FINANCIAL INCLUSION POLICY OF THE CENTRAL BANK OF NIGERIA: A STUDY OF MICROFINANCE BANKS.

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Abstract
The purpose of this study is two-fold. The first is to determine whether the financial performance of the microfinance banks is comparable with their commercial banks counterparts. The second is to determine whether the microfinance banks have met the targets set out in the Microfinance Policy. Descriptive research design was adopted for the study. Data on the financial performance of microfinance banks and the targets in the Microfinance Policy were obtained from the Central Bank of Nigeria while the financial performance of the commercial banks were extracted from the annual report and accounts of the individual banks. The data were analysed using means and standard deviation while t-test statistics was used to test whether there was difference in the return of the two groups of banks. Z-test of difference in proportion was used to determine whether the microfinance banks have met the targets in the Microfinance Policy with respect to proportion of credit to the economy and to the GDP. Findings show that the average return on equity of the microfinance banks is significantly higher than the average return of the commercial banks. Findings also show that there is no significant difference in the return on equity of the top 5 commercial banks and the top 5 microfinance banks. Furthermore, the study established that the microfinance banks have not met the targets on proportions of credit to the economy and proportion of credit to GDP. The implication of findings is that the anxiety over the financial viability of the microfinance banks do not have any economic justification. Findings also imply that except if additional policy measures are put in place, the targets in the Microfinance Policy to be attended in 2020 may not be realized.
Keywords: *Financial inclusion, microfinance banks, financial performance, microfinance policy.*

Introduction

Financial inclusion is about access to a broad range of formal financial services that meet the needs of the adult population at affordable cost (Olaitan 2012). Financial exclusion therefore refers to a situation in which an individual or group of persons are unable to access financial services and products in the financial services market. The excluded thus has no business relationship with any financial institution and therefore cannot expand the scope of his operations beyond the level of his private savings. Access to credit is important because it provides a means of smoothening working operating activities especially when the operator sells products on credit to customers. Besides, credit facilities can provide against income shocks and in some cases allow individuals to make productive investment which can lead to higher future income (European Commission, 2008). Most of the financially excluded persons in Nigeria are the rural residents and the micro and small business operators. But these groups are critical to the development of the economy as they possess great potentials for employment generation, improvement in local technology, output diversification, development of indigenous entrepreneurship and forward integration with large scale industries (Central Bank of Nigeria, 2011).

That most micro and small scale business operators in Nigeria do not have access to financial services and products in the financial services market had long been recognized by Government (Nzewi, 2009). Government had in the past initiated a series of publicly financed micro/rural credit programmes and policies targeted at the micro and small business operators. But these initiatives achieved limited success. The schemes particularly those sponsored by government were short-lived due to the unsustainable nature of their programmes (Central Bank of Nigeria, 2005). Their major problem was absence of autonomous sources of fund as they totally depended on government subventions which were irregular (Okafor, 2000).

Earlier in 1992, the Central Bank of Nigeria had initiated the community banking programme, conceived as a self-sustaining institution that will provide credit, banking and other financial services to its members largely on the basis of their self recognition and credit worthiness (Babangida 1990). It was believed that such an institution would exploit to the fullest its advantaged position of local knowledge and trust (National Board for Community Bank, 1992). But after seventeen (17) years of operation of the community banks, less than 2% of the rural household had access to financial services. It thus became imperative to develop an institutional framework to reach the hitherto unserved population so as to improve their productive capacity, create jobs, and ultimately improve the national economy (Igamge, 2008).

The Central Bank of Nigeria response to this challenge found expression in the Microfinance Policy. The policy presented a blue print for the emergence of a regulated microfinance subsector under its supervisory preview with the deposit insurance cover provided by the Nigerian Deposit Insurance Corporation (Central Bank of Nigeria 2005). Two of the major targets of the Policy are;

1. To increase the share of micro credit as a percentage of total credit in the economy from 0.9% in 2005 to 20% in 2020.
2. To increase the share of micro credit as a percentage of GDP from 0.2% in 2005 to at least 5% in 2020 (Central Bank of Nigeria, 2005).

To achieve the above targets, the Central Bank converted some of the existing community banks to microfinance bank and licensed new ones. The microfinance banks were to provide diversified, affordable and dependable financial services to the micro and medium scale enterprises. They were also to mobilize savings for intermediation, create employment opportunities and increase the productivity of the active poor (Central Bank of Nigeria 2005).

The microfinance banks started operations in 2008. But following market reports about the failure of some of the banks to meet their obligations and several petitions received from aggrieved depositors (Moghalu 2010) the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation carried out target examination of all the banks to ascertain their financial solvency and suitability to continue as microfinance bank. The outcome of that exercise was the withdrawal of operating licences of more than one hundred microfinance banks who were adjudged terminally distressed and technically insolvent (Central bank of Nigeria 2010).The closure of that large number of bank sent negative signals as to the financial viability of the surviving ones, thus making an appraisal of the profitability of the banks an imperative.

Quite a number of studies have been carried out to access aspects of the operations of microfinance banks. Some of the studies appraised the impact of the banks in poverty alleviation in different states of the Federation (Jegede et at, 2011; Appah et al, 2012; Akinlo and Ani, 2013). Some other studies focused on the effect of the banks on rural development and on the Nigerian economy (Okwodi et al 2013; Godstime and Uchendu 2014). There are studies that assessed the challenges and opportunities in the microfinance sector (Acha, 2012; Ogujiuba, 2013). Other studies include Olowe et al (2013) on microfinance on small and medium enterprises growth, microfinance and economic development of women (Omorogbe et al, 2013); on the effect of microfinance in growth of micro business in Nigeria (Babajide, 2012); on the extent to which the then community banks which were forcefully converted to microfinance banks have adjusted their operations to reflect their new mandate under the Microfinance Policy and on the budget practices of microfinance banks (Nzewi 2009, Nzewi 2011). Thus far, no study to the knowledge of the authors has related the actual performance of the banks to the specific targets set out in the Microfinance Policy. Also the doubt about the viability of the banks as an investment option has not been subjected to an empirical test.

Objective of the Study:

The objective of this study is two-fold:

1. To determine whether the financial performance of the microfinance banks is comparable with their commercial banks counterparts, and
2. To determine the extent to which the microfinance banks have met the expectations in the Microfinance Policy of the Central Bank of Nigeria.
   Specifically the study shall:
   i. Compare the return on equity of the microfinance banks to that of commercial banks to determine whether there is significant difference.

ii. Examine the performance indicators of the microfinance banks so as to determine whether they have achieved the target set in Microfinance Policy.

Consequently, the following hypotheses will be tested:

Ho_1 There is no significant difference between the return on equity of the microfinance banks, and that of the commercial banks.

Ho_2 The microfinance banks have not substantially met the targets set out in the Microfinance Policy.

Conceptual Framework

Financial Inclusion

Financial inclusion is defined as provision of a broad range of high quality financial products such as savings, credit, insurance, payments and pensions which are relevant, appropriate and affordable for the entire adult population and especially for the low income segment. (Ladipo, 2012). Financial inclusion or inclusive financing is the delivery of products such as savings, credit, insurance, payments and pensions which are relevant, appropriate and affordable for the entire adult population and especially for the low income segment (EFInA 2014). Simplicity and sustainability are key to financial inclusion. Simplicity refers to less conditionality and low financial costs, while sustainability refers to continue availability of financial services. The major goals of financial inclusion were itemized by the United Nations to include:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

An inclusive financial sector is characterized by the diversity of financial service providers, the level of competition between them and the regulatory environment that ensures the integrity of the financial sector and access to financial services for all (Ladipo, 2012). The prime objective of financial inclusion is to achieve economic development through availability of banking and payment services such as transaction banking, savings, micro loans and insurance services to the entire population without discrimination between men and women, urban dwellers and rural dweller, the have (rich) and the have not (poor) (Wikipedia, 2014). Financial inclusion is therefore a tool for economic development, particularly in the areas of poverty reduction, employment generation, wealth creation and improving welfare and general standard of living (Central Bank of Nigeria, 2011).

Encouraged by the global pursuit of financial inclusion as a vehicle for economic development and its positive effect in Nigeria on the area of exclusion rate which reduced from 53.0% in 2008 to 46.3% in 2010, the Central Bank of Nigeria in collaboration with stakeholders launched the National Financial Inclusion Strategy 2012 with a view to further reducing the exclusion rate to about 20% by 2020. Specifically, adult Nigerians with access to payment services is to increase from 21.6% in 2010 to 70% in 2020, while those with access to savings should increase from 24.0% to 60%, and credit from 2% to 40%, insurance from 1% to 40% and Pension from 5% to 40%, within the same period. The inclusion strategy was also targeted to improve the various channels for delivering financial services with deposit money bank branches targeted to increase from 6.8 units per 100,000 adults in 2010 to 7.6 units per 100,000 adults in 2020, microfinance bank branches to increase from 2.9 units to 5.5 units; ATMs from 11.8 units to 203.6 units, POSs from 13.3 units to 850 units, Mobile agents from 0 to 62 units, all per 100,000 adults between 2010 and 2020 (Central Bank of Nigeria, 2011).

The thrusts of the strategy are agent banking, tiered know-your-customer requirements, mobile payment banking services, comprehensive financial literacy programme, adequate customer protection framework, wholesale on-lending facilities for microfinance banks and institutions, capacity building for regulators, service providers, clients as well as the implementation of credit enhancement schemes (Eluhaiwe 2012).

Since the implementation of the strategy, some successes have been recorded. For instance, adult exclusion rate reduced from 46.3% in 2010 to 39.7% in 2012. All the geopolitical zones in Nigeria equally recorded improvements with exclusion rate declining between 2010 and 2012 as follows: North East, 68.3% to 59.5%, North West, 68.1% to 63.8%, North Central, 44.2% to 32.4%, South East, 31.9% to 25%, South West, 33.1% to 24.8% and South South, 36.4% to 30.1%.

Concept of Microfinance

The rationale for microfinance is to create channel through which the economically active poor who are hitherto excluded from financial services are brought into in the financial system. This is achieved by provision of micro loans and other micro services to those who need them. Microfinance loans are products targeted at the economically active poor and low-income clients. Because of the peculiar nature of microfinance clients, special products that meet their needs are provided in order to bring them into the formal financial system. Three features which distinguish microfinance products from other formal financial products are;

1. Smallness of loans ad savings

2. Absence or reduced emphasis on collateral and
3. Simplicity of operation (Central Bank of Nigeria, 2005)

While the commercial banks focus on large savings and granting of large loans that may run into billions of naira, microfinance banks focus on mobilization of small savings and granting of small loans to large number of micro clients. Furthermore, while the commercial banks may place much emphasis on collateral when granting loan to their clients, microfinance banks place less emphasis on collateral but more emphasis on character and capacity of the client.

Microcredit Institutions

The practice of micro financing in Nigeria dates back to time immemorial and is rooted in the culture of the people. Before the establishment of the modern microfinance institutions, the informal micro financing arrangement had existed. Notable among the early micro credit institutions were the family unit, age grade, clubs and associations. Before the emergence of microfinance banks, the micro and small enterprises that were unserved or under-served by formal financial institutions founded succor in non-governmental microfinance institutions, money lenders, friends, relatives and credit unions (Central Bank of Nigeria 2011).

Government had in the past initiated a series of publicly financed micro/rural credit programmes and policies targeted at the micro and small business operators. Those initiatives achieved limited success. The schemes particularly those sponsored by government which adopted the traditional supply-led subsidized credit approach were short-lived due to the unsustainable nature of their programmes (Central Bank of Nigeria, 2005). Their inability to meet the credit demands was evidenced by the wide gap between credit request and amount approved and even wider gap between the amount approved and actual disbursement made. Their major problem was absence of autonomous sources of fund as they totally depended on government subventions which were irregular. To this should be added poor loan recovery performance, abuse or lack of transparency in credit selection process, diversion of facilities to unintended uses by recipients and lack of in house capacity for credit appraisal, loan administration and portfolio management (Okafor, 2000).

Another policy initiative at financial inclusion was the rural banking programme under which existing commercial banks were mandated to open branches in designated rural location. The success of the programme did not go beyond the physical presence of the banks in the rural communities because instead of mobilizing deposits from the rural communities and lending same to inhabitants of the communities for micro and small business projects, the banks exported the deposits for lending operations in the urban areas (Nzewi, 2009). The banks rationalized their conduct by citing high unit cost of micro credit administration, high default risk and low portfolio return associated with micro loans. Okafor (2000) critised the banks when he argued that cost of micro credit administration was a genuine and legitimate cost of doing business which the banks should strive to minimize and not avoid. He further argued that high default risk cannot be a sufficient basis for separating micro and small clients into a class of "rejects".

Earlier in 1992, the Central Bank of Nigeria had initiated the community banking programme. The fundamental concept was that the banks should be a self sustaining institution that will provide credit, banking and other financial services to its members largely on the basis of their self recognition and credit worthiness (Babangida, 1990). It was believed that such a revolutionary transformation of credit provision in the unbanked rural areas would exploit to the fullest its advantage position of local knowledge and trust (National Board for community Bank, 1992). After seventeen years of operation of the community banks, less than 2% of the rural household had access to financial services. Their sub-optimal performance was linked to incompetent management, weak internal control, lack of well defined operations and restrictive regulatory and supervisory requirements (Central bank of Nigeria, 2005). The Central Bank of Nigeria response to this challenge found expression in the Microfinance Policy. The Policy presented a blue print for the emergency of a regulated microfinance subsector under its supervisory preview with the deposit insurance cover provided by the Nigerian Deposit Insurance Corporation.

The specific objectives of the Microfinance Policy were stated as:

1. Make financial services assessable to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
2. Promote synergy and mainstreaming of the informal sub-sector into the national financial system.
3. Enhance service delivery by microfinance institution to micro, small and medium entrepreneurs.
4. Contribute to rural transformation.
5. Promote linkage programmes between universal/development banks, specialized institution and microfinance banks (Central Bank of Nigeria, 2005).

The targets of the policy are;

1. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.
2. To increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020, and the share of micro credit as a percentage of Gross Domestic Product from 0.2% in 2005 to at least 5% in 2020.

3. To promote the participation of at least two third of the states and local government in micro credit financing by 2015.
4. To eliminate gender disparity by improving women's access to financial services by 5% annually.
5. To increase the number of linkage among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually, (Central Bank of Nigeria, 2005).

The microfinance banks are expected to:

1. Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities.
2. Mobilize savings for intermediations.
3. Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living.
4. Enhance organized, systematic and focused participation of the poor in the socio-economic development.
5. Provide veritable avenue for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents.
6. Render payment services, such as salaries, gratuities and pensions for various tiers of government. (Central Bank of Nigeria, 2005).

Empirical Review

A good number of studies have been conducted on aspects of the operations of microfinance institutions in Nigeria. Jegede et al (2011) assessed the microfinance banks in Lagos State to determine their impart on poverty alleviation. Data for the study were obtained from responses from members of the rural communities. Findings revealed that the microfinance institutions have made significant impact in alleviating poverty as evidenced by increasing income and changing economic status of those who patronize them. The study concluded that the microfinance institutions are a potent strategy for poverty reduction and a viable tool for purveying credit to the poor.

In a similar study Appah et al (2012) examined the relationship between microfinance and poverty reduction in Bayelsa State. Data were obtained through a survey in which questionnaire was administered on a sample of 286 female respondents who were involved in various small scale business in Bayelsa State. The study found a significant relationship between microfinance and traditional rotating system. Also found was that a significant relationship exist between loan repayment by the women and poverty reduction in the state. In addition, it was revealed that there is significant difference between microfinance and the status of women in the state. The study remarked that microfinance alone cannot reduce poverty in any state where infrastructures like good roads, steady water supply and good transportation system. Hence it was recommended that government should provide the basic infrastructural facilities that will enable small business owners grow their business.

Another study on the impact of microfinance on poverty alleviation was carried out by Akinlo and Ani (2012). This study was based on Ondo State. Survey research was carried out and the respondents were a sample of 240 beneficiaries of micro loan in the State. Data obtained were analysed using a regression model and findings showed that micro loans have significant positive effect on business expansion and welfare of the business owners. The findings of this study is similar to that of Okwodi et al (2013) which examined the impact of microfinance banks on rural development in Nigeria. The revelation of the study was a positive impact of microfinance banks on rural development through encouraging small savings, grant of micro laons to the economically active poor and job creation.

Acha (2012) assessed the challenges and opportunities in the microfinance subsector in Nigeria. it was pointed out that microfinance subsector in Nigeria faces enormous challenges ranging from infrastructural inadequacies, social misconception, poor legal and regulatory framework, unbridled competition from other financial institutions, abandonment of core microfinance functions to paucity of qualified manpower. The growing entrepreneurial awareness, increasing government interest, large unbanked rural area and high population of poor people were identified as opportunities. Given the bright future of microfinance banking, the study stressed the need for proper regulatory interventions and commitment of other stakeholders to the core mission of microfinance banking.

A recent study by Godstime and Uchechi (2014) evaluated the impact of microfinance in the Nigeria economy. The study covered the period 1992-2012. Quarterly data was sued and multiple regression model and Granger causality test were applied on the data. Findings showed that microfinance operations, captured by the loans and advances offered to the members of the society by microfinance banks have statistically significant positive impact on the Nigeria economy. Consequently it was recommended that government and policy makers should pay serious attention to the operations of microfinance institutions by promoting programmes and policies that would boost the activities of the microfinance subsector as well as publicize their existence. It is believed that this will effectively position the microfinance banks to finance the micro and small scale enterprises which are the engine of economic growth.

This study is very much related to an earlier one by Olowe et- al (2013) in which the impact of microfinance on small and medium enterprises in Oyo State was assessed. The population of the study consists of the entire small and medium scale enterprises in Oyo state out of which a sample of 82 was selected. Data were obtained through a survey in which questionnaire was administered on the selected respondents. Pearson correlation coefficient and multiple regression analysis were used to analyze the data. Findings showed that financial services obtained from microfinance banks have positive significant impact on the growth of small and medium scale enterprises in Nigeria. it was also found that duration of loan has positive impact on the growth of the enterprises that is statistically not significant. The results also showed that thigh interest rate, collateral security and frequency of loan repayment impede the growth of micro, small and medium businesses in Nigeria. It was recommended that microfinance banks should make their conditions for accessing micro loans less stringent and increase loan duration so as to make micro loans easily accessible to a large number of economically active low income persons.

A study by Omorogbe et al (2013) evaluated the impact of microfinance on economic development of women in Edo State, Nigeria. The study showed that micro loans have positive effect on the business growth. It also revealed that micro loans have positive impact on the economic power of the woman entrepreneurs as they are enabled to support their families in area of education, feeding and housing from the increase in their income.

Babajide (2012) reviewed the effects of microfinance on the growth of micro and small business in Nigeria. Specifically the study examined the effects of different loan administration practices (in terms of loan size and tenor) on small business growth. It also examined the ability of microfinance banks (given their loan-size and rates of interest charged) in transforming micro businesses to formal small and medium scale enterprises. A survey of 502 randomly selected enterprises that patronize microfinance banks in Nigeria was carried out and multiple regression was used in analyzing the data. Findings showed that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, are found to have positive effect on business growth. He recommended a recapitalization of the microfinance banks to enhance their capacity to support small business growth and expansion.

Ogujiuba et-al (2013) attempted to access the financial viability of microfinance institutions in Nigeria. The study was premised on the supposition that micro-enterprise financing cannot be financially viable because small loans are too costly to administer and the profits from such lending too meager to permit profitability. Based on content analysis of literature available with them, they contended that microfinance institutions in Nigeria have performed below expectation due to poor loan quality, default in loan repayment, high transaction costs, widespread delinquency, and management deficiencies.

Shortly after the mandatory conversion of the existing community banks into microfinance banks in 2008, Nzewi (2009) carried out a study to determine whether the newly converted microfinance banks have adjusted their operations in line with the Microfinance Policy of the Central bank of Nigeria. The target populations for the study were the 80 microfinance banks in Anambra State which converted from community bank, and the sampling frame consisted of the managing directors of the selected banks. Findings showed that there was no significant difference between the operations of the banks when they were community bank and their operations on conversion to microfinance bank, implying that they have not come to terms with their new role under the Microfinance Policy.

In another study, the author set out to determine the extent to which the microfinance banks in Anambra State consider budgeting as a vital instrument for planning and control (Nzewi,2011). A survey was carried out in which the 64 microfinance banks that survived the Central Bank target examination in 2010 was used as the sample. Z score test of differences in sample proportion was used to test the hypotheses posited. Findings showed that the microfinance banks have not put in place the necessary guidelines and structures for budgeting and that the board of directors of the banks do not regard budgeting as a vital instrument for planning and control.

From the above review, it is evident that most of the studies carried out on the microfinance banks tended to focus on their impact on poverty alleviation, rural development and on the Nigerian economy. There were also studies on the effect of the banks on the growth of micro and small business and on the development of women entrepreneurship. The study that attempted to assess the financial viability of the banks was premised on whether the high cost of administering small loans would still allow them to make reasonable profit. There is no study known to us that assessed the financial viability of the banks in comparison with their commercial bank counterpart nor has the issue of the extent to which they are meeting the targets set for them in the Microfinance Policy been assessed. These are the gaps which this study is designed to fill.

Methodology

Descriptive research design was adopted for this study. Descriptive research seeks to find out the conditions and relationship that exists, opinions that are held, processes that are going on, effects that are evident or trends that are developing (Nwachukwu, 2007). This design is considered appropriate for this study because we are interested in the relationship which currently exists as regards the actual performance of microfinance banks with respect to the prescribed policy targets, as well as the relationship between the profitability of microfinance banks and their commercial banks counterparts.

All the eight hundred and fifty-nine (859) microfinance banks and the thirteen (13) commercial banks in Nigeria listed in the top 1000 World Bank ranking were purposively adopted as sample for the study. Data on the aggregate performance of the microfinance banking sector with respect to their total loans and advances to customers, total income, total assets, shareholders funds and total deposits were obtained from the Central Bank of Nigeria. The specific policy targets set for the microfinance banking subsector were extracted from the Microfinance Policy and Regulatory Framework of the Central Bank of Nigeria. Similar data for the sampled commercial banks were extracted from their annual report and accounts.

Data collected were analysed with means, variances and standard deviation. t-test statistics was used to test whether there is significant difference between the return on equity of the microfinance banks as a group and the sampled commercial banks. t-test was also used to test whether there is significant difference in the return on equity of top 5 commercial banks (based on the size of shareholders fund) and the 5 microfinance banks that operate with nation-wide operating licence. A similar test was carried out to determine whether significant difference exist in the return on equity between the top 5 commercial banks and the top 5 microfinance (based on shareholders fund) with state-wide operating licence.

By the Microfinance Policy, the microfinance banks are expected over the 15 years period (2005-2020), to increase micro credit as a percentage of total credit in the economy from 0.9% to 20%. On a prorate bases, this translates to 1.28% annual increase. Thus for the 9 years up to 2014 the micro credit as a percentage of total credit to the economy is expected to stand at 12.42%. Also by the Microfinance Policy, the microfinance banks are expected to increase the share of micro credit as a percentage of Gross Domestic Product from 0.2% in 2005 to at least 5% in 2020. Again on a prorata basis this translates to a 0.32% annual increase. Thus after 9 years, the micro credit as a percentage of Gross Domestic Product is expected to stand at 3.08%. Z score test of difference in proportion was used to test whether the microfinance banks met the targets in the Microfinance Policy with respect to proportion of their credit to the economy and to the Gross Domestic Product.

Table 1: Performance Statistics of Microfinance Banks as a Group and the Sampled Commercial Banks

S/N	Number of MFS	Total Paid Up Capital	Shareholders' Equity	Total Assets	Loans And Advances Customers	Total Deposits	Net Income(PAT)	ROE %
	859	73,990,938,080.00	86,092,294,030.00	292,079,699,380.00	145,677,448,330.00	146,679,866,420.00	32,323,337,470.00	37.54
Commercial Banks								
S/N	**Number of MFS**	**Total Paid Up Capital**	**Shareholders' Equity**	**Total Assets**	**Loans And Advances Customers**	**Total Deposits**	**Net Income(PAT)**	**ROE %**
1.	ZENITH	15,698,000,000.00	505,236,000,000.00	3,143,133,000,000.00	1,251,355,000,000.00	2,276,755,000,000.00	95,318,000,000.00	18.87
2.	GTB		329,646,681,000.00	2,102,850,000,000.00	1,007,970,000,000.00	1,442,700,000,000.00	90,020,000,000.00	27.31
3.	UBA	16,491,000,000.00	259,538,000,000.00	2,217,417,000,000.00	796,942,000,000.00	54,351,000,000.00	55,650,000,000.00	21.44
4.	UNION		188,000,000,000.00	882,000,000,000.00	231,000,000,000.00	480,000,000,000.00	5,100,000,000.00	2.71
5.	FIDELITY	14,481,000,000.00	163,455,000,000.00	1,081,217,000,000.00	426,076,000,000.00	806,320,000,000.00	8,085,000,000.00	4.95
6.	SKYE		121,451,000,000.00	1,100,000,000,000.00	551,328,000,000.00	823,300,000,000.00	16,000,000,000.00	13.17
7.	DIAMOND	7,237,622,000.00	138,303,224,000.00	1,354,930,871,000.00	585,953,062,000.00	1,093,784,492,000.00	30,334,,675,000.00	21.93
8.	FCMB	9,901,355,000.00	131,321,521,000.00	131,482,189,000.00	0.00	0.00	6,027,752,000.00	4.60
9.	FBN	16,316,000,000.00	308,101,000,000.00	311,811,000,000.00	0.00	0.00	70,631,000,000.00	22.92
10.	STAMBIC IBTC	5,000,000,000.00	71,846,000,000.00	75,401,000,000.00	0.00	0.00	8,332,000,000.00	11.60
11.	ECO	9,241,000,000.00	156,628,000,000.00	1,460,811,000,000.00	625,907,000.00	1,118,401,000,000.00	11,658,000,000.00	7.44
12.	STANDARD CHARTERED	2,500,000,000.00	74,607,491,000.00	434,056,092,000.00	172,227,053,000.00	237,817,922,000.00	160,405,650.00	21.50
13.	ACCESS	1,144,146,000.00	245,181,997,000.00	1,704,094,012,000.00	735,300,741,000.00	1,217,176,793,000.00	2,621,184,000.00	10.69

Source: *Data for the microfinance banks where as at June 30, 2014, Data for the commercial banks were as at January 1, 2014 except for standard Chartered Bank with data as at Jan 1, 2013: GDP is from Central Bank of Nigeria Statistical Review*

Table 2 shows the Return on Equity (ROE) of 5 top commercial banks (based on size of shareholders' fund); the 5 microfinance banks with nation-wide operating licence, and the top 5 microfinance banks (based on size of shareholders' fund) with state wide operating licence.

Table 2 Return on Equity of Selected Commercial Banks and Microfinance Banks

Top Five Commercial Banks Based on Size of Shareholders' Fund			**Microfinance Banks with Nation-wide Operating License**		
S/N	**Bank**	**ROE**	**S/N**	**Bank**	**ROE**
		%			%
1	Zenith Bank Plc	18.87	1	AB Microfinance Bank	3.79
2	Guarantee Trust Bank Plc	27.31	2	FBN Microfinance Bank	8.76
3	United Bank for Africa Plc	21.44	3	LAPO Microfinance Bank	155.95
4	First Bank Plc	22.93	4	NPF Microfinance Bank	32.66
5	Access Bank Plc.	10.69	5	Porallex Microfinance Bank	10.65
Top five (5) Microfinance Bank (based on shareholders' fund) with State-wide Operating Licence					
S/N	Bank	ROE	S/N	Bank	ROE
		%			%
1	Fortis Microfinance Bank	9.83	4	University of Nigeria Microfinance bank	66.12
2	Accion Microfinance bank	31.84	5	Umuchinemere Microfinance Bank	29.34
3	Wetland Microfinance Bank	28.02			

Source*: Central Bank of Nigeria and Annual Reports of Individual Commercial banks*

The expected and actual performances of the microfinance banks with respect to their total loans to the economy and to the Gross Domestic Product are shown in Table 3.

Table 3 Expected and Actual Performance of Microfinance Banks

	Expected (%)	Actual (%)
Ratio of microfinance banks loan to total loan in the economy	12.42	2.60
Ratio of microfinance banks loans to Gross domestic Product	3.08	0.34

Source: Computed from Table 1

Test of Hypotheses

Hypothesis One (Null)

Ho_1 There is no significant difference in the return on equity of microfinance banks, and that of the commercial banks.

This hypothesis is tested at three levels with the data in Tables 1 and 2.

The levels are:

(a) Between the microfinance banks as a group and the commercial banks.

(b) Between 5 top commercial banks and the 5 microfinance banks with nation-wide operating licence.

(c) Between 5 top commercial banks and the 5 top microfinance banks with state-wide operating licence.

$Ho_{1(a)}$ There is no significant difference in the return on equity of the microfinance banks as a group and the commercial banks.

Mean of ROE of top Commercial Banks = 14.55

Standard deviation of ROE of 13 top commercial banks = 8.22

Mean of ROE of microfinance banks = 37.54

$$\text{T statistic} = \frac{(14.55-37.54)\sqrt{13}}{8.22}$$

$$= \underline{\underline{10.10}}$$

No of degree of freedom = 13-1=12

For 12 degrees of freedom at 5% level of significance, the critical value of t = 2.18 Since the calculated value of t = 10.10>tab. Value 2.18, we reject the null hypothesis and conclude that there is significant difference in the return on equity between the microfinance banks as a group and the commercial banks.

$Ho_{2(b)}$ There is no significant difference in the return on equity of the 5 top commercial banks and the 5 top microfinance banks with nation-wide operating licence.

Mean of ROE of 5 top commercial banks = 20.25

Standard deviation of ROE of 5 top commercial banks = 6.16

Mean of ROE of microfinance banks with nation-wide operating licence = 42.36

Standard deviation of ROE of microfinance banks with Nation-wide operating licence = 64.46

$$\text{Standard deviation of population} = \frac{(5-1)(6.16)^2+(5-1)(64.46)^2}{5+5-2}$$

$$= 45.79$$

$$\text{t statistic} = \frac{20.25-42.36}{45.79\sqrt{1/5 + 1/5}}$$

$$= 0.77$$

For 8 degrees of freedom at 5%level of significance the critical value of t = 3.21

Since the calculated value of t = 0.77< tab value 3.21, we accept the null hypothesis to the effect that there is no significant difference in the return on equity of the top 5 commercial banks and the 5 microfinance banks with nation-wide operating licence.

$Ho_{1(c)}$ There is no significant difference in the return on equity of the top 5 commercial banks and the top 5 microfinance banks with state-wide operating licence.

ROE of top 5 microfinance banks = 14.55

Standard deviation of top 5 microfinance banks = 8.22

$$\text{Standard deviation of population} = \sqrt{\frac{(5-1)(6.16)^2+(5-1)\ (8.22)^2}{5+5-2}}$$

$$= \underline{\underline{7.26}}$$

$$\text{T statistic} = \frac{20.25-14.55-0}{7.26\sqrt{1/5 + 1/5}}$$

$$= 1.18$$

For 8 degrees of freedom at 5% level of significance, the critical value of t = 3.21

Since the calculated value of t = 1.18 < tab. t = 3.21, we accept the null hypothesis and conclude that there is no significant difference in the return on equity of the top 5 commercial banks and the top 5 microfinance banks with state-wide operating licence.

Hypothesis 2

Ho2 The microfinance banks have not substantially met the targets set out in the microfinance policy.

This hypothesis is tested with the data on Table 3 and applying Z-test of difference in proportion.

(a) With respect to the proportion of credit to the economy

$$Z = \sqrt{\frac{2.6-12.42}{\frac{12.42\,(1-12.42)}{1}}} = \quad 0.82$$

Since Z cal. 0.82 < Z tab 1.67 on one tail test, we accept the null hypothesis to the effect that the microfinance bank, have not met the target set out in the Microfinance Policy, with respect to the expected proportion of credit to the economy.

(b) With respect to the proportion of credit to the Gross Domestic Product

$$Z = \frac{0.34-3.08}{3.08\sqrt{\frac{(1-3.08)}{1}}} = \quad 1.08$$

Since Z cal. 1.08 < Z tab. 1.67, we accept the null hypotheses and conclude that the microfinance banks have not met the target set in the Microfinance Policy, with respect to the expected proportion of credit to the economy.

Discussion of Findings and Policy Implications

The finding of significant difference in the return on equity of the microfinance banks as a group and the commercial banks has some implications. With the average return on equity of the microfinance banks significantly higher than that of their commercial banks counterpart, the import is that some of the microfinance banks have been operating efficiently to meet the expectations of shareholders uncelebrated. Thus the anxiety of the investment community on the financial viability of the microfinance banks following the withdrawal of licence of many microfinance banks in 2010 may not be founded. Potential investors should take note of this revelation and begin to reassess their perception of the viability of investment in microfinance banks.

Result of no significant difference in the return on equity of the top 5 commercial banks and the 5 microfinance banks with nation-wide operating licence is even more revealing of the earnings capacity of microfinance banks that was hardly advertised. Even the microfinance banks with state-wide operating licence were able to match the profit performance of the commercial banks. And except for risk considerations, both groups of banks are as a matter of fact, equally attractive as investment options. But it has not been established that investments in commercial banks are less risky than those in microfinance banks.

The findings that the microfinance banks have not met the targets set out in the Microfinance Policy with respects to both the proportion of their credit to the economy and the proportion of their credit to the GDP, call for an inquiry into the reasons for the default. In particular, it raises the question as to the realisability of the targets in the Microfinance Policy. Put differently, were the targets realistically set? Or where they overtly over ambitious in the prevailing circumstance? This calls for a re-assessment of the targets and performance is at their current levels.

Conclusion and Recommendations

It is concluded from the data analysis and hypotheses tested that the return of equity of microfinance banks as a group is significantly higher than that of their commercial bank counterpart. Also the return on equity of the top 5 commercial banks are comparable with that of the 5 top microfinance banks with both nation-wide and state-wide operating licences. However, despite this feat, the microfinance banks have not met the target set by the Microfinance Policy on expected proportions of credit to the economy and the Gross Domestic Product.

We therefore recommend as follows:

- That investors should take note of the comparability of the returns on equity of the microfinance banks with that of the commercial banks and begin to look at microfinance banks as a viable investment option.
- The regulators of the microfinance banks should review the targets set in the Microfinance Policy to ensure that they are reasonably attainable. And thereafter periodic evaluation of the operations of the microfinance banks should be carried out with a view to identifying factors impeding their attainment of the targets as well as measures that can enhance their attainment of set targets.

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