


REGULATION AS PANACEA FOR MICROFINANCE FAILURE IN NORTHERN NIGERIA:
A CRITICAL REVIEW

Aliyu Abdulaziz^A, Lawal Gumel Makama^B, Dalhatu Abubakar^C,
Idris Sarki^D, Musa Mohammed Adamu^E, Ikaribakuma Munasuonyo^F



ARTICLE INFO	ABSTRACT
<p>Article history: Received: March, 27th 2024 Accepted: May, 27th 2024</p>	<p>Objective: The objective of this paper was to examine Regulations as a panacea to microfinance failure in Northern Nigeria.</p>
<p>Keywords: Regulation; Microfinance; Critical Review; Nigeria.</p> 	<p>Design/Methodology/Approach: This study critically examined 14 peer-reviewed empirical papers on a range of topics related to the failure of microfinance. The evidence obtained from this review and the authors' deep understanding of the microfinance institutions' failure causes formed the development of a practical implementation blueprint for achieving effective management of the microfinance finance institutions in Northern Nigeria.</p> <p>Findings: The lack of effective regulations that reflect the specificities of Microfinance Institutions has affected their successful management.</p> <p>Practical Implications: The regulation blueprint gives an idea of how the Central Bank of Nigeria (CBN) in conjunction with the Nigeria Deposit and Insurance Cooperation (NDIC) and the Federal Government of Nigeria (FGN) can minimize the failure of our microfinance institutions in Northern Nigeria and Nigeria at large.</p> <p>Originality/Value: As a critical review, this study adds to the existing body of research by emphasizing the importance of microfinance sustainability to financial inclusion and poverty alleviation, through a review of works of diverse authors from different jurisdictions.</p> <p>Doi: https://doi.org/10.26668/businessreview/2024.v9i6.4701</p>

REGULAMENTAÇÃO COMO PANACEIA PARA O FRACASSO DAS MICROFINANÇAS NO
NORTE DA NIGÉRIA: UMA ANÁLISE CRÍTICA

RESUMO

Objetivo: O objetivo deste artigo foi examinar as regulamentações como uma panaceia para o fracasso das microfinanças no norte da Nigéria.

Projeto/Methodologia/Abordagem: Este estudo examinou criticamente 14 artigos empíricos revisados por pares sobre uma série de tópicos relacionados ao fracasso das microfinanças. As evidências obtidas com essa análise e o profundo conhecimento dos autores sobre as causas do fracasso das instituições de microfinanças serviram de

^A Doctoral Student in Business Administration. Nile University of Nigeria. Nigeria.
E-mail: abdulazizaliyu60@yahoo.com Orcid: <https://orcid.org/0000-0002-0075-7842>

^B Doctoral Student in Economics. Nile University of Nigeria. Nigeria.
E-mail: lgmakama@cbn.gov.ng Orcid: <https://orcid.org/0009-0003-7530-7832>

^C Doctor in Economics. Bayero University, Kano; Central Bank of Nigeria. Nigeria.
E-mail: dabubakar@cbn.gov.ng Orcid: <https://orcid.org/0009-0008-5266-354X>

^D Doctoral Student in Public Sector Accounting. ANAN University, Kwall. Nigeria.
E-mail: isarki@cbn.gov.ng Orcid: <https://orcid.org/0009-0007-1674-2681>

^E Doctoral Student in Economics. Bingham University, Karu Nasarawa State. Nigeria.
E-mail: mamohammed2@cbn.gov.ng Orcid: <https://orcid.org/0009-0007-3041-5986>

^F Doctoral Student in Business Administration. Nile University of Nigeria. Nigeria.
E-mail: imunasuonyo@cbn.gov.ng Orcid: <https://orcid.org/0009-0000-5974-4854>

base para o desenvolvimento de um plano de implementação prático para alcançar uma gestão eficaz das instituições financeiras de microfinanças no norte da Nigéria.

Conclusões: A falta de regulamentações eficazes que reflitam as especificidades das instituições de microfinanças afetou sua gestão bem-sucedida.

Implicações Práticas: O projeto de regulamentação dá uma ideia de como o Banco Central da Nigéria (CBN), em conjunto com a Cooperação de Depósitos e Seguros da Nigéria (NDIC) e o Governo Federal da Nigéria (FGN), pode minimizar o fracasso de nossas instituições de microfinanças no norte da Nigéria e na Nigéria em geral.

Originalidade/Valor: Como uma revisão crítica, este estudo contribui para o conjunto de pesquisas existentes ao enfatizar a importância da sustentabilidade das microfinanças para a inclusão financeira e o alívio da pobreza, por meio de uma revisão de trabalhos de diversos autores de diferentes jurisdições.

Palavras-chave: Regulamentação, Microfinanças, Revisão Crítica, Nigéria.

LA REGULACIÓN COMO PANACEA PARA EL FRACASO DE LA MICROFINANCIACIÓN EN EL NORTE DE NIGERIA: UNA REVISIÓN CRÍTICA

RESUMEN

Objetivo: El objetivo de este trabajo era examinar la regulación como panacea para el fracaso de la microfinanciación en el norte de Nigeria.

Diseño/ Metodología/ Enfoque: Este estudio examinó críticamente 14 artículos empíricos revisados por pares sobre una serie de temas relacionados con el fracaso de la microfinanciación. La evidencia obtenida de esta revisión y la profunda comprensión de los autores de las causas del fracaso de las instituciones de microfinanzas formaron el desarrollo de un plan de aplicación práctica para lograr una gestión eficaz de las instituciones financieras de microfinanzas en el norte de Nigeria.

Conclusiones: La falta de una reglamentación eficaz que refleje las especificidades de las instituciones de microfinanciación ha afectado al éxito de su gestión.

Implicaciones Prácticas: El proyecto de reglamentación da una idea de cómo el Banco Central de Nigeria (CBN) junto con la Cooperación de Depósitos y Seguros de Nigeria (NDIC) y el Gobierno Federal de Nigeria (FGN) pueden minimizar el fracaso de nuestras instituciones de microfinanzas en el norte de Nigeria y Nigeria en general.

Originalidad/Valor: Como revisión crítica, este estudio se suma al corpus de investigación existente haciendo hincapié en la importancia de la sostenibilidad de la microfinanciación para la inclusión financiera y el alivio de la pobreza, a través de una revisión de trabajos de diversos autores de diferentes jurisdicciones.

Palabras clave: Regulación, Microfinanzas, Revisión Crítica, Nigéria.

1 INTRODUCTION

Microfinance, according to Okoye and Siwale (2017), is described largely as a developmental initiative aimed at poor and low-income people. Microfinance Institutions are established to achieve two goals, which are: social objectives and financial sustainability. While the social objective segment deals with the provision of financial services to micro-entrepreneurs who by their nature, are not attractive to and cannot access conventional financial institutions and as such, are excluded from the financial system, the financial sustainability constitutes a continuous and adequate flow of returns on investments to both the microfinance business and the owners. This enables the microfinance bank to continually exist and provide financial services to this segment of the adult population.

In line with the above context, the failure and success of a microfinance bank depend on its ability to meet these two key objectives at the same time. The MFBs in northern Nigeria have failed to meet these key objectives because they do not have adequate capital to extend credits increase their outreach to this segment and consequentially sustain the returns on investment to the business and shareholders. The conflicting nature of these objectives requires regulators to accomplish both their promotion and protection roles in a way that increased emphasis is not placed on financial viability to the point that it instead favors mission drift in MFIs (Singhe & Louche, 2020). These MFB's capital became inadequate due to capital erosion arising from high non-performing loans (especially insider-related credits) poor corporate governance and absence of timely supervision and monitoring owing to the inadequate supervisory resources of the regulatory authorities. Singhe and Louche (2020), argued that regulation has commonly been considered one of the factors that influence the practices of microfinance institutions. According to the study of Jonson (2013), in the past five years policy towards microfinance has undergone a shift away from a focus on building sustainable microfinance institutions to serve poor people, to one that focuses on the development of the formal financial sector in the regulatory and enabling environment in which it operates. Financial institutions face challenges in the global financial system, and the microfinance sub-sector in northern Nigeria is no exception. Assessing the difficulties facing northern Nigerian financial regulations and microfinance institutions is the article's main goal. The limitations and difficulties that microfinance institutions encounter from maladministration, poor credit administration, insider abuses, poor corporate governance, and noncompliance with government policies and regulatory guidelines are examined in this article. It also looks into the difficulties that financial regulators have in regulating, overseeing, and monitoring microfinance institutions in northern Nigeria.

One of the primary tenets of development methods implemented globally over the past forty years has been the advancement of financial inclusion for the impoverished. When the success of certain groups was publicized, microfinance was portrayed as the long-awaited panacea for poverty: if you give someone who is unbanked credit, she will be able to overcome her poverty on her own because of her entrepreneurial spirit. (Afonso et al., 2016).

It is impossible to overstate the importance of microfinance institutions to the economy of northern Nigeria, which has the highest percentage of poverty in comparison to the south. Micro, Small, and Medium-Sized Enterprise financing is directly and favorably impacted by microfinance. There are lots of studies that examined regulation and microfinance performance, efficiency, and their focus on the basic missions underpinning their establishment, the social

objective, and financial sustainability (Steel, 2013; Siwale & Okoye, 2017; Zainal, et al., 2020; Singhe & Louche, 2020; Cozarenco & Szafarz, 2020; Green, 2020; Khalily et al., 2014).

There is little research regarding the impact of regulation on microfinance performance, one of the major areas that still attract attention in microfinance is the lingering failure challenges bedeviling them. Given this, the paper is targeted at pinpointing some of the pressing challenges that resulted in massive failures of MFIs in northern Nigeria and proposing possible regulatory solutions to address them through the critical review of related literature.

2 METHODOLOGY

As mentioned in the introduction, the critical review of empirical studies on Regulation as a panacea to Microfinance Failure in Northern Nigeria sought to answer four research questions stated as follows:

1. was regulation successfully used to address microfinance bank failure?
2. what proof was there that regulations had been effectively used to address the failure of microfinance banks?
3. how was regulation successfully implemented to address microfinance bank failure?
4. why wasn't regulation successful in addressing microfinance bank failure in some situations?

Relevant papers were examined to obtain the data required to answer the study questions that were previously mentioned. Relevant data for the first research question—which asked whether regulation was effective in addressing microfinance bank failure—was gathered from the sections of the examined empirical studies titled "abstracts," "findings," and "discussion." The data was then separated into two categories: the research that concluded that regulation was an effective means of addressing the issue of microfinance failure, and the studies that concluded that regulation was an ineffective means of addressing the issue. Regarding the second research question, which aimed to determine the evidence of effective regulation in addressing microfinance bank failure, the data required to respond to the question was derived from the analyses of reviewed studies using performance indicators that have been adopted to gauge successful regulation implementation.

In response to the third research question, we analyzed the methodology and introduction portions of the evaluated publications to identify various regulation strategies. We then categorized the articles according to the regulation strategy each article provided, which

was employed to treat microfinance failure. After examining the discussion parts of the publications under evaluation, it was determined that regulation did not affect enhancing the performance of microfinance, which addressed the fourth study topic. The components of the government regulatory framework that hindered microfinance missions (financial sustainability and social purposes) from being met led to the grouping of these topics.

We used Google Scholar to find pertinent literature about microfinance regulations. This is due to its powerful search feature, which allows precise article searching with the help of entered keywords and access to an extensive collection of peer-reviewed papers. We used highly regarded empirical articles from six of the most prominent academic publishers—Elsevier, Emerald, Sage, Springer, Taylor & Francis, and Wiley—for this paper. To locate these pertinent articles, a total of nine search terms were utilized, and Google Scholar was directed to locate articles that contained these search terms in their titles:

1. “Regulation” + “microfinance”;
2. “Supervision” + “Microfinance”;
3. “Evaluation” + “Microfinance”;
4. “Law” + “Microfinance”;
5. “Regulating” + “Microfinance Bank”;
6. “Regulation” + “Prosocial Lending”;
7. “Governance Mechanism” + “Microfinance”;
8. “Audit Quality” + “Microfinance”.

Table 1 shows that 16 publications on microfinance regulation could be located in the six scholarly journals that were used for this critical assessment.

Table 1

Article search outcome

S/N	Publisher	R & M		M & M		E & M		L & M		Rng & M		R & PL		GM&M		AQ&M		TOTAL	
		AF	AS	AF	AS	AF	AS	AF	AS	AF	AS	AF	AS	AF	AS	AF	AS	AF	AS
1	Emerald	3	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	2
2	Elsevier	0	0	4	2	0	0	0	0	0	0	1	1	0	0	0	0	5	3
3	Sage	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0
4	Springer	3	2	0	0	3	0	0	0	0	0	0	0	0	0	0	0	6	2
5	Taylor and Francis	2	1	1	0	3	1	1	1	0	0	0	0	0	0	0	0	7	3
6	Wiley	5	3	0	0	3	0			2	1	0	0	1	1	1	1	12	6
	Total	13	8	5	2	10	1	1	1	2	1	1	1	1	1	1	1	34	16

R&M – Regulation + Microfinance; M&M – Monitoring + Microfinance; E&M - Evaluation + Microfinance; L&M – Law + Microfinance; Rng&M – Regulating + Microfinance; R&PL – Regulation + Prosocial Lending; GM&M – Governance Mechanism + Microfinance; AQ&M – Audit Quality; AF – Articles Found; and AS – Articles Selected.

3 FINDINGS AND DISCUSSION

The answers to the four research questions based on a critical analysis of sixteen empirical publications on microfinance and regulation are presented in this section of the report. In the next part, we will construct an implementation blueprint based on our discussion of the implications of these findings about effective regulatory measures that Nigerians might utilize to achieve a successful and mission-focused microfinance environment.

Was regulation successfully used to address microfinance bank failure?

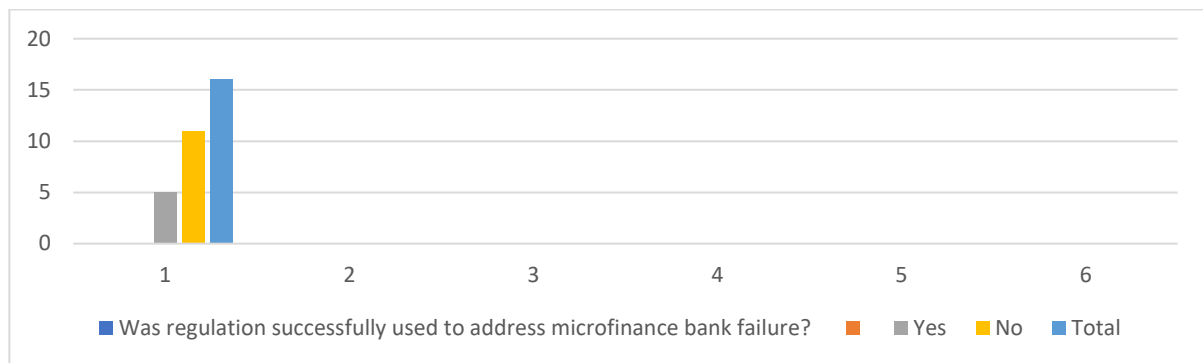
In response to the first study question, Figure 1 shows that a small number of the reviewed studies (5 out of 16, or 31% of the total) concluded that regulatory policies had a positive impact on microfinance. For instance, Hartarska and Mersland (2012) discovered that a regulated board size of up to nine members boosts efficiency. The authors discovered shaky evidence suggesting MFIs governed by independent financial authorities are more efficient than MFIs in nations with developed regulatory frameworks, which reach fewer clients. Similar findings were made by Khalily et al. (2014), who discovered that regulation increases cost efficiency indirectly by raising staff productivity and portfolio size and directly by altering the behavior of MFIs. Additionally, they discovered that unsubsidized MFIs and partners of the government-owned Palli Karma Sahayak Foundation (PKSF), Bangladesh's wholesale lending agency, are more effective than others.

In a similar spirit, Steel's (2013) research found that microfinance has generally performed well in terms of expansion, accessibility, and sustainability. The government has taken on two roles: it has supported apex institutions that have assisted in performance improvement and funded capacity-building. Apex organizations are crucial to the provision of services, the development of capacity, and self-governance. Moreover, Afonso et al. (2016) discovered that MFIs have a good chance to alter the current "picture" in the Dominican Republic. The new financial agent regulations, such as the ones about over-indebtedness prevention best practices (such as consistent reporting to a universal credit bureau, tightening up screening procedures to accurately assess candidates' levels of debt, and closely observing high-competition areas), provide opportunities for MFIs to expand their service offerings into more rural and underserved areas, reducing the challenges posed by higher transaction costs there and easing the pressure from more crowded urban areas. While the institutions will need to make modifications and alterations to this new process, it is an excellent illustration of how public action may affect MFI behavior and support self-regulation mechanisms. Furthermore, group lending (with peer

monitoring) continues to be the favored method of credit distribution as Cason et al. (2012) discovered that peer monitoring and group lending lead to higher loan frequencies, higher monitoring, and higher payback rates when compared to "lender monitoring."

Figure 1

Successful Regulation Rate



On the other hand, 11 of the 16 or 69% of the articles reviewed found that regulation practices did not always translate into improved microfinance performance. Okoye and Siwale (2017) found that in Nigeria and Zambia, the regulations have enabled negative outcomes in areas such as board composition; the ownership requirements in the regulations have resulted in differing governance implications; the certification requirements for board members are problematic in practice; supervision by regulators is ineffective and impacts on risk management; and the principle of consultation with stakeholders is inadequate in both countries. Similarly, Cozarenco and Szafarz, (2020), found that a ceiling on Microfinance Institution (MFI) loans can incentivize bank-MFI co-financing arrangements and thus trigger mission drift. The findings of Zainal et al. (2020) study revealed that MFIs own lower social efficiency and higher scores in financial efficiency. This suggests that the MFIs in Southeast Asian nations have forgotten about their primary goal of eradicating poverty in favor of pursuing financial sustainability. The outcome also shows how closely bank supervision and regulation affect the MFIs' financial and social performance. However, when a greater negative impact is linked to social efficiency, the data show distinct patterns. This explains why bank oversight and regulation are inappropriate to meet social requirements, which makes it difficult for MFIs to reduce poverty.

These findings have ramifications for Nigeria's microfinance sector in that strong regulatory procedures can enhance the performance of microfinance institutions and keep them from failing; as a result, they may serve as a model for a constructive reorganization of the sector.

What proof was there that regulations had been effectively used to address the failure of microfinance banks?

The five publications that demonstrated how regulation might enhance performance and keep microfinance from failing were used to address the second research question (see Figure 1). Figure 2 shows that the publications employed four main categories of evidence to support their claims about how effective sustainable farming techniques are at enhancing food security: Cost-effectiveness scored two out of five, enhanced efficiency scored one out of five, increased loan payback scored one out of five, and self-regulation mechanisms scored one out of five.

The results of Hartarska were among the most frequently cited evidence of the effectiveness of good regulation practices in improving microfinance performance. Mersland's (2012) study of Bolivia and Uganda revealed that MFIs regulated by independent banking authorities are more efficient, and efficiency increases with board sizes of up to nine members. Robust panel data analyses demonstrate that regulation increases cost efficiency both directly by altering the conduct of MFIs and indirectly by raising staff output and portfolio size. Additionally, it was discovered that unsubsidized MFIs and partners of Bangladesh's wholesale lending organization, PKSF, are more effective than others. As evidenced by the Dominican Republic, the microfinance industry has evolved along with a preference for individual loans.

The fact that the loans are typically individual ones increases the effectiveness of the institutional screening processes and, in particular, the practices of the credit officers in terms of loan success and risk management related to over-indebtedness. Afonso (quoted by Afonso, 2016) states that a formal and informal information-gathering mechanism, including the credit bureau, must be in place to properly select clients.

For instance, Agbeko et al. (2017) discovered that regardless of the customer's gender, business experience, or educational background, client monitoring does raise income/profit by improving payback rates. Data from Ghana has demonstrated that the government's combined efforts to support apex institutions and fund capacity-building have enhanced performance in terms of sustainability, outreach, and growth (Steel, 2013).

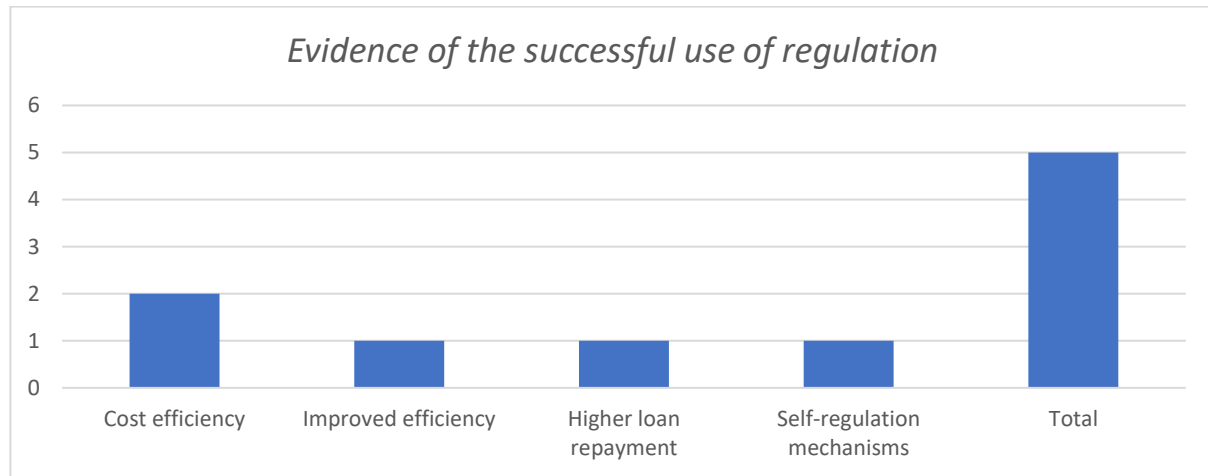
Figure 2*Evidence of successful use of regulation*

Figure 2 demonstrates that five of the sixteen articles that were reviewed offered evidence that effective microfinance regulation practices had a positive impact on, among other things, increased staff productivity and portfolio size (Hartarska & Mersland 2012), better repayment rates (Agbeko et al 2012), and the prevention of over-indebtedness through self-regulation mechanisms (Afonso, 2016). Panel data analyses provide strong evidence that regulation increases cost efficiency by forcing MFIs to change their behavior and implement more efficient practices. Compared to other MFIs, efficient ones offer larger loans and more productive employees. Moreover, unsubsidized MFIs and partners of Bangladesh's wholesale lending organization, PKSF, are more effective than others (Khalily, et al 2014). As stated by Carson and colleagues (2012). Results imply that peer monitoring made necessary by group lending leads to larger loan frequencies, higher monitoring, and higher repayment rates compared to lender monitoring in the more common scenario when peer monitoring is less expensive than lender monitoring. Among these group lending initiatives, Grameen Bank in Bangladesh is arguably the most well-known. Under this lending arrangement, over 92% of borrowers return their loans, with less than 5% of borrowers falling outside the target audience (according to Carson et al., *ibid.*, citing Morduch). Because of the Grameen Bank's success, NGOs and governments worldwide have launched programs akin to it.

Given the unique characteristics of the Northern Nigerian setting, all of these forms of data would be significant from a Nigerian perspective as a foundation for evaluating the effectiveness of microfinance operations. In comparison to other sub-Saharan African nations, Nigeria's microfinance banking business is still in its infancy and has a distinct structure (Siwale & Okoye, 2017). High population density situations require, among other things, capacity

building and sufficient supervisory resources. According to Siwale and Okoye (ibid), regulators need to be well-versed in the practical aspects of microfinance and possess the necessary resources to oversee and uphold it.

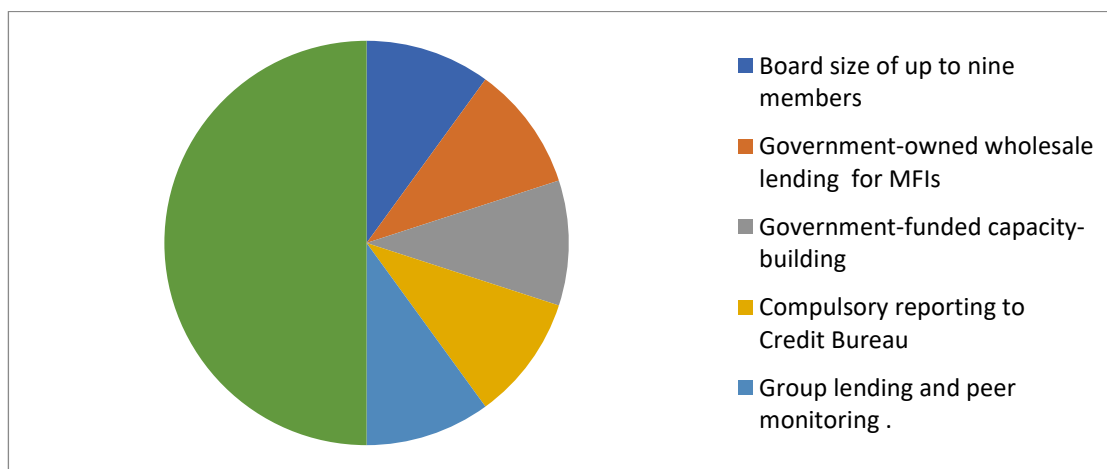
How was regulation successfully implemented to address microfinance bank failure?

Once more, the five "yes" papers from Figure 1 were used to address this third research question. Figure 3 illustrates the identification of six unique regulation systems;

1. Board size of up to nine members (1 out of 5);
2. Government-owned wholesale lending initiative for microfinance (1 out of 5);
3. Government's dual role of funding capacity-building and supporting apex institutions (1 out of 5);
4. Routine reporting to a universal credit bureau and improving screening procedures (1 out of 5); and
5. Group lending and peer monitoring (1 out of 5).

Figure 3

Successful Implementation Strategies for Microfinance



For example, Hartarska and Mersland, (2012), found that efficiency increases with a regulated board size of up to nine members. Similarly, Khalily, et al., (2014) found that partners of Palli Karma Sahayak Foundation (PKSF)—the Government-owned wholesale lending agency in Bangladesh—and unsubsidized MFIs are more efficient than others.

In the same vein, Steel, (2013)'s study shows that the government has played a dual role, funding capacity-building and supporting apex institutions that have helped to improve performance. Apex organizations play an important role in service delivery, capacity building, and self-regulation. Furthermore, Afonso et al. (2016) found that in the Dominican Republic,

there is a good opportunity for MFIs to change the present 'picture'. The new financial agent regulations, such as the ones about over-indebtedness prevention best practices (such as consistent reporting to a universal credit bureau, tightening up screening procedures to accurately assess candidates' levels of debt, and closely observing high-competition areas), provide opportunities for MFIs to expand their service offerings into more rural and underserved areas, reducing the challenges posed by higher transaction costs there and easing the pressure from more crowded urban areas. While the institutions will need to make modifications and alterations to this new process, it is an excellent illustration of how public action may affect MFI behavior and support self-regulation mechanisms. Furthermore, Cason et al. (2012) discovered that in comparison to "lender monitoring," group lending and peer monitoring lead to larger loan frequencies, higher monitoring, and higher repayment rates. Peer-monitored group lending continues to be the recommended method of credit provision.

To ensure Microfinance Success in Northern Nigeria, not only the enforcement board size but also board diversity would be effective in strengthening the internal governance that will reduce insider abuses and mission drift that could lead to its failure.

Government-owned wholesale Lending can only work in the Nigerian situation if adequate controls are put in place to forestall abuses and corruption.

Government-funded capacity building will have a significant impact on the deepening of the microfinance sector. This capacity building and other relevant effective supports if extended to both the regulators and the operators in the industry, will help on the one hand, to reduce operating expenses for the MFIs and on the other hand, augment the monitoring and evaluation capacities of the regulators. Siwale and Okoye (2017) found that understanding how in practice microfinance regulation might affect MFI outreach (ability to attract borrowers/savers at the bottom of the pyramid) is important, but an under-researched issue, particularly in Africa.

Compulsory reporting to credit bureaux is a strategy for achieving microfinance success in Nigeria, as it serves as a central database of all credit information in the banking system. Fortunately, Nigeria's apex financial regulator, the Central Bank of Nigeria has begun implementing this strategy along with bank Verification Number (BVN), Global Standing Instruction (GSI), which empowers the lending institutions to claim repayment from any funded bank account of the borrower in the event of default in the primary account with the lender.

Group lending and Peer Monitoring strategy will help in reducing if not stopping non-performing loans (NPL) in the sector. High NPL is a key contributor to the capital erosion and consequent failure of MFBs in Northern Nigeria in particular and entire Nigeria in general.

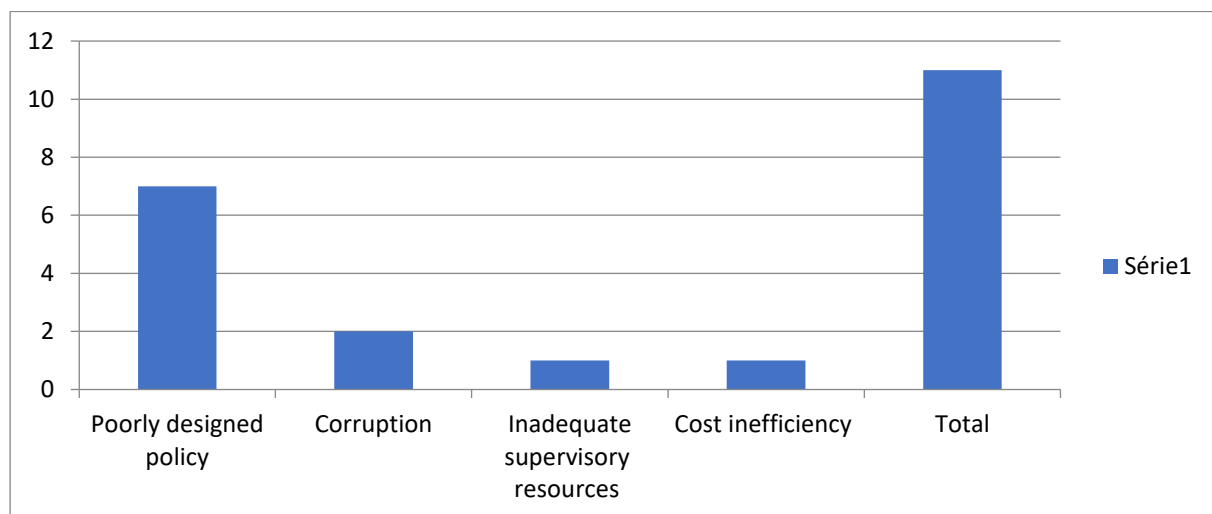
What obstacles prevented regulation practices from improving microfinance performance?

The 11 "no" articles from Figure 1 were used to determine the main barriers to the effective adoption of regulatory practices around the globe for this fourth research topic. Figure 4 shows that the successful implementation of microfinance regulating procedures was hampered by four primary issues:

1. Inadequate supervisory resources (1 out of 11);
2. Cost inefficiency (1 out of 11);
3. Poorly designed policy (7 out of 11);
4. Corruption (2 out of 11).

Figure 4

Obstacles to the success of microfinance regulation.



Seven studies found that 'poorly designed policy' on microfinance caused a mission drift in the microfinance business. Awaworyi and Nuhu (2016) found that there is no single policy framework that can work across all industries in a country, and in the case of microfinance, even within countries, there are different models.

The discourse and analysis around inclusive financial markets are at odds with each other. With an "inclusive" vision for the development of the financial sector, operationalized by certain donors in an approach dubbed "Making Markets Work for the Poor," policy towards

microfinance has shifted away from creating financial institutions focused on helping the impoverished (Johnson, 2013). Zainal et al. (2020) found that MFIs have greater financial efficiency scores and lower social efficiency scores. This suggests that the MFIs in Southeast Asian nations have forgotten about their primary goal of eradicating poverty in favor of pursuing financial sustainability. Additionally, the outcome has a big effect on the bank's control and oversight of MFIs' financial and social performance.

However, when a greater negative impact is linked to social efficiency, the data show distinct patterns. This explains why bank oversight and regulation are inappropriate to meet social requirements, which undermines MFIs' attempts to reduce poverty. Regulations in the Gambia and Nigeria, as discovered by Siwale and Okoye (2017), have succeeded in professionalizing the industry, but it is still unclear how beneficial they have been in enhancing the importance of social aims to microfinance and MFIs. In addition to undercutting social goals, the badly drafted laws are giving the wrong signals to potential social investors, which could have an impact on the industry's reputation.

According to the study, rules haven't sped up the establishment of sustainable microfinance institutions (MFIs), particularly in Zambia, nor have they increased the sector's outreach to the underprivileged and financially excluded. Further impeding the ultimate objective of providing financial services to the impoverished is the industry's unexpected effects brought about by high levels of political meddling and inadequate regulation. All things considered, our model demonstrates that a cap on MFI loans may encourage bank-MFI co-financing agreements, which in turn may lead to mission drift (Cozarencu & Szafarz, 2020).

Two further research pointed to "Corruption" as the cause of sustainable regulation's failure. Mersland and Hartarska (2012). The government's regulatory and supervisory regulations can lead to improved efficiency because of the highly transparent environment; thus they urged that MFIs be monitored and disciplined to guarantee they are free of corruption.

Property rights allow the government and legislators to protect owners' assets, and poverty can be reduced by the impoverished. Increased openness would result in improved efficiency levels, and this protection may help to achieve that of MFIs since more qualified borrowers will be available. In addition, the government should uphold the highest standards of integrity and refrain from any unethical actions, including corruption. To oversee all commercial and public institutions, the government will impose well-organized policies and regulations. The regulatory framework is a supporting factor for the development of MFIs. In addition, the government must increase money for public goods and infrastructure, support

research, give grants to MFIs, and invest in developing human capital to increase the effectiveness of society. Finally, since the higher tax will increase the MFIs' social efficiency, the government ought to implement it. Even with the high tax burden on business and individual income, the country's GDP will rise, giving the government more capacity to give grants or more financing to MFIs so they may operate more efficiently (Hussein et al., 2021).

The third obstacle, 'Inadequate supervisory resources' is the resource capacities (human and financial) of the regulatory agency about the enormous supervisory functions to ensure the safety and soundness of the microfinance subsector. Singhe and Louche, (2020), found that Financial inclusion has been hindered by insufficient supervision and tight regulations in terms of board members' qualifications, loan documentation requirements, and provisioning and liquidity requirements. Their research also suggested that for regulations to fulfill their dual purposes of promoting financial inclusion and defending the financial system, they should continue to take into account the unique characteristics of the microfinance industry and complement them with sufficient oversight.

The fourth obstacle, 'cost inefficiency' refers to the high cost of regulation and compliance. The result of Beisland, et al (2015) study revealed and recommended that in general, high-quality auditing is expensive and will only be chosen if its benefits exceed its costs. Higher access to money, which can result in a cheaper cost of capital, is the primary advantage of high-quality auditing. Broadly speaking, rules could be implemented in a way that supports better audit quality. Furthermore, rules may have the unintended consequence of increasing businesses' awareness of the value of high-quality reporting and lowering information imbalances in businesses under regulation.

Viewing these four obstacles from the perspective of the Nigerian microfinance environment poorly designed policy that does not take into cognizance of the specificities and diversity of the Nigerian environment and corruption would rank as the most important obstacles, followed by inadequate supervisory resources and cost inefficiency.

According to the conclusions and recommendations of 11 out of the 16 reviewed articles, a critical review of 16 articles on microfinance regulation has shown that, in many parts of the world, regulations have not improved the situation of microfinance. This is demonstrated by the barriers that stand in the way of microfinance's success.

The review's conclusions, along with the researchers' in-depth understanding of the dynamics of the Nigerian microfinance subsector, allowed them to create a workable implementation blueprint that will reduce the likelihood of microfinance institutions in

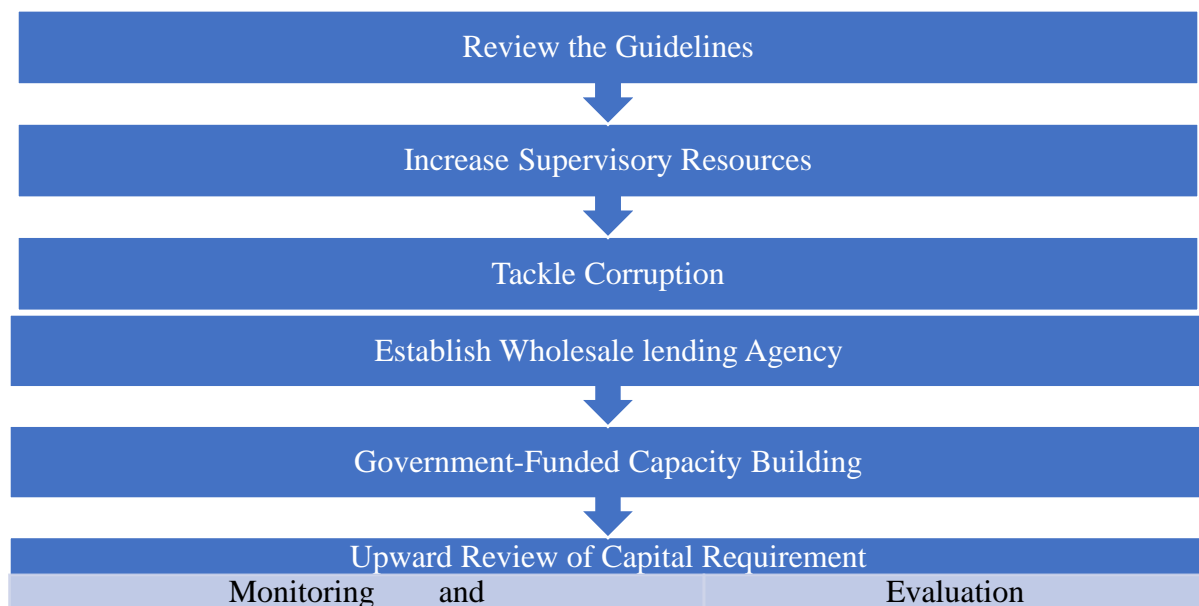
Northern Nigeria and throughout the country failing. This blueprint will be used by the Federal Government of Nigeria (FGN), the Nigeria Deposit and Insurance Cooperation (NDIC), and the Central Bank of Nigeria (CBN).

3.1 REGULATION AS PANACEA TO MICROFINANCE FAILURE IN NORTHERN NIGERIA: A BLUEPRINT

The plan provided in this portion of the paper would help the Federal Government of Nigeria (FGN), the Nigeria Deposit and Insurance Cooperation (NDIC), and the Central Bank of Nigeria (CBN) reduce the number of microfinance institutions in Northern Nigeria that collapse. With seven steps, the plan is called Regulation as Panacea to Microfinance Failure in Northern Nigeria (RPMFNN). Figure 5 shows these procedures.

Figure 5

RPMFNN Blueprint



The first step of the RPMFNN blueprint recommends that the CBN in collaboration with the NDIC and FGN reviews the existing regulatory guidelines for MFBs in Nigeria to reflect the specificities of the diverse and populous Nigeria and give the due attention to financial inclusion especially the northern Nigeria where most of the vulnerable adult populations are Muslims. The new guidelines should, among others, have a provision compelling MFBs to have in place, a standing Board Committee on social performance evaluation.

The second step of the blueprint is to increase the supervisory resources to enable robust and timely regulation, checks, and monitoring of the microfinance subsector. This will help to forestall abuses and manipulations as long absence of a regulator from a regulated MFI could lead to mismanagement and cause harm to micro and small depositors and investors. Single & Louche (2020) recommended that regulations still need to reflect more on the specificities of the microfinance sector and be matched with adequate supervision to achieve its dual role of financial inclusion and safeguarding the financial system.

The third step of the blueprint is 'tackling the menace of corruption' from the backend of the regulation and the regulated microfinance institutions. Enhancements could be achieved by dividing the role of CEO from that of board chair, reducing the number of insiders and donors, and possibly promoting the presence of creditors, in addition to growing the board to a maximum of nine members. Because government regulatory and supervisory regulations can help to improve efficiency owing to the high transparency environment, MFIs should be regulated and disciplined to ensure they are free from corruption (Hartarska & Mersland, 2012). Hussain et al. (2021) proposed that policymakers and the government might protect owners' property. The impoverished can reduce poverty under the provisions of property rights. Since it will attract more qualified borrowers, this protection may help to improve openness, which in turn may raise MFI efficiency levels. Additionally, the government needs to make sure that it upholds high moral standards and refrains from any unethical behavior actions like corruption.

The fourth step of the blueprint recommends that the FGN should establish a wholesale lending agency that gives cheaper credits to the MFIs for onward lending to the targeted vulnerable persons. This would help to reduce the cost of capital for the MFIs and by extension, reduce the cost of borrowing for the micro and small borrowers. This strategy is being successfully practiced in Bangladesh. Khalily, et al., (2014) found that MFIs that are partners of Palli Karma Sahayak Foundation (PKSF)—the Government-owned wholesale lending agency in Bangladesh are more efficient than others.

The fifth step of the blueprint talks about the government-funded capacity building for the microfinance subsector. This will help solve the problem of technical and managerial inefficiency that impedes the effective performance of MFIs. This will address the obstacle of cost inefficiency. Johnson (2013) suggested that going further, interventions must incorporate strategies for empowerment and engagement with social regulatory structures by facilitating agency through the myriad types of education and training programs for women, minorities, and excluded groups that have long been part and parcel of development activity. The results revealed

that the technical efficiencies for both social and financial efficiency are contaminated by managerial inefficiency, which is measured by pure technical efficiency (Hussain, et al., 2021).

The sixth step of the RPFMNN blueprint suggests an upward review of the capital requirement of the MFIs to ensure they have enough capital for their credit risk assets. The capital adequacy ratio is determined by capital, a prudential factor. The minimal capital that a financial organization needs to maintain to prevent insolvency issues is shown by this ratio. All licensed credit institutions must maintain their level of own funds at least 8 percent of their total risk-weighted assets to comply with the Basel 2 prudential rules. MFIs now lack the resources needed to serve every client that requests financial services and develop into self-sufficient organizations. Stricter regulations that safeguard and instill trust in creditors and investors alike would go a long way toward boosting access to capital and enhancing the appeal of these institutions.

Finally, an effective monitoring and evaluation system is a critical aspect of this RPFMNN blueprint as it facilitates monitoring and inspection of MFIs and at the same time, serves as the comprehensive feedback mechanism to the entire blueprint.

4 CONCLUSION

Microfinance institutions should function within a regulatory framework that is tailored to their unique social goals and financial sustainability, considering the unique characteristics of Nigeria, which is a diverse and populous country, particularly its predominantly Muslim northern region. For microfinance institutions to maintain high levels of flexibility and cost efficiency while safeguarding the deposits of their clients, prompt and sufficient oversight and supervision are essential. Compared to regular banks, MFIs have higher operating costs and, in many respects, greater risks. In the absence of increased adaptability, consistent government participation, supervisors' profound comprehension of microfinance operations, and reduced expenses, the ultimate purpose of augmenting the number of services extended to the global impoverished (financial inclusion objective) would never be accomplished.

REFERENCES

Afonso, J. S., Morvant-Roux, S., Guérin, I. & Forcella, D. (2017). Doing Good by Doing Well? Microfinance, Self-Regulation and Borrowers' Over-indebtedness in the Dominican Republic. *Journal of International Development*, 29(7), 919–935.

- Agbeko, D., Blok, V., Omta, S. W. F. & Van Der Velde, G. (2017). The impact of training and monitoring on loan repayment of microfinance debtors in Ghana. *Journal of Behavioral and Experimental Finance*, 14, 23–29.
- Beisland, L. A., Mersland, R. & Strøm, R. Ø. (2015). Audit quality and corporate governance: Evidence from the microfinance industry. *International Journal of Auditing*, 19(3), 218–237.
- Cason, T. N., Gangadharan, L. & Maitra, P. (2012). Moral hazard and peer monitoring in a laboratory microfinance experiment. *Journal of Economic Behavior & Organization*, 82(1), 192–209.
- Churchill, A. & Nuhu, S. (2016). What has failed: microfinance or evaluation methods? *Journal of Sustainable Finance & Investment*, 6(2), 85–94.
- Cozarenco, A. & Szafarz, A. (2020). The regulation of prosocial lending: Are loan ceilings effective? *Journal of Banking & Finance*, 121.
- Green, W. N. (2020). Regulating Over-indebtedness: Local State Power in Cambodia's Microfinance Market. *Development and Change*, 51(6), 1429–1453.
- Hartarska, V. & Mersland, R. (2012). Which governance mechanisms promote efficiency in reaching poor clients? Evidence from rated microfinance institutions. *European Financial Management*, 18(2), 218–239.
- Hussain, H. I., Kot, S., Kamarudin, F. & Yee, L. H. (2021). Impact of rule of law and government size on microfinance efficiency. *Economic Research-Ekonomska Istraživanja*, 34(1), 1870–1895.
- Johnson, S. (2013). From microfinance to inclusive financial markets: the challenge of social regulation. *Oxford Development Studies*, 41(sup1), S35–S52.
- Khalily, M. A., Khaleque, M. A. & Badruddoza, S. (2014). Impact of regulation on the cost efficiency of microfinance institutions in Bangladesh. In *Microfinance Institutions* (pp. 139–161). Palgrave Macmillan.
- Okoye, N. & Siwale, J. (2017). Microfinance regulation and effective corporate governance in Nigeria and Zambia. *International Journal of Law and Management*, 59(1), 102–121. <https://doi.org/10.1108/ijlma-06-2016-0054>
- Singhe, S. S. & Louche, C. (2020). The development of microfinance in Cameroon: Focus on regulation. *Strategic Change*, 29(3), 341–353.
- Siwale, J. & Okoye, N. (2017). Microfinance regulation and social sustainability of microfinance institutions: The case of Nigeria and Zambia. *Annals of Public and Cooperative Economics*, 88(4), 611–632.
- Steel, W. F. (2013). Regulation and performance of Ghana's multi-tiered rural and microfinance industry. In *Promoting microfinance* (pp. 77–100). Palgrave Macmillan.
- Zainal, N., Nassir, A. M., Kamarudin, F. & Law, S. H. (2020). Does bank regulation and supervision impede the efficiency of microfinance institutions to eradicate poverty? Evidence from ASEAN-5 countries. *Studies in Economics and Finance*, 38(2), 272–302.