INFLUENCE OF FINANCIAL MANAGEMENT REGULATIONS ON MICROFINANCE BANKS SERVICES TO MICRO-ENTREPRENEURS

JOHN N. ALIU, PhD.
Department of Banking & Finance
College of Business and Management Studies
Kaduna Polytechnic, Kaduna.

ABUBAKAR CHIKA SHAGARI, PhD.
Department of Accountancy
College of Business and Management Studies
Kaduna Polytechnic, Kaduna.

ALEX IKUPOLATI, PhD.
Department of Quantity Surveying,
College of Environmental Studies
Kaduna Polytechnic, Kaduna.

LATEEF ADETUNJI ADEDOKUN, PhD.
Department of Banking & Finance
College of Business and Management Studies
Kaduna Polytechnic, Kaduna.

Abstract

Policy makers and scholars have shown considerable interest in microfinance banks services to micro – entrepreneurs because of their roles in national economic growth, especially in developing countries. This study investigated the influence of regulations on financial management in microfinance banks in Nigeria. Specifically, the paper examined working capital management, deposit mobilization strategies, and financial controls in microfinance banks. The study reviewed related literature and made use of primary data sourced form responses to questionnaires and interviews. Chi-square tests and correlation analysis were used to analyze the data. The findings revealed that p-value (0.041) is less than the chosen significant level of 0.05 implying that working capital is determined by relevant standards and regulations. Results also indicate that deposit mobilization strategy is determined by CBN's regulations on deposits as p-value of 0.031 is less than the chosen significant value of 0.05. Also, with a correlation co-efficient of 0.90, and p-value of 0.037 (which is less than 0.05), result indicate that the number of MFBs with weak financial controls (WFC) is higher than those with Strong Financial Controls (SFC). The study concludes that the microfinance banks remained an important source of financial services to the micro entrepreneurs and regulations on their financial management practices significantly influence the financing decisions. The study therefore, recommends regular inspection and examination of microfinance banks to ensure compliance with standards and CBN's rules on financial management practices.

Keywords: Financial Management, Microfinance, Micro – Entrepreneurs, Financial Controls, Banking Reforms

Introduction

The microfinance banking sub-sector of the financial service industry plays a significant role in national economies globally. As an important sub-sector, there has been great concern on the regulations regarding financial management in microfinance banks because of huge financial losses recorded by these banks occasioned by maladministration and fraudulent practices (Kariuki, Wanjau, & Gakure, 2011).

The experiences of many countries regarding financial management in microfinance banks indicate that regulations and supervision are essential for effective performance of microfinance banks. The importance of microfinance in providing services to micro-entrepreneurs cannot be over-emphasized. This is more so, given the challenges of non – inclusion of a large population in the productive economic activities.

According to Sanusi (2012), as at the end of 2011, there were 24 deposit money banks with 5,789 branches and 816 microfinance banks in Nigeria. The ratio of bank branch to total population was one bank to 24,224 persons. This clearly reflect a high level of exclusion of large population especially, micro-entrepreneurs from full participation in economic activities in Nigeria.

An Enhancing Financial Innovation and Access (EFIA) survey conducted in 2010 showed that 46.3 per cent of Nigeria's population is financially excluded from access to banking (Sanusi, 2012). This figure is quite high compared to South Africa (26.0%), Kenya (32.7%) and Bodswana (33.0%).

In general, the Nigeria's financial service industry – especially the banking sector, has always received special attention in the area of safeguard measures because of the vital role played by banks in the promotion of entrepreneurship growth (Tende, 2014). However, inspite of these regulatory frameworks, Small and Medium size Enterprises (SMEs) and Micro – entrepreneurs have great difficulties in accessing financial facilities from the commercial banks. Afolabi (2013) reports that a main problem in Nigeria's industrialization process in the past years has been the inability of the SMEs sector to access credit facilities from the conventional commercial banks.

The desire to correct market imperfections and unfair distribution of resources justifies the necessity for banking regulations in the economy (Sanusi, 2013). Therefore, this study aims at investigating the influence of financial management regulations in Microfinance banks, and how this impacted on services to micro entrepreneurs. The rest of this study is segmented as follows: Section two reviews the relevant empirical studies, section three discusses the methodology adopted, the results and findings of the study is contained in section four, while section five focused on conclusion & Recommendations.

Review of Related Empirical Studies

In Nigeria, the Central Bank of Nigeria (CBN) is at the apex of Regulatory Agency in the Banking Sector. Together with the Nigeria Deposit Insurance Corporation (NDIC), the two bodies regulate and control the activities of banking sector in Nigeria, thereby ensuring sanity and efficiency in the sector. As noted by Nwoha (2003), the Banks and Other Financial Institutions Act (BOFIA, 1991) as amended empowers the Governor of CBN to appoint a Director of Banking and Supervision (DBS). The DBS has the responsibility of supervising banks and other financial Institutions (including the Microfinance Banks) in Nigeria.

A study on the impact of microfinance on Small and Medium sized Enterprises in Nigeria by Christopher (2010) found that a major problem to rapid economic development is shortage of both debt and equity financing. The study recommended sufficient regulations that will facilitate sufficient infrastructural facilities to support SMEs in Nigeria.

Mamman and Aminu (2013) examined the effect of banking reforms in Nigeria on credit faculties to Small and Medium Scale Enterprises in Nigeria. The study found that there is no significant effect of the banking reforms on credit facilities to SMEs because of restrictions imposed by the regulations. However, a study by Nwosa and Oseni (2013) on the impact of bank loan to SMEs on manufacturing output in Nigeria found that such loans had significant impact on manufacturing output. Their study spanned a period of eight years (Between 1992 and 2010) and they employed error correction modeling technique in the study.

A study in Ghana by Amonoo, Acquah and Asmah (2003) centered on the relationship between interest rates and demands for credit on one hand, and interest rates and loan repayments by micro-entrepreneurs on the other hand. The study found that there is a negative relationship between interest rates and demand for credit. The result also indicated a negative relationship between interest rates and loan repayment. The study suggested amendments of the government's fiscal policies to increase micro-entrepreneurs demands for credits.

Etim (2010) investigated the relationship between Financial System Strategy (FSS) and the promotion of Small and Medium scale Enterprises in Nigeria. The study found that Financial System Strategy (FSS) can be optimized with the creation of enabling environment for the growth of SMEs in Nigeria. The study recommended amongst others, the need for the establishment of relevant laws consistent with modern realities. On their part, Rehanet, Razika, Jumai, Fatima, Olatunji and Shehu (2015), examined the role of deposit money banks in financing SMEs in Nigeria. They found that adequate attention and concentration of loans and advances on entrepreneurs and SMEs can drive Nigerian economy forward.

The effect of Financial reforms (In terms of regulations) on the performance of Financial Institutions was the focus of a study by Iganiga (2010). The study made use of classical Least Square technique in its analysis and discovered that the regulations have significant influence on the performance of Financial Institutions. The study found that increase of 5% in domestic savings and in capital base of these firms arose public confidence by 3.6%. An indication that regulations influence service rendition of the banks.

Similarly, Das, Quityn and Kina (2004) found that regulatory governance have significant influence on the safety and soundness of financial system. Their study applied a multi-sectional data of both developed and developing nations using Weighted Least –Square regressions to explore the impact of regulatory governance on the stability of Financial System.

Also, with the aid of Ordinary Least Square regression, Idowu and Babatunde (2010) in a study on financial reform in Capital Market, found that financial reforms had a negative effect on capital market development. However, Ningi and Dutse (2008) investigated the impact of consolidation reform of Central Bank of Nigeria on the Banking Sector, and found a significant relationship between the two variables (i.e CBN reforms and the growth of the banking sector). They found that the banking consolidation reform has changed the entire market structure and further enhanced the efficiency, relevance and reliability of banks.

In his study, Umar (2015) submits that the growth of Nigeria's banking sector is supported by measures of the regulatory authorities (That is, Central Bank of Nigeria and Nigeria Deposit Insurance Corporation). The study concludes that the supervisory roles of CBN and NDIC have ensured a decrease in the incidences of bad loans portfolio amongst banks in Nigeria. This study investigated the influence of regulations on performance of microfinance banks especially as it relates to service provision to micro entrepreneurs.

Methodology

This study examined the influence of financial management regulations on microfinance bank's ability to grant services to micro – entrepreneurs. The study used both primary and secondary data. The simple random sampling techniques were used. Both descriptive research and inferential statistic were employed in this study. Chi-square tests and correlation analysis were used to analyze the data.

Results & Discussions

Influence on MFBs Financial Management Practices and Service to Micro entrepreneur

The study objective set to determine the influence of regulations of financial management practices in Microfinance banks' and the effects on services to entrepreneurs. Specifically, the study investigated the influence of working capital management, deposit mobilization and financial controls in Microfinance Banks.

i. Working Capital Management

Result in Table 1 indicate that 92% (n=100) of the respondents agreed that Central Bank of Nigeria (CBN) had actually put in place regulations on working capital Management for the Microfinance banks. However, 8% (n=8) of the respondents believed otherwise. Furthermore, an overwhelming majority of those respondents 90% (n=90), who believed in the existence of the policy also agreed that it has enhanced service delivery to entrepreneurs by the MFBs. Only 10% (n=10) held contrary view. On the part of those respondents that disagreed on the existence of CBN's working capital policy, 75% of them believed that this non-existence had significant negative impact on the service provision. Only 25% felt the negative impact was mild.

Table 1: Response on Finical Management

		Count	%
Do the Central Bank of Nigeria have regulations on working capital for MFBs?	Yes	100	92%
	No	8	9%
If yes, how did this enhanced the MFBs services to Micro – Entrepreneurs?	Greatly	90	90%
	Mildly	10	10%
if no, how did this affect service provision by MFBs?	Greatly	6	75%
	Mildly	2	25%

ii. Deposit Mobilization

Table 2 contains results on responses regarding regulations for deposit mobilization. Asked on whether MFBs policy framework provides for deposit mobilization measures, 94% (n=102) attest to this provision, while 6% (n=6) felt otherwise. Similarly, 78% of those respondents that believed in the existence of the working capital provision also agreed that, it had facilitated extension of services to entrepreneurs. Only 22% disagreed with this position. One-half (50%) of the respondents that held the view of non-existence of specific deposit mobilization measures also believed that this had no significant effect on service provision by the MFBs.

Table 2: Response on Deposit Mobilization

		Count	%
Does the MFBs policy in Nigeria provides for deposit mobilization measures?	Yes	102	94%
	No	06	6%
If yes, how did this facilitate the extension of services to Micro-Entrepreneurs?	Greatly	80	78%
	Mildly	22	22%
If no, how did this affect MFBs service to Micro-Entrepreneurs?	Greatly	2	50%
	Mildly	3	50%

iii. Financial control Measures

Result in Table 3 contain responses from regulatory authorities on financial control measures in MFBs. Reacting to question on CBN's operational framework for MBF in relation to financial controls, 91% (n=98) of the respondents answered that CBN's operational framework for MFBs contain financial control measures. Only 9% (n=10) held an opposite view. Of the respondents that agreed on the existence of these measures, 91% (n=90) submitted that this had significantly strengthened the internal control systems in MFBs for enhanced service delivery. Only 9% (n=9) claimed that the effect on MFBs internal control systems was mild.

Table 3: Response on Financial Controls

		Count	%
Do the CBN's operational framework for MFBs contain financial control measures?	Yes	98	91%
	No	10	9%
If yes, how did this strengthen the MFBs internal control systems for enhanced services to Micro – Entrepreneurs?	Greatly	90	91%
	Mildly	8	9%

The results of this study regarding working capital management and deposit mobilization are consistent with results of a study by Osotimehin, Jegede, Akinlabi & Olajide (2012) Who found that access to finance by MSMEs is a main challenge in Nigeria. They attributed this to two factors, namely; low level of income, and low level of confidence of the savings public in Microfinance institutions. In Kenya, Abd Elrahman (2015) reported that there are primary and secondary legislation regulating the microfinance industry in that country. These separate laws were issued to promote microfinance in Kenya. Cassian (2008) found that Kenya government encourages the regulator to formulate a system that ensures standards of performance that assist the microfinance sector in moving from a less regulated sector to a tightly-regulated one.

Although, the Nigerian Monetary Authorities do have operational guidelines for the Microfinance Banks, a set of enforceable binding rules in the form of prudential regulations that governs working capital management, deposit generation and financial controls are essential. A study covering eleven (11) countries by Stefan (2003) showed that many countries are applying different preventive and protective regulations to ensure prudential financial management in Microfinance banks. It can be inferred that halfhearted enforcement of rules had devastating consequences on microfinance bank in Nigeria. This view is supported by Sanusi (2012) who assert that weak regulations had negative effects on banks' ability to extend services to their clients in Nigeria.

In conclusion, adoption of sound system of regulations and supervision will minimize financial losses in Microfinance banks and ensure strong systems of financial management that will ensure effective service delivery to Micro-entrepreneurs and the active poor.

Further Analysis of Influence on Financial Management

This section of the study focused on investigating the influence of regulations on financial management practices in microfinance banks. To confirm this, the following statistical tools were employed: Chi-Square and Correlation Analysis. The sub independent variables of financial management practices tested are: working capital management, deposit mobilization and financial controls.

Data on table 4 indicates that p-value (0.041) is less than the chosen significant level of 0.05 implying that MFBs working capital adequacy is to a great extent determined by the CBN's regulations and standards on working capital. Standards on working capital management are designed to ensure sound liquidity position of the microfinance banks without comprising investments by these banks. The microfinance bank should not be found wanting in its ability to meet customers maturing demands and should at the same time, fulfill its objectives of providing credit facilities to micro entrepreneurs and the active poor.

Table 4: Chi-Square Test of Regulations on working capital

	Value	DF	Asymp. Sig(2-sided)	Exact sig. (2-sided)	Exact Sig. (1-sided)
Pearson chi-square	6.789	1	0.041		
continuity correction	2.111	1	0.256		
likelihood ratio	4.897	1	0.142		
fisher's Exact test				0.12	0.12
linear-by-linear association	5.767	1	0.072		
N of valid cases	108				

Data on table 5 reveals that p-value (0.031) is less than the significant value (0.05) signifying that deposit mobilization by the microfinance banks depends CBNs regulations. Microfinance banks should focus on the statutorily allowed accounts – such as savings, currents and fixed deposits in their deposit mobilization strategies.

Table 5: Chi-Square Test on deposit Mobilization

	Value	DF	Asymp. Sig(2-sided)	Exact sig. (2-sided)	Exact Sig. (1-sided)
Pearson chi-square	6.079	1	0.031		
continuity correction	3.011	1	0.231		
likelihood ratio	4.258	1	0.112		
fisher's Exact test				0.332	0.332
linear-by-linear association	4.017	1	0.032		
N of valid cases	108				

Data on table 6 shows the independent sample t-test for the internal financial control measures in MFBs. It indicates that the p-value (0.010) is less than the chosen significant value (0.05). This implies that there is significant difference in the mean of MFBs with Weak Financial Controls (WFC) and MFBs with Strong Financial Controls (SFC)

Table 6: Independent Sample t-test

types of financial control		**N**	**Mean**	**Std. Deviation**	**T**	**sig**
financial	**strong internal Control**	**5**	**63.0000**	**12.04159**	**3.390**	**0.010**
	weak internal financial control	**5**	**301.0000**	**156.54073**		

Data on table 7 reveals that the value of the correlation coefficient 0.90, and p-value= 0.037<0.05, implying that the number of MFBs with WFC is higher than those with SFC. The responsibility of establishing strong internal control systems lies with the management of individual microfinance Banks. Therefore, Management of microfinance banks should institute controls and measures that will safeguard the bank's assets including cash. This will set them in greater light of providing services to the micro-entrepreneurs and the active poor in the society.

Table 7: Correlation Analysis

			MFBs with WFC	MFBs with SFC
Spearman's rho	MFBs with WFC	Correlation Coefficient	1.000	.900
		Sig. (2-tailed)		.037
		N	5	5
	MFBs with SFC	Correlation Coefficient	.900	1.000
		Sig. (2-tailed)	.037	
		N	5	5

* Correlation is significant at the 0.05 level (2-tailed)

Financial management is an essential ingredient for sustenance of operational wheel of microfinance banks. As observed by CBN (2011), an important component of financial management is cash management which is a set of guidelines established to ensure that banks maintain optimal cash balance at any time to meet customers' demands. The findings in this study that many microfinance banks operate without due regard to liquidity management rules corroborates results of Stefan's (2003) comparative study of microfinance in 11 country. That research findings indicate that some microfinance banks do not comply with cash management standards.

As acknowledged by Central Bank of Nigeria (2011), deposit mobilization and cash management are associated with achieving working capital requirements in microfinance banks. As observed by Aliu, Arugu, and Otaokpukpu (2015), banks that meet the financial needs of Micro – Entrepreneurs are those that build adequate control measures around their liquidity. It can be deduced that weak financial controls, deficient cash management practices and improper deposit mobilization strategies by MFBs have had negative consequences on service delivery by the MFBs.

Conclusion and Recommendations

This study examined the influence of financial management regulations on microfinance banks and the impact on their services to micro - entrepreneurs. The empirical results suggest that banks have significant impact on micro entrepreneurs and their financing. The microfinance banks still remain an important source of financial services for the micro – entrepreneurs in Nigeria. Regulations and standards have significant impact on the financing decisions of the microfinance banks, especially on lending to micro – entrepreneurs.

Specifically, results of this study show that efficient working capital management and deposit mobilization by the microfinance bank depends on CBNS's regulations. Also, the number of microfinance banks with weak financial controls (WFC) is higher than those with strong financial controls (SFC). It is therefore, desirable that a set of binding rules in the form of prudential regulations that governs working capital management, deposit generation and financial controls be put in place by the Central Bank of Nigeria. There is also need for more regular inspection and examination of the microfinance by CBN and NDIC to enforce compliance.

References

Abd Elvahman (2015). "*Islamic Microfinance Moving Beyond Financial Inclusion*" the Islamic research and Teaching Institute (IRTI) Working Papers No. 1435.

Afolabi, M.O. (2013). *Growth Effect of Small and Medium Enterprises (SMEs) Financing in Nigeria Journal of African Macroeconomic* Reviews, 31(1), 193-205.

Aliu, J. N., Arugu, L., & Otaokpukpu J .N (2015). *The Role of Microfinance Banks in Enhancing Sustainable Grassroots Development in Nigeria*. Social Science and Law Journal of Policy Review and Development Strategies Vol. 1 International Scientific Research Contortion U.K.

Amonoo, E, Acquah, P.K. & Asmah E. E. (2003). *The Impact of Interest Rates on Demand for Credit and Loan Repayment by the Poor and SMEs in Ghana* (IFLIP Research Paper 03-10). Geneva: International Labour Organization.

Central bank of Nigeria (2011). *Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.*

Christopher I.F (2010). *Impact of Microfinance on Small and Medium Sized Enterprises in Nigeria,* Wyhan P.R China.

Etim, E.O (2010). *Promoting Small and Medium Scale enterprises in Nigeria: A panacea for realization of financial system strategy* (FSS) 2020, International Journal of Economic Development Research and Investment 1, (1&2) pp 142-148

Kariukki, M.W; Wanjau K.L & Gakure R. W (2011). *Relation between Corporate Government and Growth of Organizations*. A survey of complains listed in Nairobi stock exchange. Nairobi, Kenya.

Mamman, A & Aminu K.S. (2013). *Effect of 2004 Banking Reforms on Loan Financing of Small and Medium Scale Industries in Nigeria*, International Journal of Small Business and Entrepreneurship Research. 1(3), 44-53.

Osoba, A. M. (1987). *Towards the Development of Small-Scale Industries in Nigeria* Ibadan: Nigeria Institute for Social and Economic Research (NISER)

Osotimehin, K.O, Jegede C.A Akinladbi B. H. & Oladije, O.T (2012). *An Evaluation of the challenges and prospects of micro and small enterprises development in Nigeria.* American Journal of Contemporary Research 2.,(4). Pp174-185

Rehanet, I., Zainab, I. Razika, I. H., Jumai, M. A. Fatima. I. U., Olatunji, T. E. & Shehu U., (2015). *Deposit Money Banks of small and medium scale enterprises on economic development* in Nigeria International Journal of Advanced Research in Statistics, Management and Finance, 3(1): 101-113.

Sanusi L. S., (2012). *Banking Reform and its Impact on the Nigerian Economy.* A lecture delivered at the University of Warwick's economic summit, U.K 17th February, 2012

Tender, S. B. A. (2014). *Government Initiative Toward Entrepreneurship Development in Nigeria*. Global Journal of Business Research. Vol. 8, No 1 Page 109-120

Thaddeus, E. (2012). *Perspectives: Entrepreneurship Development & Growth of Enterprises in Nigeria*. Entrepreneurial Practice Review, Vol 2 Issue 2. Page 31-35.