIs so as to equip their liquidity in order to issue loans to their customers and meet their target group demand (Amissah, 2013). Table 3 below shows the benchmarks financial return for 2011 indicating, both Nigeria MFIs and borrowers per loan officer and per staff are higher than Africa and the global peer benchmarks. RCBs equaled African peer benchmark but fell below that of the global peers.

Table 3: Financial Return Analysis for 2011.

Indicator/Peer Group	**Types Of Institutions**	
Clients per Loan Officer	**All MFIs**	**RCBs/Rural Banks**
Nigeria	351	279
Africa	247	279
Global	241	290
Clients per Staff		
Nigeria	128	71
Africa	81	71
Global	110	112

Source: MIX Market, 2016.

2.9.1.4 Social Benefit

Microfinance main objective is predominantly to reach out to the poor and low income earners thereby providing them with funds to start up live hood and make them actively involved in the economy (Ababio, 2015). Microfinance is a developmental tool necessary for the low income earner and the poor to climb out of poverty in a sustainable way. Social returns of microfinance investments contributes to the overall reduction in the world poverty and sustainable development through the creation of millions of jobs, improved maternal health, reduction of child mortality, gender equality and women empowerment and improved housing conditions (Asare, 2009).

2.9.1.5 Technical Support

MFIs struggle to attain financial sustainable. Technical efficiency is essential for achieving financial sustainability, investor's support is known as a medium of assistance that can assist in attaining technical assistance, such technical assistance include; improvement in operation, preventing liquidation, competiveness and continual provision of liquid for the customers. As opined by Branch (2012), adopting effective technical assistance can lead to better practices that eliminate potential problems (Branch, 2012). Self-sustainability is assured by Investors through technical assistance as compared to financial assistance. Technical assistance is envisaged to solve problems that should have been solved by MFIs itself (Rhineland, 2007). Through the provision of subsidies, Investors equip MFIs not to depend on subsidized sources of funds (IPC, 2010).

Informal microfinance activities flourished all over the country before the emergence of formal MFIs. Informal MFIs is provided by conventional traditional groups of like minds that align together for mutual benefits of their members. These groups provide savings and credit services to their members. The informal MFIs arrangements operate under different names such as Etoto for the Igbos in the eastern part of the country, Esusu among the Yorubas in the western region, and Adashi in the Northern region typically known to be Hausas (Thom-Otuya, 2014).

The main features of these informal schemes are informality of operations, savings and credit components and higher interest rate in relations to the formal banking sector. The informal associations that engage in traditional microfinance activities in various forms are found mostly in the rural communities, though they also operate in the urban centers (Thom-Otuya, 2014). Finally the size of activities covered under the scheme has not been determined. The non-traditional formalized MFIs are operating side by side with the informal services. The financial services provided by the microfinance institutions in Nigeria include licensing, credit, savings and insurance facilities (Arun, 2005).

3. AIMS OF THE THESIS

This study aims at examining and analyzing the microfinance sector and the challenges faced in terms of accessing International sources of supports to micro finance in Nigeria, focusing on those firms operating in Lagos state. Specifically, the research aims at the following;

3.1 Objectives of Study

The main objective of this study is to examine challenges facing the microfinance sector in Nigeria in terms of financial support from international financial sources

3.2 Specific Objectives

Specific objectives of the study include the following:

1. To examine the ways international financial sources can help develop microfinance sector in Nigeria.
2. To identify the types of international financial institutions that support microfinance sector in Nigeria.
3. To determine the major threats and challenges facing the microfinance sector in Nigeria.

3.3 Research Questions

To carry out our research and answer the set objectives, the following research questions will be answered to highlight the challenges of Micro finance in relations to international financial sources support to Nigeria.

1. What are the threats and challenges encountered by MFIs in Nigeria when seeking financial assistance from international donors?
2. What are the ways international financial sources can develop microfinance sector in Nigeria?
3. What are the types of international financial sources that support microfinance sector in Nigeria?

To answer the stated research questions above, an evaluation of the current financial sources for microfinance institutions in Nigeria will be carried out. Answering of the research questions will also give the researcher an insight and in-depth explanation of the challenges faced by MFIs in Nigeria in accessing International financial support. The answers will interpret the strategies of commercial microfinance in Nigeria and its decisive impact on the customers.

3.4 Research Hypothesis

The following research hypotheses were formulated to guide this study:

1. There is a significant relationship between years of operation and amount of loan approved.
2. There is a significant effect of how long it takes before a loan is granted on the amount requested.
3. There is significant effect of criteria before granted financial support and amount of loan granted

4. MATERIALS AND METHODS

This chapter centered on the criteria on how the research data were gathered, the type of data collected and the target population, the research methodology used, sampling technique and the sample size, and the data analysis employed in the study.

4.1 Research Design

Research design is the plan structure and strategy of investigation developed so as to obtain answer to research questions and control variance (Kerlinger, 1973:45).

The main objective of this study is to investigate the challenges facing microfinance institutions in Nigeria in terms of accessing international financial sources support. Base on this, the research was focused on microfinance institutions operating in the Lagos state of Nigeria. A total of 165 questionnaires were successfully distributed among the 165 MFIs used in the study. Out of the total 165, 150 questionnaires were filled and returned representing 91% response rate. The section starts with background information of the microfinance institutions used in the study. This is followed by credit acquisition history of the MFIs and ends with the challenges faced by the various MFIs in the accessing international financial sources.

4.2 Study Area

The study was conducted in the Lagos state which is the economic hub of the nation, the largest state in Nigeria, and on the African continent. It is one of the fastest growing in the world, and also one of the most populous urban agglomerations, The state has an estimated total population of 21million which make up an area of 999.6 km^2 with urban area of 907 km^2 (NPC, 2012). It shares borders to the north and east by Ogun state, to the west is Republic of Benin, behind its southern border is the Atlantic Ocean Lagos is a major financial centre in Africa; the megacity has the highest GDP and also houses one of the largest and busiest ports on the continent.

As stated by the 2010 population and housing census reports that the state has the highest urban density of about 14,469/km^2 (NPC, 2012). Approximately 31.6 % and 14.8 % of the total population work in wholesale and retail trade. This has led to the out spring of the various microfinance institutions in the region due to a big market base. An estimated number of over 949 MFIs has been registered and operating in the study area (CBN, 2015). Base on the increasing number of MFIs in the area makes it suitable for the research.

4.3 Sample Size

The study following the method employed by Glenn, (1992) used Yaro Yammane's formula to determine the sample size from the population because of its known confidence and risk levels, degree of variability and level of precession (Glenn, 1992).

Yaro Yamane's formula is given

As $$n = \frac{N}{1+N(e)^2}$$

Where N = population of study

n = sample size

e = level of significance at 5%

1 = constant

Source: Yamane (1967:258)

Thus substituting for the formula

$$n = \frac{300}{1 + 300\ (5\%)}$$

$$= \frac{300}{1 + 1} = 150$$

A sample size of 165 Microfinance institutions were targeted for this study and hence adequate number of questionnaires prepared to meet the target population. A total of 150 questionnaires out of 165 questionnaires distributed were successfully answered and returned. This represents a 91% success rate and therefore can be deemed accurate for the analysis.

4.4 Data Collection Technique

The research instrument used by the researcher in collecting useful data is questionnaires and interview. Purposive sampling method was used to choose the microfinance institution which the data was gathering so as to meet the aims of the research work.

The questions were both close and open ended with multiple answers. These formulated questions were submitted to the supervisor while corrections were made. The interview was done with the microfinance bank top officials in a quite semi formal arrangement and strategy in order to have a friendly atmosphere and create good leverage to administer the questionnaires with the other microfinance bank officials. Questions ranging from the prepared ones on the questionnaire were asked to other relevant questions that assist the study where asked during the interview. Anti-corruption campaign crusade in the state makes the data collection a bit skeptical because top bank officials felt unsecured about some sensitive questions been asked, above all, respondent through anonymous leverage felt relaxed to give true opinion about the sensitive questions asked as regards the financial status and operation of their banks.

4.5 Questionnaire Design, Distribution and Collection of Responses

The questionnaires were carefully designed to accommodate two sections. The first section is the demographic characteristics of the respondents such as sex, age, educational level which the second section deals on relevant aspect of the topic under study. The questionnaire comprises of open and close questions which gives respondents the flexible opportunity to give accurate and relevant information necessary for the study.

For secondary data, the researcher used the following sources for the collection of secondary data with the used of libraries, textbooks, journals, newspaper conference and seminar papers and the review of other related literature. Once it was quite difficult to get ample information directly from international financial institutions, relevant scientific literature was consulted to give all the needed information required for the success of the study.

4.6 Research model specification

Data collected subjected to statistical analysis with the use of chi square test of independence. This statistical test is mostly used to compare the relationship between data obtained according to a specific hypothesis. This test had been used by some scientist to determine microfinance impact on entrepreneurial development: the case of Nigeria (Data collected subjected to statistical analysis with the use of chi square test of independence. This statistical test is mostly used to compare the relationship between data obtained according to a specific hypothesis. This test had been used by some scientist to determine microfinance impact on entrepreneurial development: the case of Nigeria (Ojo, 2009) and analysis of microfinance and the poverty reduction in Bayelsa state of Nigeria (Appah, John and Soreh, 2012).

Chi square is given as:

$$\chi^2 = \frac{\sum (o-e)\ 2}{e}$$

Where χ^2 = chi square

o = observed frequency

e = expected frequency

Level of confidence / degree of freedom

When employing the chi – square test, a certain level of confidence or margin of error has to be assumed. More also, the degree of freedom in the table has to be determined in simple variable, row and column distribution, degree of freedom is: df = (r-1) (c-1)

Where; df = degree of freedom

r = number of row

c = number of columns.

In determining the critical chi _ square value, the value of confidence is assumed to be at 95% or 0.95. A margin of 5% or 0.05 is allowed for judgment error.

4.6.1 Decision for Validation of Hypothesis

The rule in deciding or whether to accept or reject the null hypothesis is that were the computed chi – square (χ^2) value is greater than the critical chi – square (χ^2) values reject the null hypothesis and accept the alternative hypothesis. However, were the critical value (table value) of the chi – square is greater than that of the computed value, accept the null hypothesis and reject the alternative hypothesis.

Thus;

Accept H_0 if $\chi^2c < X^2t$

Accept H_1 if $\chi^2c > X^2t$

Where; H_0; null hypothesis

H_1; alternative hypothesis

χ^2c; computed chi – square value

χ^2t; table (critical) chi – square value

5. RESULT

This chapter is devoted to the presentation, analysis and interpretation of the data gathered in the course of this study. The data are based on the number of copies of the questionnaire completed and returned by the respondents.

5.1 Background Information of Microfinance Institutions

The study sought to examine the challenges faced by various MFIs in Nigeria with regards to their opportunities to international financial sources, operational year of the consulted MFIs was firstly identified so as to give an insight of how long they have been operating in order to determine the experience the MFIs has in terms of requesting or accessing international funds and support. Table 4 below represents years of operations of the various MFIs consulted for the study.

Table 4: Years of operation of MFI.

Years of operation	Frequency	Percent
0.5-3year	25	16.6
4-5years	34	22.7
6 and above	91	60.7
Total	150	100.0

Source: Authors own from field questionnaires.

Table 4 above shows how MFIs in Nigeria has been in operation for a longer period of time. 25 MFIs representing 16.6% of the total sampling population have been operating for a period between 0.5-3 years, 34 MFIs representing 22.7% have been operating for 4-5 years while 91 MFIs representing 60.7% have been in the business for 6 years. Statistically, its indicates that more than 85% of the total 150 respondents have been in operation for a longer period of time indicating they have the prerequisite to access funds from international donors.

.

Table 5: Target population of MFIs

Target group	Frequency	Percent
Women	108	72.0
Entrepreneurs	42	28.0
Total	150	100.0

Source: Authors own from field questionnaires.

Women are the main target for most MFIs, it has been argued that women are often more complying to the repayment rules as compared to men because women often tend to gear towards income generating which makes them repay their loans thereby reducing default rates of MFIs. In addition, MFIs have the objective of poverty reduction, and women in developing countries like Nigeria has higher percentage of the low income earners and the poor, the best way to poverty reduction is to target women. The study therefore found it important to ascertain the target group of the industry engaged in the research, it clarified if MFIs in the study follow the fundamental knowledge of targeting women.

Table 5 shows that MFIs in Nigeria target women as the main tool for the development of the industry. 108 respondents representing 72.0% shows that their main target are women. MFIs invariably has helped improving the welfare of the family by increasing their income and reducing poverty through women who facts have shown spend more of their income on their household unlike men who doesn’t spend their profit on household and family. 42 of the respondents representing 28.0% of the total sample targets entrepreneurs.

Micro finance concept tends towards provision of financial services to the poor and low income earners who don’t have access to such services by formal banking institution. This service includes microcredit; the study therefore shows the average loan size provided to clients by MFIs consulted in the study, most of the MFIs find it difficult to provide enough microloans capacity to their clients due to their financial capacity crisis.

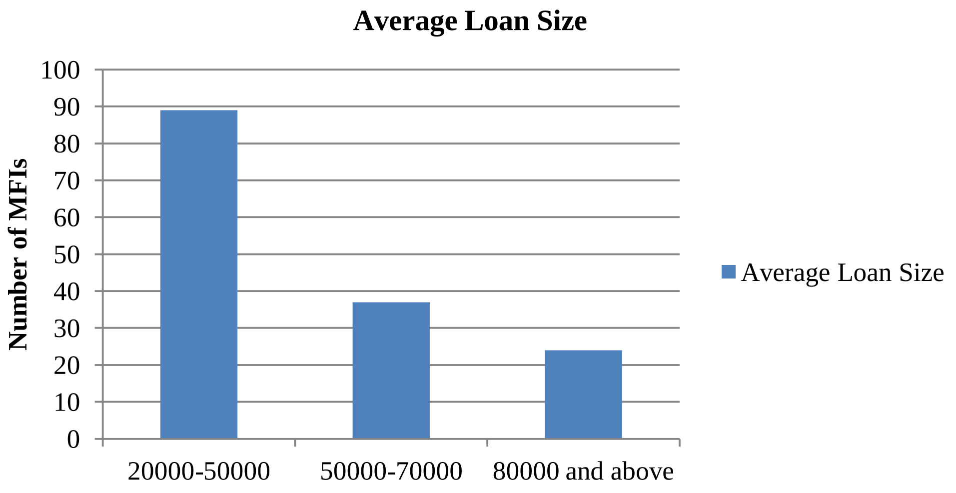

Figure 6: Average Loan Amount Disbursed.

(Source: Authors own from field questionnaires).

Figure 6 shows that, majority of the MFIs (89) representing 59.3 % provided microcredit between 20,000- 50,000 Naira to their clients due to financial incapacity and high default rate of loan by their clients. Followed by (37) of the total sampling representing 24.7 % disbursed an average amount between 50,000 - 70,000 Naira in a year, while 24 MFIs out of the total sampling (150) shows that, their average loan was 80,000 and above representing 16.0 %.

Default rate also know as late repayment is one of the major challenges faced by most MFIs in Nigeria. The study sought to investigate client’s attitude towards prompt repayment of loans because of its effects on the sustainability of the industry.

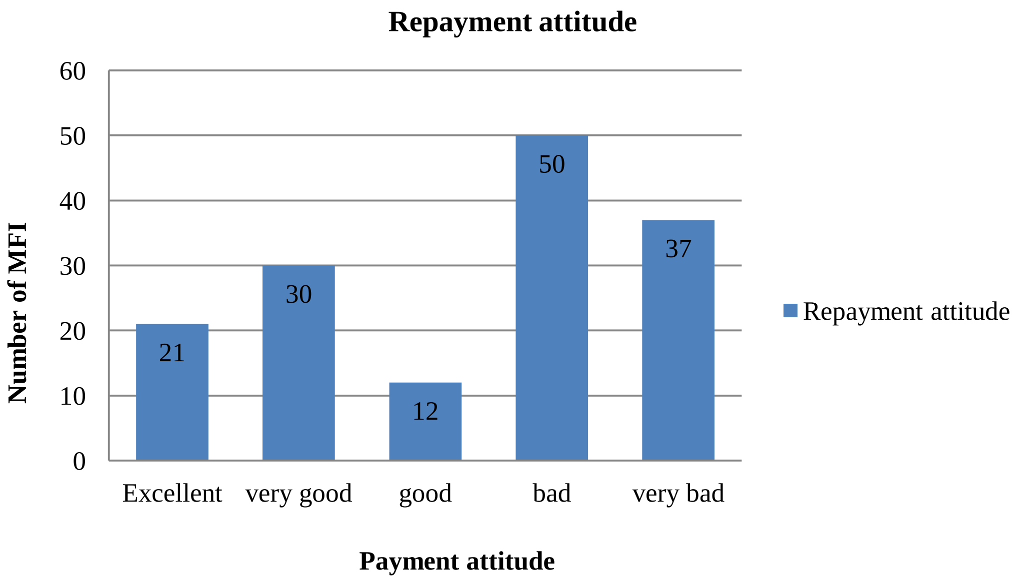

Figure 7: Repayment attitude of clients.

(Source: Authors own from field questionnaires).

This enabled the researcher to understand the performance of the clients at large as regards repayment o loans in the various MFIs which will assist the industry to identify whether they are making profit or otherwise while granting financial service to their clients. 14% which is 21 MFIs said repayment culture of clients was excellent, 20% which represents 30MFIs replies with very good indicating they pay timely and early. 8% which represents 12 MFIs is good, while 33.3% which is the majority with 50 MFIs said it's bad. Clients tend not to pay their loan on time which in turn affects the institution because MFIs predominantly depends on the profit making of the loans disbursed to their clients to run the business and if this altered, its automatically affects the industry's sustainability which leaves the institution with no alternative than to sought for international donors. Lastly 24.7%representing 37 MFIs revealed that client's repayment culture is bad thereby affecting institutional global competitiveness.

Figure 7 established it that most MFIs have badly to very bad repayment culture loan rate of their clients. In response to this, Risk hedging was realized as the mechanism put in place to deal with inadequacy of repayment of loan. 77 % of the respondents answered Yes when asked if Risk hedging was been used while 33 % said NO as shown in figure 8 below.

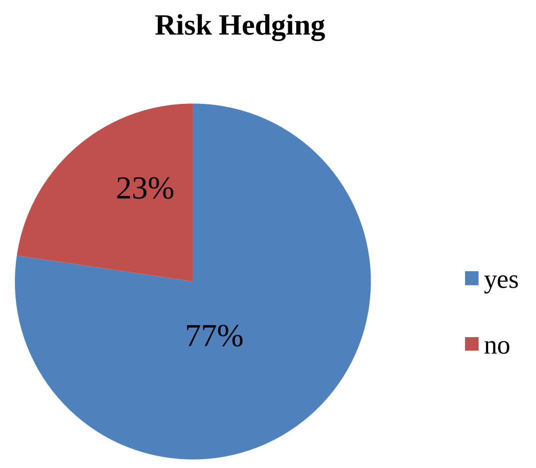

Figure 8: Response on the use of risk hedging by MFIs.

(Source: Authors own from field questionnaires).

5.2 Assessment of International financial sources by MFIs

Figure 9 below shows an insight into the main objectives of the study, as it was worth knowing if MFIs have had access to financial support from international financial institutions. 97 MFIs representing 65 % of the total respondents of 150 MFIs answered yes while 35 % answered no when asked on their accessibility to international funds.

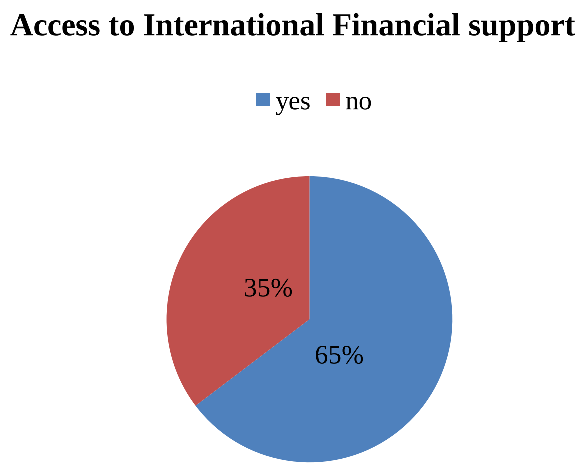

Figure 9: Response on accessing International Financial Sources.

(Source: Authors own from field questionnaires).

Figure 9 shows that, (97) MFIs representing 65 % said that, they had accessed international financial support to finance their MFIs indicating international donors are the keen support to their sustainability to achieve global competitiveness and institution success. Whiles (53) MFIs representing 35 % said they haven't accessed international financial due to the complex requirements needed and high interest from the donors.

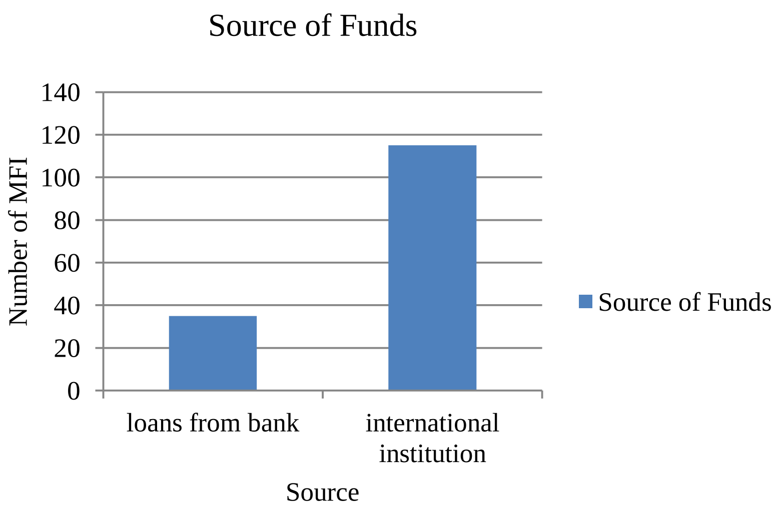

Figure 10: Sources of Funds.
(Source: Authors own from field questionnaires).

As regards the main sources of financial support by the MFIs, 115 MFIs representing 76.7 % revealed that, they rely exclusively on international donors support as shown in figure 10 to finance their expected outreach, while, 35 MFIs of the total respondents (150) representing 23.3 % seeks funds from the banks. As the firm grows, they begin to request for additional funds which can be classified mainly into debt finance and equity finance.

Microfinance has been identified as a developmental tool for Poverty reduction by creating credit services to the low income and the poor. The study therefore found out the main rationale of accessing funds from the sources indicated in figure 10 above. Table 6 below shows the reaction on the purpose of accessing funds.

Table 6: Purpose of funds.

Purpose	**Frequency**	**Percent**
poverty reduction	36	24.0
Social economic development	12	8.0
Profit	102	68.0
Total	150	100.0

Source: Authors own from field questionnaires.

Table 6 above shows the response expressed by the MFIs, 36 MFIs representing 24% of the total respondents of (150) says small amount of their funds helps reduce poverty, 12 MFIs representing 8.0 % supports in social economic development while 102 MFIs representing 68 % exclusively respond that their fund is mainly for profit making indicating that after requesting for support from investors, they give out microcredit to their clients with interest charges which generates profit at long run. Interest charges generated turns out as profit to the MFIs which is important to keep the industry active and sustainable to stand future challenges.

The study further investigates how long it takes to receive the amount requested and if the requested amount by the MFIs was given. Both figure 11 and table 7 below shows the amount requested and how long it takes to receive the fund.

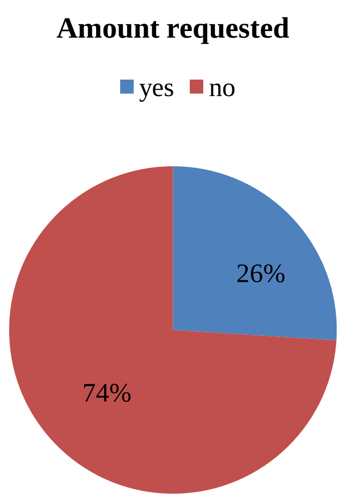

Figure 11: Response on amount requested.

(Source: Authors own from field questionnaires).

From the analyzed data, 26 % which represents (36) MFIs had access of the amount requested from their donors. While 74 % representing (114) MFIs do not have access to the amount the requested. Requirements challenges ranging from limited of number of years of operation to lack of asset base of their institutions, affects them negatively while seeking for funds from international donors.

Table 7: Period taken to receive support.

How long does it takes to get the support	Frequency	Percent
0.5-6months	91	60.7
7-1year	47	31.3
2years and above	12	8.0
Total	150	100.0

Source: Authors own from field questionnaires.

Table 7 above shows the duration it takes MFIs to have access to donor's funds. 0.5- 6months of 60.7 % representing (91) MFIs have access to their loans timely while 31.3 % representing (47) MFIs out of the total (150) received the requested loans between 7months-1year. Furthermore, 8 % representing (12) MFIs said its takes 2years and above to receive their funds because of diverse resins ranging from not failure to fill out all funding forms correctly to not providing vital information during the process of filling personal information of the institution thereby affecting the loan processes and results in delaying of loan issuance.

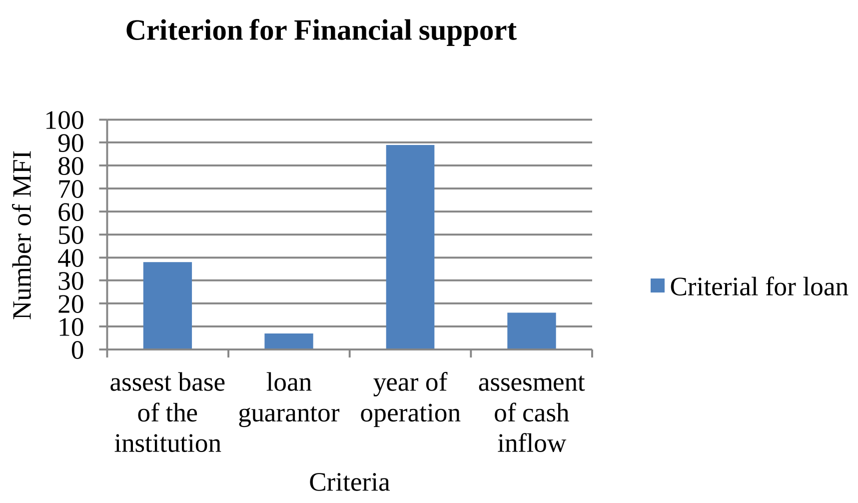

Figure 12: Requirements before granted financial support.
(Source: Authors own from field questionnaires).

Figure 12 shows the vital requirements needed to be attained by MFIs in order to access international financial support. It was considered in order to assist the researcher know the necessary conditions required before financial support by international donor can be granted. This study will be able to show if the conditions are attainable easily or it's quite difficult. When requirements are difficult, MFIs tends not to be able to receive financial support which will end up affecting their productivity and success which indirectly affects the living standard of their clients and result to decrease in outreach.

25.3%of the respondents shows that before MFIs would be granted loan, asset base of the institution for assessment of MFIs is requested from donors, 4.7%of the respondents shows loan guarantor is requested before application is been processed and approved for their institution while 59.3% shows that operational year is very important to the donors. MFIs have to be in operation for a longer period of time which implies they have been issuing microcredit to their clients for a period of time indicating sustainability through experience in managing and giving out loans to their clients. Lastly assessment of cash inflow records off MFIs is another vital requirement which allows donors know the inflow and outflow of funds and give an insight of how the institution is been managed financially.

Though MFIs is greatly stunted as a result of financial support despite MFIs playing a significant role in the Nigeria's economy, commercial banks stand a better chance of establishing better banking relationship with international financial institution and have better credit history compared to MFIs to satisfy lending requirements for the clients. MFIs which poised to providing funds for low income and poor are perceived lender with high risk thereby attracts higher transaction costs and have limited access to long term finance.

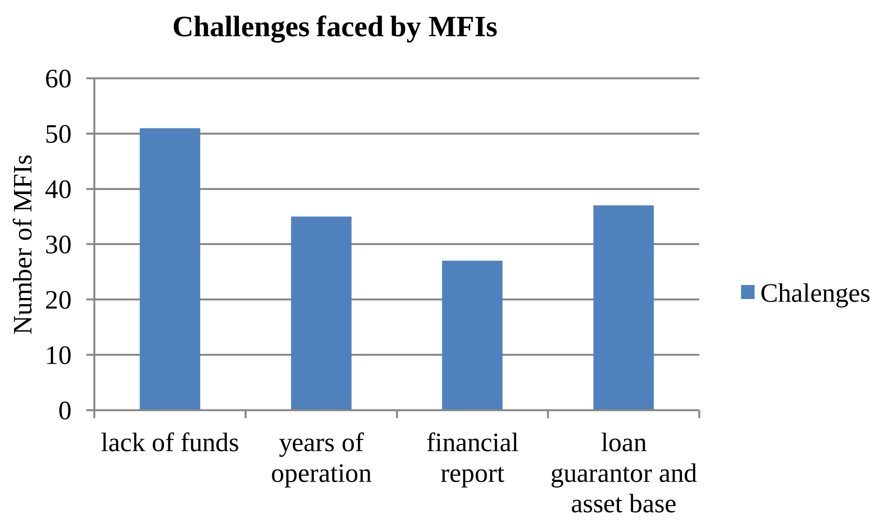

Figure 13: Challenges faced while seeking assistance.

(Source: Authors own from field questionnaires).

The main challenges were years of operation representing 23.3 % while loan guarantor and the asset base of the institution represents 24.7 %. The lowest of the challenges faced by the MFIs is financial report of the institutions representing 18.0 % when seeking financial assistance from donors. Figure 13 above shows the major and the least challenge MFIs face is failure to pay the amount requested from the MFIs representing 34.0 %.

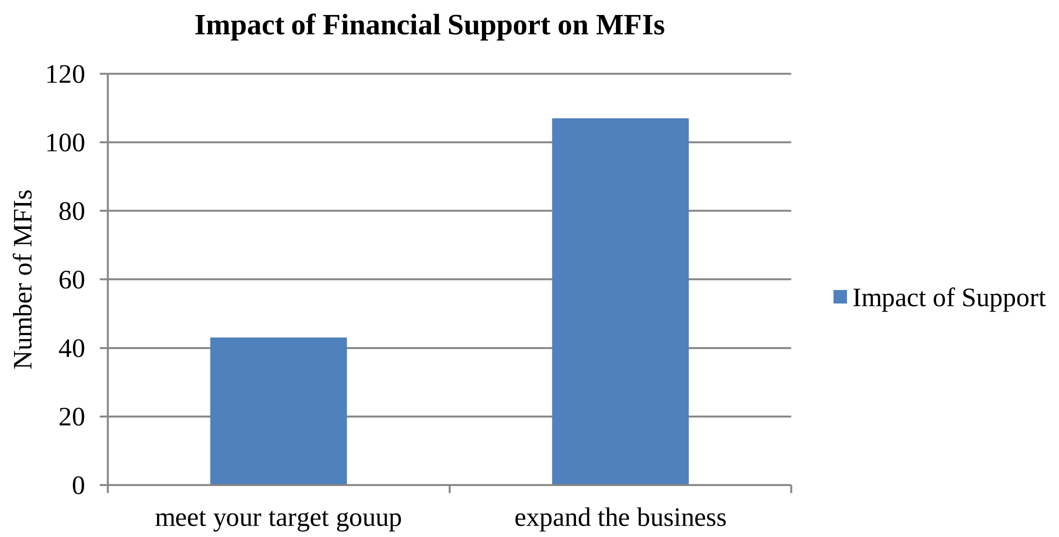

Figure 14: Impact of support from international financial sources.

(Source: Authors own from field questionnaires).

Figure 14 above indicate whether the financial assistance MFIs received from the international donors has helped them greatly or negatively. The figure shows that 43 MFIs out of the total respondents (150) representing 28.7 % virtually agree that, the funds has positively assisted them to meet their target groups (women). While 107 MFIs representing 71.3 % revealed that, the donors funds has helped them to expand their business outreach by giving out loans to their customers thereby their profit level is enormously high which has resulted in better living standard.

5.3 Empirical analysis of the challenges of MFIs in Nigeria

To answer the first research hypotheses, Chi-Square statistical tool was used by the researcher in the study. Years of operation was acknowledged as one of the challenges of the

MFIs in the study. The study therefore sought to know the impact of operational years on the amount of funds requested. This helps in answering the first hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of years of operation on the amount of loan granted.

H_1: ≠0 there is significant effect of years of operation on the amount of loan granted.

Level of significance (α=0.05)
Decision rule: reject H_0 if the p-value is less than the level of significant, otherwise accept the null hypothesis.

Table 8: Chi-Square analysis of years of operation and amount of loan granted.

Chi-Square Tests	**Value**	**Significance Level**
Pearson Chi-Square	107.197[a]	**.000****

Significant at p (0.05) **

Source: Authors own from field questionnaires

Table 8 represents the Chi-Square analysis of the impact of the years of operation on the amount of loan granted. From the table, a look at the two-sided asymptotic significance of the chi-square statistic reaches 0.021 and thus is less than level of confidence of 0.05. This statistically confirms the relationship between years of operation and amount of loan granted and we thus reject the null hypothesis. We therefore conclude that years of operation of has an effect on the amount of loan granted to MFIs in Nigeria.

To answer the research second hypotheses, Chi-Square statistical tool was used by the researcher in the study. How long it takes to get financial support was identified as one of the question asked in the MFIs engaged in the study. The study therefore sought to know the influence of how long it takes to get financial support on the amount of international finance requested. This helps in answering the second hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of how long it takes before a loan is granted on the amount of loan granted.

H_1: $\neq 0$ there is significant effect of how long it takes before a loan is granted on the amount of requested.

Decision Rule:

Level of significance (α=0.05)
Decision rule: reject H_0 if the p-value is less than the level of significant, otherwise accept the null hypothesis.

Table 9: Chi-Square analysis of how long it's taking to have access to a support and amount of loan granted.

Chi-Square Tests	**Value**	**Significance Level**
Pearson Chi-Square	34.170[a]	**.000****

Significant at p (0.05) **

Source: Authors own from field questionnaires.

Table 9 above illustrates the Chi-Square analysis of the time it takes before granting a loan based on the amount requested. According to the table, we found that the two-sided asymptotic significance of the Chi-Square statistics attained 0.00 which is less than the level of confidence at p 0.05. This hereby confirms the relationship between the time it takes before granting a loan and the amount granted thus rejecting the null hypothesis. Thereby concludes that the time it takes before granting a loan has a huge impact on the amount granted to MFIs in Nigeria

To answer the research third hypotheses (3), Chi-Square statistical tool was used by the researcher in the study. Criteria before granted financial support was acknowledged as one of the challenges asked in the MFIs engaged in the study. The study therefore sought to know the criteria before granted financial support on the amount of international funds requested. This helps answer the third hypothesis of the study;

Hypothesis one (Null and Alternative)

H_0: =0 There is no significant effect of criteria before a loan is granted on the amount of requested.

H_1: ≠0 there is significant effect of how long it takes before a loan is granted on the amount of requested.

Decision Rule:

Level of significance (α=0.05)
Decision rule: reject H_0 if the p-value is less than the level of significant, otherwise accept the null hypothesis.

Table 10: Chi-Square of criteria before granted financial support and amount of loan granted.

Chi-Square Tests	**Value**	**Significance Level**
Pearson Chi-Square	145.454[a]	**.000****

Significant at p (0.05) **

Source: Authors own from field questionnaires.

Table 10 above illustrates the Chi-Square analysis of the influence of the period it takes before loan is granted based on the requested amount. According to the table 11, we found that the two-sided asymptotic significance of the Chi-Square statistics attained 0.000 which is less than the level of confidence at p 0.05. This hereby rejects the null hypothesis thus statistically confirmed the relationship between criteria before granting a loan and amount of loan granted. Thereby concludes that criteria to be met before a loan financial support has a huge impact on the amount of loan granted to MFIs in Nigeria.

6.0 DISCUSSION

The main objective of this study is to examine major challenges and threats facing microfinance sector in Nigeria in terms of financial support from international financial sources. Significant effects of lack of financial resources on microfinance sector in Nigeria was identified, the developmental impact of this source, the type of international financial institution that could help support microfinance sector in Nigeria was examined as well. The major challenges and threats hindering international financial institutions from supporting microfinance sector in Nigeria and the recommended solutions to ensure the bridge between both parties is reduced.

Result analysis shows that MFIs has been in existence for a long period of time which is a perquisite for approval of financial support by international donors, by implication, most of the MFIs has been servicing or providing their customers (entrepreneur) funds for a long period thereby improving their live hood through income earning and as well improve their lives by helping them grow their capital on long term financial dependence which invariably makes life easier and worth living despite the high standard of living in the country. In addition, its helps the entrepreneurs to pay their loans timely whiles gaining profits thereby, reducing late repayments and defaults rates of the MFIs.

Financial supports from international financial institutions cannot be overlooked or neglected. Soft loans or grants source of funds has overtime been the source of funds received from socially responsible investors, national or regional development banks example includes; Asian development Bank (ADB), United State Agency for International Development (USAID), Swedish International Development Agency (SIDA), Agricultural Development Bank (ADB) etc. Other sources are international NGOs, non-profit corporations, charitable trusts or funds held by donors such as Grameen trust, Melinda Gates foundation, Ford foundation, ACCION and CARE among others. Some development agencies like International monetary fund (IMF), World Bank though only interact with governments but their funds can as well be accessed directly or indirectly by microfinance institutions (Funding Sources for microfinance institutions, 2005).

Data analysis in table 5 shows MFIs main target are women, women have proven to spend more of their income on their household which implies that women are assisted to increase their income level thereby improving the welfare of the family. It is well-documented fact that, women as compared to men are more likely to spend their income on households and families. Despande and Burjorjee (2010), in a well documented fact compared women to men as regards spending their income on households and family, twenty-nine (29) institutions that responded to the survey together serves over 1.6 million respondents, 60% of whom are women. This supports the affirmation that majority of the customers of institution MFIs are women.

Furthermore, research also observed that one o the rationale for providing funds and targeting women by MFIs is that, it's seen as an effective tool for women empowerment. Gender equality is promoted by creating a level playing field by assisting women with financial resources (World Bank, 2008).

Lastly, Crecer (2009) in Bolivia and Kashf (2014) in Pakistan have as well been augmenting against and for targeting of women on the grounds of efficiency and sustainability. MFIs Advocates targeting women on the basis of sustainability quote women's repayment records and cooperativeness that, lends solely to women (Crecer, 2009). Women tend to have an outstanding repayment performance compared to male (Roodman and Qureshi 2006). Collective knowledge emerges that women's repayment rates are classically far better to men. Lower arrears and loan loss rates have an important effect on sustainability and efficiency (Fraser, 2013).

It was deduced during my field survey that as the outreach expands, additional funds is needed. Most microfinance institutions in Nigeria rely on international investors despite the high interest rate as compared to conventional bank. MFIs still prefer to seek and apply for support from donors to finance their expected growth, because huge amount of funding is needed to support them expand their outreach and also meet up with their target group which invariably leads to increase of their client base.

Result of a recent survey show that over 75% of the MFIs depends exclusively on international donors in Africa and for MFIs to operate in a sustainable way, every MFIs has to be profitable. Interest rate should be low so as to encourage start up microfinance institutions who don't have enough capital to be encouraged to secure funds from international investors to run their business, despite the high rate, customers prefer to take loans from MFIs as compared to loans from commercial banks which also has higher interest (Nordic, 2011).

Ledgerwood (2006) indicated the considerably increase in MFIs in recent years. Notably growth was lacking and the industry is still far from reaching a non-negligible percentage of the population, though microfinance as a developmental tool used to target the low income earner and the poor ends up been profit making institution all in the bid to be sustainable and self sufficient.

Initially, many Microfinance institutions were founded as non-profit organizations focusing on the social and reduction of poverty aspects of the country, and the microfinance institutions received their funding from donors as grants and subsidizes, both public and private, and aid organization to help them in accomplishing their mission (Reducing poverty social aspects) (Ledgerwood, 2006). Since then, many factors have led to the development and commercialization of the microfinance industry, because nowadays, the grants and subsides received by the microfinance institutions has decreased over the last decades, the purpose or goal for any firm is to make profit, so for the microfinance institutions to be sustainable, provide loans and services to new clients and face future challenges, they need to reinvent or reengineer new strategy in assisting them acquire another alternative of external funds where they can have a huge sum of liquidity and disburse the funds to their clients as loans and the repayment of the loans by their clients are charged with an interest charges and the interest is used to finance many MFIs in western Africa.

Nkyi (2012), suggested that investor demands for assessments of cash inflow record (track records) as one of the major perquisite needed from the MFIs to assist the donor have an understanding of the institution's in and outflow activities financially in order to know how finance is been managed in the industry but it's quite unfortunate that majority of the institutions do not have or meet the fundamental requirements (Nkyi, 2012).

According to Abraham (2010), worries were often based on wrong perception or information, held about international investors. CMA (2014) recent survey shows that 70% of 32 respondents said that donor's fund has assisted in expanding their business outreach and meet their client's need which invariably increased their clients base as against 11.5% of the respondents which claims donor's fund has not aided them, neither has it expand their outreach nor meet their target group.

A survey of 16 different MFIs from all over the world indicated that having access to investors funds have led to an improvement in the quality of good services rendered to most microfinance industry and therefore has boost their self-confident level that has assisted them to spread out their outreach and satisfied their targeted clients, thereby supporting their customers to broaden the horizons of their livelihood security strategies whiles their income earnings has improved (Nyamekye, 2013).

Despite strong advocate for donor's funds, there are also supporters in disagreement that there are issues with donor's fund and this is important to scrutinize in order to try and avoid them. (Ayeh, 2015). Despite investor's fund reaches as many MFIs that other banks have failed to support, there are those of the opinion that investor fund cannot reach everybody due to the strict requirement based on year of operation. Ones it is less than 5 years, its turns out as a major setback for the industry. (Woller et al,2006).

Despite the significant role played by international donors in Nigeria economy, the growth of the industry is greatly stunted as a result of support difficulties faced by the industry. As indicated earlier in the result and discussion, Year of operation, loan guarantor, assets base, financial report and inability to pay customers on the amount requested are the major threat and challenges encountered by MFIs in Nigeria. The results align with the findings of Ibrahim (2010) and Mohammed (2008) Management of an MFIs or Microfinance investment vehicles desires to center on what MFIs does best by managing financial report, in search of opportunities to enlarge its financial inclusion footprint, adding significance to its investors to allow MFIs have access on the amount requested from their donors, as well as growing the performance of the entity and ensuring its long-term sustainability.

6.1 Limitations of Study

Few limitations were envisaged while soliciting for information and data from individual respondents and international donors who are relevant in this study. However once it has been foreseen, adequate measures were put in place to allay the challenges to a reasonable extent

The erratic power supply situation in Nigeria is also another major limitation to the researcher as electric power supply are mostly out and researcher is unable to have access to electricity in order to make use of computers and other electrical gadgets needed.

Lastly, there is a general lack of concern towards academic research in Nigeria, and this pose a strong limitation to this research because individual and institutional respondents initially might are reluctant to complete the researcher’s questionnaire(Unwilling attitudes of the officials to disclose classified sensitive information) and even grant an interview; that is because most respondents see academic research as a way of revealing their business secrets and as a waste of time since they do not see the instant advantage of their contributions.

7. CONCLUSIONS

Microfinance as a pivotal developmental tool has become an essential part and important approach for the development plan of most emerging economies. MFIs growth in Nigeria has rapidly increased since the beginning of the present decade going by 35-45% annually. The MFIs industry has witnessed tremendous growth both in number of registered and non-registered microfinance institution and outreach. The sector continues to grow and depends on investor support and donations through huge gap are evident due to lack of alternative and competitively priced on-lending funds.

The study investigated 150 microfinance institutions, with regard to the years of operation, it was realized that, most of the MFIs has been operating for some years. The study shows that, 25 MFIs were operating in less than a year, 34 of them were operating between 4 to 5 years and a total of 91 have been operating for over 6 years. Furthermore, the study shows that, most of the MFIs have their target clients as women. Notably, most MFIs make women their goal clients because women tend to repay their loans as compared to men. SMEs were also relatively another target. Entrepreneurs are realized as the driving force of economic development in most developed countries unfortunately access to fund makes it impossible for some developing countries such as Nigeria. Entrepreneurs as a target by MFIs in the study show how the challenge of access to fund by SMEs can be resolved.

Providing Microloan is realized as the key service rendered by most MFIs in Nigeria. The study shows that, most of the MFIs provided between 20,000 and 40,000 Naira as microloans to their customers averagely per annum, this amount was considered below average due to financial predicament faced by MFIs in the country and high repayment culture of the clients. The ability of MFIs customers to repay their loans determines the sustainability of MFIs. Most of the MFIs reported that, repayment culture of their customers wasn’t encouraging which in turn could affect the sustainability of the industry because MFIs exclusively depends on the profit making of the loans granted to their customers to run the business. MFIs mostly operate on investor’s funds to complement the cost of transaction accumulated during their operations. The study shows that, most MFIs have received financial support from different international financial sources, though, some revealed that, high interest rate required on loans despite complex prerequisite for granting loans restrained their ability to access international financial support.

Majority of the MFIs said that they depend exclusively on international funds. They need huge amounts of funds to expand their outreach, meet their target groups so that they can finance their expected growth. Giving out loans to increase their profit also leads to the increase of client base in their institution. Due to the expansion of the industry, they need to solicit for extra finance which is categorized into equity finance and debt finance from banks. MFIs are established with the objectives of reducing poverty and due to that they strive hard to accumulate external support to improve their outreach potential. Unfortunately, some MFIs revealed that they acquire external support for profit making and not for the main purpose which is poverty reduction while some MFIs reported that a small percentage goes into poverty reduction. The key aspect for growth of most MFIs is Financial Stability, which makes the provision of microloan to clients of MFIs not to assist in poverty reduction but an avenue to generate revenue through interests charged on loans. This notion has made most MFIs not to engage in poverty reduction but help in efficient revenue generation. The main conditions for accessing international funds sources were determined to be the years of operation, asset base, provision of loan guarantor and cash flow assessment. The research also revealed that most MFIs get their loans in like half a year (0-6months). And about 8% of the MFIs stated that they got their loans after 2 years of application. It can actually be an outcome of not meeting up with the criteria mentioned above.

The objective of this thesis is to look into the challenges faced by MFIs in Nigeria in obtaining financial support from international finance sources. From the study the major challenge were found to be the age of the MFIs, provision of loan guarantor, the financial report, and bad repayment culture of the clients. Many MFIs consented that the main challenge is the year of operation as a criteria for loan accessing because most of them are very young in the provision of microcredit and some other related finance services to their customers. The lowest challenge was said to be provision of a loan guarantor which was identified as a challenge to credit acquisition by MFIs from international donor institution. Verifying the impact of fulfilling the set criteria for amount of loan request was also investigated. Empirical analysis revealed that relationship between amount of loan granted and fulfillment of loan criteria was significant. A p significant value of 0.00 was gotten which suggests that the ability of an MFIs to accomplish all criteria's which are years of operation, cash flow assessment and assets base of the MFIs does affects the amount of loan to be granted.

A significance level of p at 0.02 was showed during the empirical analysis of the impact of years of operation on the amount of loan granted which signifies that the number of years of MFIs operation has a role on its ability to be granted the requested loan from international finance source. Operational year of MFIs would express how long in the provision of financial services to customers showing credibility and experience of the MFIs.

In conclusion, the study showed that the challenges faced by microfinance institutions in assessing international financial sources are years of operation, provision of loan guarantor, financial report, and the incapability of clients to repay their loans. Empirically the study revealed that the amount of loan granted is affected significantly by the years of operation, requirement of loan and time taken to be granted loan. It is hereby concluded that MFIs in Nigeria face the challenges in assessing international financial sources

7.1 Recommendations

Based on the investigated research findings, strategies and policies had been recommended to enhance the operation of MFIs as a means of attaining higher level of sustainability and operational efficiency drawing lessons for the sector and national development.

1. Development of institutional capacity and the regulatory structure of the sector must be institutionalized by government. MFIs create the largest job creation in the country and make important contribution to the economic development. Donors and commercial banks should reduce the interest rate charges for the MFIs so as to make it encouraging and attractive for MFIs so as to be able to make loans flexible to access

2. Financial report is quiet important, MFIs should endeavor to give capacity building towards training their managers and staffs on proper book keeping (Track records) so as to have an accurate and credible financial track to assist in attracting and getting the confidence and secure international support. It’s as well going to show how sustainable the sector is should its making profit or loss.

3. Nigeria Government should put into operation credit guarantee schemes for microfinance institutions. MFIs with no adequate collateral can benefit from a percentage of state guarantees to investors against loss on qualifying loans to eligible MFIs. This obviously will reduce the risk classification of MFIs by international

donors and cushion investors against threat of high interest rate which is been charged as a result of risk default.

4. Ensuring adequate flow of funds and technical capacity to the MFIs through already established MFIs. Government and donors should offer grants for capacity building of the manager and staffs rather than offering subsidized loans for lending clients. Strategic financial linkage should be encouraged as well between MFIs and Insurance companies, commercial banks and input suppliers.

5. Inadequate capital, poor regulatory structure and inappropriate institutional measure adequately put in place in order to benefit the sector. Government should redesign its programs to absorb and cover all the needs of the MFIs towards their developmental programs that will encourage MFIs to contribute to the social economic value of the country. Government should contribute in infrastructural development and provision of policies aim to support smooth drive of the industry’s operation

8. REFERENCES

1. Abimbola, O. H. and Agboola, Mayowa G. 2011 *Environmental Factors and Entrepreneurship Development in Nigeria.*Journal of Sustainable Development in Africa, 13 (4). pp. 166-176.

2. Acha Ikechukwu, A., 2012. Microfinance banking in Nigeria: Problems and prospects.. *International Journal of Finance and Accounting.,* 5(1), pp. 106-111.

3. ADB. 2015. *Economic Report on Nigeria,* TUNIS Belvedere.: The Knowledge & Information Center (KVRC), African Development Bank.

4. Adeyemi, K. S., 2008. Institutional Reforms for Efficient Microfinance Operations in Nigeria.. *International Journal of Economics and Finance,* 7(2), pp. 56-66.

5. Alberto, J. G. C., 2011. *Microfinance and the Poor in Sub-Saharan Africa: Characteristics and Opportunities.* Prague 6(Prague): Czech University of Life Sciences Prague..

6. Alegieuno, J., 2008. *Microfinance Policy Issues and Prospects, Lagos: The Guardian News Paper.,* Lagos: s.n.

7. Anyanwu, C., 2007. *Microfinance Institutions in Nigeria: Policy, Practice and Potentials: Paper Presented at G.24 Workshop on Constraints to Growth in Sub-Saharan Africa,* Pretoria: The central bank of Nigeria.

8. Appah, E., John, M. S. & Soreh, W., 2012. An analysis of microfinance and poverty reduction in Bayelsa state of Nigeri. *Kwuait chapter of Arabian journal of business and management review* , pp. 7-12 .

9. Arun, T., 2005. Regulating for development: the case of microfinance.. *The quarterly review of economics and finance.,* 45(2), pp. 346-357.

10. Attah, J. A., 2008. *'Banks' Contribution to Agricultural Development' The Nigerian Microfinance Newsletter,* Lagos, Nigeria: Publication of Central Bank of Nigeria.

11. Babajide, A., 2011. Impact Analysis of Microfinance in Nigeria.. *International Journal of Economics and Finance,* 3(4), p. 453–475.

12. Budina, Garretsen & Jong., D., 2000. "Liquidity constraints and investment in transition economies: the case of Bulgaria.”. *Economics of Transition,* 8(5), pp. 453-475..

13. CBN, 2005. *Microfinance Policy Regulatory and Supervisory Framework for Nigeria.,* Abuja: CENTRAL BANK OF NIGERIA,.

14. Churchill, C., 2011. *Protecting the poor, a micro insurance Compendium.,* Lagos: International Labour Organization..

15. Cleary, W.S, P., P, R. & M., 2007. The U shaped investment curve: Theory and evidence.. *Journal of financial and quantitative analysis.,* 3(1), p. 1–39.

16. Deesomsak, W., 2009. *Approaches to sustainable poverty Reduction in Ghana,* Accra: Smart line.

17. Ehigiamusoe, G., 2008. *The Role of Microfinance Institutions in the Economic Development of Nigeria.,* Lagos.: Publication of the Central Bank of Nigeria.

18. Fazzari, S., Hubbard, R. & Petersen, B., 2007. Investment-cash flow sensitivities are useful: a comment on Kaplan and Zingales.. *Quarterly Journal of Economics,* 115(3), p. 695– 705..

19. Ferka, A., 2011. *The impact of microfinance on the livelihoods of women in rural communities: a case study of jaman south district, Ghana.,* Kumasi: Kwame Nkrumah University of Science and Technology.

20. Glenn, D., 1992. *Sampling the Evidence of Extension Program Impact. Program Evaluation and Organizational Development,,* Florida.: IFAS, University of Florida..

21. Gungoraydinoglu, F. & Öztekin, H., 2011. *Outreach and sustainability of six rural financial institutions in sub-Saharan Africa,* Pretoria: World Bank.

22. Helms, B., 2006. *Access to All: Building Inclusive Financial Systems. Consultative Group to Assist the Poor,* Washington, DC.: World Bank.

23. Hossain, F.,2004. Small Loans, Big Claims. *Journal of Foreign Policy.,* pp. 79-82.

24. Hubbard, R., 1998. Capital market imperfections and investment.. *Journal ofEconomic Literature.,* 36(7), p. 193–227..

25. Hulme, D. & Mosley, P., 1996. *Finance against poverty.*. London & New York.: Routledge.

26. Ikeanyibe, O. M., 2010. Human resource management for sustainable microfinance institutions in Nigeria.. *Global Journal of Social Sciences.,* 8(1), pp. 119-133.

27. Irobi, N. C., 2008. *Microfinance and Poverty Alleviation. A Case Study of Obaze Progressive Women Association, Mbieri, Imo State – Nigeria,* Uppsala: Department of Economics. .

28. Jayadev, M. & Narasimha, R. R., 2010. *Science Direct.* [Online] Available at: http://microfinancehub.com/2010/04/23/financing-options-for-microfinance-institutes-funding-sources/
[Accessed 7 March 2016].

29. Johnson, S, M., J, W. & C., 2002. Property Rights and Finance.. *American Economic Review.,* 5(3), pp. 92-114.

30. Kamath, R. & Srinivasan, R., 2012. Microfinance in India: Small, Ostensibly Rigid and Safe.. *IIM Bangalore Research Paper ,* pp. 34-47.

31. Kanu, C. & Idume, G. I., 2016. Security Challenge, Bank Fraud and Commercial Bank Performance in Nigeria: An Evaluation. *Journal of Business and Management,* 5(2), pp. 1-21.

32. Kurfi, B., 2008. *Overview of Credit Delivery Channels in Nigeria,* Lagos.: Publication of the Central Bank of Nigeria..

33. Kurfi, B., 2008. *Overview of Credit Delivery Channels in Nigeria,* Legos: Publication of the Central Bank of Nigeria.

34. Lashley, J., 2004. Microfinance and Poverty Alleviation in the Caribbean: A Strategic Overview.. *Journal of Microfinance/ESR Review,* pp. 83-94. .

35. Ledgerwood, J., 1999. Microfinance Handbook on Sustainable Banking with the Poor: An Institutional and Financial Perspective. In: *Microfinance Handbook on Sustainable Banking with the Poor: An Institutional and Financial Perspective.* Washington. D.C. : The World Bank, pp. 200-210.

36. Lemma, M. & Negash, E., 2013. Achieving the microcredit Summit and Millennium Development Goals of Reducing extreme Poverty.. *World Development*, pp. 209-301 .

37. Lewis, J. et al., 2005. *Global development finance 2005 : mobilizing finance and managing vulnerability* , Washington, DC: s.n.

38. Lieberman, I. et al., 2008. *Microfinance and Capital Markets: The Initial Listing or Public offering of four leading Institutions,* Abuja: Council of Microfinance Equity Funds. .

39. Mabhungu, I. et al., 2010. Factors Influencing Micro and Small Enterprises' Access to Finance Since the Adoption of Multi-Currency System in Zimbabwe.. *Factors Influencing Micro and Small Enterprises' Access to Finance Since the Adoption of Multi-Currency System in Zimbabwe.* , pp. 17-222.

40. Mohammed, A. D. & Hassan, Z., 2009. Microfinance in Nigeria and the Prospects of Introducing and Islamic Version in the light of Selected Muslim Countries.. *Journal of Microfinance/ESR Review.*, pp. 30-41.

41. Mokhova, N. & Zinecker, M., 2013. The determinants of capital structure: the evidence from the European Union. *ACTA Universities Agriculture Et Silviculture Mendelianae Brunesis,* 7(4), p. 2533–2546..

42. Mosley, P. & Hulme, D., 1998. Microenterprise finance: is there a conflict between growth and poverty alleviation?. *World development,* pp. 783-790.

43. Murray, Z. F. & Vidhan, G., 2009. Capital Structure Decisions: Which Factors Are Reliably Important?. *Financial Management*, 38(1), pp. 1-37.

44. Nair, S., 2013. *Commercial Microfinance and Social Responsibility: A Critique. Economic & Political,* New York City: World development.

45. Nawai, N. & Shariff, M. N. M., 2013. Loan repayment problems in microfinance programs that use individual lending approach: A qualitative analysis.. *Journal of Transformative Entrepreneurship.,* 2(1), pp. 93-99.

46. Nwanyanwu, O. J., 2011. Microfinance in Nigeria: Problems and Prospects.. *African Research Review*, pp. 87-103.

47. Ojo, O., 2009. *Impact of Microfinance on Entrepreneurial development: the case of Nigeria.*. Bucharest, faculty of administration and business, University of Bucharest, Romania , pp. 14-15.

48. Okezie, A. I., Bankoli, B. & Ebomuche, N. C., 2013. The Impact of Nigeria Microfinance Banks on Poverty Reduction: Imo State Experience.. *Mediterranean Journal of Social Sciences.,* 16(4), pp. 40-58.

49. Olaitan, M. A., 2006. Finance for Small and Medium Enterprises: Nigeria's Agricultural Credit Guarantee Scheme Fund. *Journal of Farm Management.,* pp. 1-9..

50. Oluyombo, O. O. & Ogundimu, K. M., 2006. Microfinance as a Strategy for Poverty Reduction.. *Journal of Business Management ,* pp. 70-79.

51. Owusu, A. D., Oppong, A., Agyeiwaa, D. & Abruquah, L., 2015. Reducing Loan Default Rate among Microfinance Institutions in Ghana through Innovative Product Design, Delivery and Efficient Loan Management.. *International Journal of Economics, Commerce and Management.,* 3(3), pp. 23-34.

52. Patterson, B. & Lygnerud, K., 2015. *The Determination of Interest Rates,* Luxembourg: European Parliament.

53. Putzeys, R., 2008. Micro Finance in Vietnan:Three case studies. Africa Development and Resources Research Institute (Adrri) Journal,12(12), pp. 67-82.

54. Schreiner, M., 2011. *Aspects of Outreach: a Framework for Discussion of the Social Benefits of Microfinance,* Washington, DC.: Center for Social Development. .

55. Thom-Otuya, 2014. Emerging Issues in Micro Finance Banks in Nigeria.. *European Journal of Business and Management,* pp. 6-18.

56. World Bank, 2008. *World Bank Microdata Library.* [Online] Available at: http://data.worldbank.org/country/nigeria [Accessed 19 March 2016].

57. Wrenn, E., 2005. Microfinance literature review.. *Research and Perspectives on Development Practice,* pp. 50-62.