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TRANSFORMATION OF AGRICULTURAL FINANCING PROGRAM: LESSONS FROM THE PERFORMANCE OF MICROFINANCE INSTITUTIONS (MFIS) IN NIGER STATE, NIGERIA

Ndanitsa*

Abstract: *The study was carried out to examine the profitability of Microfinance institutions in the agricultural transformation in the realization that access to agricultural finance is the key to this objective. Recent financial sector reforms have placed microfinance options as a viable vehicle or veritable tool for improved credit access by the active and productive poor entrepreneurs and the vulnerable group to poverty. A recent study aimed at determining the performance of microfinance institutions (MFTs) in Niger State, Nigeria point to the need to learn and acknowledge some lessons and intricacies for use by the credit managers, policy makers and by the managers of the transformation program especially for the value chain development activities. The survey was conducted to determine sources of funds, their uses and main activities financed, cost of operation, their profitability and ultimately, their sustainability. A multiphase sampling technique was employed in the selection of the samples for detailed analysis. Two sets of questionnaires were administered on eleven (11) MFTs in the state to collect primary data, financial resources and mode of operations; sources and uses of funds, resources use efficiency as well as outreach. Data were analyzed using descriptive statistics. Levels of savings of members/clients, microloans packages and delivered (outreach), women participations in MFTs programs, levels of profits generated as well as returns to investments and to assets were measured. The results showed that three categories or segment of MFIs operate in the area namely; formal finance institutions (FFIs) semi-formal finance institutions (SMFIs), and informal finance institutions (IMFTs) each with its unique features and mode of operations. The result also revealed that average returns on assets for IMFI and SMFI were 4-6% over the period and confirms efficient use of resources which also translates to their sustainability. The study further showed that there is high dependence on costly borrowed funds as against savings by members, and which may delay achievement of sustainability going by their level of dependence on subsidy. As to the main activities engaged by MFIs in the area, petty trading ranks first followed by small scale farming, equipment financing like leasing, livestock domestication, food and restaurant services, artisans and household wares trading respectively. With regards to problems and constraints to their growth and sustainability, lack of qualified personal was first, inadequate funding and working capital; delay in board decision, problem of repayment by the clients, inconsistency in government policy etc. were indicated. Some of the recommendations include provision of incentives by the government to ease implementation problems such as the policy framework of MFIs, training for staff of MFTs, networking among the practitioners, effective monitoring and supervision by the appropriate authority etc.*

Keyword*: Agricultural financing, Transformation, Microfinance, Microcredit, Constraints, Niger.*

*Lecturer (M.A. Ph.D.), Department of Agricultural Economics and Extension Technology, Federal University of Technology, Minna, Niger State, Nigeria.

1.0 INTRODUCTION

In most developing counties, agriculture is both the main traditional pursuit and the key to sustained growth of the modern economy. The Agricultural sector transformation program of the Nigerian Government came at the right time to meet up with the dynamic challenges facing policy makers' grapping with economic growth and development across the globe. Past efforts to mobilize natural resources in Nigeria, like in many developing countries to meet up with food, fibre and other raw material needs as well as other challenges have not been successful in arresting poverty, hunger, illiteracy and disease. The most recent attempts to intervene have led to the financial re-engineering in the economic sector with a view to make it more responsive to the needs of entrepreneurs on sustainable basis in Nigeria. The microfinance banking options was one such developments aimed at improving access to finance by greater number of active poor entrepreneurs in both rural and urban centers. Microfinance institutors, therefore, represent institutional arrangements which provide microcredit to the productive poor to finance economic activities. They render both financial and non-financial services (e.g community development activities on both health and training on vocations) to their members mainly the rural (productive) poor, especially women who are vulnerable to income fluctuations in times of needs, thereby permitting "consumption soothing" (Weiss and Montagomery, 2004). Access to credit is a critical factor in development and growth of economies. In fact, credit supply which determines credit availability is among the key components identified as critical to the success of any agricultural policy goals (Gonzalez Vega, 1997, Von Pischke, 1996; World Bank, 2007 and Ndanitsa, 2013). Credit packages are meant to facilitate acquisition and use of new technologies for agricultural production, processing and marketing for export of agro-based commodities. Credit will also enable the farmers reap the economies of scale, discover new and better products, created demand where none existed, introduction of supplementary enterprises that could increase labour utilization and promote steady flow of goods and services as well as provide utilities to satisfy a widening market (Ijere, 2007). Credits were administered in cash or in kind through formal or informal groups. Major technological inputs acquired using each credits by farmers for instance include fertilizers seeds/seedlings, irrigation equipment, mechanical services and inputs, agro-chemicals, equipment for crop or livestock production including fisheries, poultry, tree crop development activities. The

later include processing; packaging, storage and exports. Acquisition and use of credit facilities are expected to lead to increase in production and income of beneficiaries and achievement of Millennium Development Goals (MDGs). Etsu (2007) however, noted that many of the interventions including those supported by multilateral agencies (World Bank, UNDP micro-start projects etc) have diverted considerable resources to supplying cheap credit in a myriad of institutional settings, but the results have been disappointing. The current microfinance package is designed with in-built mechanisms to ensure broader participation among suppliers and users as well as enhance the flow of investment funds into agricultural sector on a sustainable basis (CBN, 2004). Sustainability matters especially to borrowers because one-short intervention in the form of a single loan would establish a new type of activity such as the small scale industrial sector (Von Pischke, 1999). This is what is envisioned in the agricultural transformation agenda.

The financial position (liquidity/solvency) and operation efficiency of the credit institutions were not encouraging. In addition to this poor financial ratio results, is the critical problem of low repayment rates associated with the different schemes. This is considered unsatisfactory and calls for urgent attention to redress the situation, as this will definitely deny many beneficiaries the opportunity of benefitting from these loan schemes. Efficiency and profitability among MFIs largely depends partly on the ability of MFIs to procure and effectively utilize cheap funds and channel them to users with minimal recovery risks, among others (Morduch, 1999; Alimi, 2000) and partly on the constraints (Khandler, 1998). Bersely (1994) affirmed that the issue of enforcing loan repayment constitutes a major problem in credit market. This study aims to determine the performance of the microcredit institutions that operate in Niger State and whether such approach at improving financial access could be sustainable.

This study is a timely one since it has to do with encouraging entrepreneurs, especially the farmers to access microcredit facilities and increase their productivity, and ensuring food security- a focal point of the transformation agenda of the Federal Government of Nigeria (FGN).

2.0 METHODOLOGY

2.1 Sampling Technique and Data Collection

This study was carried out in Niger State financial market. Sampling was purposively drawn from operators who took to the provision of microcredit services in the market. The sampling frame was made up of all financial, non-financial; formal and informal microcredit institutions in the area. The sampling frame was provided by the State Agency for Economic Empowerment and Rural Development, and the Central Bank of Nigeria (CBN) for the list of formal and informal financial institutions. These are of various types including commercial Banks, Development Banks, Cooperative Societies, and Savings and Loans Schemes, Self-help Groups, Credit Unions and Informal Lenders also exist. Each type of financial institution involved in service delivery is represented after the actual numbers of operators were first determined from a pre-survey.

Generally, the following were the main category of financial institutions operating in Niger State financial market and supplying microcredit to entrepreneurs.

1. Commercial Banks: After the CBN consolidation, 25 Banks emerged as the approved commercial banks in the country. They have established microfinance subsidiaries or created microfinance departments. The United Bank for Africa (UBA) for example launched a microfinance Bank while Ecobank partnered with ACCION to launch ACCION microfinance Bank (Isern *et al*; 2009). As part of the microfinance framework, the CBN in collaboration with Bankers' committee created a microcredit fund to partner with State Governments to channel credit to the microfinance sector (Isern *et al*; 2009). Each of these maintains presence in Niger State with most of them having at least one Branch in the State capital (Minna). From information obtained from the Minna Branch of Central Bank of Nigeria, all the 25 Banks operate in Minna. However, further inquiry on those offering microfinance services; it was clear that only two were active while most of them were yet to commence the provision of such services perhaps as wholesale providers of microfinance services (Ndanitsa, 2013). Specifically, First Bank (Nigeria) Plc and Union Bank (Nigeria) Plc have been identified, by the Apex Bank, as providers of microloans to farmers in the area.
2. Development Banks: Development Banks include Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) now transformed into Bank of Agriculture (BOA), Nigeria Bank of Commerce and Industry (NBCI) now transformed into Bank of

Industry (BOI), and other public sector initiatives, such as Federal Mortgage Bank of Nigeria (FMBN). Only two development banks operate in Niger Financial Market namely NACRDB and FMBN. The latter however does not offer microcredit services both by its objectives as well as its operational framework leaving the former as the only development bank performing this role in the market.

3. Microfinance Banks: These are semi-formal financial institutions registered under one form of law or the other, e.g NGO-MFI (Marx/CBN, 2001). These were recently licensed banks which pioneered the provision of microfinance services in the country. Some were NGO based service providers while others converted from community banks or rural banking services MFI as required by the CBN, i.e they transform to MFBs licensed to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months (on/or before December 31st, 2007), from the date of approval of the policy (CBN, 2005). Specifically, Bejin Doko Community Bank Converted to Doko Microfinance Bank, Mallam Baba Community Bank, Agaie converted to Baba Microfinance Bank; Paiko Community Bank converted to Paiko Microfinance Bank, Beji Community Bank converted to Beji Microfinance Bank etc.
4. Non-Financial Institutions: These are unregistered informal self-help groups of MFIs. This category of microfinance service providers operate strictly to serve their members with or without profit motives. They include cooperative societies, Self-Help Groups, Rotating Savings and Credit Associations (made up of RSAs and SCAs e.g Isusu or Etotos (Igbo), Esusu/Ban (Yoruba), Adashi (Hausa), Dashi (Nupe), Efe (Ibibiois), or Oku (Ijaws); Production, Savings and Credit Groups, Age Grade Groups; and family and friends, have had developmental impact on the rural areas (Nweze and Okorie, 1986; Ijere, 1988 and Okeibunor, 1995). Meanwhile, since none of them registered its intention to provide such services so far, so were excluded from sampling for this study.
5. Primary Mortgage Financial Institutions:- These are primary financial institutions registered and licensed by the regulatory authority to provide banking services for the purpose of developing the mortgage sub-sector of the economy (Makarfi and Olukosi, 2013). Given the development in the nation's financial landscape which

advanced towards Universal banking, they ventured into the provision of other banking services including microcredit to farmers. Two banks were identified in the pre-survey namely Federal Mortgage Bank, Minna and Niger State Mortgage Finance, Minna that engage in providing the services in the market.

Given the above scenario, the sampling frame was made up of all the active participants in the financial institutions in the provision of microcredit facility and/or services. The multiphase sampling techniques was adopted to determine our sample size. It was adopted for the purpose of this study since more than one phase of sampling was involved: the first was to identify and select all the institutional lenders that supply microfinance services and second to proceed to select those financial institutions involved in providing microcredit products targeted clients/beneficiary. All forms of credit and/or savings institutions were first identified and constituted the sampling frame. Then, samples were purposively drawn from the formal finance institutions made up of the five commercial banks reported to be active participants in microfinance activities by the development finance institution office of the CBN, Minna Branch. Three most active in the running of microfinance programme were eventually selected from the list of the 25 commercial banks that emerged after bank's restructuring and the five found to be active in microcredit services. Similarly, all informal and semi-formal MFIs categories were also identified; totaling four each were included in the survey. The features of the participating institutions programme were further studied with respect to additional characteristics. In the second or main phase of the inquiry, selected MFIs were stratified into the main groupings to ease collection of information. These were formal, semi-formal and informal MFIs.

Both primary and secondary data were collected for this survey. Relevant primary information were collected with the use of well structured questionnaires accompanied by interview schedule. The questionnaires were pre-tested. The unit of administration and interviews were with the executive officers of the financial institutions included in the survey as well as with the officials with the Central Bank of Nigeria, Minna Branch. Further, additional information (secondary data) were obtained from records and documents of the UNDP, World Bank-CGAP (The consultative Group to Assist the Poorest) and their websites, CBN Annual reports over the preceding three years (2010-2012). In the interviews, detailed information on the specific aspects of the microfinance windows operated by the MFIs were

collected from the Chief Executives of the MFIs and the Head of Development Finance Unit of the CBN, Minna Branch.

ANALYTICAL TECHNIQUE/MEASUREMENT OF VARIABLE

The Analytical technique/Measurement tools used are.

i. **Descriptive Statistics**: Descriptive Statistics such as mean, range, percentage, frequency distribution tables, standard deviations, variance, charts and others, were used to realize objectives relating to the characteristics/behavior of the main decision unit, the MFIs, identified their mode of operations and main sources of funding. In addition, for the NGO-MFIs their purpose, mode of operations, outreach in terms of target populace, and nature of supports provided, terms of repayment as well as other peculiarities were analyzed using similar tools of analysis.

ii. **Efficiency and Subsidy Intensity Index (ESII) Technique:** ESII was used to measure the efficiency and sustainability of microfinance programs in the area. It has been found to be a useful tool for the measurement of efficiency as well as determination of subsidy dependency of microfinance programs. Khalily *et al* (2000) first used it to determine the efficiency of microcredit programs in Bangladesh. Also, Makarfi and Olukosi (2013) used it to determine the efficiency of microcredit programs of MFIs in Kano, Nigeria. ESII was adopted for use in this study since it consists of ratios that related loan portfolio to revenue and cost generated by the program as well as subsidy employed by each program. These parameters could assist and afford policy makers an opportunity to develop broad-based index for the determination of subsidy dependency and social cost of microfinance program (MFP). This dream is fulfilled by the development of ESII technique expressed as:

$$ESII = \frac{S + 1 \left[\frac{W*EMP) + (bi*B) + (d1*MS) + EL + OPE}{L}\right] (ri*I) - IC - 1}{r1*L \quad r_1 \quad \frac{r_1*L}{(1 + \frac{rixI}{ri*L})}} \quad \text{.....equation 1}$$

Where ESII= Efficiency and subsidy intensity index

S= Gross Subsidy

(ri*L) = is average lending interest rate on micro-loans (%)

ri= is the average income from MFTs' investment (Naira)

bi= average borrowing interest rate by MFS (%)

B= average borrowing by MFI (Naira)

(bi*B) = is the average expense on borrowed fund (Naira)

di= average interest rate on number savings (%)

MS = is the average member savings generated by MFI (Naira)

(di*MS) = the average expenses on members' savings deposit (Naira)

Ø= ratio of loan loss to total loan

L= is the amount of loan loss (Naira)

W= average wage rate (Naira)

EMP= Employment numbers of personnel

(W*EMP) is expenditure on staff (Naira)

OPE= Other Operating Expenses (Naira)

Gross subsidy (S) is the opportunity cost of funds from Owners (equity capital)

MS= is the average member savings generated by MFI (Naira)

Low computed values of the index (ESII) mean more efficient and more sustainable MFI operations. Zero or negative values indicate that MFP fully pays for all expenses from its stream of revenues and income grant, so no subsidy dependency. It can secure funds from the market and efficiently generate profits on a continuous basis hence its assured sustainability. One of the criticisms of microfinance programs is that financial sustainability is rarely achieved. There is overwhelming evidence of the failure of MFI to achieve financial independence from subsidies, even if autonomy is pushed as the primary goals (Murdoch, 1999). Advocate for the microfinance approach to poverty alleviation for example are continuously hunted by statistics such as "only 1% of Microfinance institutions are financially self-sufficient" (Murdoch, 1999). Opponents of the MFI system use statistics as evidence for the failure of microfinance and thus, as proof that the practice should be discontinued.

To summarize quantities like average microloan amount, L; Average investment by MFI, I; average number of employees Emp, their average wages and salaries, W; average income from microloans, (ri*L); average income from investment, (ri*I); income grant, IG; operational expenses, OPE; expenses on borrowed funds, (bi*B); expenses on members savings, (di*MS); loan loss provisions, Ø were all picked from their financial statements or

management account reports or extracted from submissions sent to regulatory authorities. The micro lending interest rates r1, borrowing rates by MFI bi, rates on investments ri, were all collected from the money market or CBN sources as reported in their Annual Reports. For SFFI and informal MFIs, information obtained using questionnaires administered were used to compute the various income from loans, investments and expenses on staff.

Efficiency and Productivity

Cost efficiency is determined from the ratio of expenses incurred to perform key functions relative to total revenue functions of the MFI and relative to the loan output and the overall profitability. Cost per borrower and cost per saver are two most commonly used parameters to determine efficiency of an MFP. Cost per borrower is simply the ratio of total expenses to total number of borrowers while total expenses divided by total number of savers give the cost per saver.

Productivity is determined from a combination of two parameters namely outreach and efficiency. It is measured in terms of borrowers per credit officer and/or savers per credit officer. The first criticism of microfinance is that is does not reach the poorest of the poor because of the discrimination by the loan officers(Simanowits, 2000, 2000; Simanowitz and Walter, 2002). As with all loan systems, the higher the loan, the greater a profit to be made by the lender. Consequently, loan officers often discriminates against very poor borrowers and instead favour the “richer” poor who can afford to take out larger loans (Wright, 2000; Simanowitz, 2000). The second reason that microfinance may not reach the poorest of the poor is the pariah status of the very poor (Simanowits and Walter, 2002). Just as there are large divides in wealthy countries between the rich and the poor, impoverished communities may have social segregation between the poor and the destitute. The destitute, also referred to as the very poor or the poorest of the poor may be shunned from the rest of the society. Sometimes, it is discrimination from the “richer” poor that drives the destitute away from society, and consequently, away from MFI programs, but often it is the destitute who segregate themselves (Wright, 2000; Simanowitz, 2000; Simanowitz, and Walter, 2002). The exclusion of the poorest from microfinance is not an indication that the poorest cannot benefit from MFI services, it is the indication of the failure of MFIs to design programs to fit the needs of destitute families (Marcus *et al*, 1999). MFIs that are inflexible and do not offer a range of service risk losing clients and efficiency.

Profit P on the other hand, is determined from the difference between total revenue and total cost of the MFI realized in the course of its business for the period under consideration. It is computed as follows:

P= total revenue (TR) – total expenses (TE) Equation II

P= (ri*L)+IG-[(w.emp)+bi*B)+di*MS)+ Ø*L) +OPE]……Equation III

Where Ø,L,r1, ri, lG, w,emp, bi, B, di OPE and MS are as earlier defined.

The gross profit from the operations of an MFI fully covers all expenses as well the cost of subsidized funds then the program is profitable and financially sustainable.

3.0 RESULTS

3.1 Types of Microfinance Institutions/Programmes (MFI)

Microfinance institutions/programs (MFI) are engaged in a wide range of practices across the state. Prominent operations in the area of study include Development Banks (DBs) such as the NACRDB, Commercial Banks (CMBs), Primary Mortgage Banks (MB), MFBs and non-governmental organizations (NGOs). Meanwhile, saving and loans associations, cooperative societies of whatever type, and rotating savings and credit associations (ROSCAs) did not participate in this survey even though records from State Ministry of Trade and Commerce suggest the existence of such associations.

Financial structure among MFIs revealed that most of them rely on borrowed funds followed by equity funds and least on member savings. Lack of substantial savings mean less of cheaper funds and hinted volume of microloans to deliver. Table 1 shows the proportion of equity capital ad reserves, borrowed fund and members' savings among categories of MFIs (2010-2012)

Table 1: Proportion of equity and reserves, borrowed fund and members' savings among categories of MFIs (2010-2012).

Types of microfinance Institutions (MFIs) Range in % and average								
Source of fund	FFI	Means %	SFFI	Mean%	IFFI	Mean %	Ave.	Mean %
Equity & Reserves	38-40	39	22-52	36	9-15	12	9-52	30
Borrowed Funds	44-50	47	41-75	57	62-81	71	41-81	60
Members' savings	13-16	14	3-11	7	11-22	17	3-33	12
Total		100		100		100		100

FFI = Formal Financial Institution

SFFI = Semi-formal financial institution

IFFI= Informal Financial Institution

% = Percentages

Source: Survey Data, 2013

3.2 Size of Microloans and mode of disbursement

There is a wide gap among MFIs and even within each category of FFI, whether lending to individuals or group on the size of microloans extended. It ranged from ₦50,000.00 to ₦250,000.00 per loan beneficiary.

Semi-formal financial institutions (SFFIs) generally provide loan size of between N15,000-N50,000.00 which is renewed upwards up to N150,000.00 per active and performing client called repeat loan). Informal Financial Institutions (IFFIs) generally start at N5,000.00 per beneficiary in group, depending on performance (rate of repayment of the first loan).

Further, the type of activity financed by the MFIs in the area often dictates the size of microloan with asset acquisition attracting the highest and longer gestation period of repayment. Repeat loans encourage both lenders and borrowers with elements of sustainability. Disbursement is made direct to members of the groups and repayments also follow the same pattern. Cross guarantees are often canvassed for prior to disbursement.

3.3 Women participation ion MFI activities

Microfinance can play a critical role in the realization of the third millennium development goal, to promote gender equality and empower women. Currently, 70% of people in absolute poverty (living on less than $1.00 a day are women (Cheston and Kuhn, 2002). In order to alleviate extreme poverty, women, who suffer the most, must be empowered to break free from their marginalized status in society. Microfinance can provide the economic opportunities that women need to control their lives. In most all cases, the increase in capital has given women more option and greater control over their business and their lives". In the area, over 80% of funds disbursed by SFMFIs and IMFI were made to women beneficiaries for wide range of activities including petty trade, food and restaurant services, financing for the acquisition of capital assets among others). The study has also showed that the microcredit programs of MFIs in the area positively affect a woman's decision-making role, her marital stability, and her control over resources and mobility. Table 2 shows the level of women participation in MFI activities in the area.

3.4 Outreach

The combined outreach to all users by MFIs over the three year period show different levels of reach among the three categories of MFIs.

Table 2: Actual numbers of men and women reached by microfinance Institutions in 2010-2012.

Category of men	Men	Women	Total	%Women
FFI	57,620	34,029	91,649	37.13
SMFI	1,740	7,246	8,986	80.64
IMFI	77	7,163	7,240	98.94
Total	**59,437**	**48,438**	**107,875**	**44.90**

Source: Field survey Data, 2013.

Table 2 revealed that FFI (commercial banks) extend more microcredit facilities to men (57,620) than women (34,029). This skewed the results in favour of men among their microloan facilities. On the other hand, both SMFI and IMFI categories concentrated mainly on women, in fact, four of the MFIs deal only with women while only one MFI deals more exclusively with men. Thus, while the average for all FFIs stands at 37.13% the other two categories had over 80% women outreach. Thus, in terms of depth of reach IFI have deeper penetration followed by SFFI and FFI in the last.

Efficiency and Productivity of MFIs

Table 3 shows the various parameters on cost efficiency, financial ratios and other performance indices.

Table 3: ESII Computations for FMFI, SFFI and ISSIs in Niger State of Nigeria, 2013

	Formal Microfinance Institution				Semi-Formal Microfinance Institution			Informal Microfinance Institution		
		2010	2011	2012	2010	2011	2012	2010	2011	2012
G	Grants	201,221,720	215,377,720	216,352,325	10,000,000	5,000,000	5,000,000	3,000,000	5,000,000	6,000,000
EQF	Equity Fund	12,933,581,047	16,815,833,627	21,229,306,503	15,000,000	20,000,000	45,000,000	2,000,000	4,000,000	5,000,000
(G+EQF)	tot E&G	13,134,802.767	17,031,211,347		25,000,00	25,000,000	50,000,000	5,000,000	9,000,000	11,000,000
rm	Markt int. rate(rm)%	0	0	0	0	0	0	0	0	0
bi	Ave.Bor.Rate%	0	0	0	0	0	0	0	0	0
B	Borrowing Amt.	14,424,986,367	17,975,115,563	29,190,670,348	12,000,000	20,000,000	150,000,000	8,000,000	36,300,000	42,000,000
IG	Income grant rec	-	-	-	-	-	-	-	-	-
rm-bi	Net rate%	0.07	0.08	0.08	0.14	0.15	0.15	0.12	0.11	0.11
B*(rm-bi)	Subsdy frm borr.B*(rm-bi)	1,024,174,032	1,438,009,245	2,346,929,896	1,656,000	2,960,000	22,200,000	960,000	3,993,000	4,620,000
(G+EQF)*rm	Subs. From Grts & Egt.	1,970,220,415	2,724,993,816	3,431,305,412	3,750,000	4,000,000	8,000,000	750,000	1,440,000	1,760,000
Gross S	Subs frm Borr, Eqt & Int.	2,994,394,447	4,673,939,401	6,421,605,073	6,406,000	7,710,000	31,700,000	1,910,000	5,703,000	6,710,000
r1	Int. on Loan%	0.12	0.12	0.12	0.48	0.48	0.48	0.34	0.34	0.34
L	Av. Loan	7,940,000,000	8,499,288,130	11,723,876,060	29,000,000	85,000,000	302,000,000	15,000,000	48,273,120	51,474,733
n	Interest on inv.	0.05	0.11	0.11	0.12	0.12	0.12	0.25	0.25	0.25
I	Ave. investment	13,012,000	13,012,000	580,969,000	3,000,000	5,000,000	6,000,000	3,000,000	3,500,000	5,000,000
w.Exp	Wages	1,360,115,235	1,379,946,952	1,360,155,235	1,186,000	1,500,000	2,376,000	588,000	588,000	646,000
s	Savings Amount	5,041,607,299	5,441,607,399	7,446,377,289	2,000,000	5,000,000	6,500,000	3,125,000	4,810,000	6,500,000
d1*MS	Int. Paid on savings	148,482,817	158,482,817	144,191,299	50,000	125,000	162,500	93,750	144,300	195,000
d1	Saving int.(%)	0.035	0.035	0.035	0.025	0.025	0.025	0.03	0.03	0.03
r1,L	Income frm loans	597,000,000	619,227,782	622,631,880	13,920,000	40,800,000	144,960,000	5,100,000	16,412,861	17,501,409
rI,I	Income frm invt.	620,000,000	349,439,639	117,945,998	360,000	600,000	720,000	750,000	875,000	1,250,000
B*bi	Borr.exps	225,377,720	244,036,817	244,036,817	144,000	240,000	1,800,000	240,000	1,815,000	2,100,000
θL	Loan lose provision	629,012,643	665,168,806	1,003,525,507	580,000	1,700,000	6,040,000	300,000	965,462	1,029,495
OPE	Operation Exp.	2,338,435,776	2,638,435,776	2,481,580,314	3,480,000	10,200,000	36,240,000	1,275,000	4,103,215	4,375,352
S/r1*L	Retio subs/loan inc.	5.02	7.55	10.31	0.46	0.19	0.22	0.37	0.35	0.38
1/r1	Reciprocal of int on loan	8.33	8.33	8.33	2.08	2.08	2.08	2.94	2.94	2.94
Exps/L	Ratio Exps/Loan	0.59	0.60	0.45	0.19	0.16	0.15	0.17	0.16	0.16
ri*I/r1L	Port folio mix	1.04	0.56	0.19	0.03	0.01	0.00	0.15	0.05	0.07
1/r*Er1L	Cot efficiency	4.93	4.99	3.72	0.39	0.34	0.32	0.49	0.46	0.48
IG/r1*L	Ratio int. G loan	-	-	-	-	-	-	-	-	-
ESII	Efficiency & subsidy intensity index	3.88	7.01	10.80	(0.17)	(0.48)	(0.46)	(0.25)	(0.23)	(0.20)

In summary, therefore, quantities like average microloan, L; Average Investment by MFI, I; Average number of employees, their average wages and salaries, w; average income from microloans (ri*L).; average income from investment, OPE; expenses on borrowed. Funds, (bi*B); expenses on members savings, (di*MS); loan loss provisions, Ø were all picked from their financial statements or management account reports or extracted from submissions sent to regulatory authorities. The micro lending interest rate ri, were all collected from the money market or CBN sources as reported in their Annual Reports or statements of accounts. However, for SFFI and informal MFIs, information obtained using questionnaires administered were used to compute the various income from loans, investments and expenses on staff of the institutions.

The ESI (I) essentially comprises several ratios, including:

- Gross subsidy intensity in relation to income from loans.
- Cost and financial efficiency
- Port folio mix in relation to output price ratio.
- Income grant intensity.
- Role of revenue from loans in relation to total income and its impact on subsidy intensity and efficiency.
- Total expenses by the MFI program relative to total income from loan assets.

3.5 Financial Performances of the MFIs.

The financial performance of selected MFIs in Niger State: Profitability Analysis is shown in table 4

Table 4: Financial Performance of selected MFIs in Niger Stat e, Nigeria: Profitability analysis (in Million Naira, ₦)

	NACRDB (in Million Naira)			BEJIN DOKO MF			ENAWATUNLO (IFI)		
Parameters	2010	2011	2012	2010	2011	2012	2010	2011	2012
Income from Loans	597	619.28	622.63	13.93	408	144.97	5.1	16.41	17.5
Income from investment	620	349.44	117.95	0.36	0.6	0.72	0.75	0.88	1.25
Other sources of income	0	0	0	0	0	0	0	0	0
Total revenue	1,217.0	968.72	740.58	14.29	41.40	145.09	5.85	17.29	18.75
Expenses on borrowing	225.38	244.04	244.04	0.144	0.240	1.80	0.24	1.82	2.10
Other expenses	2,338.40	2,638.40	2,481.60	3.48	10.20	36.24	1.28	4.10	4.38
Wages (workers expenses)	1,360.10	1,379,95	1,360.16	1.19	1.50	2.38	0.59	0.59	0.65
Savings Amount	5,041.61	5,441.61	7,446.3	2,000.0	5,000	6,500	3,125	4,810	6,500

Intst. paid on subsidy loan	148.48	1,584.83	1,441.92	0.05	0.13	0.16	0.09	0.14	0.20
Total Expenses	**4,701.36**	**6,512.39**	**6,531.25**	**5.44**	**13.77**	**46.62**	**2.50**	**7.61**	**8.35**
Savings int.rate (%)	0.035	0.035	0.035	0.025	0.025	0.025	0.03	0.03	0.03
TR-TE=NR	(3,484.36)	(5,543.36)	(5,790.7)	8.850	27.635	99.072	3.353	9.678	10.400
Ratio:									
Exp/Loan income	7.87	10.52	10.49	0.39	0.34	0.32	0.49	0.46	0.48
Return on assets	(10.19)	(11.16)	8.40	0.05	0.14	0.38	6.20	6.10	2.00
Return on equity(%)	(16.16)	(14.70)	(12.70)	30.00	76.00	118.00	100.50	145.00	125.00
Operational self-suff.(OSS)	(3.86)	(5.25)	(7.01)	0.48	0.39	0.39	0.49	0.46	0.47

Source: Field survey Data Analysis, 2013.

The result of the analysis (table 4) reveals that when the expenses and revenues of each of the segment of the financial institution were compared, it was evident that FFI were not profitable and continued to rely on subsidized funds. This finding is contrary to the findings of Ndanitsa(2013) that reveals that FFI were more profitable than both the SFFI and IFFI. Similarly, the returns to assets (ROA) and return to equity (ROE) were both positive and acceptable for SFFIs and IMFIs but negative for FFIs signifying better years of sustainable operations for the former category of MFIs. This is also contrary to the findings of Ndanitsa (2013) who recorded a higher ROA and ROE for FFI than the IMFIs in North Central Nigeria

4. CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, and developing the following new strategies/recommendations to improve the performance of MFIs in Niger State can be enhanced.

i. MFIs especially SMFI and IMFI segments are profitable as revealed by the result of the analysis, compared with FFI that continue to rely on grants and subsidized funds. Returns to equity and assets are comparable to any other business or sub-sectors of the economy. It is therefore recommended that the mode of operation need to be reinforced and sustained to become more business like approach. FFI should review their approach to the program. For example, it is necessary for credit agencies like the FFIs to design farmer specific regimes rather than designing stencil-type which all clients are expected to fit into.

ii. MFIs are efficient in terms of costs and output ratios signifying sustainable operations. Further examination need to be carried out in areas where costs could be minimized

while review of lending rates to market rates of interest is adopted to improve profitability (interest rate deregulation).

iii. MFIs can be sustainable if information flow could be better managed particularly for market rates on deposits and microfinance products. A situation where savings component is the least in the financial structure suggests a faulty strategy for sustainable program. A better strategy to improve savings deposits is necessary for sustainable operations.

iv. Umbrella organizations should be formed by MFIs in order to present to common front on matters of common interests, thus bringing in synergy into play, in their operations and in information sharing.

v. Capacity building for microfinance providers: Several of the MFBs are small, new and inexperienced, while erstwhile community banks (that transform into MFBs) did not inspire confidence of the people: There is the need to strengthen capacity building of all microfinance providers to develop new products, extend their geographical coverage, and meet other operational challenges. The CBN has conducted some capacity building activities, but this should be done on a sustained basis.

vi. The use of ESII to measure the extent of subsidy dependence of MFIs and their sustainability has shown that semi-formal as well as informal MFIs have come a long way in achieving independence from subsidy and are on the path to sustainable operations. With FFIs, a lot has to be done to reduce subsidy dependence and improve on efficient operations going forward.

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