Sustainability of Micro Finance Institutions: A Comparative Case Study from Kwara State, Nigeria

[1]BABATUNDE, M. OYEWALE AND [2]BAKARE, AKEEM ADEWALE

[1&2]Department of Economics and Financial Studies
Fountain University, Osogbo, Osun State, Nigeria.
E-mail: babatundewale94@gmail.com, akeembakare2012@gmail.com

ABSTRACT

Recently, the Microfinance Banks (MFBs) have emerged to seal the gap between the many formal and informal financial institutions such as banks, credit unions and moneylender in Nigeria financial institutions. The foremost objective of MFBs is to alleviate poverty by offering loans and related financial services to the poor: individuals who are not self-sufficient. This paper aims to understand the extent to which MFBs have attained sustainability in Nigeria, a developing country scenario. The paper examines the sustainability attained by Microfinance banks in Nigeria by way of measuring their Outreach, Financial sustainability and Welfare impact. The data was collected with the help of Semi-structured Interviews and Focus Group Discussions of Micro Finance Banks in twin cities (Ilorin and Offa) of Kwara state and data collection through secondary sources available in Kwara state on MFB`s. A descriptive analysis was carried out by using triangle theory of Meyer and Zeller (2002). It was discovered that the MFBs of Kwara state, Nigeria are not quite sustainable especially after the reform agenda been introduced by the apex bank (CBN) in the country.

Keywords: **Microfinance Institution, Outreach, Self Sufficient, Financial Sustainability, Welfare, Poverty.**

Introduction

Throughout the world, poor people are excluded from formal financial systems. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in lesser developed countries (LDCs). Absent access to formal financial services, the poor have developed a wide variety of informal, community-based financial arrangements to meet their financial needs.1 In addition, over the last two decades, an increasing number of formal sector organizations (non-government, government, and private) have been created for the purpose of meeting those same needs. Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor.

Microfinance has existed, although mostly in the shadows and unseen by casual observers, since the rise of formal financial systems, and indeed probably predates them. It has only been within the last four decades,

however, that serious global efforts have been made to formalize financial service provision to the poor. This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., 1995). What began as a grass-root — movement; motivated largely by a development paradigm is evolving into a global industry informed increasingly by a commercial/finance paradigm.

The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of —social investment for the poor (Mutua, et al. 1996). It must be emphasized too that the animating motivation behind the microfinance movement was *poverty alleviation*. Not only that, but microfinance offered the potential to alleviate poverty while paying for itself and perhaps even turning a profit—doing well by doing good. This potential, perhaps more than anything, accounts for the emergence of microfinance onto the global stage.

Microfinance, as conceived by many researchers is the "provision of financial services and loans to the poor in which sum of money loaned out is repaid in small installments over a certain period of time" (Morduch, 2000). Evolution of microfinance has transformed the attitudes of several countries towards assisting the poor financially, and has enabled the extension of credit, to lower income households and groups who tend to be deprived off financial services by conventional financial organizations (Weiss et al, 2003). Participation of Micro Finance Institutions in developing countries has been on positive side of the financial paradigms. Evidence is provided by numerous studies carried out on performance of MFBs in different countries (Zeller and Meyer, 2002).

Nigeria, with a current population of over 160 million, comprises of less than 8000 bank branches which appears insufficient to financially assist the population of people living below poverty line (World Bank, 2006). At present, approximately, 33% of the total population falls below national poverty line and an estimated 7-10 million households require microfinance. Until late 1980's Nigeria had no established MFB to deliver micro credit to the underprivileged (World Bank, 2006). Therefore, most clients faced difficulties in attaining short term loans. Microfinance institutions confront high transaction costs of delivering loans and other

financial services to the poor and less than one third of total MFBs in Nigeria are financially and operationally sustainable (MIX, 2006).

It is ideal of every MFIs to expand their financial horizons/outreach to the country's rural population as these short term loans are a source of generating small scale entrepreneurs in rural villages, whose future prosperity is directly linked to economic uplift of the country. Given the above scenario, it is therefore pertinent to ex-ray issues militating against the efficiency of MFIs in Nigeria through an evaluation of their current outreach and financial sustainability situation (Roshane and Nadia, 2011). The specific objectives for this particular research are to examine extent to which MFBs have expanded outreach in Nigeria and a critical evaluation of problems confronted by MFBs in expanding outreach. Currently there are 23 major Microfinance Institutions in Kwara State (including NGO's) and this paper has attempted to cover 3 MFIs (situated in twin cities) including Ilorin and Offa, APEX Micro Finance Bank Ltd., IYERU-OKIN Micro Finance Bank and IBOLO Microfinance Bank Ltd.

Literature Review and Theoretical Framework

Microfinance Institutions

Ledgerwood, (2006) states that the term Microfinance is self-explanatory and can be disintegrated into two components: Micro and Finance. The former emphasizes the degree of finance involved (as it mainly comprises of small loans), while the latter relates to elements associated with the discipline of finance. In their own contributions, Otero and Rhyne, (1994) defines Microfinance as "the provision of financial services to the extremely poor self-employed people and those earning a lower than the national average income." Also, Schreiner, (2001) has defined microfinance as an attempt to enhance accessibility to small loans and deposits for poor households who are overlooked by banks.

Role of Microfinance in Alleviating Poverty

Research has shown that MFBs play a crucial role in alleviating poverty mainly by providing access to credit to the under-privileged poor population. In support of this stance, Otero, (1999) also defines various techniques adopted by MFBs to fight poverty. Drawing upon her study of 41 MFBs, it is deduced that, besides generating productive capital access for the poor, MFBs also impart necessary training and education to those in need in order to boost their morale, eventually moving the under-privileged poor, out of the vicious poverty circle (Roshane and Nadia, 2011).

According to Otero's research, provision of investment capital and related financial services to poor individuals, results in their empowerment and builds up their self-esteem, so they are prepared to participate in the society and economy. In the same vein, Littlefield, Murduch and Hashemi,

(2003), state that various researches certify a rise in earnings and assets and a reduction in susceptibility of MFB clients. They have cited examples of MFBs in developing countries like Bangladesh, India, Zimbabwe, Uganda and Indonesia, and that, all of them have depicted a positive influence on poverty alleviation (Roshane and Nadia, 2011).

Sustainability of MFIs

Sustainability in general terms is referred to as the self-sufficiency of Microfinance Institutions (Brau and Woller, 2004). However there are two different approaches pertaining to the concept of sustainability: Institutionalist approach and Welfarist approach. Research shows that Microfinance Industry is significantly characterized by the instituionalist approach to sustainability (Roshane and Nadia, 2011).

Institutionalize Approach

Most research on MFBs of developing countries, during late 1990's, has adopted the institutionalize approach to analyze sustainability situation of these institutions (Rhyne, 1998). Table 3.1 summarizes the variables, most frequently used by eminent researchers, to measure the sustainability of MFBs under the institutionalize paradigm.

Welfarist Approach

In contrast to institutionalize paradigm, the Welfare approach argues that attaining financial sustainability is not a pre-requisite for becoming a sustainable MFB (Woller, et al, 1999a). According to welfare, funds and grants is a type of equity which is donated by social investors. By social investors it implies that they are distinguished from private investors as they are willing to sacrifice financial returns (or earn minimal financial returns) by investing in an institution (MFI) that utilizes funds for social uplift. Therefore, welfare emphasize on measurement of variables that determine level of social impact. This approach does not imply that variables for measurement of financial sustainability, are useless, but they believe that the former needs to be given greater consideration by MFBs (Roshane and Nadia, 2011).

Most research carried out during late 1990's and early 2000's indicates that researchers do not evaluate sustainability by restricting to just one of the two approaches mentioned above. It is observed that, in fact, they have adopted a multi-dimensional approach to determine sustainability of MFIs. This is evident by the fact that researchers have analyzed sustainability by combining relevant variables under the welfarist and instituionalist approach. For example, Conning, (1999) developed a theoretical model for MFIs that intend to become sustainable in the long run. He uses a combination of variables under both approaches for his analysis.

Types of Sustainability

Sustainability in Terms of Financial Self Sufficiency of MFBs:

Theoretical basis of institutionalize approach to sustainability originated from an extensive research carried out by the Rural Finance Program at Ohio State University. According to the research, it was analyzed that failure of many rural credit programs during 1960-1970 was a direct result of a lacking "institutional viability". This analysis derived two key conclusions:

1. To deliver financial services to the poor, successfully, it is crucial to have institutional sustainability.
2. Financial sustainability is a pre-requisite for institutional sustainability (Gonzalez-Vega, 1994).

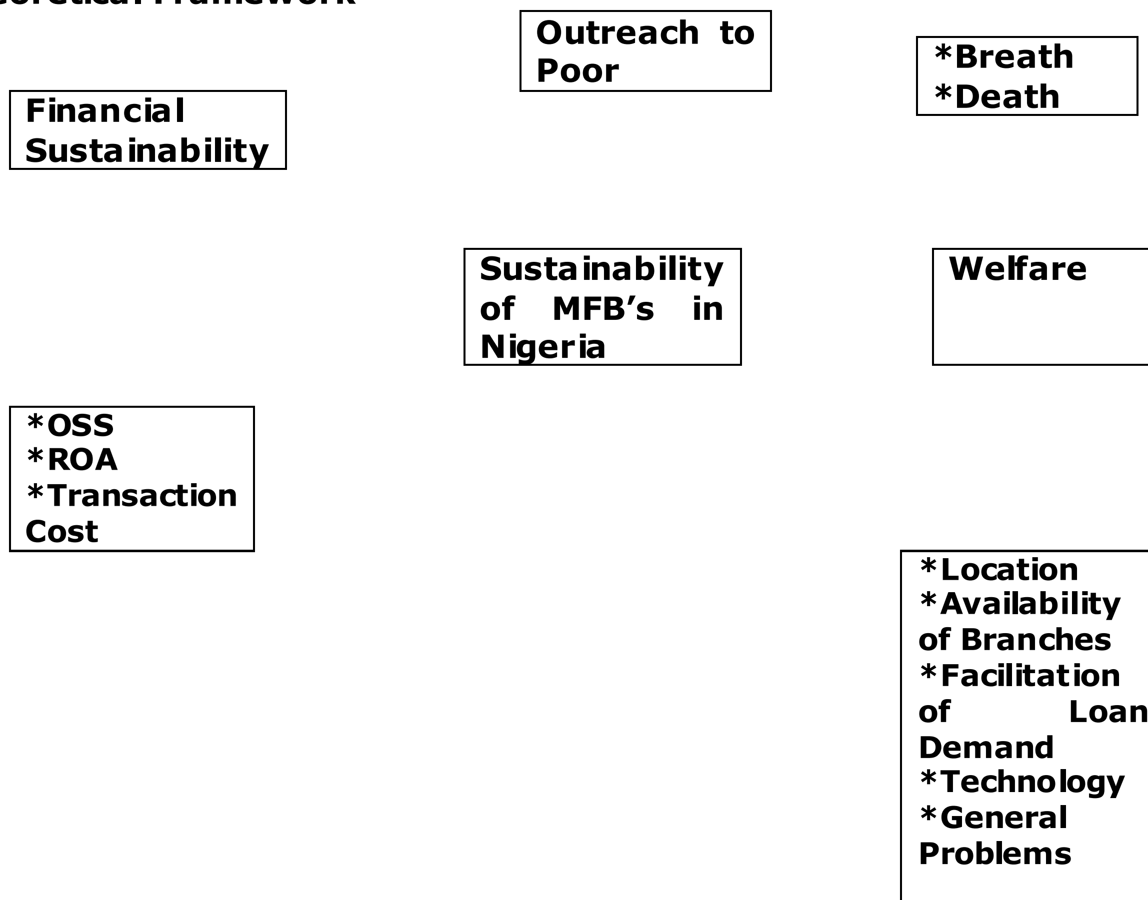
Therefore, most literature pertaining to Microfinance, relates the concept of sustainability to attainment of 'financial' sustainability. In context of financial sustainability concept, being referred to as 'sustainability', most researchers have disintegrated the terms into two distinct levels, these are: Operational Self sufficiency and Financial Self sufficiency (Schreiner, 2001). The first level refers to cost-covering capability of MFIs, that is, whether they are able to generate sufficient revenues to cover operational costs (not essentially the entire cost of capital). The subsequent level of Financial Sustainability refers to ability of MFIs, to utilize subsidized funds and grants effectively, to generate revenue (Roshane and Nadia, 2011).

Sustainability in Terms of Outreach

Literature states that sustainability of MFBs also encompasses measurement of indicators related to outreach (Meyer and Zeller, 2002). According to Schreiner, (1997), outreach is defined as an assessment of the number of under-privileged clients served by MFBs. Based on Meyer and Zeller, (2002) framework; outreach needs to be measured through different dimensions. According to MIX, (2005), outreach can be assessed by an annual comparative analysis through measurement of several variables including number of personnel and active borrowers, percentage of clients served below poverty line, average loan balance per borrower, percentage of woman borrowers, number of savers etc.

Navajas, et al, (2000), has identified six main attributes for outreach measurement. These include, Breadth, worth to borrowers, cost to borrowers, Scope and Length. Meyer and Zeller, (2002) have used similar indicators in their framework, for measuring MFB outreach. Their research has most specifically preferred measuring variables such as Depth and Breadth.

Theoretical Framework



Source: (Roshane and Nadia, 2011).

Microfinance Institution Products and Services

MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse, 2001, Woller, 2002a).

This, however, has slowly begun to change. Increasingly today MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education. Nourse, (2001) reviews the context and rise of microfinance products and argues there is a need for savings and insurance services for the poor and not just credit products. He goes on to argue that MFIs need to provide tailored lending services for the poor instead of rigid loan products. Supporting this latter assertion of Nourse, (2001), Eyiah, (2001) develops a model of small construction management contractors and MFIs in developing countries that provides a tailored lending structure for microenterprise contractors.

Similarly, Woller (2002a), Cohen (2002), and Dunn (2002) argue that MFIs need to be more client-focused, including offering a mix of financial products tailored to the varied needs and wants of poor consumers. Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner (1995). Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member's interest to ensure that the other members pay.

Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock (2001)). Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure. Van Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and that agents' types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group. Similar to Ghatak, Islam (1995) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring.

Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Woller, 2002a). The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders. Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavory collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing

consumption needs or to cope with emergencies. Like savings, consumption/emergency loans form an integral component of poor households' risk management and coping strategies.

Those in the microfinance industry who assumed that formal MFIs would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs. A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local MFI to finance their own money lending businesses. It turns out that just as the terms of the loans offered by moneylenders (rapid loan approval, flexible terms, repayment periods measured in days or weeks, and lump-sum payments at exorbitant interest rates) makes them generally ill-suited as a source of enterprise financing, the terms of enterprise loans offered by MFIs (slow turnaround, inflexible terms, repayment periods measured in months or a year, and regular small payments at relatively low interest rates) are generally ill-suited for emergency/consumption purposes.

An important source of consumption/emergency loans in developing countries are pawn shops. Ismail and Ahmad (1997), for example, discuss the role of pawnshop lending in Malaysia. They report that Malaysian pawnshops have increased in importance as lending institutions and are projected to continue to do so due to more affordable transportation, interest rate regulations, and financial liberation, among other factors.

Along with the lending function, a market for savings exists in poor areas around the world. Savings services offered by MFIs can be divided into forced and voluntary savings, with forced savings far exceeding voluntary savings. In a forced savings program, microfinance participants are required to save a minimum amount each week (or other set period of time). Forced savings ostensibly teaches financial discipline and provides the MFI with additional information about clients. In practice, forced savings serve primarily as a form of cash collateral. Rules regulating when and how clients may withdraw forced savings are typically highly restrictive.

The second form of savings is voluntary, flexible savings (Nourse, 2001), Montgomery (1996). Millions from all strata of poor do not operate enterprises, but they do save, albeit often in very small amounts and at inconsistent intervals (Beverly and Sherraden, 1999). Savings are integral to poor households' risk management strategies; they constitute the first line of defense to help poor households cope with the external shocks, emergencies, and life-cycle events to which they are so vulnerable; and

they play a crucial role in allowing the poor to take advantage of productive investment opportunities (Grosh and Somolekae, 1996).

A reasonable estimate of the market for savings among the poor indicates that savings demand substantially exceeds the demand for enterprise loans. Christen (2001); for example, reports that over a space of two to three years, retail banks in Latin America opened millions of small deposit accounts in countries in which MFIs added fewer than 200,000 loan customers over the same period. At MFIs that offer both enterprise loans and voluntary savings, moreover, savers typically exceed borrowers by large multiples.

Characteristic of poor households is extreme vulnerability to risk and external shocks. Traditionally, poor households have managed risk and coped with external shocks through a combination of informal social support networks, savings, and borrowing from informal moneylenders. Participation in microfinance programs offers another set of risk management and coping options for poor households. Participation in formal micro-insurance schemes offers yet another option. Just as a large demand for formal savings and loans exist among the poor, there is also believed to exist a large demand for formal insurance (Churchill, 2002).

Methodology

Theoretical framework was developed on the basis of the literature review. Keeping in view the theoretical frame work the study requires the collection of primary and secondary data both.

Sample

There are about 24 MFB`s currently operating in Kwara state, Nigeria, sample of 1/3 of the population is taken for study. For sample 3 Micro Finance banks are taken under study i.e. APEX Microfinance Bank Limited, IYERU-OKIN MF Bank Limited and IBOLO Micro Finance Bank Limited. Study is conducted in the branches of these three banks operating in Ilorin and Offa.

Sustainability Indicator	Variable	Reference
Return on Assets	ROA	Conning (1999); Meyer and Zeller (2002); Hulme and Mosley (1996); Schreiner and Woller (2003)
Operational Self Sufficiency	OSS	Meyer and Zeller (2002); Schreiner and Woller (2003); Khandker (1998); Hulme and Mosley (1996)
Return on Equity	ROE	Conning (1999); Morduch (1999); Andogo and Stork (2005)
Debt to Equity Ratio	DE	Quyyum and Ahmad (2007)
Number of Active Borrowers	Breadth	Meyer and Zeller (2002); Morduch (1999); Shreiner (1997) Hulme and Mosley (1996); Conning (1999) Quyyum and Ahmad (2007)
Transaction Cost per Borrower	COST	Meyer and Zeller (2002); Hulme and Mosley (1996)

Source: (Roshane and Nadia, 2011).

Data Collection

Multi dimensional research strategy for data collection was adopted. The strategy employed for data collection comprised of semi structured interviews, and collection of data through secondary sources. The open ended questions were used in the interviews in order to elicit information from MFIs, related to the current degree of outreach, constraints of obsolete delivery channels and use of innovative delivery mechanisms for expanding outreach. An extensive use of relevant tertiary and secondary resources is also undertaken by the researcher for the purpose of exploiting data on MFBs and their developments in Nigeria.

These resources comprise of the following:-
Reports generated by the Microfinance Information Exchange market (MIX market) on MFIs operating in Nigeria, Statistical Bulletin published by the Central Bank of Nigeria and World Bank, Research papers and Annual Reports of MFIs in Nigeria as well as journal articles, research and discussion papers, the research objectives are analyzed through various websites that provide relevant and latest information on global Microfinance sector along with developments and innovations taking their toll in MFIs established in developing countries.

Analysis Tool

The analytical tool comprises of the MS Excel which was used for data analysis and descriptive statistics while data analysis consists of the interviews and focus group data which were converted into the ordinal scale measure and then analysed on data analysis of MS Excel. The OSS, Breath & depth outreach, ROA were measured with the respective formulas.

Analysis of the Variables

Sustainability of MFIs is measured in terms of outreach expansion, financial sustainability and welfare impact. As some of the variables in the literature review are impractical or cannot be calculated for Nigeria's MFIs, therefore only BREADTH and DEPTH are used. Similarly, the analysis of financial sustainability of these MFIs is done by analyzing their ROA and OSS. Analysis of welfare impact of microfinance institutions is done with the help of location, availability of branches, facilitation of loan demand, technology and general problems.

Based on interpretation of variables from data collected, the researchers were able to identify problems associated with outreach expansion through existing financial delivery systems of MFBs of Nigeria and its impact on sustainability. Data for measuring variables pertaining to the research objectives is interpreted for years 2013 and 2013. It was

analyzed whether MFIs of Nigeria have become financially sustainable and expanded outreach or not.

Findings of Outreach Indicators

Microfinance industry in Nigeria grew from 0.5 million active borrowers to 1.7 million during 2005- 2008 (Sulaiman D. Muhammad, 2010). It has been estimated that, by 2010, total number of active borrowers in Pakistan has reached to three million, which would constitute to, approximately, 70% of rural borrowers being loaned out by MFIs (Burki, et al, 2006). Currently, the populations of Offa and Ilorin cities were estimated to be about 5 million. As mentioned in literature review and methodology, outreach is measured by six variables; breadth, cost to borrowers, depth, worth to users, scope and length (Zeller and Meyer, 2002). However, this particular research has chosen to maintain a balance between the 'welfare and institutionalize' approach to sustainability and therefore, outreach will be measured by the following two variables used most frequently by researchers: Depth and Breadth of outreach.

Breadth and Depth of Outreach

Breadth of outreach means the number of active borrowers of a microfinance institution and Depth of outreach is measured by dividing average loan per borrower with the GNI per capita (PKR). Breadth of outreach =Number of active borrowers Depth of outreach= Average loan per borrower GNI.

It was found that the 'Breadth' of outreach of two MFIs was reduced to a considerable degree. A significant reason for this reduction is explained by the floods that hit Pakistani rural areas in 2010 which resulted in high number of non-performing loans. MFIs were forced to limit their new lending because old loans were not recovered. As far as depth is concerned, from the perspective of poverty alleviation, a smaller depth value is preferred by MFIs (Meyer and Zeller, 2002). A smaller depth value indicates a decline in loan demand of potential borrowers, which preceded a resultant rise in annual GNI per capita, in the subsequent year.

S/N	Name of Institute	Label of Institutes	Type of Institute	Year of Inception	No. of Branches
1	Apex MF Bank	MF-A	Pure MFI	1984	3
2	Ibolo MF Bank	MF-B	Pure MFI	1985	2
3	Iyeru-Okin MF Bank	MF-C	Pure MFI	1986	1

The values of depth of outreach of MFIs were not consistent in the years under study. There was a slight increase in the depth value for MF-A (Apex MF Bank) whereas for MF-B (Iyeru-Okin Micro Finance Bank), there

was a significant drop in the year 2010. Depth value for MF-C (Ibolo Micro Finance Bank) was almost stable. The most significant reductions in the value explain their considerable share in expanding breadth of outreach. From this trend it is analyzed that a rise in total number of active borrowers will automatically reduce average loan size per borrower, consequently expanding the breadth and reducing value of depth of outreach.

From data findings it is estimated that on an aggregate level, MFIs in the sample reported a net decline of -2.28% in Breadth of outreach and a net decline of -5.69% in Depth of outreach. Based upon rating scale, MFBs of Nigeria fall in ratings 10 for depth and 6 for breadth. Therefore, on an aggregate level, an overall decrease in sustainability of MFIs is observed, in context of the active number of borrowers loaned out.

The Financial Sustainability Dimension

In order to analyze financial sustainability of MFIs, the author has calculated Operational Self Sufficiency (OSS), Return on Assets (ROA), and Transaction Cost per borrower of these institutions during 2012-2013. OSS measures the degree to which operating income covers operating expenses.

$$OSS = Financial\ revenue\ (Financial\ expense + Net\ impairment\ loss + Operating\ expense)$$

ROA is an indicator of how profitable a company is relative to its total assets.

$$ROA = Net\ operating\ income - Taxes\ Average\ Total\ Assets.$$

From this data it is evident that, 2 out of 3 MFIs interviewed, reported a percentage rise in OSS which testifies their growth in context of financial sustainability dimension. Results depicted that MFI-A and B, reported a decline in ROA, while MFI C depicted a rise in ROA. This implies that the latter was able to utilize its funds and grants efficiently in generating interest income (revenues). Hence, assets are utilized effectively to generate micro-credit. It is worth noting that except MFI-C, no other MFIs in the sample was able to generate a positive ROA; hence, individually it falls in rating 1. According to Hartarska, (2005) and Meyer and Zeller, (2002), MFIs in developing countries require 5-6 years to report positive ROA's depending upon the type of technology they incorporate to deliver financial services which is a fundamental rationale behind trend observed for MFIs of Nigeria.

Results of analysis of transaction cost per borrower are also in accordance with the results of ROA i.e. only MFI-C has decreased its transaction cost

with the rating of 1. Both the other two banks have increased their transaction cost per borrower and fall in the rating 6 and 3. So here also an overall decrease in financial sustainability is noticeable.
From these results it is evident that growth in the financial sustainability dimension was achieved by only one of the MFIs in the sample i.e. MF-C. Also, after carefully scrutinizing the data it is identified that, on an aggregate level, MFIs reported a net decrease in adjusted ROA of -2.46%, and a net decline in OSS of -4.46%. It is therefore established that, on an aggregate level, growth in terms of financial sustainability was not achieved.

Conclusion

Microfinance Institutions have been established in Nigeria for more than two decades. The research pertaining to impact and sustainability of MFIs in Nigeria is, therefore, at its initial stages, on both practical and academic accounts. In this study the researcher used data acquired from MFIs of Nigeria related to the previous 2 years combined with secondary data collected through sources mentioned in methodology.

By using triangle theory of Meyer and Zeller, (2002) the researcher found that MFIs of Nigeria are not quite sustainable, and this is mainly due to floods of 2010 because of which lenders were not able to repay loans of these institutions. From the findings the researcher inferred that firstly there is definitely an expansion in outreach of these institutions within the last two years but this expansion in both the depth and breadth of outreach has been at the expense of a few well performing MFIs. However, MFIs have also depicted low financial sustainability with reference to the aggregate ROA and OSS values.

Recommendations

It is ideal of every Micro Finance Institutions to clarify their aims and objectives in order to manipulate their future strategies. This strategy will go a long way in attracting a greater number of donor agencies and investors to actively participate in its development. MFIs must grow in both the outreach and financial sustainability dimensions if they are to produce a positive social impact (the third dimension). The three dimensional growth must be achieved by use of technological solutions/devices for delivering financial services. A complete cost/benefit analysis of the desired technology must be carried out before its implementation and appropriate staff training process must be carried out; if a three dimensional growth is required.

In order to expand outreach and become financially sustainable, MFIs must reduce the interest rate on loans. A reduction in repayment rates will attract greater number of rural borrowers and the institutions will result in a more positive social impact. It is also recommended that MFIs

must reduce their overall operational expenses by minimizing the transaction cost per borrower. They can achieve this by, either, relocating their branches closer to their target market in rural/secluded areas, or, by using innovative technological solutions to serve a greater population more efficiently.

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