



**RISK MANAGEMENT IN MICROFINANCE:
IDENTITIES, PERCEPTIONS, BEHAVIOURS
AND INTERESTS OF MICROFINANCE
STAKEHOLDERS IN PLATEAU STATE,
NIGERIA**

VICTORIA VOELWOEN DANAAAN

PhD. THESIS

2018

Risk Management in Microfinance: Identities,
Perceptions, Behaviours and Interests of Microfinance
Stakeholders in Plateau State, Nigeria

Victoria Voelwoen Danaan

Community Finance Solutions Research and
Development Unit,
School of Arts and Media, University of Salford,
Manchester, United Kingdom

Submitted in Partial Fulfilment of the Requirements of
the Degree of Doctor of Philosophy, December 2018

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Acknowledgements

I appreciate the help and support of many people who contributed to the success of my study. I would first, want to acknowledge and thank God for giving me life and enabling me to undertake this programme. Immeasurable thanks go to my Main Supervisor- Prof Karl Thomas Dayson (Dean of Research, University of Salford), and Co-Supervisor- Dr Pal Marthon Vik (Director, Community Finance Solutions, University of Salford), who accepted to supervise me and remained consistent in providing the needed guidance, encouragement and support. I deeply appreciate the contributions of my External Examiner- Dr Ignatius Ekanem (Middlesex University London), Internal Examiner- Dr Gaynor Bagnall (University of Salford) and Independent Chair- Mr Brodie McAdam (University of Salford). I also acknowledge the support of numerous staff and students of the University of Salford who supported my training and provided a conducive learning environment for me. Huge thanks to Emma Sutton (PGR-Support Officer, SAM) and Sr Teresa Wild (Catholic Chaplain, University of Salford) for encouraging and assisting me. Special thanks go to Rosewell Holly, Price Audrey, Mitchell Marie, Garlick Gillian, Emma Clark and Webb Astral (Office of the Dean of Research), who were kind and helpful in arranging my supervision meetings.

I express deep appreciation to the Management and Staff of the MFIs (who remain anonymous) for accepting to be part of my research. I thank all participants who took part in the interviews and focus group discussions for their time, and for enriching my research with narratives from their experiences.

On a personal note, I sincerely thank in a special way, my beloved husband, Dr Godfrey Naanlang Danaan, who supported me and sacrificed so much resources to see that this dream is fulfilled. I cannot thank you enough. Special thanks to my very dear sons –Demnaan Ignatius Danaan, Warnaan Gregory Danaan and Chianaan Alban Danaan for their love and prayers for me to accomplish this feat. They showed so much understanding in the face of pressures which arose from combining this research, responsibilities of motherhood and having a part-time job. I extend special gratitude to my family- my dear parents –Mr Damian and Mrs Caroline Damak, Parents-in-law-Catechist Michael and Mrs Catherine Danaan (deceased), siblings and in-laws- Mr Kevin and Bar. Mrs Ruth Damak (deceased), Mr James and Mrs Ladi Damak, Engr.Fidelis

and Mrs Diana Gabkwet, Dr Clement and Mrs Cordelia Danaan, Pharm. Zillah Damak, Fr. Alexander Danaan, Mr Blangnaan (deceased) and Mrs Justina Danaan, Fr Celsus Daklong, Lugutnaan Daklong and so many others for their love and generous support when it mattered the most.

I thank numerous friends from Jos with whom I studied at Salford for their love and support – Rev.Fr.Dr Andrew Dewan, Dr Taye Obateru the Goyols, Ellas, Bingels, Gbolaguns, Mr Gilbert Yalmi, Mr Dang Bwebum and Mrs Jessica Lenka. In a very special way I thank my Salford family – Elizabeth, Pamela and Georgia Smith, my British neighbours who became my family. Thanks for filling the vacuum by being grandmother, mother and sister to me and my family. I will forever cherish this friendship.

I sincerely thank my friends who inspired, supported and prayed for me while this journey lasted. Space will not permit me to acknowledge you individually but be assured that I remain indebted to you.

List of Acronyms

BVN-Bank Verification Number

CAQDAS- Computer-Aided Qualitative Data Analysis Software

CBN- Central Bank of Nigeria

KYC- Know Your Customer

MFB- Microfinance Banks

MFI- Microfinance institutions

MSMEs- Micro, Small and Medium-Scale Enterprises

NDIC- Nigeria Deposit Insurance Corporation

NMFI-Non-Bank Microfinance institution

RBS-Risk-Based Supervision

LGA- Local Government Area

Abstract

Studies on microfinance risk management in Nigeria are inclined to quantitative analysis of risk based on business and accounting principles without recourse to understanding and interpreting meanings from the lived experiences of relevant stakeholders. This thesis is an in-depth study of the contexts (economic, political, social and cultural) in which stakeholders interpret and manage risks based on a case study of two microfinance institutions (MFIs)-a microfinance bank (MFB) and a non-bank MFI (NMFI) in Plateau State, Nigeria. It is predicated on the understanding that risks are subjective and interpreted by stakeholders- board members, investors, staff, clients and community leaders as distinct entities. It aligns with the interpretivist philosophy in examining how meanings are created from experiences which are embedded in the contexts in which stakeholders engage with MFIs. Drawing on the Social Theories of Risk and Stakeholder Theory, this study adopts a qualitative approach and case study research design using data obtained from document reviews, observation, 33 individual interviews and 3 focus group discussions with purposefully selected stakeholders. Thematic analysis was facilitated using NVivo, a Computer-Aided Qualitative Data Analysis Software (CAQDAS), to generate and discuss themes based on participants' perspectives. Its major findings show that risks are conceptualized in terms of unforeseen eventualities underpinned by social complexities in MFIs' lending to micro clients which make their sustainability and outreach problematic. Major sources of risks for MFIs in the state addressed in this thesis include; low repayment rates, diversion or misuse of loans by clients, low level of knowledge and skills by practitioners, competition with commercial banks, inadequate support by the government, poor customer relationship management, low adoption of financial technology, influence of patriarchy, political interferences, recurring ethno-religious conflicts, poor orientation and awareness of the social mission of microfinance. Furthermore, the study found that risk management in the MFIs studied is hampered by their ownership structures and operating methodologies. The originality and contribution to knowledge of this thesis lie in developing a framework for subjective risk management in microfinance embedded in the identities, perceptions, behaviours and interests of stakeholders within the context of the study.

Chapter One: Introduction

1.0: Background of the Study

In seeking to understand the nature of risks facing MFIs in Plateau State from the perspectives of stakeholders, I conducted interviews and focus group discussions with selected participants who represented various interests and identities. The participants were selected from a microfinance bank (MFB) and a non-bank MFI (NMFI) for a case study as part of the study (see Section 5.3.1 and Appendix 6, explaining the selection of cases and providing narratives of the MFIs respectively). Participants' responses to my inquiries spurred me to revisit the debates on objective and subjective views of risk. The focus was to understand the mismatch between risk management policies and practices, given that the goals of microfinance are unfulfilled based on prevailing circumstances in Plateau State. MFIs in the state remain vulnerable to risks despite many risk management efforts and strategies being implemented. My search for answers generated perspectives tilting towards the subjectivity of risks:

*Now there are a lot of risks. The major risk that we face in microfinance bank is credit. Our loans normally go bad. The guarantor and location of your client and virtually everything is a problem. So, you find out that always, we are having shortage of money all the time. The little cash we have, we give it out. But the demand for loan is just too much on microfinance- **Bello (Loan Officer -MFB, November 02, 2016)***

*You know in microfinance business, physical collateral is not emphasized because someone who is a blacksmith for example, where will he get the collateral for you? If you want to give a yam seller 10,000 Naira and you ask her to bring the collateral, where will she get it from? So those are part of risk. Even if you ask the Mai Angwa ¹ or the traditional ruler to guarantee them, sometimes it is also a challenge because if you go and pressurize him, he will say, 'I have been looking for them and I don't know where they are'. So, what do you do? In the Nigerian society, it is difficult to arrest a traditional ruler- **Mabi, (Credit Officer- NMFI, November 03, 2016)**.*

To penetrate the villages is very difficult unlike in the cities and towns where you get customers easily in their homes or shop. Even if you want to call the customer you can get him easily. If there is problem, you can sit down and discuss how you're going to solve the problem. In the

¹ 'Mai Angwa or Mai Anguwa' is a title for a Community Head in Hausa language, which is widely spoken in Plateau State.

remote areas, it is very difficult, and you know our customers precisely are in the villages. About 70-80% of them. If you really want to get the microfinance loan to customers, we must go to the remote areas. Some of them do not even understand the terms and conditions of the loan. To even speak their language is a problem. Sometimes the customers we have can only understand their own languages. Even the common Hausa that we speak on the Plateau, some of them cannot speak it- Paul (Loan Officer- MFB, November 15, 2016).

One of the major risks is conflict. When we started, the women were coming up, we were meeting them in their communities, we were giving them the loans and retrieving back but with the conflicts, they have scattered, and we couldn't recover most of the loans especially among the Muslim communities. We had problems there, they took the money, they were no longer coming, they relocated, and we couldn't trace some of them. We ventured into employing a Muslim lady who ended up defrauding the whole business, so we had to lay her off and counted that as bad debt- Anne (Coordinator NMFI, November 03, 2016).

You know generally in Africa especially in Nigeria, we are used to this government money. When government have programs like that, they just distribute the money and before you know it, recovering the money will not be possible because people enjoy it, and run away with it. So, when you start a microfinance bank like this, they will think it is part of the national cake², so everybody wants to get his own and that is why you will see people without businesses enjoying lavish lifestyles- Audu (Investor MFB, November 04, 2016).

It is expected that the client will present something from his/her house as collateral, and it must be indicated in the application form required of him/her to fill. Some houses do not even have something that is worth a collateral so; we only ensure that the husbands stand as guarantors. The husbands must know and agree. And if the husband refuses to give consent, we will not deal with the wife. As for the widows and singles, they must come with a guarantor who can be a male family member to stand for them in case of default –Amina (Credit Officer NMFI, November 09, 2016).

Some of the women may come in groups, they will tell you that they are ten, but you will discover that among the ten, it is one woman or two who has gathered them to make up the number, then they will go behind and collect the money. So, we do a lot of monitoring (Christy-Accountant NMFI, November 08, 2016)

The following excerpts illustrate the sources and drivers of risks from the economic, social, political and cultural contexts as the sociological theories of risk suggest- credit, guarantors, clients, liquidity crisis, absence of physical collateral, pressures of loan recovery, inability to hold traditional rulers (who act as guarantors) to account, difficulty in penetrating the villages,

² A slang commonly used by Nigerians to describe the sharing of resources or common wealth often seen as an entitlement for being a citizen or indigene of the country or state

language barrier, conflict, view of loans as ‘government money’, dealing with deceptive clients etc. These perspectives of risks (in the views of these participants) confronting MFIs suggest that there are variations in the way risks are treated in policy and practice. While policies (usually emanating from ‘experts’ e.g. regulators, auditors) are based on objective representations of risks as fixed, quantifiable and controllable phenomena (various mathematical and statistical models of risk), risks in practice tend to be subject to perception, knowledge and experiences. This thesis explores the conceptualization of risks and risk management in microfinance through the lenses of different stakeholders drawn from the case study MFIs. Its aim is to situate risk management within the context of the social realities confronting the microfinance sector in Plateau State

The practice of microfinance is not new in Nigeria since informal financial institutions have always provided avenues for people to undertake financial intermediation on mutually beneficial terms. However, since the new wave of the ‘microfinance revolution’ in Nigeria began with the launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria by the CBN in 2005, the sphere of microfinance has changed dramatically. Many MFIs have emerged in response to the governments’ renewed interests in developing the Micro, Small and Medium Scale Enterprises (MSMEs) by empowering MFIs to provide access to finance for funding small businesses and enhancing the financial inclusion of the poor. In Plateau State, many private sector-based MFIs have sprung up providing micro financial on both commercial and non-commercial basis with the aim of empowering the poor and alleviating their poverty. Their efforts appear to be inadequate as MFIs themselves grapple with risks and uncertainties manifesting in high rate of delinquencies in loan repayments and bankruptcies. The intervention of regulatory agencies and tighter internal control systems have not significantly improved the capacity of MFIs to manage risks. Developing strategies for effective management of risks in microfinance remains the panacea for ensuring their sustainability and viability. But understanding the dynamics of risk management is in itself a complex and controversial process involving many stakeholders with diverse identities, interests, perceptions and behaviours.

Microfinance is simply defined as the provision of financial services to micro or low –income people especially the poor. A microfinance institution (MFI) in the context of this study refers to financial institutions whose main mission is to provide microfinance services with aim of economic empowerment of the poor. Globally, MFIs face a myriad of both financial and non-financial risks in addition to conventional risks confronting financial institutions (S. Khan &

Ashta, 2013). This is because they serve a population that lacks financial knowledge and resources, and operate in environments that lack efficient political systems and economic infrastructure to achieve their objectives (Chakrabarty & Erin Bass, 2013). Their situation is worsened by their financial dependence on external donors and investors which makes them susceptible to shocks due to changing global policies and interests (Khoudour-Castéras, 2010). Their sustainability is threatened by uncertainties of emerging global challenges which may result in declining foreign aid and investments.

Risks confronting MFIs are multifaceted and dynamic in a manner that there seems to be no generally acceptable taxonomy of the risks. Some literature make reference to three broad risk types confronting MFIs- financial, operational and strategic risks (GTZ GmbH, 2000; S. Khan & Ashta, 2013; Padma, Suresh, & Vijayashree, 2012). Chakrabarty and Erin Bass (2013) make a distinction between microfinance risks arising from borrowers and those arising from the contexts in which they operate. Additionally, S. Khan and Ashta (2013) also develop a risk matrix highlighting twenty four risk types confronting MFIs which tend to be intertwined. The knowledge of these interrelationships and sensitivity to their linkages are imperative for understanding the complexities in managing them within a context. This is because there is the possibility that an attempt to reduce a type of risk may ignite another or create a new risk. The role of risk management is crucial in setting up early warning systems to prevent events that may disrupt institutional processes. Risk management is helpful in identifying new market opportunities and enhancing efficient allocation of resources (GTZ GmbH, 2000). It is about balancing the costs and benefits of risks (Adams, 1995). As a discipline, it enhances the capacity of managers to assess the costs and benefits of every major strategic decision and be adaptable to changing circumstances in order to achieve the best long and short-term interests of an institution (Van Deventer, Imai, & Mesler, 2013). Risk management strategies of organizations should be ‘proportionate, aligned, comprehensive, embedded and dynamic (PACED)’ towards achieving goals and objectives (Hopkin, 2017, p. 5). Given these important attributes, risk management is fundamental for attaining institutional goals and objectives. Failure to effectively manage risks may lead to losses and deterioration in trust and efficiency of operations.

Given the complexities and dynamics in the provision of financial services, Scholars have been unanimous in the view that microfinance risk management needs constant re-evaluation to respond to emerging risks confronting MFIs in different contexts in order to improve their

sustainability and outreach (Allet, 2017; Inayat & Madiha, 2017; Irene, Lin, & Alistair, 2018; Khraisha & Arthur, 2018).

Attention has been focused on limitations of risk management practices of MFIs while suggesting new approaches to manage risks confronting MFIs. In relating this to how the risk-taking behaviours of stakeholders have shaped the Nigerian banking sector, Akindele (2012) observes that the danger of capital misallocation and wrong decisions have led to bank failures. In the wake of the global financial crises, the Nigerian financial sector was confronted with ripple effects which led to failure of many banks and MFIs. In retrospect, L. Sanusi (2010, p. 3) in analysing the factors which accounted for the woes of the sector notes that investments of so many people were lost and confidence in the sector waned partly as a result of ‘gross irresponsibility and crass insensitivity’ on the part of many stakeholders including managers and regulators. The conversations which are being analysed in this study provide more insight on the challenges and opportunities in microfinance risk management from the voices of stakeholders in Plateau State, Nigeria.

The notion of risk management has become relevant to MFIs in Nigeria as they seek to enhance their sustainability and outreach. The microfinance policy for Nigeria has been built on the foundation that economic growth cannot be achieved without effective poverty reduction programmes (CBN, 2014a). The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor and the unsustainability of government sponsored development financial schemes leading to the growth of private sector-led microfinance in Nigeria indicate that microfinance in Nigeria is a risky business (Anyanwu, 2004, p. 4). Scholars agree that successive governments and the Central Bank of Nigeria (CBN) have pursued several policies and programmes targeted at poverty reduction without significant success (I. Abiola & Salami, 2011; Agbaeze & Onwuka, 2014; Awojobi & Bein, 2011; Ihugba, Bankong, & Ebomuche, 2013; Kanayo, Jumare, & Nancy, 2013; Onoyere, 2014; Taiwo, Ikpefan, & Isibor, 2014). A leading cause of poverty in Nigeria is the high rate of unemployment and underemployment which the National Bureau of Statistics (2016) report puts as the 7th highest in the world especially among rural dwellers necessitating interventions such as microfinance. Alongside developing a framework for microfinance policy, regulation and supervision, is the drive to reduce the rate of financial exclusion in the country. Nigeria has a high financial exclusion rate of 46% in comparison to other African countries –South Africa-24%, Uganda-30%, Botswana-33%, Kenya-33% and Ghana-44% (CBN, 2014a). Research also shows that only 4% of Nigerians had access to credit from banks while 83.9%

still borrow from informal sources and only 2% operate their business accounts separate from their personal accounts (CBN, 2016). This indicates that there is an interaction between socio-cultural and economic factors which influence the financial behaviour of stakeholders in different contexts. These statistics show that there could be underlying factors inhibiting financial inclusion and adoption of banking services among Nigerians when compared with indices of other countries. My research focuses on the conceptualization of risks by stakeholders in microfinance risk management to understand their risk perceptions and behaviours in relation to microfinance. It seeks to understand how risks are conceptualized by different stakeholders and what these conceptualizations infer for the performance of MFIs. This chapter addresses the rationale for the study, its aim and objectives, an overview of the research setting and the structure of the thesis.

1.1: Justification for the Study

This research is focused on the conceptualization of risks and risk management in MFIs by stakeholders within the social context of Plateau State Nigeria. There are entrenched and emerging contextual problems affecting and shaping the perceptions and behaviours of stakeholders, which in turn impact on the sustainability and outreach of MFIs in the state. For instance, the endless cycle of violent conflicts which have been linked to economic, ethnic and religious factors in the state has opened a new chapter of challenges and opportunities which MFIs in the state cannot ignore. These cannot be overlooked because they underpin the risk perceptions and behaviours of stakeholders who contribute to viability of MFIs. These contextual factors also infer that the risk management practices of MFIs are influenced by the perceptions and behaviours of stakeholders. I am paying greater attention to the roles of stakeholders because their decisions and behaviours contribute in facilitating or obstructing the risk management processes of MFI. In doing this, this study contributes to knowledge in microfinance risk management by focusing on both the demand (clients and communities) and supply (service providers) sides of the microfinance subsector in Plateau State. The role of stakeholders is important because they are the social actors whose input influence the performance of MFIs.

This study is justified because there is a dearth of academic literature on microfinance risk management as a discipline that relates to the current realities in the Nigerian context. This thesis specifically draws attention to the identities, perception, interests and behaviours of stakeholders as social processes which are better understood through cultural and social analysis and interpretation (B. B. Johnson & Covello, 2012, p. viii). The originality of my study of MFIs lies in developing a theoretical framework centred on the subjectivity of risk management based on insights from the case study MFIs. Exploring how stakeholders create meanings from their experiences by collating the stories about their conceptualization of risks, challenges and opportunities forms the core of this research. Russell and Babrow (2011, p. 239) note that narrative plays a prominent role in interpretations and explanations of social reality, particularly in our efforts to understand risks and uncertainties.

Lastly, my background and work experience in commercial banking and retail sectors as well as my future aspiration to grow my career in the field of development finance research have motivated me to undertake this study to explore risk management in microfinance. In Nigeria, MFIs are widely perceived as institutions that provide financial services to the poor, peasant farmers, petty traders and local artisans. They are promoted by the government and Central Bank of Nigeria (CBN) and acclaimed for providing opportunities that lift poor people out of poverty (Kasali, Ahmad, & Ean, 2015; Olakojo & Olanipekun, 2011). Effective risk management provides a lifeline for MFIs to actualise their goals.

1.2: Statement of the Problem

The area of concern and gap in literature being addressed in this thesis lies in the inclination of existing research to conventional and positivist analysis of risk without reflecting how risks are understood, interpreted or perceived by stakeholders in relation to prevailing realities in different contexts. Risk is generally conceptualized as the likelihood that an event will have significant impact (positive or negative). The fact that it relates to likelihoods, possibilities or probabilities indicate that it is linked to events with uncertain or unknown outcomes in the present moment. Thus, the underlying assumption underpinning this study is that risks are subjective because the possible outcomes of the unknown future events are perceived differently by stakeholders.

Risk management in the microfinance sector of Nigeria tends to be under-researched (Dabari & Saidin, 2014). Among MFIs, the operationalization of risk management is insufficiently understood by practitioners as many MFIs are being influenced by the risk management culture and practices of conventional banks, thereby losing sight of their social mission (Ball & Watt, 2013; Mago, Hofisi, & Mago, 2013). Risks are conceptualized as events that can undermine the sustainability and outreach of an MFI. However, in microfinance risk management, emphasis has been on risks without paying attention to the effects of social actors and the contexts in which they define or interpret risks in their engagement with MFIs. This has many implications because we lose a sense of what makes these social actors prioritize some risks over others. We also downplay the contextual factors which drive risks. These social actors are regarded as the stakeholders whose interests and identities shape the activities of MFIs.

Due to this limitation, MFIs face risks which are not glaring or taken into consideration in the risk management framework but have significant influence on their performance. Obvious examples in the context of this study include issues relating to ethnic and religious sentiments and conflicts, behaviours and attitudes, patriarchal and traditional kinship structures which interact with modern banking practices and obstruct the risk management strategies of MFIs. As the social, economic and political configurations of societies change, the interests and roles of stakeholders are also change with implications on the performance of organizations. For instance, gate keepers are generally recognized as dependable stakeholders and intermediaries between MFIs and clients but, based on findings from the case study MFIs, it is obvious that gatekeepers find it challenging to hold a firm grip on clients due to the changing structure of the society which can be visible in factors like the displacement of communities due to the conflicts, clients having higher expectations etc. Stahl, Lichtenstein, and Mangan (2003, p. 15) argue that the danger of embracing an objective view of risk is that it creates a false sense of security where 'risks that might be specific to an organisation' are ignored and complexities which can be resolved within an organization are overlooked because they do fall into the purview of the 'identified and recognized risks'. Risks are subjective and dynamic in a manner that 'makes meaning' only to those who experience them.

The risk management framework adopted for microfinance banks (MFBs) is tailored on Risk-Based Supervision which is anchored on capital base, capital adequacy, portfolio at risk, liquidity/cash reserve ratios, investment in fixed assets, single obligor limits and assets revaluation (CBN, 2012). Similarly, the risk management framework for Deposit Money Banks DMBs is tailored on the Basel Accords in line with international financial standards (CBN,

2014a). The Basel II Accord requires licenced banks to report the estimates of their value-at-risk (VaR) to relevant regulatory to assess their capital requirements (Chang, Jiménez-Martín, McAleer, & Pérez-Amaral, 2011). The modern approaches of the Basel Accord dwell on taking advantage of opportunities to facilitate the achievement of objectives and reduce exposure to financial losses based on the capital adequacy (Dabari & Saidin, 2014; Danila, 2012; Hampton, 2011). The US Federal Reserve uses the CAMELS analysis - Capital adequacy, Asset quality, Management quality, Earnings quality, Liquidity, and Sensitivity to interest rates as a risk management index (GTZ GmbH, 2000). These depict the formal risk management framework embraced by regulatory authorities which are positivist in their treatment of risk. By relying largely on quantitative analysis, Van Deventer et al. (2013) observe that banks and other financial institutions have not learnt from the lessons from the global financial crisis as their risk management approach is still heavily tilted to financial accounting and net income measures.

This thesis asserts that analysts do not take cognizance of key variables influencing human behaviour (e.g. Values, beliefs, motivation, predispositions, capabilities and judgements) and how these impact on microfinance risk management. Rather, they emphasize quantitative variables which are necessary but tend to be inadequate in addressing the real-life challenges of stakeholders. In separate studies on microfinance, Hartarska and Mersland (2012) and Paul, Ebelechukwu, and Yakubu (2015) focus on the size and composition of board of directors in analysing efficiency and impact of corporate governance on the financial performance of MFIs. Their analyses which are based on quantitative representations have not taken into consideration some fundamental abstract and qualitative variables (e.g. values, beliefs, motivation, integrity, character and disposition) which are crucial for effective risk management. Paul et al. (2015, p. 157) found that corporate fraud in the Nigerian banking sector has remained high despite greater supervision by regulatory authorities in terms of enforcing compliance to the code of corporate governance. This indicates that paying attention to academic qualifications, structure or status of board members as 'insiders' or 'outsiders' without promoting the right values and attitude would not guarantee performance or efficiency. Furthermore, ensuring that institutions meet capital requirement to mitigate risks may not salvage them if they are confronted with outcomes that cannot be compensated in monetary terms. This reinforces Beck's notion of risks in terms of outcomes that cannot be quantified objectively or compensated for.

Microfinance has been promoted in Nigeria to enhance financial inclusion in Nigeria. The Nigerian Microfinance Platform at its Third Annual Symposium (2017) established that financial exclusion rate in Nigeria has deteriorated from 39.5% in 2014 to 41.6% in 2016 even though 60.4% of the adult population in Nigeria own mobile phone through which they can access mobile banking services and be financially included. The reverse is the case in Kenya and Tanzania where Mobile banking applications such as Mpesa³ have enabled large proportions of the population to access banking services and enhanced the financial inclusion rate considerably (Nigerian Microfinance Platform, 2017). The implication of the differences in the uptake of these services indicates that the social context in which risk perceptions and attitudes are shaped is relevant. This implies that ownership of mobile phones does not translate to financial inclusion if people have no access to economic and social opportunities (jobs, incomes, infrastructure, literacy etc.). Among other resolutions, the conference called for an urgent need for MFBs to identify, understand and manage risks in embracing technology and also manage financial and operational risks systematically through the regulatory framework to avoid moral hazards and active collaboration with stakeholders. This recognizes that the role of stakeholders is important because the manner in which they conceptualize risks would influence their attitudes and behaviours and in turn, impact on the overall performance of the sector.

Another limitation of microfinance risk management stems from the reasoning that the focal interest is to minimise the possibility of loss to the institution without taking into consideration the effects on other internal and external stakeholders. There is also a high tendency that the risk mitigation strategies of MFIs would be ineffective or executed as mere formality while the main issues remain deeply-rooted. The implication of this is that there are risk management practices in microfinance which inflict negative repercussion on MFIs and their stakeholders which are often not taken into consideration in risk analysis. These risks may stem from the interactions between stakeholders and undermine the financial and social performance of MFIs. S. Khan and Ashta (2013, p. 3) confirm the existence of less obvious risks in microfinance.

MFIs are aware of their financial risks and try to mitigate them. Many of these are the most obvious to spot, and MFIs develop mechanisms to minimize their credit and liquidity risks. But as their operation grows in size and their loan portfolios diversify, a

³M-Pesa is a mobile phone-based money transfer, financing and microfinancing service, launched in 2007 by Vodafone for Safaricom and Vodacom, the largest mobile network operators in Kenya and Tanzania. It has since expanded to Afghanistan, South Africa, India and in 2014 to Romania and in 2015 to Albania.

number of different types of risk begin to manifest themselves beyond the obvious financial ones

A study by Chua, Mosley, Wright, and Zaman (2000) on risks confronting clients of MFIs in Bangladesh, Bolivia, Philippines and Uganda illustrates how risks are experienced in different contexts. They examined the strategies clients adopt to avert risks (ex-ante) or to cope with the adverse effects of risk (ex-post) while highlighting the role of service providers in mitigating such risks. This presupposes that MFIs have a responsibility to fulfil in mitigating the risks confronting clients. While their study exemplifies how risk are conceptualized in different contexts and demonstrates how meanings are created from diverse experiences, it focuses on clients' perspectives and does not include other key stakeholders. I acknowledge that scholars have examined the roles of stakeholders in microfinance risk management (e.g. Mori, 2009; Mori & Mersland, 2014). There is also a growing interest in customer centricity in microfinance (e.g. Jose & Chacko, 2017; Porteous & Zollmann, 2016; Richmond, 2017); but research has not focused on the influence of the economic, social and political contexts in shaping the behaviours and decisions of stakeholders who, to a large extent, determine the effectiveness of risk management policies

Dabari and Saidin (2014) observe that the practice of risk management in Nigeria's financial sector is underdeveloped and characterised by lack of knowledge and professionals as well as an effective framework to meet the challenges of the sector. Iganiga (2008) identifies poor management, lack of training and insufficient supervision as obstacles to effective risk management in Nigerian MFIs. In their bid to maximise profits or achieve their social mission, MFIs too recognise the importance of paying attention to risk management and this is often carried out with the aim of advancing the interest of the MFIs or meeting regulatory requirements (CBN, 2014a). The importance of risk management is underscored with the strengthening of risk-based supervision and reforms aimed at enhancing stability and confidence in the financial as well as minimising the rate of failure of banks (L. S. Sanusi, 2012). This process encompasses the effective management of reputational, legal, and environmental risks in cooperation with diverse stakeholders.

It is common knowledge that organisations generally claim that they consult and collaborate with stakeholders. Ikeanyibe (2009) highlights the importance of collaboration with stakeholders in microfinance. S. Khan and Ashta (2013, p. 1) explain that 'the best MFIs manage all risks by assessing repayment abilities, using social collateral and good information systems, diversifying products and markets, and cooperating with all stakeholders. The quality

of collaboration with stakeholders may not always be satisfactory because it is obvious that when consultations with stakeholders are done, in glaring or subtle ways, the interests of the MFI are paramount. Muñiz and Schau (2011) confirm the existence of this ‘hierarchical and one-way communication’ in business practices. Weaver, Trevino, and Cochran (1999) and Crilly, Zollo, and Hansen (2012) demonstrate the intricacies of managing stakeholder pressures through the lens of the decoupling theory where gaps exist between policy statements of organizations and what is actually practiced. Crilly et al. (2012, p. 1429) note that;

We find that firms facing identical pressures decouple policy from practice in different ways and for different reasons. When firms' responses are generated locally, without firm-wide coordination, these responses can be either intentional or emergent. In the presence of information asymmetry between firms and their stakeholders, we find that managers' responses are intentional (“faking it”) and depend on how they perceive their interests. In the presence of competing stakeholder expectations, responses are emergent (“muddling through”) and depend on the degree of consensus among managers in their readings of the environment.

This indicates that frictions and tensions do exist in the relationship between organizations and their stakeholders, but each party needs the other to function optimally. This is a limitation especially in risk management in Nigerian MFIs. It can be reasoned that the art of listening and understanding what matters most to other stakeholders is obviously lacking in the risk management culture of MFIs in Nigeria. The inability to understand how stakeholders conceptualize risks is perhaps the reason why MFIs are unable to manage risks effectively. This also reflects a shortcoming of the stakeholder theory which emphasizes the supremacy of the unique identity and interests of stakeholders in organizational management. This study has found that in practice, there are cases where some stakeholders are coerced to conform to set standards or assume an imposed identity which are at variance with their risk perceptions resulting in tensions which undermine the risk management processes. These gaps have been identified as areas that have not received the attention of researchers especially in the Nigerian context and are being examined in this research.

1.3: Research Focus and Objectives

To address these limitations, this thesis attempts to explore and understand the dynamics of risk management in microfinance by focusing on the stakeholders and contexts based on insights from the two models of MFIs from Plateau State, Nigeria. The research objectives are:

Objective 1: To identify and analyse the nature of risks confronting the MFIs

The focus here is to identify the risks confronting MFIs based on the review of relevant literature. This aims at exploring how risks confronting MFIs have been presented and classified from the general perspectives in literature. This entails an examination of various risks under three broad types- financial, operational and strategic risks.

Objective 2: To examine the risk management processes of the two MFIs.

This thesis attempts to analyse the risk management framework of MFIs by exploring the strategies applied in managing risks in the two MFIs.

Objective 3: To undertake an in-depth analysis of stakeholders' perceptions of risks in their engagement with MFIs in Plateau State.

To understand the distinctions between the general view of risk and stakeholders' perceptions of risk, this thesis shall investigate how participants in the study understand and interpret risks based on their lived experiences in relation to the contexts in which they engage with MFIs. This is to make a comparison between the objective and subjective views of risks, and also to understand the influence of social processes and institutions on stakeholders' conceptualization of risks.

Objective 4: To investigate how stakeholder's perceptions of risks influence their decisions, and actions

This thesis attempts to explore how stakeholders' perceptions of risks influence their decisions and actions in seeking to balance and cope with risks in their engagement with MFI. It also focuses on how their attitudes and behaviours facilitate or obstruct the risk management strategies of MFI. It explores the undercurrents of risk management in microfinance by analysing the complexities/tensions that arise in managing risks. This is in view of the peculiar identities and interests of stakeholders, which may sometimes be conflicting with those of other stakeholders or undermine the risk management strategies adopted by MFIs.

1.4: Research Questions

The study is undertaken with a view to providing answers to the following questions:

Question 1: What are the risks confronting MFIs?

Question 2: What processes do MFIs adopt to manage risks?

Question 3: How do stakeholders perceive risks based on their lived experiences, identities and interests in the context of the study?

Question 4: How do stakeholders' perceptions of risks influence their decisions, behaviours and interests in their engagement with MFIs? How do these facilitate or obstruct the risk management strategies of MFIs?

1.5: An Overview of Plateau State, Nigeria: Exploring the Research Setting

Plateau State is one of the 36 states of Nigeria situated in the north-central geo-political zone of the country. It is the twelfth largest state in Nigeria with a landmass covering 30,913km² and has an approximate population of 3.5 million people across 17 Local Government Areas (LGAs). Due to its beautiful topography, friendly weather and abundant tourism potentials, it is often labelled as 'the home of peace and tourism' (Plateau State Information and Communication Development Agency, 2017) as all the thirty six states of Nigeria have nick names. As obtainable in other parts of Nigeria, microfinance services are provided by specialised Microfinance Banks and Non-Governmental Organizations (NGOs)/non-Bank microfinance institutions (Iganiga, 2008). Plateau State has a huge potential for a developed microfinance sector owing to its very large informal sector and rural population given that two (Plateau Central and Plateau South) out of the three zones of state are largely rural (Bertu, Ajogi, Bale, Kwaga, & Ocholi, 2010). MFBs in the state have not generated the desired impact on the socio-economic development of the state because they are few in comparison with the target population, and the industry is relatively new as the policy which gave rise to the establishment of MFBs was launched in 2005 (Tawney, Ulrich, & Hoback, 2014). Due to this development, there is a dearth of academic literature and research on microfinance in Plateau to refer to. Okoye and Okpala (2001) however, give a detailed history of community banking

in Nigeria, an initiative introduced in 1990 to fill the gap created by the failure of main stream banking in the rural areas of the country. All licensed community banks, which met the stipulated capital requirement were transformed to MFBs when the microfinance policy was launched in 2005 (Ebomuche, Ihugba, & Bankong, 2014). Plateau State has 14 microfinance bank (MFBs) and 58 non-bank MFIs ((The Nigerian Microfinance Newsletter, 2015; CBN, 2017). There appears to be conflicting statistics on the number of licenced MFIs in the state and country due to frequent change of name/status of MFIs, the presence of new entrants in the subsector or withdrawal of licences of existing MFIs (Nwanyanwu, 2011). The criteria for granting and withdrawal of licenses are perceived to have political undertones which influence the perception of risks by stakeholders (Amaeshi, Adi, Ogbechie, & Amao, 2006; T. Beck, Cull, & Jerome, 2005; Clarke, Cull, & Shirley, 2005; L. Sanusi, 2010; L. S. Sanusi, 2010).

In addition to the socio- political challenges of Nigeria, Plateau State has experienced bouts of ethno-religious conflicts which often result in the destruction of means of livelihood and the burning of Jos Main Market, which was the largest indoor market in West Africa providing a hub for commercial activities in the state (Best, 2007; Krause, 2011; Sadiq, 2012). Though the state has experienced fragile peace in recent years (2012 to January 2017), these occurrences have increased the overall poverty level in the state. Based on Oxford Poverty and Human Development Initiative (2016) Reports, Plateau State had 51.6% incidence of Poverty rate and 52.9% intensity of deprivation across the poor which are higher than 33.33% global average rates despite efforts and resources invested in promoting microfinance to enhance economic empowerment and financial inclusion of the poor. The report further indicates that people who are deprived in 50% or more of the indicators are classified as populations living in ‘severe Poverty’. In analysing the incidence of poverty in Nigeria for earlier years, Obadan (2001) reveals the increasing incidence of poverty in Plateau State;

In 1980 the national (average) poverty incidence was 28.1 per of the population. The distribution of the incidence across the states of the federation showed a maximum of 49.5 per cent recorded for Plateau (and Nassarawa which was excised from Plateau). This meant that every state had a poverty incidence below 50 per cent.

Poverty aggravates hardship and leads to anger, social exclusion, frustration and deprivations (Backwith, 2015; Commins, 2004; Lewis, 1971; Lok-Dessallien, 1999). The high rate of insecurity, uncertainty and financial illiteracy in the state have made its citizens vulnerable to the ploy of the illicit financial institutions and diminished the confidence reposed in the financial sector (Ibrahim, 2015; Musa, 2015). Achumba, Ighomereho, and Akpor-Robaro

(2013) analyse the negative impact security challenges on the business and financial activities in many states in the country including Plateau State.



Figure 1: The Map of Nigeria Showing the Location of Plateau State

<https://plateaunewsonline.wordpress.com>

1.6: Structure of the Thesis

This thesis has been prepared to give a sequential and coherent presentation of my research with each chapter dealing with an aspect of my study. My submissions are situated within the confines of existing literature in order to provide the academic justification for my arguments and interpretations.

Chapter one: This chapter introduces the scope of my research by providing a background of the study and the statement of the problem by identifying gaps in microfinance risk management which this study intends to fill. It brings to the fore the justification for the study and spells out the research aim, objectives and questions. It also gives a description of the

research setting by presenting an overview of the microfinance sector in Plateau State Nigeria. It concludes by discussing the contribution of the study to knowledge.

Chapter two: The chapter establishes the theoretical framework for my study by examining the concept of risk (historical evolution of the concept of risk and its connection with uncertainty) and the social theories of risk. It examines risk as a subjective phenomenon based on the social theories of risk. The chapter also explores the stakeholder theory in order to incorporate stakeholder engagement in microfinance risk management. The study leans on the theoretical assumption that risk is subjective and interpreted by stakeholders with distinct identities and unique interests in microfinance.

Chapter three: This chapter examines the world of microfinance and various perspectives on it in literature to explore its conceptual framework. It examines the rise of microfinance and developments which have shaped contemporary microfinance. It explores perspectives in relation to gender relations, debates on sustainability Vs outreach and the complexities in impact assessment. It also provides a microfinance profile of Nigeria.

Chapter Four: This chapters narrows the review of microfinance literature to focus on risks and risk management in microfinance. It identifies and explores the nature of risks confronting MFIs (financial, operational and strategic risks) and the processes of risk management in MFIs with a view to understand the perspectives from previous studies.

Chapter five: The chapter focuses on my research methodology and explains the philosophy of the study in line with the interpretivist epistemology. I also set out the research approach as being qualitative in nature and the research design as a case study of two models of microfinance-the commercially-inclined MFB and the non-commercial NMFI. I also discussed my research methods for generating, analysing and interpreting data. The chapter concludes with the ethical issues I considered in pursuing this study.

Chapter Six: The chapter explores the risks and risk perceptions from the lived experiences of participants in engaging with MFIs. It presents the findings about the perception of risks obtained from the individual interviews and focus group discussions conducted with selected stakeholders from the two MFIs studied. It explores the economic, social and political contexts which influence how stakeholders frame and prioritize the identified risks. The chapter highlights how contextual factors influence the perceptions of risks in microfinance.

Chapters Seven: The chapter analyses the data generated from interviews and focus group discussions with selected stakeholders as well as my observations while interacting with the participants in the study. It focuses on risk management structures and processes of the two MFIs. The chapter examines how the ownership structures, lending methodologies, loan underwriting processes, internal controls, supervision and regulation influence the decisions, behaviours and interests of stakeholders in facilitating and obstructing risk management strategies of MFIs.

Chapter Eight: The chapter discusses my research findings in relation to the theories guiding the study and submissions in literature. It also examines the implication of my findings on the practice of microfinance risk management in the context of the study. It also present the theory evolving from the study which depicts the notion of subjectivity of risk in microfinance risk management by focusing on the stakeholders and contexts based on my research findings as the unique contribution of the study.

Chapter Nine: This chapter concludes the thesis by providing a summary and recommendations for more effective microfinance risk management. It also discusses the implications of the research findings, limitations of the study, and highlights areas for future research in the field.

1.7: Conclusion

This chapter provides an introduction for the thesis and outlines the scope of the research. The chapter has attempted to describe what this thesis is about- exploring subjectivity in how stakeholders conceptualize risks in their engagement in microfinance and what it infers for the risk management processes of MFIs. It examines the rationale for the study, highlights its aim and objectives. It clearly defines the research questions it seeks to address and provides an overview of the research setting.

This study is relevant as it contributes to knowledge by exploring risk management in microfinance using a different philosophical paradigm- interpretivist philosophy, which deviates from the conventional business and accounting approaches. The thesis is unique and significant because it takes stakeholders perspectives and contexts into account in exploring how meanings are created from experiences.

This main subject of this thesis comprises three concepts- Risk, Management and Microfinance which are being knitted together to develop a conceptual framework. This framework is being examined and analysed by leaning on a theoretical framework supported by the social theories of risk and the stakeholder theory. The concept of risk is first and key component of the conceptual framework of this research. To develop the conceptual and theoretical foundation of this study, the next chapter shall explore the concept of risk by reviewing relevant literature on its notion, philosophy and theories. It shall also examine the stakeholder theory since the focus of this study revolves around stakeholders' engagement with MFIs.

Chapter Two: Theoretical Framework of Study

2.0: Introduction

The overarching aim of this thesis is to explore the conceptualization of risks by understanding how stakeholders perceive risks and the contexts in which they frame risks in microfinance based on their experiences. This chapter establishes the theoretical foundation of this study by examining the social theories of risk and the stakeholder theory. It examines risk as a subjective phenomenon as underpinned by the social theories of risk. It establishes a conceptual framework for the study by reviewing literature on the nature of risk and a historical overview of the concept of risk. It focuses on the five streams of the social theory on risk and uncertainty, which underscore the subjective nature of risk- Risk Society, Governmentality, Systems Theory, Cultural Theory and Edgework Theory (as illustrated in Figure 2). These theories lean on the assumption that risks are interpreted based on social processes and interactions of social institutions. In developing this theoretical foundation, this thesis aims to apply these theories to explore and understand how they manifest in the dynamics of risk management in microfinance in the context of the study. The chapter examines the nature of risk, the philosophical underpinnings of the notion of risk, how the concept of risk evolved in history, risk and uncertainty, the social theories of risk, the process of risk interpretation, the stakeholder theory and stakeholder engagement in microfinance risk management.

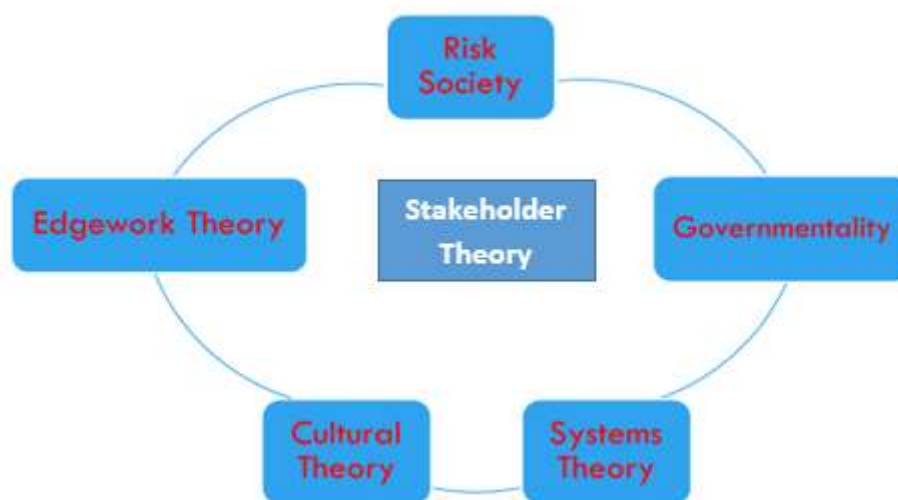


Figure 2: The Theoretical Framework, (Source: The Researcher)

2.1: Understanding the Nature of Risk

Risks exist in every aspect of human existence from the simple every day events to more complex and specialised activities. It is multidimensional and contextualized in different disciplines based on various philosophical backgrounds. Being a multidimensional concept, risk may be seen as a function of the initiating event, the state of the system and of its environment, and the time frame (Haimes, 2009). This implies that its definition is limited by time, place and unfolding events. The choice of definition influences the outcome of policy debates, allocation of resources among safety measures and the distribution of political power in society (Fischhoff & Lichtenstein, 1984). The variation in perception of risk gives rise to how solutions are sought when problems arise because it means different things to different people (Slovic, 2000). To many, risk is generally understood to be the likelihood that somebody will be harmed after being exposed to a hazard or failing to take advantage of an opportunity (Lyng, 2004). This could mean possibility of harm to health, wealth, well-being, self-esteem, or violations of beliefs, values, cultural convictions, social status (Klinke & Renn, 2002). Risk issues are highly subjective, dynamic and controversial.

Western cultures are engaged in a highly contentious debate involving the identification, assessment, and management of risks to the environment and to public health and safety. Daily claims of new dangers in the food, air, and water we consume, the chemicals, energy, and substances we use, and the products, processes, and artefacts that support us are exacerbating public fears regarding environmental and health hazards (Dake, 1992, p. 21).

Jacobs (2000) argues that the notion of risk was once a “risk” has changed throughout history. Once a neutral term, risk has come to represent a combination of probability and something adverse or dangerous. Phenomena that were previously referred to as hazards, dangers, or uncertainties are now labelled as risks (Lupton, 1999a). The definition of risk in terms of probability of an adverse event occurring and the severity of its impact is widely accepted especially in the physical and health sciences. Risks are encountered every day with efforts made to reduce, manage and control them by taking rational decisions. Most often, this happens as an unplanned or spontaneous activity, and sometimes consciously through the use of common sense, knowledge, instincts and past experiences (Merna & Al-Thani, 2008). Every human being has expertise in risk management by practice and experience. This expertise in

coping with risk and uncertainty begins at an early stage in life and continues throughout a lifespan. Adams (1995, p.1) explains that;

the trial and error processes, by which we first learn to crawl, and then walk and talk, involve decision-making in the face of uncertainty [...] The behaviour of children, driven by curiosity and a need for excitement, yet curbed by their sense of danger suggests that they are performing a balancing act; they are not seeking a zero-risk life but balancing the expected rewards of their actions against the perceived costs of failure.

No one is immune from risk because human life is embedded in uncertainty, expectation, and responsibility, therefore, taking precautionary measures consciously or unconsciously to avoid negative outcomes reflects rational behaviour. In the social sciences, there is an overwhelming interest in risk issues due to the complexities of technology and institutions that govern human lives. This often manifests in the shortcomings of innovations and socio-political processes, resulting in debates, contests and conflicts (Taylor-Gooby & Zinn, 2006).

Theories have been developed to explore the notion of risk in many disciplines. In Economics, risk is conceptualized not as physical harm or other objective effect but as an expected utility which can be expressed in terms of money (Renn, 1992). Acharya, Pedersen, Philippon, and Richardson (2017) analyse systemic risk in the financial sector in terms of undercapitalization of financial institutions in a manner that is detrimental to the real economy. To buttress their point on the objective measurement of risk, they reiterate that ‘each financial institution’s contribution to systemic risk can be measured as its systemic expected shortfall (SES), that is, its propensity to be undercapitalized when the system as a whole is undercapitalized’ (p. 2). In finance and investment studies, portfolio selection and management involve the mathematical computation of risk through calculation of variance, semi variance and probability of an adverse outcome (Huang, 2008). In entrepreneurship and business, risk-taking is essential in attaining breakthroughs as investments in high risk ventures attract higher returns than low risk investment. Risk is denoted in a positive light and perceived as an opportunity or benefit. The declaration at the Lisbon EU conference in 2000 amplified the role of risk to make Europe the most vibrant continent and a global leader in a knowledge-driven economy where the population can harness the benefits of activism, entrepreneurship, initiative and risk-taking (J. Zinn & Taylor-Gooby, 2006). Excellence in entrepreneurship thrives on ability to take risk, opening new frontiers and travelling through the unfamiliar way. This is the key to new opportunities, breakthroughs, inventions and innovations.

Risks manifest in the fields of arts and media where creativity dominates. The media cover stories which are assessed on how well or badly the reader's expectation is met. There is risk of not meeting this expectation by failing to capture the interest of the reader. Adams (1995, p. 2) illustrates this by reviewing a newspaper chosen at random and gives the following analysis;

A perusal of that day's papers reveals that the business sections and the sports pages contain virtually no stories that are not about the management of risk. They are all about winning and losing, and winners and losers. The heroes are people who struggled against the odds and won [...]. The arts pages were full of risk stories within risk stories. A novel, to win critical acclaim, must be novel; cliché and plagiarism are unpardonable sins. Mere technical competence is not enough; suspense and tension must be deployed to catch and hold the attention of the reader.

Risk is part and parcel of great works of arts, therefore producers take great care to thrill their readers or audiences by producing works that are original and captivating. Works that are boring and predictable are not applauded for failing meet or exceed expectations.

Kaplan and Garrick (1981) define risk in terms of costs and benefits to advance rational decision making. Risk issues have become widely contested and debated especially in recent times in view of the costs and benefits derived from towing a path in the name of risk reduction. Hopkin (2017) identifies three risk types that confront all organizations and should form the basis for risk management; *control risks* –risks having a high degree of uncertainty, *opportunity risks*-risks that have possibilities of positive returns and *hazard risks*- risks that have only negative outcomes. He recommends an integrated approach that evaluates and monitors these three risk types. A crucial consideration is the opportunity cost of actions taken in managing risk by comparing the costs and benefits of decisions (J. O. Zinn, 2008). This implies that risk issues are about decision making which have implications and possibilities of loss or benefits.

2.2: The Philosophy of Risk: Objective and Subjective Risk

The conceptualization of risk is generally influenced by the philosophical underpinnings of a discipline and this in turn may be shaped by the dominant view or opinions of experts in the field or imbibed from a cultural setting. Philosophically, the controversies surrounding the definition of risk leads to distinctions being made between objective and subjective risks.

These controversies stem from epistemology and the debates are sources of intellectual friction between physical and social scientists (Adams, 1995). The field of risk has been dominated by objective treatment of risk, it was only in the 1980s that social science researchers took interest

in risk concerns with works like 'Risk and Culture' by Mary Douglas and Aaron Wildavsky in 1983 and Niklas Luhman's comparison of hazards and risk in a 1995 issue of *Risk*, where risk was considered in subjective terms. Prior to this period, the traditional theory was in the domain of insurance, trade, medical and sports experts as well as other professionals in the field of risk assessment where risk was perceived in relation to an unknown future whose probability was calculated on the basis of extrapolation from past events (Loon, Beck, & Adam, 2000) Many scholars (e.g. Adams, 1995; U. Beck, 1992; Boyne, 2003; Taylor-Gooby & Zinn, 2006; Walklate & Mythen, 2006) have developed their thesis on the basis of subjective risk. They assert that the use of objective measures or probabilities to quantify risk can be problematic in determining possible outcomes and making projections. In the strict objective approach, risks are perceived as real events or dangers which can be objectively and reliably calculated without social or cultural considerations. Deviations from such calculation can be corrected by further research and better scientific analysis. A moderate objective view however, upholds the positivist view but assumes that its management is subjectively biased (Zinn, 2008). The subjective perspective of risk on the other hand, assumes that risk cannot be quantified in terms of probability of occurrence and impact because the determining factors are abstract. It dwells on social construction and interpretation of risk. The social construction approach emphasises that risks are created and managed not from reality but stem out of political debates and other social processes (Adams, 1995; Beck, 1992). Risk mediation assumes the existence of real hazards, but it takes the intervention of social institutions to select, transform and shape the response of society (Douglas, 1983; Zinn, 2008). This analogy demonstrates that even if risks exist in real and objective terms, the art of risk management is embroiled in subjectivity such that there is plurality in the choice of options or decisions that can be taken to address specific risk issues. This correlates with the interpretivist philosophy upheld in this thesis.

Adam (2005) uses the theory of risk compensation to explain the distinction between objective and subjective risk by examining the 'formal' and 'informal' sectors of society based on risk behaviours. He argues that all human beings are risk experts that make up the 'informal sector' and have varying propensities to take risk based on their perception of risk which is influenced by experiences of losses or potential rewards. Among most risk experts, there is a sub group of certified risk experts comprising of those who operate in the 'formal' risk sector- those who write books, propound theories and report risk. He describes the formal risk sector experts as having abstracted capabilities which is sometimes useful but often misleading because their

expertise is based on scientific knowledge and measurement which is in turn used to make decisions that affect the informal sector. They undertake research and establish regulations with the aim of reducing risk. The rest of the informal sector comprising of lay people on the other hand, develop coping strategies and take decisions that balance their risks and rewards. The two sectors co-exist uncomfortably and interdependently reacting to each other's behaviour. Sometimes, the interactions between the two sectors can generate tension and frustration as can be illustrated with ordinary people having road accidents even with many safety controls put in place by the formal sector -speed and alcohol limits, warning notices, inspection procedures etc. Frictions exist because of the presence of division of labour in the formal sector where there is specialization, assignment of responsibility and laid down procedures guiding all processes. In the informal sector however, the balancing calculations and discretionary powers that motivate the individual to indulge in a risky act occur based on the judgement of the individual. In the interactions between the two sectors, the experts just like the lay people have limited knowledge and can make mistakes in the choices they make. Both groups are driven by their risk balancing instincts which can be influenced by perception or past experiences of risk. The risk balancing instinct varies between people and changes with time making risk measurement and prediction problematic (Krimsky & Golding, 1992; O'Riordan, 1995). Adams (1995) uses the analogy of slipping and falling on ice which is perceived as fun for children but a potentially disastrous accident for the elderly to explain complexities of attempts to measure risk. If probabilities are used to represent risk, then the probability of occurrence will be higher for children than for the elderly who will avoid it based on the perceived danger of engaging in the act. He thus argues that objective measurement is illogical and would lead to inconsistency in calculations and predictions.

This analysis demonstrates the subjective notions of risk in decision making and can be applicable in the context of this study. Based on their interests and goals, stakeholders of MFIs negotiate and balance their risks with the aim of maximizing benefits and reducing the possibility of negative outcomes.

2.3: The Concept of Risk in History

The controversy in the usage of the word 'risk' may be linked to how it evolved. J. O. Zinn (2008) reveals that it is widely believed to be of either Arabic origin, from the word *risq*, which means anything received from God that yields profit, thus having a positive connotation, or

from the Latin word *risum* meaning (a reef) an obstacle a sailor may encounter at sea. Stahl et al. (2003) however trace its root to the Greek word ‘*riza*’ which means fate or a divinely given fact, in addition to its latin origin. According to Kast and Lapied (2006), risk was the first word used in European languages to denote uncertainty, noting that as early as 1200 in Venice, the word *rischio* was used to describe cargo being shipped as there was no guarantee that it would arrive safely and be sold for profit without encountering challenges. The prevailing religious beliefs also shaped the idea of risk as such misfortunes were seen as the will of the gods or God which could not be challenged but accepted in good faith (Boyne, 2003; Covello & Mumpower, 1985; Taylor-Gooby & Zinn, 2006).

Risk was used in the late middle Ages and the early modern era to describe danger, chance, luck and adventure. It was found in medieval documents and used in different contexts. Its usage spread with the introduction of printing especially in Italy and Spain (Luhmann, 2017). Chadee, Austen, and Ditton (2007) note that expressions such as danger, harm, hazard, loss and catastrophe have been used to describe the negativity of risk, while probability, chance, possibility, potential and likelihood have been used to describe the cost–benefit equation of prediction indicating that certain advantages could only be gained if certain things were at stake. It was also commonly used in maritime trading where traders stuck together to reduce the risk of losing their ships. The development of probability as a branch of mathematics in the eighteenth and nineteenth centuries facilitated the application of probabilistic risk calculations in fields such as insurance against accident in industrial production and social insurance to manage population (Boyne, 2003; Taylor-Gooby & Zinn, 2006).

In contemporary times, risk issues have taken a centre stage in health care, environmental protection, crime management, politics and governance, family and household life, science and technology, religion and almost every field of human endeavour. This is due to the failures of technology and the question of acceptability which often results in debates, contest and conflicts. Tragedies such as the Thalidomide tragedy (1962), Bhopal (1984), Chernobyl (1986), the challenger space shuttle (1986), Exxon Valdez oil spill (1989) and catastrophes in the pharmaceutical, nuclear, nutrition and space sciences such as the failure of Vioxx (an arthritis drug) in 2004, Tokaimura chain reactions (1999), BSE outbreak (1986-1996) and the Columbia space shuttle (2003) show that risk and uncertainty tend to accompany technological innovations. These events reveal the weaknesses of institutions set up to improve the wellbeing of the human race (Taylor-Gooby & Zinn, 2006). The limitations of human endeavour as seen in

the technological innovations and the growing public awareness of the shortcomings in the socio-political domains have made risk issues become politicized through the use of the mass media leading to loss of confidence in the technical experts and policy makers resulting in the rise of pressure groups.

2.4: Risk and Uncertainty

Risk has a strong correlation with uncertainty. Knight (1921) makes a distinction between the two concepts. He describes risk as not knowing what will happen but knowing the probabilities of the possible outcomes. Uncertainty, on the other hand, means not knowing the probabilities of the possible outcomes. The use of probabilities in estimating risk in absolute terms remains a contested debate. Taleb (2010) analyses uncertainty in relation to extreme and unexpected events which he describes as 'black swans' having three major characteristics; rarity, extreme impact and retrospective predictability. The black swan logic applies to significant events which defy predictions and have great impact. It is after their occurrence that experts analyse, rationalise and explain the indicators that pointed to their imminent occurrence. In other words, Taleb (2010) argues that no one knows what the future holds, therefore, it is not possible to obtain accurate calculation of probabilities of future events which will have an extreme impact. Slovic (2000, p. 41) also notes that "the most important public hazards are events with extremely low probabilities and extremely great consequences". Significant events in history such as world wars, earthquakes and industrial revolution which occur suddenly and unexpectedly attest to this logic. Even where there is an indication of their occurrence, it is difficult to make accurate prediction of the magnitude or impact, and when they reoccur, it is never the same as the previous experience. Thus, human knowledge and capabilities are limited and subject to uncertainty. Slovic (2000) cites the earthquakes which destroyed the cities of Skopje, Yugoslavia in the years 518, 1555 and 1963, and the mudflow that took 25,000 lives in Yungay, Peru, which had occurred between 1000 and 10,000 years earlier as examples of significant event with low probabilities and great impact. This implies that uncertainty associated with risk cannot be sufficiently predicted and could result in significant adverse consequences (Gough, 1988).

2.5: The Social Theories of Risk: A Theoretical Framework

The sociological theories lean on the assumption that risk transcends objective knowledge and is significantly influenced by values, rationality, power and emotions (Ney, 2011b). J. O. Zinn (2008) identifies five theories as streams of social theory on risk and uncertainty; Risk Society, Governmentality, Systems Theory, Cultural Theory and Edgework Theory.

These theories were developed in the context of different phenomena being researched and entrenched in specific socio-cultural environments (i.e. developed modern societies). However, their tenets are valid in every social context and would be applied in researching risk management in MFIs in Nigeria. The choice of these theories is justified because risks are not mere technical abstract calculations and cannot be disconnected from social processes (Brown, 2014). Social phenomena are subject to interpretation by social entities influencing how they are understood in the real world thereby shaping perceptions (Creswell, 2014; Highfield & Bisman, 2012; Mason, 2002).

The Risk Society (U. Beck, 1992) and the Cultural Theory (Douglas & Wildavsky, 1983) are most relevant to this thesis based on their theoretical assumptions. Beck's theory postulates that risks are subjective and beyond calculation in objective measures. They represent the unintended consequences of innovations. In relation to this thesis, my arguments assert that not all risks in microfinance are quantifiable in objective terms as often represented in accounting and business models as certain risks are subject to interpretations based on perceptions and contextual factors. It is problematic to express the likelihood of occurrence of an event (e.g. loan default) in absolute quantitative terms because of differences in circumstances. There are also complexities in attempting to estimate the impact of an event and taking decisions based on objective measures because people could be affected in different ways based on their identity and interests. Douglas and Wildavsky, in their theory on Risk and Culture uphold the tenet of the social mediation of risks by rationalizing that risks are selected and prioritized based on group identity. Thus, they argue that many risks exist as real events or dangers but it is the society that chooses which risks to accept, amplify, problematize and which risks to ignore based on the interests of the society. In the context of the microfinance sector in Nigeria, stakeholders' perceptions revolve around the problem of high rates of non-repayment of loans and absence of a supporting environment that enables MFIs to thrive (e.g. low knowledge and skills, poor attitudes and orientation, poor infrastructure, lack of government support, inadequate supervision and regulation, political and social unrest etc.) whereas stakeholders in a different

context may be concerned about a different type of risk. It thus becomes difficult to have generally acceptable standards for identifying, assessing, prioritizing and evaluating risks.

Risk management has become increasingly politicized and contentious. Polarized views, controversy, and overt conflict have become pervasive. Risk-perception research has recently begun to provide a new perspective on this problem (Slovic, 1993, p. 675)

This demonstrates that the art of risk management is in itself a subjective process involving social intrigues and negotiations based on what deemed rational as there are no clear-cut solutions that proffer solutions without making reference to a defined context. The following sections examine the social theories of risk in greater detail.

2.5.1: Risk Society

The theory of Risk Society originated from the studies of Ulrich Beck and Anthony Giddens which had common theoretical basis (Lupton, 1999a). U. Beck (1992), in his study of modernity and the failures of technological advancement and industrialization, transformed the intellectual landscape on the definition and perception of risk. The Risk Society which was inspired by the failures of technological advancement as exemplified by events such as Chernobyl, Bhopal, Exxon Valdez and the risks associated with Bovine Spongiform Encephalopathy (BSE). As society advances, creation of wealth is always accompanied by the production of risks (U. Beck, 1992; Loon et al., 2000; J. O. Zinn, 2008). The theory argues that risks in modern industrialized society are transcend insurance as the produced hazards are beyond calculations and safety systems as seen in the cases of nuclear power, chemical pollution and genetic engineering. In other words, as society advances in modernity, social production of wealth is always accompanied by social production of risk such that as the need for a more robust system of calculation is required to meet the growing complexities, so does the impossibility to establish such calculability. Thus, risks are not calculable because of their 'non-localized nature and potential long-term effects'(Lupton, 1999a, p. 65). Risks therefore become the unintended consequences of industrial production which are usually in excess of the utility of goods and services unintentionally produced. The industrial society transforms to the risk society through its own internally generated threats which are beyond the powers of mathematical calculations. As calculability of risk becomes challenging, taking the 'right decision' becomes problematic, making society move from one crisis to another (Loon et al., 2000). The interaction of scientific knowledge and political action makes risk subject to social

construction and interpretation by those who claim legitimacy of particular forms of expertise and knowledge such as the media, scientists, politicians and other professionals (U. Beck, 1992; Walklate & Mythen, 2006; J. O. Zinn, 2008). In the risk society, the politics of risk definition is crucial as it depends who defines it and how it is defined. Thus, there is a distinction between risk itself and the public perception of risk (Lupton, 1999a). Beck (1992) also introduces the concept of reflexive modernization which explains a general historical logic beyond the social changes and how risks influence the transformation of society. The innate desire to reduce or balance risks leads to structural changes in society.

Giddens (1991) describes modernity as risk culture as social life is not more risky than it used to be but due to the complexities of institutional influences and individual life, risk is presented based on the manner in which lay actors and technical experts interpret and order the social world .

Under the conditions of modernity, the future is continually drawn into the present by means of the reflexive organisation of knowledge environments [...] Modernity reduces the overall riskiness of certain areas and modes of life, yet at the same time introduces new risk parameters largely or completely unknown to previous eras (Giddens, 1991, pp. 3-4).

Thus, his treatise on risk is founded on the relationship between modernity and globalization. He argues that modernity is the product of interactions between modern institutions and personal life or the influences of globalization and personal disposition leading to diverse understanding, knowledge and interpretations of risk factors. Lupton (1999a) notes that both Beck and Giddens argue that modernity is characterized by continuous changes in habits and culture which impact on the meanings ascribed to everyday life of people. These changes according to Giddens are influenced by institutions through the effects of globalization, and the behaviours of individuals. The whole idea in relation to risk indicates that risks are shaped by social processes and institutions which characterize a given context. Globalization is the reinforcement of worldwide social relations which connects detached areas in a manner that local activities are stimulated by events happening in a distant context (Giddens, 2013). Both Beck and Giddens ascribe risk to social change in society, while Beck relates this change to innovations, Giddens links it to globalization. In the context of this thesis, microfinance can be likened to an innovation developed within a defined context and diffused to different contexts through the process of globalization. The continuous refinement of microfinance (as an innovation) generates risks. As microfinance is being diffused to new cultures, climates and

environments through globalization, there could be clash of cultures resulting in new risks where aspects of its practice are mingled with traditional practices (e.g. integration of traditional rulers/community leaders acting as gatekeepers and guarantors, adoption of patriarchal structures- requiring spousal consent before approving loans for female borrowers). Thus, as ownership structures, lending methodologies, regulation, internal controls etc. undergo modifications, risks are reproduced as unintended consequences which MFIs have to contend with.

2.5.2: Governmentality

Michel Foucault who is associated with the theory of governmentality took interest in how the evolving modern scientific discourses in Western Europe were interwoven with administrative and governmental practices especially in the areas welfare systems of managing the vulnerable in societies, institutional reforms, town planning, price regulation and provision of healthcare (Inda, 2008; Mik-Meyer & Villardsen 2012; J. O. Zinn, 2008). He analyses modern political power and governance as the systematic way of thinking and acting that aim to shape, regulate or manage the comportment of others (Inda, 2008, p. 1). This goes beyond the activities of the state and its institutions but constitute any rational effort to regulate the conduct of a given population by acting on their hopes, aspirations, circumstances or environment. Lupton (1999a, p. 87) describes governmentality as an approach to social regulation and control which emerged in the sixteenth century in Europe during the transformation of society from the feudal system to administrative states when authorities began to view citizens as populations who needed intervention, management and protection in order to maximize societal welfare, wealth and productive. Governmentality defines the role of the state as one of coordination and risk management (Boholm, 2015; McCarthy, Packer, & Bratich, 2003; O'Malley, 2009). Inda (2008) identifies the three components of governmentality - reason, technics and subjects of government through which leaders can exert authority. The reason of government encompasses the knowledge, skills and attributes that make people submit to authority. The technics of government refer to the strategies, instruments and programs through which authorities can influence and manage human conduct. The subject of government touches on the governed and their collective identity that emanate from governmental activity. Governmentality is described as an analytic perspective that seeks to define the role of the state as one of coordination and bringing together various techniques of governance (McCarthy et al., 2003). Governance is about negotiating and balancing risks

by existing authorities who have the political mandate to govern (Patrick Brown, 2014). Its perspective on risk links it to an act of risk management rather than enforcement of social order. Risk is thus described as a technology of government whereby it is not fundamentally real but seen as a way of viewing or imagining problems and solving them (O'Malley, 2009). The strategy entails viewing risk as a statistical or probabilistic technique where events are sorted into a distribution and common trends are identified and used to make predictions about the future and steps are taken to guard against any adverse outcome. Boholm (2015) explains that management processes such as auditing, accounting and strategic planning are means of conceptualising social relations and public affairs in relation to risk. The degree of legitimacy and responsibility conferred on leaders depends on their capacities to identify, assess, manage and communicate risk issues. Governance is not about the imposition of laws or guaranteeing territorial sovereignty but maximising the welfare of citizens. The problems of government are perceived as risks in the sense of potential harm and likelihoods and governance constitutes risk management involving its complexities, negotiations and trade-offs.

2.5.3: Systems Theory

Systems theory analyses society as being divided into subsystems with each specializing in a particular function and interacting with others through the means of communication. No subsystem is superior to another and there is no hierarchy in their operations. The theory places risk at the centre of the modern society and as a critical part of decision making (Mik-Meyer & Villardsen 2012). Luhmann (2017, p. ix) argues that social differentiation and systems formations characterise the modern society where social entities are distinguished on the basis of their roles, interactions, intentions and social actions, but connected together through communication. Luhmann's treatise on the systems theory ultimately focuses on the manner in which the modern society is segmented into systems and environment with component parts having distinct identities and being understood as different contexts.

According to Luhmann's system-theory approach, the world (as the horizon of possible descriptions) is expressed by means of a network of contingent distinctions and labels that always have to be understood in context. That an observer may label this as this (and not as that) is due to a distinction in which both moments, separated from each other, can only be understood in relation to each other; the distinctive units only possessing their own identity in the difference to the other. To be able to characterize

something as something, one has to have already distinguished it from its distinctive other (Luhmann, 2017, p. xii)

In relation to risk, the systems theory upholds the subjectivity of risk as its calculation becomes problematic given that the exposure to risk varies, subject to whether one is affected as a decision maker or as someone affected by risky decisions. Risks relate to rationality in the sense that decisions are taken to avoid or minimize the possibility of losses. Risks do not exist on their own but emanate from decision making and expectations which are based on knowledge, experiences of the past. Risk mitigation strategies do not prevent losses arising from negative events because they do not influence the disposition and decisions of individuals to take risk (Wilde, 1994). This theory argues that risks are created by internal calculations and external conditions and are consequences of decision making that will occur in the future but are unknown in the present (Japp & Kusche, 2009; Luhman, 2000; J. O. Zinn, 2008). In society making choices and agitating for or against change have varying implications which are risks in themselves. Risks cannot be avoided unless one is willing to forgo the potential benefits that accompany a decision. In this theory, it is assumed that decision making follows systematic techniques which could have controversial risk implications. Hatfield and Hipel (2002, p. 1043) note that:

The last few decades have seen increasingly widespread use of risk assessment and management techniques as aids in making complex decisions. However, despite the progress that has been made in risk science, there still remain numerous examples of risk-based decisions and conclusions that have caused great controversy. In particular, there is a great deal of debate surrounding risk assessment: the role of values and ethics and other extra-scientific factors, the efficacy of quantitative versus qualitative analysis, and the role of uncertainty and incomplete information.

Risks also relate with expectations which are shaped by knowledge and past experiences and established through both formal (statistical forecasting techniques) and informal processes (knowledge, experiences and values) (J. Zinn, 2009). Luhmann (2000) expands and links the concept of risks to the concepts of trust and familiarity. Familiarity is an inevitable aspect of life and trust is a solution for specific problems of risk. Trust can be attained within a familiar world based on perception and confidence. Changes may occur in the familiar features of the world which will have an impact on the possibility of developing trust in human relations. The conditions of familiarity and its threshold cannot be disregarded when we set out to explore the conditions of trust.

2.5.4: Edgework Theory

Edgework theory was developed by Stephen Lyng. While other sociological approaches focus on risk in terms of negative outcomes, this approach dwells on the positive side of risk-taking by exploring the interests and emotions of people engaging in risky acts or edgeworks (J. O. Zinn, 2008). A major element of this theory is choice, given that people voluntarily undertake activities characterised by high level of uncertainty, potential hazards and psychological distress out of their own freewill. The theory was originally developed to explain the growing interest in high risk sports and other leisure activities but its scope has expanded to other domains (Lyng, 2004). The theory explores the reasons people opt for voluntary risk taking by engaging in high risk occupations such as firefighting, police work, search and rescue operations, combat soldiering and test piloting. In the financial sector, people are engaged in speculative activities such as stock and bond trading, arbitrage, mergers and acquisitions. In the social realm people are now venturing into non-traditional relationships (e.g. lesbian, gay, bisexual and transgender people) and in criminal activities voluntarily (Giritli Nygren, Öhman, & Olofsson, 2017; Landry, 2013). This theory uniquely combines the features of objectivism and constructivism by asserting that people's engagement in edgeworks is attributed to objective changes in the structure of modern societies and the same time, their perception of risk is influenced by situational and sub-cultural interpretation of the risk experience. They believe they can control circumstances that are chance-determined through the use of their acquire knowledge and skills (Kidder, 2013; Lyng, 2009). Edgework activities are generally characterised by high level of uncertainty and can easily lead to death, severe injury or psychological distress but what endears or seduces people to them is their risky nature. In committing crime for instance, a criminal knows that there is risk of being caught or facing resistance by the victim, but he still engages in it because he is convinced he has what it takes to successfully execute his plans. Confronting and responding to uncertainty by managing risk is what an edge worker values most.

2.5.5: Cultural Theory

Cultural theory emanated from the works of Mary Douglas and Aaron Wildavsky. The theory assumes that the perception and response to risk are dependent on socio-cultural background and identity as a member of social group rather than individual perception. It evolved as a

framework to explore how groups in society interpret danger and build trust or distrust in institutions creating and regulating risk (Tansey & O'Riordan, 1999, p. 71). Some risks are known while others are unknown but society decides which risks to worry about and which to ignore (Taylor-Gooby & Zinn, 2006). Risk becomes a political tool because certain values are prioritised at the expense of others (Patrick Brown, 2014). Risks are therefore prioritized and selected for public concern based on the strength and direction of social criticism within a society. The theory places a high premium on the role of culture, identity and orientation in influencing the perceptions of risk. This is a very dynamic process such that what is termed as risky is dependent on the social context. Dake (1992) argues that

Most research on the perception and communication of risk has focused on possible harms, largely ignoring the cultural contexts in which hazards are framed and debated, and in which risk taking and risk perception occur. This article argues that, while individuals perceive risks and have concerns, it is culture that provides socially constructed myths about nature—systems of belief that are reshaped and internalized by persons, becoming part of their worldview and influencing their interpretation of natural phenomena

In the context of this study, the cultural theory can be situated in the underpinnings of the identity of stakeholders and the different interests they represent. Apart from risks being experienced from the environmental setting of the MFIs, different stakeholders experience risks in ways that are unique to them. What may be of paramount concern to investors may not mean anything to clients or staff, or what may be disturbing to stakeholders in the NMFIs may not be a cause of worry for those associated with the MFB. This theory explains the complex nature and interaction of risk with human behaviour in relation to attachment to culture, beliefs, values, emotions, judgements etc. which are abstract and unquantifiable but significant in determining the outcomes of events and performances of stakeholders. These are factors which make risk a dynamic and subjective phenomenon which is subject to interpretation and mediation. The following section discusses the complex process through which risks are interpreted and mediated.

2.6: The Process of Risk Interpretation: The Complexities of Measurement

The measurement of risk in objective values has remained a disputed issue. The philosophical paradigm of interpretivism assumes that the process of risk interpretation occurs in relation

with other people and is affected by social context (Bajos, 1997). Certain risk experts tend to believe that risk can be measured in objective terms. Breakwell (2010) asserts that risk can be represented as a 'product of a process in which a threat is recognized, its features identified, and the probability of its negative impacts occurring are estimated. Explanation can be given for the existence of the threat. The 'psychometric paradigm' and the 'mental models' are suitable tools for examining the perceived characteristics of risk. The Social Amplification of Risk Framework (SARF) can be used to measure the level of social influence processes in arriving at the measure of risk. Lupton (1999b, p. 13) acknowledges that this reasoning is accepted in many technical fields where risk can be assessed and evaluated. It can be predicted and effectively managed such that misfortunes and uncertainties can be curtailed and avoided. She however challenges this thinking on the basis that it 'fails to problematize risk and its assessment' and opts for the line of thought accepted in the social sciences that 'risk is in the eye of the beholder'. B. B. Johnson and Covello (2012) reiterate that risks exist in everything and can be managed by taking the decisions on what risks to tackle and what risks to ignore. The main challenge is the fact that there is no agreement on the risk selection criteria. An explanation by Douglas (1983) that risks are not focused on in order to safeguard health, safety or the environment but, are rather, influenced by beliefs about values and moral behaviour. 'Risks are exaggerated or ignored according to the social, cultural and moral acceptability of the underlying activity'(B. B. Johnson & Covello, 2012, p. viii). Every society has its unique selection of risk which are considered of utmost importance. In relation to how issues are transformed into risks A. Hunt (2003, p. 173) notes that;

Risk problematization brings into play a discursive formation that provides a way through which the future is framed in the present and which connects some anxiety-inducing feature of the present to the fear of future harm. It is this forward projection of potential harm that gives risk discourse the power not just to induce anxiety, but to stimulate personal and social action.

Stahl et al. (2003, p. 19) assert that 'risks are not absolute, but local and particular. They must be defined for a situation and must be accepted by the relevant stakeholders. Supporting this line of thought, Pidgeon (1998, p. 5) also establishes that understanding risk perceptions is relevant in risk regulation and management and this encompasses 'people's beliefs, attitudes, judgements and feelings, as well as the wider cultural and social dispositions they adopt towards threats to things that we value'.

The process (see Fig 2) through which risks are interpreted by social actors shows that issues are selected, problematized, amplified, accepted and then managed by social actors in a defined context. Going by this logic, it may be concluded that individuals and organisations as distinct entities select and interpret risks based on individual attributes and priorities. In developing economies (e.g. Nigeria), MFIs may be confronted by risks of adverse selection and moral hazards arising from group-based lending methodology (Hermes & Lensink, 2007). Whereas, their counterparts in developed countries may be contending with risks associated with individual-based lending. The selection of risks reflects the culture and priorities of the society.

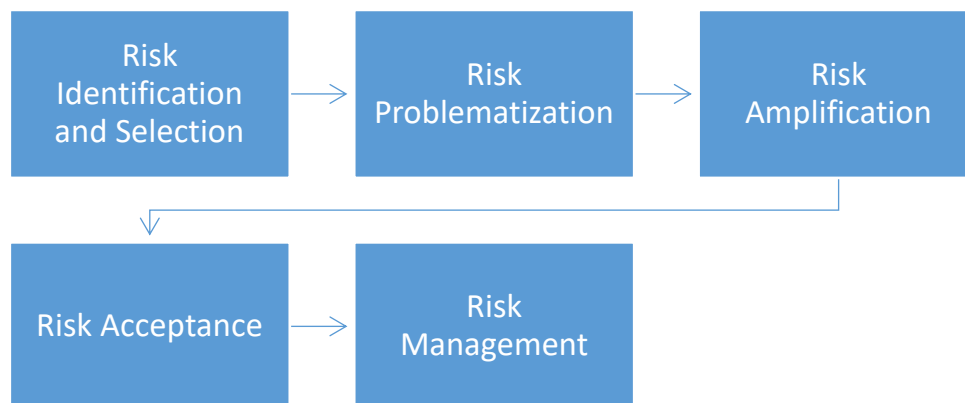


Figure 3: An Illustration of the process of Risk Interpretation

Source: The Researcher

This illustration above depicts the notion that risk as a reality is subjective to human understanding and interpretations. Risk analysis is all about bringing the uncertainties of the unknown future to the present moment subject to human perceptions and based on the influence of social factors. The discourse on risk thus, has a lot to do with people who share common identity or interest and the contexts which influence their perceptions and behaviours.

2.7: Stakeholder Theory

The notion of a stakeholder is not new in management research but has undergone modifications leading to the emergence of contemporary stakeholder theory in the 1980s from the works of Freeman who expanded its scope beyond the role of shareholders (R. E. Freeman, 2010; R. E. Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; Lépineux, 2005). In

presenting a historical overview of the theory, Roberts (1992, p. 597) reveals that while E. Freeman (1984) promoted the theory and describes a stakeholder as an ‘individual who can affect or is affected by the achievement of the firm's objectives’, the concept of stakeholder theory was first used by Ansoff (1965). E. Freeman (1984) enumerated the stakeholders of an organisation to include stockholders, creditors, employees, customers, suppliers, public interest groups, and governmental bodies. The theory has become increasingly popular because of its focus on analysing the behaviour of organisations with respect to the relationships and influences existing in its operating environment (Roberts, 1992). It dwells on the social relationships a firm maintains with other entities (Ruf, Muralidhar, Brown, Janney, & Paul, 2001). Stakeholder theory stipulates that the success of an enterprise is dependent on smooth cooperation with its stakeholders (Tullberg, 2013). The theory posits that stakeholders have a unique social identity which must be upheld (Crane & Ruebottom, 2012), and should be treated with fairness in pursuing organizational goals (Phillips, 2003). While there are ongoing debates on composition of stake holders, there is consensus that stakeholders influence the mission of businesses (Crane & Ruebottom, 2012; Petrick, 2012; Tullberg, 2013). Tullberg (2013, p. 127) defines a stakeholder as “an entity that has a stake in an organization by making significant input to it and also being part of its output”. The role of stakeholders is strategic that Petrick (2012) maintains that the welfare of both market and non-market stakeholder is evolving as the new standard for measuring business success and managerial responsibility. This explains that some economies have moved from the conventional unregulated capitalism that seeks to maximise returns on investment at all cost to a sustainable stakeholder capitalism which upholds the interest of stakeholders as a means to maximising returns on investments. S. Khan and Ashta (2013) also maintain that the best MFIs manage risks by cooperating with all stakeholders.

While the stakeholder theory seems to enjoy acceptability by many scholars, it has also attracted criticisms by some scholars (e.g. Orts & Strudler, 2009; Pesqueux & Damak-Ayadi, 2005; Ribeiro Soriano, Peris-Ortiz, Wagner Mainardes, Alves, & Raposo, 2011; Sternberg, 1997). Sternberg (1997, p. 3) describes it as being ‘fundamentally misguided, incapable of providing better corporate governance, business performance or business conduct. Stakeholder theory is indeed intrinsically incompatible with all substantive objectives and undermines both private property and accountability’. It is also criticised as being vague and ambiguous because it portrays all stakeholders as generally having legitimate rights and interests in a company and puts them on the same level as the core owners of a business (Ribeiro Soriano et al., 2011).

Critics also point out the theory also fails to define the roles and privileges of stakeholders resulting in complexities such as the frictions in shareholder-manager relationship (Marcoux, 2003). These criticisms of the theory do not seem to recognise that there are different classes of stakeholders both internal and external co-existing side by side in an organization. Their arguments tend to suggest that owners and shareholders are distinct from stakeholders or that stakeholders are other parties who have no claim to direct ownership of an organization (e.g. managers, staff, customers etc. Quite contrary to this position, owners and shareholders are also stakeholders in an organization, and as this thesis assumes, stakeholders have distinct identities, interests and expectations in an organization. Stakeholders also, do not enjoy equal rights and privileges but their contribution, if undermined can affect the success of the organization.

Stakeholder relationship management is a crucial aspect of risk management because understanding the ‘stakes’ that individuals hold in an organization can determine how successful it can be. It can be viewed as a challenge and an opportunity for an organization as failure to identify the real stakeholders and meet their expectations can have lasting effects

Having reviewed the perspectives of both proponents and critics of the theory, it is applied in this study from the view point of risk perception by various stakeholders in microfinance and how this shapes their risk behaviours and decisions. The tenets of the stakeholder theory are incorporated into this study to advance the argument that stakeholder risks should form an integral part of the risk management process in order to sustain their patronage by target clients. By integrating the interests of stakeholders in their risk management framework, MFIs open channels for collaboration and help to build trust and confidence in their interactions because of their social mission. This suggests that stakeholders have responsibilities towards one another. Olomola (2002, p. 1) notes that;

At the level of individual livelihoods, financial markets can perform very crucial functions. They can be a principal means for the poor to get access to financial assets; through facilitating saving, they can be of importance in reducing the vulnerability associated with uneven and unpredictable year-to-year changes in circumstances, and they can help convert illiquid assets into liquid ones in the event of emergencies.

This argument bestows a huge responsibility on financial service providers in managing risks imposed on their clients. The focus of this research is to examine risk management in MFIs

and the role of community relations by exploring how risks are interpreted by various stakeholders.

2.8: Conclusion

This chapter has examined the theoretical framework which underpins the notion of risk as a key concept in this study. Findings from the review of literature suggest that risk can be viewed as an objective or subjective phenomenon depending on the philosophical inclination of a discipline. It was found that in disciplines such as microfinance where the focus tends to lie on human factors, risk is better conceptualized as a subjective reality which is interpreted or mediated based on social or cultural factors. In view of this, the role of stakeholders and social contexts become relevant in analysing risks and risk management.

The substantive theoretical point this chapter has established revolves around the subjectivity of risk. It has also leaned on theories that support the notion that management of risks (i.e. the processes of risk identification, assessment, mitigation, control and evaluation) is a subjective process given that it is subject to human innovations (risk society), governance, leadership, administration (governmentality), decision, judgements, choices (systems theory), culture, belief systems (cultural theory), and emotions, motivation (edgework theory).

The overarching aim of this study is to explore risk management in microfinance, implying that microfinance is another key concept which this thesis seeks to explore. Thus, it is an attempt to merge three independent and broad concepts – ‘Risk’, ‘Management’ and ‘Microfinance’ and establish a conceptual framework for the study. The next chapter reviews literature on the concept of microfinance to provide a foundation for the study. It provides an overview of microfinance, its emergence and various aspects of its dynamics.

Chapter Three: Microfinance

3.0: An Introduction

This chapter examines the concept of microfinance as a component of the conceptual framework of this study. It reviews perspectives from existing literature on relevant concepts in microfinance (e.g. gender relations, sustainability and outreach, impact and innovations in microfinance) and how these may relate to the social perception of risks by stakeholders. The chapter gives a historical narration of the emergence of microfinance highlighting how different events shaped and influenced current practices in microfinance to reflect how risks are interpreted by stakeholders. The chapter also provides of an overview of microfinance in Nigeria.

3.1: A Conceptual framework of Microfinance

The discourse on microfinance has attracted many arguments among policy analysts and researchers with divergent perspectives on its impact, outreach and sustainability. Proponents of microfinance describe it as the bedrock of economic empowerment and poverty alleviation which supports and sustains economic growth and development. Microfinance has attracted global attentions and international organizations like the European Union, United Nations and the World Bank commit huge resources to support its programmes (Miled & Rejeb, 2015). Microfinance has many definitions and models but microcredit and provision of other financial services at micro level are its dominant features. Poverty alleviation, financial inclusion and socio-economic empowerment for the poor are its cardinal objectives. It is also a terminology used broadly to describe financial products designed for the low income segment of the population by not only NGOs but also commercial banks, development banks, financial cooperatives, and other registered and unregistered non-bank institutions (Christen, Lyman, & Rosenberg, 2003, p. 6). Microfinance has been promoted for advancing women empowerment through the provision of financial and non-financial services. Its services are provided by informal, semi-formal and formal institutions with varying degrees of regulation and organizational structures (Seibel & Parhusip, 2003). The informal institutions comprise of self-help groups, credit associations, families and money lenders who are into the business of lending money, collecting deposits/savings and financial activities related to crops, land and

trade. They have no institutional or legal status and are not subject to regulation, even though some of them have organisational structures to govern their affairs, having rules and regulations, and keeping records of their members (Seibel & Parhusip, 2003; Torre, 2006).

Informal MFIs have been in existence and are commonly found in developing countries among farmers, market women, fishermen, craftsmen and other peasants. The semi-formal institutions comprise of institutions like Non-Governmental Organisations (NGOs) and cooperatives which are registered to provide a wide range of services which may include microcredit and other financial services but are not subject to banking regulation. They operate to provide technical assistance or social intervention to their clients with funds usually sourced internally or from donors. The formal institutions include microfinance banks, microfinance-oriented banks and microfinance sensitive banks which are licenced to operate as financial intermediaries and are subject to regulation (Torre, 2006).

The target beneficiaries of microfinance are the poor and victims of financial exclusion. Financial exclusion encompasses processes that hinder poor and disadvantaged social groups from gaining access to the financial system (Leyshon & Thrift, 1995, p. 312). It manifests in different ways- self-exclusion (an individual's feeling of inadequacy to access conventional banking services), access exclusion (proximity to banks which affects rural dwellers), socio-political exclusion (exclusion on the basis of social status e.g. immigrants, ex-convicts), condition exclusion (inability to bear the cost of bank products and services and market exclusion (being economically under-valued to be targeted by banks) (Torre, 2006). These categories of people are considered un-bankable, disadvantaged, marginalized and generally not credit worthy to be profitable clients to banks

Despite the many perceived benefits of microfinance, critics believe it is largely incompatible with sustainable economic and social development based on ideology and lack of sufficient evidence to prove its claims (Bateman, 2010; Van Rooyen, Stewart, & De Wet, 2012). Evaluating the impact of microfinance has also been challenging due to biases and costs associated with empirical research (Becchetti & Castriota, 2011; Hermes & Lensink, 2011; Hulme, 2000). Scholars disagree on the efficacy of microfinance for poverty reduction and its acclaimed impact on various indices of development are still being contested (Bauchet, Marshall, Starita, Thomas, & Yalouris, 2011; Copestake, 2007; Hermes & Lensink, 2011; Roodman, 2012). The provision of microcredit to the poor with the assumption that the poor always take advantage of business opportunities without consideration of factors that make

people susceptible to poverty, has been criticised by some scholars (Harper, 2003; Hulme, 2007; Roodman, 2012).

3.2: The Emergence of Microfinance as a Financial Innovation

Every part of the world has its own history of how economic and financial activities have been organised along informal lines. The credit unions and building societies in the United Kingdom and Ireland and the Rotating Savings and Credit Associations (ROSCAs) popular in developing countries are common examples of microfinance schemes that provided credit and other financial services to the poor who were often avoided by commercial banks because of the risks associated with their businesses (Torre, 2006). However, the prominence of microfinance banking is often associated with Muhammad Yunus, a professor of Economics who founded the Grameen Bank to offer financial services to the poor in Bangladesh.

In their various narrations, Armendariz and Morduch (2005) and Bateman (2010) reveal that Yunus, as head of the Economics faculty at Chittagong University was concerned about the high poverty level and human suffering caused by devastation of war, flooding and famine experienced in his country. Yunus resolved to find a solution to reverse the trend following the path of Akhter Hameed Khan who, in the 1950s, developed the Comilla model, a poverty alleviation initiative in East Pakistan (which later became Bangladesh) through micro credit. Yunus was touched by the plight of the poor, especially women, who were continuously in a poverty trap. He started the programme in the village of Jobra by paying off the collective debt of 42 persons, an equivalent of \$27. He began giving small low-interest loans from his personal resources to poor households to expand their businesses with the expectation that through the micro credit programme, the beneficiaries would be free from the trap of the moneylenders, earn a little income for consumption and have little savings, thus overcoming poverty. Armendariz and Morduch (2005) recount that he was impressed that his little effort yielded income to the beneficiaries and enabled them to repay their loans even without collateral, but sad that his resources could not sustain the flow of his vision. Yunus, therefore, approached and convinced the Central Bank of Bangladesh to support his initiative in empowering the poor through micro credit. The bank was supported with funding by the International Fund for Agriculture and Development, Ford Foundation and the governments of Bangladesh, Sweden, Norway and the Netherlands. His decision to solicit the support of willing

donors brought into prominence the role of subsidies and social investment, which are prominent, features of microfinance

Grameen Bank was formally established as a Non-Governmental Organisation and managed by Yunus and a team of senior managers in 1983. The ownership structure of the bank was shared with 40% of the authorized capital contributed by members, 40% by the government of Bangladesh and 10% each by two state banks. The primary objective of the bank was to provide microcredit to the poor especially women at affordable interest rates to support the establishment or expansion of income generating microenterprises. Its customers were the very poor who had less than a half hectare of land (Bateman, 2010). The number of its clients grew rapidly, and repayment rates were extremely high, up to 98% compared with the 40% to 60% achieved by the government banks (Bateman, 2010).

The success of Grameen Bank was attributed to its adoption of a system of group lending, joint liability and short repayment schedule. These which served as social collateral leveraging on family and community inter-relationships because the individual customers were often too poor to provide collateral for the loans. Its operations involved groups of customers who came together voluntarily, not individuals acting on their own. Loans were disbursed to individuals within groups such that in the event of any difficulty, other group members would offer support in repayment. This guaranteed the groups' eligibility to access subsequent loans. Repayments started one week after disbursement and continued weekly to serve as a monitoring mechanism. These strategies led to reduction of costs in loan disbursements by helping the bank to assess eligibility, disburse, monitor, guarantee and then recover loans. The system of peer monitoring enhanced economies of scale and reduced credit risk as an individual with a habit of defaulting found it difficult to be accepted into a group (Carpenter & Williams, 2014; Harper, 2007). Grameen also adopted dynamic incentives to enhance loan repayments by starting with very small loans and gradually increasing the amount as groups demonstrated credit worthiness.

The Grameen model of microfinance was soon replicated in different parts of the globe. It was celebrated with global awards such as US Presidential Medal of Freedom, the 2006 Nobel Peace Prize for pioneering a financial sector innovation which has empowered millions of the world's poor. The United Nations declared year 2005 as 'International Year of Microcredit' and microfinance studies have been incorporated in business, economics and management courses by institutions of higher learning. MFIs have enjoyed increased commercial funding by mega rich philanthropists like Bill and Melinda Gates, Pierre Omidyar and Michael Dell

(Bateman, 2010). Pierre Omidyar, the founder of eBay donated \$100 million to Tuft University (his alma mater) to promote research in microfinance (Roodman, 2012). Flynn (2007) reveals that many large financial institutions found their way into the business of small-scale banking and credit services in emerging markets

The momentum of the microfinance industry came to a halt from the late 1990s with series of challenges and exposure of abuses ranging from mismanagement, over-bloated salaries and bonuses to managers, extortion from the poor through unreasonably high interest rates in order to declare huge profits, exaggerating and falsifying repayment rates (Bateman, 2010). The situation was worsened by the global credit crisis of the early 2000s and affected some of the industry's high-profile MFIs including Compartamos, Mexico's largest microfinance bank and Colombia's Corposol. The sector witnessed a high rate of default and collapse of many MFIs in Bosnia, Morocco, Nicaragua, Pakistan and Nigeria. The results of research undertaken by academics in mid-2009 did not show a positive impact of microfinance on poverty indices such as household expenditure and school enrolment. These developments brought to question the many achievements of microfinance and its icons like Yunus who received accolades were criticised (Roodman, 2012). The initial applause and the eventual criticisms of microfinance reveal the transient nature of public opinion and how risk issues become subjects of debates influenced by forces such as the mass media or the views of experts (U. Beck, 1992).

3.3: The Modernity of Microfinance

The rise of neo-liberalism in the mid-1970s promoted the tenets financial self- sustainability with the assumption that financial intervention by government weakens institutions, making them inefficient. Many MFIs became transformed to profit maximizing private financial businesses adopting market-based interest rates and mobilization of savings (Bateman, 2010). The emergence of the 'new economy' spearheaded by the developed western countries led to transformation of global socio-political relations. The prominence of the microcredit approach to poverty reduction is strategically embedded in the global political economy to strengthen the liberalization of the financial sector (Weber, 2004, p. 356). The crises experienced in transiting from the 'poverty lending approach' to 'financial systems approach' were responses to shifts in priority of external funders occasioned by the reforms adopted in the implementation of the Washington Consensus (WC) of the late 1980s. The consensus promoted the deregulation of domestic markets, privatisation of public enterprises, liberalization of trade

and financial flows aimed at expanding investment opportunities in the emerging markets of poor developing countries (Khoudour-Castéras, 2010). New innovations to facilitate comprehensive financial sector development are promoted by foreign donors and investors with the drive for market expansion with campaigns for access to finance and making market work for the poor (M4P) (CGAP, 2014; S. Johnson, 2013). These phenomena described as the marketization of development have multiplier effects and tremendous implications on the activities of MFIs in the underdeveloped world constituting risks as a result of their dependence on external funding (Carroll, 2015).

The promotion of Information and Communication Technology (ICT) and provision of digital payment systems to facilitate the flow of capital to poor countries also reflects the influence of global politics. It is pursued to encourage the use of digital channel to provide services to the unbanked and reduce the operational costs of banks on buildings, manpower, security and cost of travelling to access services for users (Singh & Padhi, 2015). Digital payment systems are acclaimed for enhancing operational efficiency, managing risk and expanding outreach (Kauffman & Riggins, 2012). MFIs in Nigeria are striving to adopt the use of ICT in order to remain viable in a more competitive environment and enhance financial inclusion. However, this drive is hampered by some infrastructural and deep-rooted social challenges-epileptic power supply, poor rural mobile network connectivity, low rate of mobile literacy, prevalence of e-fraud and lack of access to facilities such as the internet, smart phones (Agboola, 2015; Agwu & Carter, 2014; Efobi, Beecroft, & Osabuohien, 2014; Nwaolisa & Kasie, 2012; Yaqub, Bello, Adenuga, & Ogundeji, 2013). Yaqub et al. (2013, p. 205) further explains that the Nigerian economy is largely cash-based and ‘characterized by the psychology to physically hold and touch cash (a culture informed by ignorance, illiteracy, and lack of security consciousness and appreciation of the merit of digital payment)’. This is a source of risk especially to MFIs because it indicates a disconnection between promoters of ICT who are desirous of developing digital payments (and possibly expand their markets) and an environment which has challenges in adapting to innovations.

The survival of MFIs in recent times has also been threatened with the changing pattern of funding from poverty and development goals to security concerns following the threats of terrorism. McConnon (2014) observes that this is obvious in the status of Iraq, Afghanistan and Pakistan as DFID’s top recipients, whereas, they were not among the top 20 recipients previously. The policies are changing because these countries pose serious security threats to

the developed world. In their cross-border funder survey of 2014, CGAP, in collaboration with Microfinance Information eXchange (MIX), reports that funding for financial inclusion remained unchanged for years 2013 and 2014 at \$31 Billion, and the weaker Euro (significant investment comes from the euro-zone) even caused a slight decrease in dollar value. It also reported an increasing interest in funding to the Middle East and North Africa to further confirm the shift in focus (Soursourian & Dashi, 2015). This development has implications on perceptions of risks especially in analysing the relationship between foreign aid, politics and conflict.

The bilateral relations between countries have important impact on MFIs. Garmaise and Natividad (2013) explain that political proximity and affinity between the host country of the MFI and the country of its lenders influence the volume of capital flow and the provision of low-priced credit from foreign investors. Microfinance cannot be disconnected from global politics. Its development has been shaped by policies that emanate from the global scene. Its emergence stemmed from the failure of governments through state-owned development banks and institutions to manage resources provided by international donors for development goals (Armendariz & Morduch, 2005). It was conceived as a direct intervention targeted at the poor themselves to evade government interference and inefficiency. External donors and investors commit considerable resources to establish and support microfinance institutions. While donors such as developed nations, bilateral agencies, multilateral organizations and foundations are largely driven by developmental goals, public and private investors bring in capital to fund the lending activities of MFIs. Chakravarty and Pylypiv (2015, p. 737) notes that the investments of foreign donors have direct bearing on the organizational structure, performance and survival of MFIs but unfortunately, there is uncertainty because their dependence on external funding makes them vulnerable to external shocks. The 2008 global financial crisis was ignited by the collapse of Lehman brothers in the USA but led to the fall of many financial institutions across the globe (Christopoulos, Mylonakis, & Diktapanidis, 2011; De Haas & Van Horen, 2012; Vuillemeij, 2014). The influence of the global political economy on the development of microfinance can be seen in the increasing exposure of MFIs to risks due the medium and long-term effects of the global financial crisis. S. Khan and Ashta (2013) have established that the impact of the global recession can have negative multiplier effects not only MFIs but also the poor populations they serve, in many unexpected ways. This implies that MFIs are expected to step in to close the development gaps created by the failure of formal financial institutions given that public confidence in them have diminished. Their

paper shows that it was assumed that developing countries are immune from the effects of lingering financial crisis, but there is greater consciousness that developing countries are likely to face even greater challenges which will create more risks for MFIs in their efforts to reduce poverty

In the long run, it is expected that foreign investments will likely reduce as the credit squeeze takes hold and foreign aid, which is important for a number of poorer countries, is likely to diminish as richer countries struggle to revive their domestic economies. Developing countries could face increasing pressure to repay their debt as the international institutions and banks that have lent them money feel the need to shore up their own reserves. This pressure to service external debt obligations could see poorer countries make deeper cuts in basic social services, eroding social safety nets and reducing the number of development projects undertaken. These cuts in development spending would certainly deteriorate the quality of life of an already vulnerable population (S. Khan & Ashta, 2013, p. 2).

Given this scenario, it is obvious that the global economy is shaping the modern face of microfinance given the interests of international stakeholders.

Microfinance is widely believed to be in the domain of women which accounts for the success it has so far attained. It is not just a business in which women are major beneficiaries, but a business largely managed by them. Apart from the Nobel Laureate, Mohammad Yunus, notable women like Pilar Ramirez of Banco FIE, Bolivia and Ingrid Munro in Jamii Bora, Kenya are top female executives running notable MFIs. A study has established that female leadership in microfinance is positively related to financial performance as female administrators are better able to tap into the female information network and design products that suit women's needs (Strøm, D'Espallier, & Mersland, 2014). Microfinance increases access to finance for female entrepreneurs who tend to be disadvantaged in dealing with conventional banks (Jayawarna, Woodhams, & Jones, 2012). Ogunleye (2017) reveals that higher proportion of female clients is associated with a greater repayment rate and with fewer loan provisions.

The affiliation of microfinance to the female gender may be influenced by the vision and focus of Grameen Bank which pioneered the global microfinance movement. At its initial stage, Grameen's customer base comprised of both men and women but its focus shifted to the female borrowers who made up 95% of its customers (Armendariz & Morduch, 2005) because it experienced higher repayments rates among the women credits groups than those of men. Many empirical studies support the claim that women out-perform men in terms of loan repayment. In their study of Microfinance Institutions (MFIs), gender focus and repayment performance,

D'Espallier, Guérin, and Mersland (2011) carried out a survey and empirical analysis using a data set of 350 MFIs in 70 countries over a period of 11 years. Their results showed that MFIs with higher proportions of female borrowers have lower portfolio at risk, lower write-off rates and lower provision expenses. They cited several reports supporting the claim that women are better at paying off loans from results of studies carried out in Bangladesh, Malawi and Guatemala.

While it remains a contested issue as there are divergent voices on different topics on women in microfinance, some scholars have advanced reasons for better repayment rates among the women are varied. In their analysis, Armendariz and Morduch (2005) show that women make up 70% or about 900 million of the world's poor making them easy targets for MFIs. Also, the conservative nature of their investments and low moral hazard risk associated with their businesses (given that women mostly engage in low risk income generating activities which have high turnover) make loan repayment easier for them. They also have limited opportunities to credit and so they tend to be reliable in repaying their loans to ensure continued access to credit (D'Espallier et al., 2011). They are less mobile and can easily be monitored by the MFI at a lower cost. They are generally unadventurous and risk-averse and would not want to bring shame to their families by defaulting in their loan obligations (Armendariz & Morduch, 2005). They are committed and attracted to MFIs because of the opportunities of non-financial services which improve their welfare. Lending to women has a potential impact of enhancing their bargaining power and empowering them to increase their spending on the health, education and housing needs of their families. These benefits tend to make women reciprocate by keeping to their loan terms. The adoption of group lending enhances the provision of microfinance services to women when they are mobilized in groups (Armendariz & Morduch, 2005; Cheston & Kuhn, 2002).

However, opposing views fault the claim on the basis that loans obtained by women are generally controlled by men (D'Espallier et al., 2011). Therefore, gender does not influence repayment rates as widely acclaimed. On women empowerment which relates to expansion of assets and capacity to negotiate and influence choices that affect them, critics argue that with the loans outside their control, empowerment cannot be guaranteed. This is because the men may divert the resources to other non-productive activities and in the end, the women are left more impoverished with huge debts to repay (Van Rooyen et al., 2012). However, Mukherjee (2015) argues that even in such circumstances, adding value to their family income increases

their self-worth and makes their opinions count in household decision making. Their recognition as contributors to family income is advantageous. J. Hunt and Kasynathan (2001, p. 44) confirms that ‘husbands are getting the money and seeing the loans as an income source for themselves, so they are now showing respect to their wives’. Kalpana (2016) and Thomas-Canfield (2016) argue that empowerment of women by MFIs leads to reduction in marginalisation of women especially through domestic violence and abuse. This contributes to societal benefits and growth of MFIs which target them. Bee (2011, p. 23) however, demonstrates that ‘microfinance weakens social networks and perpetuates systems of power and oppression’. In some societies, certain religious and cultural barriers limit access of MFIs to women such as the Purdah Islamic culture that restricts women’s interaction with the opposite sex and prevents them from engaging in income generating activities or obtaining interest-based loans (Armendariz & Morduch, 2005; El-Komi & Croson, 2013). These debates reflect the diversity in the perspectives informed by contextual differences and interpretations based on the perceptions about the role of women.

The perceptions about the role of women in microfinance relate to this thesis in the sense that there is link between the risk perceptions of the pioneers of microfinance and the behaviour of the early clients of microfinance. Armendariz and Morduch (2005) reveal that the focus of Yunus shifted from gender-neutrality to gender bias in favour of female clients because he perceived and experienced that his female clients were more creditworthy than the male clients. While there is a high possibility that this is not a characteristic trait of female borrowers in every context, this risk perception became the foundation and basis for the preference of gender bias in microfinance globally. This reflect the notions of the social theories of risk because the practice of microfinance as the provision of microcredit to the economically active poor (particularly women) has been shaped by the experiences and risk perceptions of Yunus in dealing with members of his community. The narratives would definitely have been different if Yunus encountered a different context or clients with a different orientation. Despite the modification and replication of microfinance in different context through globalization (cf Giddens, 1991, 2013), some features from the early beginning of the Grameen-model of microfinance have been preserved because they define the uniqueness of the innovation.

3.4: Sustainability Vs Outreach

A major feature of the microfinance sector at its beginning was reliance on subsidies and external financial support. Sustainability has to do with their operations and values in relation to subsidies which may be in form of government grants or private philanthropy (Pischke, 2007). Even with the high repayment rates reported by Grameen Bank in its early years, it was not easy to break-even and remains financially sustainable because the logistics involved in providing microcredit services were complex and expensive. The rise of neo-liberalism led to the transformation of MFIs to commercial or profit maximizing private financial businesses adopting market-based interest rates and mobilization of savings through introduction of higher interest rates on deposits (Armendariz & Morduch, 2005; Copestake, 2007; Harper, 2003). ACCION, a US based NGO promoted the commercialization of MFIs with its CEO, Maria Otero claiming that it is a viable model (Bateman, 2010).

The microfinance sector experienced rapid growth between years 2006 and 2010 due to increasing international capital market investments through various Microfinance Investment Funds (MFIFs) which provided platforms for investors to diversify their investment portfolios and participate in the social mission of microfinance (Priberny & Dorfleitner, 2013). MFIs could draw loans from these funds to offer microcredit to their clients, but this development increased the exposure of local MFIs to foreign exchange risk resulting from foreign exchange fluctuations typical with developing economies where most MFIs operate. MFIs face enormous risks because they borrow from MFIFs in hard currencies and give loans in the local currencies. Local commercial banks shy away from giving credit to MFIs because of the many risks they face.

The obstacles to attaining sustainability of MFIs have continued to deepen the debates on sustainability and outreach relevant. All MFIs aspire and plan to be sustainable but not many have recorded significant success (Buckley, 1997). Many still depend on subsidy and donations to survive. There are different types of MFIs with different modes of operations based on their use of subsidy. For-Profit Institutions attract high private and public investments and aim to improve accessibility to financial services while making profit but are motivated by the social goal of poverty reduction. Non-Governmental Organisations (NGOs) /foundations rely heavily on subsidies in providing services to their clients. Cooperatives help their members to access services by making markets more equitable and efficient. (Pischke, 2007, p. 140) argues that ‘without subsidy, there would be little microfinance as we know it today, but its value depends

on the type and mission of the institution'. He stresses that for profit-oriented institutions, subsidies are needed for start-up and expansion but continuous reliance on subsidies is dangerous and foolish but for NGOs which are charity-oriented and whose mission is poverty reduction, subsidies are necessary. Chakravarty and Pylypiv (2015) observe that MFIs which are recipients of huge subsidies tend to demonstrate greater outreach with the aim of achieving social goals while for-profit institutions aim at achieving financial sustainability by growing profits, reducing dependence on subsidies and maintaining low risk-loan exposure.

There are various models of microfinance but the emergence of the profit-oriented or commercial MFIs has led to the integration of microfinance with conventional banking characterised by the MFIs upgrading their activities or transforming to regulated financial institutions and the conventional banks downgrading their operations to provide retail banking services. Due to this development, Berger, Goldmark, and Sanabria (2006) observe that the Latin American microfinance is viewed more in terms of products rather than institutions. Ball and Watt (2013) in their survey establish that MFIs have been influenced by banking industry especially in risk management. Their study of differences in risk perception by stakeholders in the conventional banking sector and the microfinance sector suggest that investment in microfinance has both social and financial performance dimensions necessitating an approach of risk management which goes beyond focusing purely on technical risk. Financial performance is the extent to which clients directly pay for the full cost of providing services while social performance relates to expanding outreach by providing credit to help the poor who cannot afford the high market rates resulting in the realisation of stated social mission. Pischke (2007) however notes that the integration of the two sectors will promote innovations and increased access to better and more secure banking services for the benefit of the poor. A combination of investments by public donors, private non-profit social investors and commercial investors would result in enhanced efficiency and sustainability of the microfinance sector. The importance of striving for financial sustainability is worthwhile because outreach to the poor cannot be effective if MFIs are not sustainable (Hermes & Lensink, 2011).

A trade-off exists between sustainability and outreach in microfinance (Copestake, 2007; Hermes & Lensink, 2011). This implies that MFIs strive for financial performance at the expense of social performance—a development that imposes risk of mission drift with serious implications on the core objectives of MFIs. Kablan (2016) also confirms that financial

performance increases at the expense of social performance. His analysis further shows that outreach variables have negative impact on profitability and risk management. He recommends a framework that focuses on good risk management, a good asset- capital ratio and subsidies that allows MFIs to be both socially and financially efficient.

The debates on sustainability and outreach demonstrate subjectivity in the assessment of financial risks confronting MFIs. The decision of managers of MFIs to embrace either sustainability or outreach has implications on the level of risks their institutions would be exposed to. MFIs negotiate through the trade-off between the two based on the dynamics in their ownership structures and the interests of key stakeholders. The ability of MFIs to effectively manage risk and the impact of their services play a significant role in actualizing their goals in their operating environment. Chua et al. (2000) establish that the risks faced by clients have a direct relationship with the risk portfolio and sustainability of MFIs. This is due to the fact the risks faced by clients affect their capacity to repay loans or to actively participate in microfinance. Thus, when MFIs have high dropout rate in their programmes, their impact is hampered by a lot of negative implications. Moreover, microcredit schemes are established with the expectation that loans will be repaid from the proceeds of entrepreneurial endeavours of clients. Similarly, the capacity of clients to save is intrinsically tied to funds they are able to generate from the activities they are engaged in. Therefore, it can be inferred that risk management has a relationship with the impact of MFIs.

The complexities of impact assessment constitute risks to MFIs as it has become increasingly relevant because it is the means through which donors and sponsors are informed about program effectiveness, meet the accountability demands of their funders and get value for their investments (Hulme, 2000). For developing countries, impact assessment is crucial because resources are relatively scarce, therefore empowerment efforts must be result –oriented and provide evidence that poverty is being alleviated (Okojie, Monye-Emina, Eghafona, Osaghae, & Ehiakhamen, 2009). Impact assessment in microfinance itself has remained controversial in various aspects. Its two cardinal objectives are; proving impacts and improving interventions, but advocates dwell more on proving impacts to justify and attract investments into the sector than improving interventions (Hulme, 2000). Authorities are sometimes hesitant to undertake impact evaluations due to costs and technical complexities, and because the findings can be politically sensitive, especially if negative (Okojie et al., 2009, p. 11). This infers that there are

risk implications for the judgements emerging from impact evaluation of microfinance. There are also challenges in evaluating impact because of the complexities of objective measurement.

Thus, the parameters for impact assessment are controversial, problematic and costly as scholars tend to disagree on the indices and methods of impact assessment in microfinance. There is no consensus on the type of data set to be analysed. The initial use of non-randomised data was criticised on the basis that research strategy was faulty given that the control groups used (non-clients, recent clients) differed significantly from microfinance clients leading to over-estimates of impact (since clients were generally better off than non-clients) (Hermes & Lensink, 2011; Roodman, 2012). Studies that used randomised data have also been contested because generalizations cannot be made, and the experiments must be carried out under different circumstances and in different locations for results to be considered reliable (Bauchet et al., 2011; Hermes & Lensink, 2011). Researchers have employed different techniques and obtained results that are sometimes conflicting. This may be explained in the context that studies are undertaken at different periods, using varying data sets, philosophies, methods and prevailing conditions, which will ultimately result in different outcomes and interpretations. Vuilleme (2014) explains that studies aimed at comparable goals may achieve essentially different and incommensurable purposes because most key concepts acquire their full conceptual meaning only within a model or a specific context.

Criticisms of microfinance stem from the provision of microcredit to the poor. Hulme (2007) criticises the focus on giving credit to the poor as means empowering them rather than encouraging savings and other financial services that could be more beneficial to the poor. Dichter (2007) observes that at its peak, and with the UN's declaration of year 2005 as year of microcredit, the poor were generally perceived as potential entrepreneurs who simply needed credit facilities and access to capital to leap out of poverty and be transformed to successful entrepreneurs without consideration of other factors that make people vulnerable to poverty. He explains the 'symbology of debt' by analysing the psychological effects on both the debtor and creditor. Being in debt can emotionally and morally affect an individual's capacity to efficiently utilise credit productively because of the loss of respect, power and self-reliance that lingers sometimes even after the loan is repaid or cancelled. For the creditor too, the emotional burden of asking for repayment could lead to deterioration of trust, confidence and relationship. Roodman (2012) and Hulme (2007) also lend support to this claim in questioning the rationale of helping poor people by putting them in debt. Generally, there is a fierce debate on the

suitability of microcredit for people who are considered poor with some analysts arguing that not all poor people should be provided with loans. Hermes and Lensink (2011) and Roodman (2012) reveal that studies in impact assessment conducted in Peru and India did not show any positive impact on poverty reduction. They therefore, argue that the poorest of the poor need relief, charity and if possible, savings schemes and not loans. Harper (2003) suggests that it is the poor who possess some level of entrepreneurial skills and have the capacity to engage in productive activities that need microcredit support. Critics further argue that it excludes the poorest of the poor or the core poor whose needs and desires are not considered in designing micro financial products. Hulme (2007) recommends financial services like flexible savings, contractual savings, micro insurance, loans for education and health as services that will be appealing to the poor and help alleviate their poverty. The core poor are risk –averse, not wanting to access any form of the credit because of their state of poverty and helplessness. They are not easily accepted into credit groups because they are perceived as bad credit risk by other poor people who are better off and the bank officials. They are also likely not to meet the savings limit or have registered enterprises which are usually prerequisites for obtaining credit (Hermes & Lensink, 2011).

Critics have also observed that the bulk of microfinance is not accessed for income generating activities but to facilitate consumption spending (Bateman, 2010). The idea of group lending and peer monitoring has also been criticised on the basis that it creates a lot of inconveniences for members of the group as valuable time is wasted on attending meetings. Joint liability and risk sharing by group members are also problematic because of the possibility of additional debt burden on group members if a member defaults in loan repayment. The loss of privacy associated with peer monitoring and joint liability is also a concern that needs re-evaluation (Harper, 2007). Iganiga (2008, p. 98) however observes that groups which are usually formed based on common of business interests or proximity in location of residences or business help reduce cost of lending. The time spent visiting individuals' homes for disbursement and collections is reduced as field staff meet clients during group meetings. In addition to this, group lending instils 'credit discipline and good repayment performance as group members exert tremendous peer pressure on each other to perform'. These perspectives relate to the issues around trust, emotions, convenience when analysing risk concerns. It reflects the Edgework Theory of Risk (Lyng, 2004, 2009) where stakeholders' motivation and engagement may be driven by their personal values rather than objective targets-e.g. credit, profit, income etc. For instance, some clients may be discouraged from getting involved in microfinance if

they perceive that its practices will infringe on their privacy or human dignity even if it means forgoing its objective benefits- access to finance, business opportunities. This does not mean that they are not aware that such benefits exist or that they do not suffer deprivation but that they prefer to pursue personal happiness and fulfilment instead of getting entangled in what is unpleasant to them. This implies that evaluating the impact of microfinance sometimes goes beyond objective measures-incomes, consumption, profits etc. but also include assessing impact on abstract variables which may include mental well-being, self-esteem and actualization among others.

The arguments for and against the practice of microfinance relate to the subjective nature of risk perception among analysts who lay claim to the legitimacy of knowledge. The impact of microfinance as financial innovation remains a subject of contest by critics and proponents based on their expert knowledge acquired through various endeavours (e.g. research, training, qualifications etc.,) which bestow confer legitimacy and authority to influence public opinion.

3.5: Microfinance Profile of Nigeria: Prospects and Challenges

The notion of Microfinance is not entirely new in Nigeria, local financial arrangements such as ‘Esusu’ (Yoruba), ‘Adashi’ (Hausa), ‘Otataje’(Igala),etc, have been in practice by peasant farmers, traders and artisans to encourage savings and provide funds for producers in rural communities (Iganiga, 2008; Nwanyanwu, 2011; Olukotun, 2008). These operate largely as savings or credit clubs where members contribute or save fixed sums of money and are either given the lump sum of their savings after an agreed period of time (sometimes at the end of the year or during communal festivities), or members take turns to collect the total contribution of members at the end of each cycle (Bascom, 1952; Olukotun, 2008). They are sometimes engaged in microcredit to assist members and non-members access credit with the profit-making motive. Risk management is practiced even in these informal settings because care is taken to ensure that funds are kept in the custody of members with proven integrity and loans are disbursed prudently to avoid losses. The processes of risk management and decision making by members reflect how they perceive risks.

The microfinance policy operational in Nigeria is an attempt by the government through the CBN to remodel and regulate the delivery of financial services to enhance the productive capacity of the rural and urban poor (Iganiga, 2008). Since its establishment in 1958, The CBN

has the pursuance of ‘developmental-complimentary functions to support real sector development and enhance the effectiveness of monetary policy’ as one of its cardinal mandates (CBN, 2014b, p. 3). To actualise this mandate, the Agricultural Finance Department was created in 1977 and later renamed the Development Finance Department in 2002 to design policies and programmes targeted at expanding access to capital to support the growth and development of the real sector. Prior to the launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in 2005, there were experiments with several programmes - such as the Agricultural Credit Guarantee Scheme (ACGS) Directorate of Food, Road and Rural Infrastructure (DFRRI), Rural Banking by commercial Banks, People’s Bank of Nigeria (PBN) and Community Banks (CB) (which metamorphosed into MFIs) aimed at fast-tracking the economic and social development of Nigeria (Audu & Achegbulu, 2011; CBN, 2011; Nwanyanwu, 2011). These were pursued with the realisation of the significant role of MSMEs play in accelerating development and alleviating poverty.

The CBN plays a crucial role as a regulatory authority in undertaking risk-based supervision of licenced financial institutions. Its code of corporate governance provides a set of best practices covering the appointment of boards of directors to enhance transparency and accountability, and has legal consequences for non-compliance (Paul et al., 2015). The CBN oversees the licencing of MFIs, it monitors and enforces the rendition of daily, weekly and monthly returns. It carries out reforms and assists MFIs to attain capital adequacy by providing access to credit through various intervention and bailout funds (CBN, 2014a, 2014b; Daud, Yussof, & Abideen, 2011; S. L. Sanusi & Governor, 2013; Charles Chukwuma Soludo, 2004). Based on the assessment of its performance indicators, the Nigerian banking sector has been lauded for recording increased credit flow, capacity utilization, job creation, income growth and agricultural value chain development in recent years (CBN, 2014b). However, the report acknowledges that a wide gap still exists especially in the addressing the crisis of unemployment and poverty despite numerous interventions. Some inconsistencies can be noted in the above assertions given that credit flow, capacity utilization, job creation, income growth and agricultural value chain development have increased simultaneously with unemployment and poverty resulting into economic recession in 2016 (Eboh, 2016; Kottasova, 2016). This implies that the recorded increase in the indices evaluated and the various intervention schemes designed by the CBN have not had significant impact on the economy. Similarly, the rising incidence of corporate fraud in the sector indicate the limitations of the risk management framework (Idowu Abiola, 2009; Akinyomi, 2012; Paul et al., 2015). Dauda (2017) notes that

poverty in Nigeria differs with the pattern in many other countries given that even with the economic growth recorded, poverty is still on the increase with the North- West and North – East geopolitical zones leading in the poverty indices. This situation is at variance with the experiences of developing countries in Europe, America and Asia where economic growth results in poverty alleviation. This analysis underscores the importance of having a holistic view of issues by examining the social interactions within a context.

Since the launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on December 15, 2005 and revised in April 2011 which provided the blue-print for the operations of MFB, there has been rapid growth in the number of MFBs. Tawney et al. (2014) observe that the microfinance sector in Nigeria is distinct from the setting in other countries. Even though formal microfinance is relatively new (i.e. the policy was launched in 2005), there are many regulated and deposit-taking MFBs than the non-bank MFIs. Many NGOs involved in microfinance are being transformed to MFBs, indicating that there may be a fertile ground for microfinance in the Nigerian financial market. This however raises some questions- Why are there more commercially-inclined MFBs than the non-bank MFIs in Nigeria? Could the Nigerian MFIs be having a different goal other than empowering the economically active poor? What is really the reason for the current numerical growth of MFIs in Nigeria? Answers to these questions may reveal something about how investors perceive risks in their involvement in microfinance or about the motivating forces behind the increasing interest in microfinance now. The approach being adopted by CBN in regulating the activities of MFIs and undertaking risk-based supervision would also reveal the factors that inform its conceptualization of risks. The interest of clients and communities in MFIs and how microfinance services are adopted would also reveal how risks are perceived in relation to microfinance. These conceptualizations of risks would ultimately showcase the unique identities and interests of various stakeholders as they strive to maximise benefits and minimise losses in their involvement in microfinance. A possible explanation for the pattern and dimension of the microfinance sector in the Nigeria can be linked to the interest of the government. Dayson and Quach (2006) established that there is a sharp contrast in the motives for government funding of MFIs in developed countries and those of developing countries. They note that while governments in the developed countries are likely to support MFIs to promote entrepreneurship among disadvantaged populations and enhance financial inclusion, their counterparts in developing nations like Nigeria may be interested in aligning the activities of MFIs to the mainstream financial institutions. This may

be the likely reason for the support and promotion of the commercial model of microfinance (MFBs) above the NGO model of microfinance (NMFI).

MFBs in Nigeria operate in three categories; Unit MFBs which operate in a single location (a one-branch Bank) and have a capital requirement of N20 Million, State MFBs with branches and cash centres within the geographical confines of a state and have a capital requirement of N100M and National MFB which are licenced to establish branches across states in Nigeria and have a capital requirement of N2Billion (CBN, 2014b; Iganiga, 2008). As at the end of June 2014, there were 3 National MFBs, 56 State MFBs and 793 Unit MFBs operating in Nigeria and altogether having 900 branches, 113 cash centres and 36, 263 meeting points. The MFBs have a deposit customer base of 7.4 million comprising 3.6 million males and 3.7million females. Their total deposit liability stood at N137.5 Billion and the total number of borrowers was 2.2 million comprising 1.0 males and 1.2 females (CBN, 2014b). The South-Western geopolitical zone has the highest concentration of MFBs with 40% of the licenced MFB domiciled in the region (Kasali et al., 2015). The disparity in structure and distribution of MFIs on the basis of geographical location and gender could be accounted for by some underlying socio-cultural factors which demonstrate how risk perceptions on contextual basis. Ekanem (2015) argues that gender influences entrepreneurial capabilities as females tend to engage more in smaller businesses with fewer risks than males.

There is an increasing interest in the activities of MFIs in Nigeria due to the growing entrepreneurial awareness and expectation that MFIs assist the poor by providing access to finance for business expansion which can boost household incomes and enhance sustainable livelihood and productivity (Nwanyanwu, 2011). There is also wide market for their services as a large segment of the population is unbanked and poor (Acha Ikechukwu, 2012). The contributions of international development partners such as the UNDP, IFAD, GIZ and USAID in terms of provision of access to finance has helped to boost the industry (CBN, 2014b). In spite of these opportunities, Iganiga (2008) identifies the obstacles of high operating costs, loan delinquency, inadequate experienced staff and lack of sufficient funding as challenges confronting MFIs in Nigeria. The poor banking culture especially among rural dwellers and the urban poor hinders the growth of MFIs. Acha Ikechukwu (2012, p. 108) observes that because people are accustomed to borrowing money from friends and relatives and repaying the same amount of money irrespective of the tenure of such loans, it is difficult to accept the payment of interest on bank loans.

Some challenges of MFIs include misappropriation of microfinance funds, inconsistencies in government policies and lack of sufficient infrastructural support (Agbaeze & Onwuka, 2014; Nwanyanwu, 2011). Other factors limiting the sustainability and outreach of MFIs are; the high rate of loan default among the SMEs, which poses serious consequences for microfinance bank, poor loan quality, high transaction costs, management deficiencies, poor documentation of credit process, wrong information, identity of the loan applicant, and unstable economic situation in the country (Noruwa & Emeka, 2012; Ogujiuba, Jumare, & Stiegler, 2013). Ogujiuba et al. (2013, p. 611) point out that MFIs ‘cannot be financially viable because small loans are too costly to administer and the profits from such lending too meagre to permit profitability’.

In the Nigerian context, impact assessment of MFIs has generated diverse views by researchers. The challenges of poverty and financial exclusion in Nigeria indicate that MFIs have not reached an appreciable level of performance and outreach. Olu (2009) reveals that there is a significant difference in the number of entrepreneurs who patronise MFIs and those who do not, and Efobi et al. (2014) confirm that access to financial services in Nigeria is generally low and hampered by factors such as income levels, age and inclination to ICT. The results from different studies on the impact of MFIs in Nigeria show that MFIs have positive impact on isolated variables but have no overall significant impact on the poverty level in the country which is of paramount interest. For instance, Babajide (2011) establishes that MFIs alleviate the financing constraints of microenterprises which patronise them, Olu (2009) maintains that MFIs generate significant impact in predicting entrepreneurial productivity and Ebomuche et al. (2014) show that MFIs contribute significantly in innovative management and business strategies, but all agree that their impact in poverty alleviation is in doubt. This indicates that there is no synergy in the poverty reduction capabilities of MFIs and brings to question their acclaimed impact.

3.6: Conclusion

This chapter examined the concept and perspectives of microfinance. Its major finding is that it traces the emergence of microfinance as a social innovation conceived to address the economic and social problems in a given context. This mirrors the social theories of risks in the sense that microfinance initially gained acceptability and diffused to other geographical realms through the process of globalization. However, it has become a subject of controversy and has attracted dissenting views on its efficacy in alleviating poverty. It has also propelled

the discourse on risks and risk management in view of the likelihood of many unfavourable outcomes that could result from the way it is operationalized and practiced.

With its discourse on microfinance and references to risks and risk management, this chapter has established a relationship between the three key concepts in this thesis. In next chapter, I examine risks and risk management in microfinance to explore the nature of risks confronting MFIs and the formal and informal strategies and structures in place to mitigate them.

Chapter Four: Risks and Risk Management in Microfinance

4.0: Introduction

Having discussed the concept of microfinance and linked its perspectives to the theories of risk in the previous chapter. This chapter examines the nature of risks confronting MFIs and the risk management strategies and processes of MFIs. Chapters two and three have established that risk management is a subjective process involving the social actors whose decisions, behaviours and interests influence how they negotiate through risk issues in the contexts in which they engage with MFIs. This chapter attempts to establish the conceptual framework of the study by connecting the key concepts (risk, risk management and microfinance) together in a relationship that addresses the research questions.

This chapter is a review of existing literature on risks and risk management processes to compare these with the findings of the study. The chapter is aimed at addressing research questions one and two which seek to explore the nature of risks confronting MFIs and the processes MFIs adopt to manage risks respectively.

4.1: Nature of Risks Confronting MFI

There are many risks confronting MFIs based on review of various literature. Most classifications of risks tend to revolve around three broad types-financial, operational and strategic risks, which are further sub-divided to numerous risk types (GTZ GmbH, 2000; S. Khan & Ashta, 2013; Padma et al., 2012; Rozzani, Mohamed, & Yusuf, 2017). Padma et al. (2012) and Rozzani et al. (2017) suggest that MFIs tend to pay more attention to financial risks than other risk types. While many researchers have identified the lack of attention given to several types of risks confronting MFIs, it is obvious that these risks are inter-related and contained in the three major risks often cited. This further illustrates subjectivity in risk prioritization whereby differences in risk perceptions make analysts view and classify risks differently.

Financial Risk	Operational Risks	Strategic Risk
<p>Credit Risks</p> <ul style="list-style-type: none"> • Transaction • Portfolio • Product Development • Interest Rates <p>Liquidity Risks</p> <ul style="list-style-type: none"> • Profitability • Liquidity • Lack of Funding • Excess Funding <p>Market Risks</p> <ul style="list-style-type: none"> • Interest Rate • Foreign Exchange • Investment Portfolio 	<p>Transaction Risks</p> <ul style="list-style-type: none"> • Human Capacity • Information Technology • Back-Office Operations <p>Fraud/Integrity Risks</p> <ul style="list-style-type: none"> • Staff -Perpetrated Fraud <p>Legal & Compliance Risks</p> <ul style="list-style-type: none"> • Inappropriate Regulation 	<p>Governance Risks</p> <ul style="list-style-type: none"> • Ineffective Oversight • Corporate Governance • Management Quality • Mission Drift • Strategy • Ownership <p>Reputation Risks</p> <ul style="list-style-type: none"> • Undeliverable Social Expectations • Transparency <p>External Business Risks</p> <ul style="list-style-type: none"> • Competition • Macroeconomic Trends • Political Interference.

Table 1: Expanded risk matrix for MFIs

Adapted from S. Khan and Ashta (2013, p. 4)

4.1.1: Financial Risks

Financial risks have adverse effects on the sustainability of financial institutions (MFIs inclusive) limiting their capacity to provide credit and disrupting their financial stability (Gietzen, 2017). It encompasses credit, liquidity and market risks which have direct bearing on their portfolio-At-Risk (PAR), profitability, investment portfolio, funding and capital requirements (S. Khan & Ashta, 2013). Apart from these factors, which have been addressed in literature, all MFIs still face financial risks arising from their lending activities and management of resources which have implications on their sustainability and outreach regarding their financial and social performance.

4.1.1.1: Credit Risks

Credit risk has many dimensions in microfinance. It manifests as a result of late or non-payment of loan obligations due to individual loan characteristics (transaction risk) or the overall loan portfolio (portfolio risk) of an institution (S. Khan & Ashta, 2013). Fernando (2008) analyses other dimensions of credit risks faced by MFIs to include the risk of default by other financial institutions, which have payment obligations to MFIs or the inability or unwillingness of other institutions to pay MFIs for services they render. MFIs are thus, exposed to credit risk in the event their clients' deposit/savings are trapped in another bank which gets liquidated and has no deposit insurance cover. This would mean that clients may not be able to recover their funds to repay loans obtained from the MFI.

Credit risk manifesting in non-performing loans threatens the capacity of MFIs for sustainability and outreach. This implies that loanable funds sourced from depositors, investors and donors are depleted with grave consequences on the financial performance of the MFI. Rozzani et al. (2017, p. 21) reveal that credit risk is the most common and serious risk confronting MFIs because they provide uncollateralized loans to their clients. It encompasses both idiosyncratic (events affecting an individual client e.g. ill health) or covariate/systemic (events affecting many individuals simultaneously e.g. natural disaster) shocks which can impact on client(s) and in turn, expose MFIs to risk due to non-repayment of loans (Günther & Harttgen, 2009). Smallholder households, businesses and MFIs are vulnerable to

catastrophes due to their seeming inadequacies and their presence in disaster-prone areas (Collier, Katchova, & Skees, 2011; Smith, 2016). It is difficult to predict and manage potential catastrophic risks and hazards and there are limits to how such risks can be managed even if mitigating strategies are put in place. With such extreme events, existing statistics might be insufficient to execute risk management and risk analysis may not allow for the prediction of accidents and catastrophes (Paté-Cornell, 2012). Bearing this in mind, Aven (2015, p. 84) suggests an approach in risk management that conceptualizes risk to include black swan risks and builds a risk assessment framework which takes them into consideration. Thus, risk in this context relates to uncertainties, eventualities and chances that unfavourable outcomes which were not anticipated, could occur in a loan contract and result in non-repayment of loans. This brings to bare issues of social protection in risk management and more so, there is a growing interest in how risk perceptions, attitudes and behaviours are influenced by the occurrence of extreme events (P. Brown, Daigneault, Tjernström, & Zou, 2018). To this end, Schicks (2013) reiterates that apart from looking at clients' ability to repay loans, it is also the obligation of lenders to ensure that credit products are suitable for meeting the needs of clients to ease their repayment efforts and minimise friction between parties involved.

Microfinance is often linked to microcredit even though in practice it covers a wide range of financial services tailored to meet the needs of the lower-income and poor people. Christen et al. (2003, p. 6) argue that while the definition of the poor varies from country to country, their need for microcredit is not limited to business and enterprise alone. Clients of MFIs demand credit to 'manage emergencies, acquire household assets, improve their homes, smooth consumption and fund social obligations'. Credit risk is inherent in the business of microfinance because of its unique features.

MFIs contend with high risk of moral hazard and adverse selection posed by their clients. The risk of moral hazard occurs where one party in a loan contract takes additional risk, becomes imprudent or alters its behaviour because the consequences would be borne by the other party and adverse selection occurs where one party is privy to information which the other party does not have. In the context of risk management in microfinance, these concepts are relevant in view of lending methodologies adopted by MFIs (Armendáriz de Aghion & Morduch, 2000; Hermes & Lensink, 2007; Karlan & Zinman, 2009). Many studies have established that the risk of moral hazard and adverse selection is high for MFIs due to their engrossment in providing small loans to the poor without any backing of a collateral. This forms the core of the social mission of microfinance which distinguishes it from conventional banking. The

existence of a collateral as a prerequisite for accessing can mitigate the risk of moral hazard but could affect the ability of the poor to access the credit market (Flatnes, 2015). On the hand, the de-emphasis on accepting collateral in microfinance is often problematic for MFIs as their sustainability and outreach are threatened when clients fail to repay loans. Physical distance between MFIs and borrowers could also increase the cost of monitoring for MFIs and worsen the risk of moral hazard (Presbitero & Rabellotti, 2014). A major driver of these risks for MFIs lie in the asymmetry of information and challenges in verifying the identity of clients. Chakrabarty and Erin Bass (2013) note that MFIs are confronted with risk resulting from their inability to access financial information about their clients. Seeking information about the credit history and expected behaviours of prospective borrowers can increase transaction costs for MFIs. Sriram (2005) explains that MFIs try to overcome this challenge through reliance on building trust and social collateral using community ties or even by tracking the friendships of prospective borrower through their online platforms to gauge their credit profile (Mingfeng, Prabhala, & Viswanathan, 2013). Riggins and Weber (2017, p. 107) also argue that 'distant upstream lenders do not have adequate information about local business and loan conditions to make sound microfinance funding decisions, but instead make decisions based on identification biases' founded on emotional ties a lender may have with a borrower. Problems also arise due to the inability of MFIs to judge accurately based on the information available to them, which clients are creditworthy and would not default on their credit obligation. Saito and Tsuruta (2018) posit that information constraint or asymmetric information between lenders and borrowers could lead to situations where potentially credit worthy clients are erroneously denied access microcredit because they are deemed risky while risky clients are wrongly adjudged to be creditworthy. This incapacity to distinguish between low risk and risky clients by the credit provider can lead to misallocation of resources which can potentially defeat the aim of MFIs in targeting client who are most deserving of their services.

Microfinance risk management practices such as peer selection and monitoring, joint liability, dynamic incentives and social collateral are potentially geared towards mitigating risks these risks. In relation to the preference for group or individual lending by MFIs, Carpenter and Williams (2010, p. 23) argue that

Since most borrowers using microcredit loans do not have collateral to post as insurance for repayment, group lending can solve the moral hazard problem of default by creating incentives for group members to monitor fellow members. Further, adverse selection might be attenuated because issuing loans only to groups provides each group member with an incentive to think hard about which group to join.

In contrast to this view, Simtowe, Zeller, Phiri, and Mburu (2007) found that these practices do not minimize the risk of moral hazard for MFIs in the long run. They recommend that MFIs should pay attention to the ever-changing financial needs of their borrowing clients and modify their products to meet these needs. Arguing further, Barboni, Cassar, Rodriguez Trejo, and Wydick (2013) establish that joint liability can actually compound the risk of adverse selection in group lending as individual members can transfer their loan liability to other members of the group knowing that other group members would be compelled to support a defaulter in the group in order to access further loans. This, they suggest is the reason both MFIs and clients are opting for individual borrowing in recent times. Navajas, Conning, and Gonzalez-Vega (2003) also found that by adapting their loan contracts to changes in competition, MFIs are better able to motivate their clients to repay their loans rather than relying on joint liability or peer monitoring. Flatnes (2015) suggests that demanding for collateral from potential borrowers can reduce moral hazard among borrowers and enhance repayments without undermining the impact of social collateral group lending. This discourse relates to the notion of risk as conceptualized in the Systems and Edgework Theories of risk where the subjectivity of risk is reflected as outcome of decision making, emotions and choice.

4.1.1.2: Liquidity Risks

Liquidity risk is an important risk confronting MFIs with far reaching ripple effects on their stakeholders. This risk relates to operations of MFIs with regard to their profitability, liquidity, funding, interest rate, foreign exchange and investments (S. Khan & Ashta, 2013). Liquidity risk is the possibility that a MFI is unable to meet its cash obligations (withdrawals, demand for loans and other operational costs) at a given time (Mata, 2014).

Klomp (2018) argues that MFIs are highly prone to liquidity risk due to their presence in areas with high incidences of natural disasters citing the bailout given to Grameen Bank in 1987 when 25% of its borrowers were defaulting in repaying their loans as a result of severe flood. Similarly, Becchetti and Castriota (2011) studied how it took the intervention of foreign donors injecting funds into MFIs to stabilize Sri Lankan communities hit by the 2004 Tsunami, indicating that the MFIs are susceptible to liquidity risk because of their closeness to the poor who are often exposed to hazards. Furthermore, the involvement of clients in high risk activities such as agriculture and their use of simple accommodation facilities increases the vulnerability of MFIs to both credit and liquidity risks (Klomp, 2018). Generally, there is a wide body of literature focusing on the role of MFIs providing microcredit and micro insurance services to

provide safety nets to the poor experiencing covariate shocks or emergencies (e.g. Kumar & Newport, 2005; Mechler, Linnerooth-Bayer, & Peppiatt, 2006; Shoji, 2010). Mathison (2003, p. 6) argues that MFIs cannot overlook the risk of being affected by natural disasters.

Even at the best of times, many MFIs are notoriously undercapitalised. When a significant proportion of clients are severely impacted by a natural disaster, the resulting drain on cash reserves can mean that MFIs might not be able to offer emergency loans and they might need to restrict the withdrawal of savings.

MFIs in Nigeria face liquidity risk due to their inability to mobilize sufficient funds to meet their demand for credit. Apart from shortages in cash flow, L. S. Sanusi (2012) notes that they are also confronted with liquidity risk arising from obstacles in keeping and moving huge volumes of cash to enhance efficient cash management.

4.1.1.3: Market Risks

Market risks encompass risks that might arise from financial losses due to changes in market interest rates (interest risk), or due to inadequate protection from fluctuations in currencies (foreign exchange risk), or due to long-term asset and liability management (investment portfolio risk) (S. Khan & Ashta, 2013). Financial intermediation involves interactions between the deficit and surplus segments of the markets

The exposure to interest rate risk is also high for MFIs and can affect their profitability through the gaps between their interest earnings and interest payments (Chakrabarty & Erin Bass, 2013, p. 490). Unanticipated changes in interest rates can disrupt the financial projections of MFIs. They need to value their interest rates in a manner that allows them to meet their running costs and make profit if they are commercially inclined. Chakrabarty and Erin Bass (2013, p. 490) note that MFIs in developing countries face greater risk because of contextual factors such as high rate of inflation and unstable interest rates. Nwanyanwu (2011, p. 96) identified inadequate funding as a major problem confronting MFIs in Nigeria due to 'low capital base of the institution, inordinate fixed asset acquisition, ostentatious operational disposition, inability to mobilize deposits, poor lending and questionable governance and management arrangement'.

The ties between MFIs and international capital markets expose them to financial risk as funding from foreign donors and international microfinance investment funds (MFIFs) flow to them. Some MFIs rely on external sources of funding to meet their capital requirements and

expand their outreach. The period between 2006 and 2010 witnessed the drive to transform many MFIs from being subsidized and non-profit making institutions to commercialized and profit-oriented institutions (Priberny & Dorfleitner, 2013). However, the effects of the global financial crisis, low repayment rates and fluctuations in interest and exchange rates however led to increased exposure of MFIs to various dimensions of financial risks- credit, liquidity and market risks. Due to their high exposure to risks, MFIs face difficulty in accessing funding from local banks and often have to rely on borrowing from international lenders to provide loans to clients in their local currencies (Holden & Holden, 2004; Swanson, 2007). Consequently, Priberny and Dorfleitner (2013, p. 68) analyse that the mismatch of currencies in which assets and liabilities are denominated and uncertainty about future FX fluctuations exposes MFIs to risks (FX and interest rate risk). Fernando (2008) also maintains that the devaluation of the local currency in relation to the foreign currency can result in huge losses for MFIs. As part of the lessons learnt from the global financial crisis in relation to their over dependence of MFIs on external sources of funding, many development finance institutions (DFIs) (such as CBN) have established various schemes drawing funds from the MFIFs to enable MFIs borrow in their local currencies to mitigate foreign exchange risk and have also set aside funds to bail out MFIs in liquidity crisis. These, according to Gietzen (2017), have significantly reduced the financial risks associated with MFIs. While this argument is valid, it is obvious that the DFIs only act as intermediaries between MFIFs and MFIs, hence the liability, though reduced, is still passed on to MFIs having recourse to these funds especially in countries with unstable foreign exchange regimes such as Nigeria. Nigeria's highly volatile exchange rate especially in recent years, largely due to the overdependence on revenues from oil exports has significant multiplier effects on other macroeconomic indices to which MFIs are not immune. Al-Azzam and Mimouni (2017) found that MFIs which rely on the use of foreign currency funding have higher microcredit interest rates while those operating in countries with fixed exchange rate regimes fare better in managing foreign exchange risks.

4.1.2: Operational Risks

S. Khan and Ashta (2013) note that operational risks confronting MFIs emanate from their transactions, human capacity, information technology, back-office operations, staff – perpetrated fraud and inappropriate regulation which can result in losses or service failure. Alaoui and Tkiouat (2017) argue that operational risk management is crucial to MFIs in

enhancing their financial and social performance, and this can be achieved by paying attention to customer relationship management, staff training, clients screening and business analysis which have a lot to do with human capital development.

4.1.2.1: Transaction Risks

There are often problems and challenges that pose risks to MFIs emanating from their internal processes and day-to-day practices. These can be major aspects of their operations/transaction, technology, knowledge/ skills, or administrative bottlenecks which affect their performance in service delivery. MFIs face risks arising from the nature of their transactions. This can range from high transaction costs in providing financial services to the poor (Armendáriz & Morduch, 2010), the nature of their products and services and informal appraisal of their borrower. Iganiga (2008, p. 89) asserts that the performance of MFIs is characterised by 'high operating cost, repayment problem, weak refinancing facilities, client apathy and drop out' and recommends improved supervision as one strategy to improve on their performance.

Human resources and technology risks are induced by the lack of knowledge, skills and behaviours to adopt innovative ways of providing efficient microfinance services. Due to the challenges of the Nigerian educational system, many graduates of institutions lack knowledge, technological, vocational and professional skills which do not match their chosen careers. In most cases, they are ill-equipped to add value in the work place. Education in the field of finance and accounting is characterised by poorly designed modules of course work, ill-motivated lecturers and lack of collaboration between stakeholders in industry and academia (Ofoegbu, Okaro, & Okafor, 2018). In the banking sector, H. U. Khan, Lalitha, and Omonaiye (2017) explain that there is an overwhelming need for qualified, skilled and experienced professionals as well as facilities and infrastructure that support the transfer of knowledge and skills. Emeni (2008b) identifies incompetent management especially in credit administration as a problem which exposes MFIs to risk in Nigeria. Gao, Sung, and Zhang (2013) identified lack of proficiency and skills as impediments to risk management, and recommend human and social capital as the key ingredients through which policies and plans can be translated to outcomes and performance. They suggest that risk management capability building is crucial in expanding or reinforcing the ability of practitioners to deliver on set goals and objectives. Ezekoye (2017) and Todowede (2016) examine challenges of the Nigerian educational sector and note that the study of technological and science-related subjects towards the acquisition of practical skills, attitudes, understanding and knowledge in occupations in various sectors of

economic and social life has remained a major challenge. Baumann (2004, p. 785) notes that 'donors, governments and many analysts regard sustainability as the benchmark of microfinance institutions' (MFIs) performance. However, the most relevant question is whether microcredit NGOs are doing as well as they can in their contexts.

4.1.2.2: Fraud and Integrity Risks

MFIs generally face risks arising from massive fraud or theft which can lead to huge losses capable of collapsing the whole MFI. The level of staff integrity determines how MFIs can be run transparently and accountably, and also the level of confidence clients will have in them. The value system in the society and the level of integrity of clients can also result in risks for MFIs. Thus, fraud and integrity risk for MFIs can be driven both internally through their staff and mode of operation, and externally through clients and society. S. Khan and Ashta (2013) identifies staff-perpetrated fraud as a risk factor for MFIs. Chakrabarty and Erin Bass (2013) reveal that MFIs are susceptible to fraud than other financial service providers because they exist in poor economic environment (with limited opportunities for production, consumption, savings and investments) where fraudulent and criminal activities are common. Fernando (2008) also attributes this challenge to the rapid expansion of their cash operations especially in less developed countries. Their mode of operation in most instances involve manual handling and transfer of cash between clients and the MFI which increases their exposure to fraud and theft which can have negative impact on them. He also found that fraud tends to be committed by staff who are retained in the same position over time because their branches are located in remote areas far from head office such that their activities are not adequately monitored and supervised. To curb this, in addition to entrenching good ethics, professionalism and effective monitoring, A. Ashta and Hannam (2014) and Tsafe and Rahman (2013) recommend that culture and religious beliefs can positively impact on the performance of MFIs and stakeholders. 'Spiritual value is a key element in company culture and contributes significantly to organizational success' (Kamaluddin, Kassim, Alam, & Samah, 2018, p. 117). Similarly, (Parvez & Ahmed, 2004, p. 3) recommend that 'problem-solving approaches need to be broadened to incorporate spiritual dimensions and need to increase the involvement of all stakeholders in a free discussion on identifying the problem situation and in formulating the solutions'. These suggestions point to the need to incorporate non-objective strategies for controlling and mitigating risks such as advocating for behavioural change (integrity, good

character and values), rather than focusing on objective targets such as certifications, board composition etc.

4.1.2.3: Legal and Compliance Risks

Legal and compliance risks for MFIs can result from inappropriate regulation and lapses in supervision (S. Khan & Ashta, 2013). Chakrabarty and Erin Bass (2013, p. 490) argue that MFIs are confronted with risk from regulatory agencies within the confines of their operating environment noting that poor regulation can undermine the viability of MFIs. These can lead to damaging effects on their performance or threaten their corporate existence. Churchill and Coster (2001, p. 10) establish that certain aspects of legal provisions such as labour laws, moneylending and contract enforcement regulations can be detrimental to MFIs. Arun and Murinde (2010) postulate that the performance of MFIs is largely dependent on the quality of regulation through active collaboration between regulatory bodies and MFIs. There is sufficient evidence in literature to suggest that the quality of regulation and supervision provided for in the microfinance subsector in Nigeria is inadequate leading to poor financial and social performance (Acha Ikechukwu, 2012; Emeni, 2008a; Okojie et al., 2009; Olu, 2009). This could also manifest where MFIs are not given the institutional support by the government and regulatory agencies to be sustainable. Inadequate regulation and supervision pose risk to the sustainability of MFIs by diminishing the incentives that drive social investment in the country. Siwale and Okoye (2017, p. 611) note that while regulatory agencies have stepped up the drive to enhance professionalism within the sector, their efforts have undermined the social mission of MFIs. They argue that the process has been marred by political interferences and ‘the poorly designed regulations are not only undermining social goals but also sending wrong signals to would be social investors, with implications for the social image of the industry’. This largely attributed to knowledge gaps and lack of commitment on the part of regulators.

4.1.3: Strategic Risks

Strategic risks encompass governance, political, reputation and external business risks which could adversely affect the performance of the MFI (S. Khan & Ashta, 2013).

4.1.3.1: Governance Risks

Governance risks emanate from inadequate governance or poor governance structures of MFIs (Pantoja, 2002, p. 5). It encompasses risks in relation to ineffective oversight, corporate governance, management quality, mission drift, strategy and ownership (S. Khan & Ashta, 2013). Governance risk is a major risk confronting MFIs but not much attention has been given to it (Wamba, Bengono, Sahut, & Teulon, 2018). Plumridge and Chetwynd (1999) argue that there is a connection between risk-taking, identity and social context. In the case of Nigeria, the seeming polarization of the country along religious and ethnic divides has generated sentiments which have been allowed to creep into the financial system as confirmed by the then CBN Governor, Sanusi Lamido Sanusi, who in his lecture delivered at the 2010 Bayero University Kano Convocation acknowledged the perceptions about alleged biases held against the CBN.

[...] in an environment in which we are confronted by a multi-vocal opportunism determined to subvert history through the fabrication of false narratives. Among these, is the assertion that the actions taken by the Central bank are part of a grandiose ‘northern agenda’ against southern Nigeria Or that perhaps it is an ‘Islamic agenda’ being pushed by a Muslim fundamentalist (L. Sanusi, 2010, p. 2).

Due to the high level of distrust existing among people of diverse ethnic and religious backgrounds in Nigeria, it is difficult to accept and assess policies objectively based on their merits and demerits without attaching ethnic or religious sentiments to them. Consequently, policy changes in the sector often mean that some MFIs are excluded or victimized because they have no sense of belonging in the political hierarchy. For instance, increasing the minimum capital requirement for MFIs may be seen as an attempt to favour some MFIs over others, and failure to meet such requirement could lead to withdrawal of operating licences of MFIs and generate huge losses for promoters, shareholders and depositors.

Risks for MFI also emanate from poor corporate governance. Acha Ikechukwu (2012, p. 108) aptly analyses the risks associated with poor corporate governance in Nigeria’s microfinance subsector

The standard of corporate governance in many microfinance banks in Nigeria is poor. Board members are known to misuse their positions to obtain facilities way above the regulatory limit for insider related loans and worse still with no intentions of repaying such facilities. They also use their positions to unduly influence and manipulate the recruitment processes in favour of their cronies. Frauds and forgeries by both insiders

and outsiders to the banks are rife and people generally obtain loans with no intention to repay

Fernando (2008) explains that MFIs are now faced with the challenge to upscale their activities due to the changes in markets, ownership and growing expectations of higher returns on investments by shareholders and funders often leading to the neglect of the target group which leads to mission drift.

4.1.3.2: Reputation Risk

The way MFIs manage their relationships with stakeholders and the public can be a major source of risk. Topics related to public relations, customers relationship management, ethics, corporate social responsibility and ethics have been widely discussed in literature (Amaeshi et al., 2006; Chakrabarty & Erin Bass, 2013; Phillips, 2003; Schmitt, 2010; Skovdal, 2010). The reputation of an MFI largely depends on the level of trust its key stakeholders repose in it. In the sphere of microfinance, events such as the Andhra Pradesh crisis underscore the relevance of maintaining a good corporate image for MFIs (Ghate, 2007). Reputation risks for MFIs relates to actions or inactions of MFIs which can tarnish their corporate image or undermining the goodwill they enjoy in their operating environment. It dwells on the perceptions and impression held by the public about the MFI. Fernando (2008) argues that a good corporate image can aid an MFI to enhance its sustainability and expand its outreach by attracting and retaining clients and staff. The exposure of MFIs to reputation risk depends on the degree of their transparency and ability to meet to social expectations (S. Khan & Ashta, 2013). MFIs risk losing patronage and client loyalty if they are unable to keep up with prevailing trends in the industry in areas of technology and quality of service.

4.1.3.3: External Business Risks

External business risks encompass phenomena which are beyond the control of the MFI but affect its financial and social performance- Competition, economic trends, natural disasters, political interferences (S. Khan & Ashta, 2013). Acha Ikechukwu (2012, p. 109) also identifies competition with commercial banks as a risk confronting MFIs describing it as a situation of practitioners 'copying, competing and mimicking the practices of commercial banks. These he attributes to the fact that many staff and managers of MFBs are former staff of commercial banks who were made redundant or retired. This category of staff come into the world of

microfinance with the organizational orientation, philosophy and culture of commercial banks. To these staff, microfinance banking is just an extension of the commercial banking they know. They do not have the awareness that microfinance is not micro-commercial banking but a different kind of banking requiring a different approach, philosophy and client base. This may be why many microfinance banks spend huge resources to acquire office building, exotic cars and the wardrobe of their staff. They also engage in excessive competition with the commercial banks. This class of staff lack orientation as to the essence of microfinance. Chakrabarty and Erin Bass (2013, p. 489) notes that ‘MFIs that do not clearly define their target market and ensure that the services provided to the target clientele contribute to social and economic wealth incur social mission risk’. MFIs also face risks from political interferences. Fernando (2008) reveals that MFIs are exposed to risks when politicians mount pressure on them to either cancel debts owed by them and their cronies or approve concessions on interest rates in order to gain favours.

4.2: The Processes and Practices of Risk Management in Microfinance

There is a growing interest in the study of risk management in many disciplines owing to the complexities of human existence. This has attracted arguments and counter-arguments in seeking to explore risk and ways to manage it. Risk management was first propagated in relation to insurable risk associated with physical hazards and accidents such as fire, explosion, flood, employee injury or damage to plant and machinery (Dionne, 2013; Drennan, 2004, p. 38). Its scope expanded to more comprehensive approaches of enterprise-wide risks that threaten the corporate existence of an organisation.

Risk management in microfinance has remained a contested subject as different scholars have proposed different approaches of managing risks confronting MFI Risk management in microfinance is generally conceptualized as the process of identifying, assessing, mitigating/controlling and evaluating risks to minimize the possibility of loss to MFIs. Risk management in microfinance as depicted in the Risk Management Feedback Loop comprises of processes which should be followed systematically (Fernando, 2008; GTZ GmbH, 2000; Padma et al., 2012). The processes entail; identifying, assessing and prioritizing risks, developing strategies to measure risks, designing policies and procedures to mitigate risk, implementing and assigning responsibilities, testing effectiveness and evaluating risks and revising policies and procedures.



Figure 4: The Risk Management Feedback Loop.

Adapted from GTZ GmbH (2000)

Risk identification assessment and prioritization are considered as the first step in the art of risk management (Fernando, 2008; GTZ GmbH, 2000). They entail reviewing all aspects of operations of the MFI and creating a risk profile by prioritizing risks. The processes of risk identification and assessments are critical aspects of risk management which enable businesses to adopt sensible ways preventing, mitigating and coping with risks. Risk management entails identifying potential hazards and assessing their impact and determining what can be done to mitigate or prevent the occurrence. There are many risks in microfinance and determining which one poses the greatest threat depends on perspective as MFIs face a multiplicity of risks which are intertwined (S. Khan & Ashta, 2013). Risk assessment entails establishing the likelihood of occurrence and the potential impact. This would facilitate the prioritization of risk and determining the trend of risks facing the MFI (GTZ GmbH, 2000). This analysis raises the question of the standard by which risks are identified. It is therefore crucial to collate perspectives and risk perceptions to understand the bigger picture to avoid ignoring risks which could have immense impact on the performance of MFIs. Risk analysis is undertaken in diverse ways in different disciplines. Risk assessment is associated with physical and biological sciences while the concepts of risk management and communication are emphasized in the

social sciences. Freudenburg (1988, p. 242) however, argues that social science approach to risk assessment is more relevant in understanding risk consequences and probabilities. It is also crucial in identifying potential biases created by certain risk assessment procedures and analysing public perceptions of risk.

After the processes of risk identification, assessment and prioritization, the next process of risk management entails developing strategies for controlling and mitigating risks. Table 3 shows a compilation of strategies for mitigating different types of risks by S. Khan and Ashta (2013) and Padma et al. (2012)

Risk	Recommended Risk Mitigation Strategies
Credit risk	<ul style="list-style-type: none"> • Peer monitoring, group pressure, and social ties reduce delinquency • Frequent repayments • Public repayments • Choose more religious borrowers • Provide loans for productive purposes) • Go to rural areas (better group cohesion) • Disband older groups (as group age increases, repayment decreases) • Dynamic incentives (people who repay should be able to get new loans), long-term association • Ensure that first repayments are not late, threaten to stop lending • Do not increase loan sizes without appropriate screening • The provision of non-financial services (access to health and education) has a positive impact on repayment performance • Need for credit bureau • Better information systems based on latest technologies • Loan products should be tailored to client’s cash flow • Rescheduling of delinquent loans where the issues motivating delinquency could be resolved • Well-designed borrower screening • Careful loan structuring • Close monitoring • Clear collection procedures • Active oversight by senior management • Good reporting of portfolio-at-risk that accurately reflects the status and monthly trends in delinquency • A routine process for comparing concentrations of credit risk with the adequacy of loan loss reserves and detecting patterns
Product risks	<ul style="list-style-type: none"> • Applying price differentials associated with risk

Liquidity risks	<ul style="list-style-type: none"> • Offer savings products • Maintaining detailed estimates of projected cash inflows and outflows so that net cash requirements can be identified and estimated. • Place limits on cash withdrawals • Maintaining investment accounts that can be easily liquidated into cash, or lines of credit with local banks to meet unexpected needs. • Anticipating the potential cash requirements of new product introductions or seasonal variations in deposits or withdrawals
Market risks	<ul style="list-style-type: none"> • MFIs should lend to entrepreneurs in domestic demand-based industries • MFI activity should be in poor, unserved areas or rural areas, even richer customers, especially in saturated markets • To reduce the mismatch between short-term variable rate liabilities (e.g. savings deposits) and long-term fixed rate loans, managers may refinance some of the short-term borrowings with long-term fixed rate borrowings • To boost profitability, MFIs may purposely "mismatch" assets and liabilities in anticipation of changes in interest rates. If the asset liability managers think interest rates will fall in the near future, they may decide to make more long-term loans at existing fixed rates and shorten the term of the MFI's liabilities • MFI should avoid funding the loan portfolio with foreign currency unless it can match its foreign liabilities with foreign assets of equivalent duration and maturity.
Portfolio risk	<ul style="list-style-type: none"> • Diversify activity sectors within groups • Diversify loan products • Treasury managers delay investment maturities to ensure that the MFI has the long-term funds needed for growth and expansion • Set parameters for acceptable investments within the investment portfolio
Transaction risk	<ul style="list-style-type: none"> • Better-educated staff, more training • Adopt simple, standardized and consistent procedures for cash transactions throughout the MFI • Effective and proactive internal controls that are incorporated into daily procedures to reduce the chance of human error at the branch level (e.g. requirement of dual signatures separate lines of reporting for cash and program transactions) • Adopt the use of computer systems to reduce human error and enhance efficiency. • Strengthen internal controls systems to test and verify the accuracy of information and adherence to policies and procedures. These internal controls help ensure that management reporting information is providing the most accurate information, thus reducing the occurrence of problems
Fraud risk	<ul style="list-style-type: none"> • Refocus incentives on collections • Discourage unethical behaviour

	<ul style="list-style-type: none"> • Stay close to customers by paying regular visits to verify deposits and account balances
Legal risk	<ul style="list-style-type: none"> • Well-thought-out regulation reduces risk • Enforce compliance to laws and regulations
Reputation risk	<ul style="list-style-type: none"> • Have to collect, even reschedule to avoid contagion • Maintain a good public reputation.
External business risk	<ul style="list-style-type: none"> • Go to countries which are not too poor and not too rich • Governments should develop a deeper financial sector • Governments could increase telecommunication access for borrowers • Financially self-sufficient MFIs should co-exist with their subsidized counterparts, provided that these subsidies are carefully restricted to the poorest borrowers • MFIs should be proactive in responding to changes in the external environment • Take advantage of opportunities and respond to competition.

Table 2: Risks Mitigation Strategies.

S. Khan and Ashta (2013, p. 5) and Padma et al. (2012, pp. 17-22)

Risk evaluation comprises assessing the effectiveness of the risk management processes and revising policies to ensure that risks are managed in the most cost-effective manner (GTZ GmbH, 2000). Unfortunately, given the complexities of managing risks in a fast changing world, risk issues have become controversial in manner that it becomes difficult to arrive at a consensus on key issues. Nelkin (1989, p. 95) analyses the issue of contests and subjectivity.

Evaluating risk requires interpretive judgment in the face of technical uncertainty and scientific disagreement. What constitutes significant and meaningful evidence? Whose judgment is to be considered in evaluating the severity and acceptability of risk? What rules of evidence should guide legal and policy decisions? Communicating risk involves questions of social responsibility and political legitimacy. What information should be conveyed to the public? What level of certainty is necessary before risks are communicated? What are the appropriate roles and limits of government in controlling and communicating information? In the context of conflicting scientific interpretations, who can be believed? These are deeply divisive questions, the source of heated debate as risk assessment and communication

This submission indicates how fluid and flexible risk perceptions are in influencing decision making and also highlight the roles played by different stakeholders in shaping these perceptions. Hence relativism exists in risk assessment and communication where risk issues

are assessed and communicated from different points of view depending on the degree of social responsibility and political legitimacy an authority assumes in the society.

4.3: Risk Management Practices in Microfinance

The informal risk management consist of practices that a traditionally linked to microfinance (e.g. group lending, joint liability, dynamic incentives, public repayment of loans, focus on female borrowers). Group lending has been a unique feature in microfinance. At its inception, group lending was promoted to leverage on the solidarity among clients to support entrepreneurship. In a bid to achieve high repayment rates and mitigate credit risk, Grameen Bank adopted group lending, joint liability, dynamic incentives, and focus on female borrowers which accounted for its high success rate in Bangladesh. Haldar and Stiglitz (2016) in their study to understand the contrast between these models as practiced in Bangladesh and the experiences of the Indian microfinance sector found that the model has been effective for over three decades in the former as evident in the high repayment rates and large borrower base comparative to the latter which has witnessed high default rates.

Moreover, these rates remained resilient in the face of floods and a range of other crises, largely without deploying the coercive methods used by traditional moneylenders. Its subsequent importation into neighbouring India, however—especially in the wake of the mutations introduced by SKS Microfinance quickly resulted in breakdown in the form of mass default. How can this contrast—the success of one and failure of the other in these geographically contiguous regions—be accounted for? And what does this tell us about the microfinance model (Haldar & Stiglitz, 2016, p. 459)

They identify social capital and trust as the essential ingredients in achieving success in microfinance. They further argue that the distortion of microfinance by ‘overlapping’ and ‘irrational exuberance’ induced by the commercialization of microfinance through the promotion of for-profit lending accounts for the disparity between the Bangladeshi and Indian experiences. They used the illustration of ‘bicycle bankers and basket weavers’ to describe the nature of relationship that existed between MFIs and credit groups which characterised the original model of microfinance where the MFI was actively involved with its clients’ businesses. Haldar and Stiglitz (2016, p. 460) note that;

In its original vision, microfinance entailed providing small loans for productive purposes. The core of microfinance was “the group”: borrowers at most MFIs were

organized into clumps of five to ten members. In theory, at least, lending was based on joint liability—or the idea that a second member of the group could not get a loan until the first paid back, thereby creating an incentive for ‘peer monitoring’ Groups have served a crucial social purpose in the functioning of microfinance as an institution,

Apart from being a risk mitigation strategy, it was also found that the MFIs promote group lending as strategy for encouraging team work and building trust and social ties. Mobius and Szeidl (2007, p. 1307) show that trust is higher in more connected and more homogenous societies. By adopting the group lending methodology, the MFI outsources the screening, selection, monitoring and loan recovery to co-borrowers at a low cost to the MFI (Duggan, 2016). Microfinance is attractive to international financial and development institutions by creating a situation in which credit can be extended by handing over administrative control to group members, hence reducing risk and costs for the institution (Maclean, 2013). Furthermore dynamic incentives and joint liability were applied to enhance repayment rates thereby reducing the MFIs’ exposure to credit and liquidity risks. Baland, Gangadharan, Maitra, and Somanathan (2017) argue that repayment incentives positively influence group members to repay their loans based on the notion that members make decisions based on the comparison between the debt burden and the possible sanctions.

Another important practice MFIs use to mitigate risk is active collaboration with community leaders who may act as gatekeepers, guarantors and mediators between MFIs and their clients. Community leaders are recognised as important stakeholders and gatekeepers in promoting financial inclusion. In Nigeria, they command respect over their subjects and play significant roles in shaping and influencing perceptions especially in areas of culture, economy, politics, education, healthcare and religion. This accounts for their involvement in microfinance by mediating between MFIs and communities in most instances. By acting as guarantors for loans taken by clients, community leaders use their authority to ensure that clients repay their loans. Bassem (2008) found that factors such as marital status and status of a guarantor can reduce repayment problems for MFIs. Chakabva and Thurner (2015, p. 1101) analyse the role of community leaders in credit risk management especially in small and medium size MFIs.

The big difference of micro-finance is that collaterals are absent and instead, a close connection between microfinance providers and their clients come into place. And while micro-finance providers use follow up calls and penalties to avoid losses from loan overdue, the classical way to the court is not really an option. Instead, community leaders function as middlemen between the provider and the customer

A major limitation in relying on guarantors is the difficulty in assessing their liability should a loan go bad. Vučković (2017, p. 497) in an empirical study conducted within the CitProtect Project in Croatia found that;

Guarantors were not informed or do not remember being informed about their rights and obligations before executing the guarantee. Out of those guarantors that were informed, 11.9% did not understand, or poorly understood, or do not remember if they understood the information about their legal position and its consequences

Another strategy MFIs adopt to mitigate the risk of loan default is the involvement of family heads to act as guarantors for loans obtained by clients (mostly female borrowers). This practice seems to have a wide appeal across some cultures as Kar (2017, p. 302) reveals that this reinforces the bond of kinship in the context of the Indian Microfinance.

In making these collateral-free loans, however, microfinance institutions (MFIs) engage in new forms of risk management. While loans are made to women with the goal of economic and social empowerment, MFIs require male kin to serve as guarantors. Drawing on fieldwork in the city of Kolkata, I argue that through the requirement of male guarantors, MFIs hedge on kinship, even as they speculate on the bottom of the pyramid as a new market of accumulation.

Okojie et al. (2009) however, found that females tend to be disadvantaged and often have to patronize informal MFIs such as local credit societies or market associations because they require their husbands' consent to be considered for credit. Additionally, they are unable to provide collateral to obtain bank loans because in many Nigerian cultures, they cannot acquire landed property without their husbands' consent, neither do they inherit property like the male members of their families. Due to the patriarchal nature of most Nigerian societies, women have limited privileges in property ownership and inheritance (Makama, 2013; Okeke, 2000).

4.4: Microfinance Regulation

With the seeming popularity of commercialized and regulated MFIs, the role of regulatory agencies has become more prominent in microfinance risk management. Many MFIs now operate as microfinance banks embracing formal risk management processes of conventional commercial banks (e.g. guarantees/use of guarantors, regulation, supervision, internal control, insurance). Risks are inherent in different banking types, it is therefore, crucial to monitor these risks and increase the transparency and capability of the banks collectively to manage their risks in order to maintain financial stability in banking system (Ciurlău, 2016). Banking

regulation involves the processes of monitoring, supervising and controlling the activities of banks by setting rules and procedures (Nwankwo, 1990; Oliyide, 2013). The ultimate goal of regulation of MFIs is to ensure their solvency and financial soundness to enable them deliver on their mandate of promoting financial inclusion (Wright, 2000). Regulation here implies that an external agency is empowered by law to enforce compliance by banks to policies and procedures. These notions suggest that regulation and supervision are essential components of risk management in ensuring that the conduct of MFIs regulation fall within desirable and acceptable standards. They reflect the relationship between risk and governance in the Foucauldian theory of governmentality (Foucault & Lemke, 1999; Taylor-Gooby & Zinn, 2006). The theory views risk as a phenomenon constructed by power relations through discourses, strategies, practices and institutions (Lupton, 2013). These are the factors which influence and shape how people and institutions are governed and administered to manage risk.

Financial regulatory bodies such as the CBN and NDIC regulate the microfinance banks in Nigeria to prevent system failure, reduce exposure to risk and strengthen its resilience, and these are achieved through an outlined regulatory and supervisory framework (Igbinosa, Sunday, & Babatunde, 2017). Risk management tailored on the principle of risk-based supervision (RBS) has been adopted for MFIs in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. The justification for the launch of the policy and the establishment of MFBs in 2005 stemmed from the fact that after evaluating the performance of microfinance-oriented institutions, it was found that these institutions were bedevilled by weak institutional capacity, incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors listed included poor corporate governance, lack of well-defined operations and restrictive regulatory/supervisory requirements and weak capital base (CBN, 2005). In April 2011, the CBN revised the policy to establish a more robust approach to address existing and emerging limitations and challenges. The revised document focused on absence of technological platform, weak capital base, the existence of a huge unserved market, poor banking culture and low level of financial literacy, economic empowerment of the poor, the need for increased savings opportunity, the increasing interest of local and international investors in microfinance and urban bias in banking services. The policy also highlighted its objectives, targets and strategies, and examined procedures for licensing and supervision (prudential guidelines and disclosure of sources of funds), continuous professional development, savings mobilisation, government participation, NGO-based microfinance institutions, collaboration with development partners, definition of stakeholders'

role, submission of disaggregated data and institutional linkages(Microfinance Development Fund- MDF, National Microfinance Policy Consultative Committee). It also contained the blueprint for the categorization and ownership of microfinance banks and the role of deposit money banks in microfinance (CBN, 2011). In December 2012, the policy was further remodified to broaden its scope by incorporating compliance with Money Laundering (Prohibition) Act 2011 and prevention of terrorism. It also addressed procedures for publication financial statements and penalties for late/false/inaccurate information. The document also set out the criteria for assessing the soundness and portfolio at risk (PAR) of MFBs, procedure for displaying interest rates and regulatory provision for deposit mobilizing institutions (CBN, 2012). The framework was further revised in 2013 to set fixed tenure limits of five years (renewable once) and four years (renewable twice) for executive and non-executive directors respectively, restrict the opening of branches by unit MFBs (one branch in a Local Government Area subject to meeting N20 million capital base), prohibit Unit MFBs from appointing executive directors, increase the minimum number of directors from three to five, set the minimum ratio of microloans to total loans at 80% and making deposit insurance mandatory for MFBs. These form the basis for Risk-Based Supervision framework for MFBs which has been popularised in recent times to assess the soundness of MFIs and mitigate risks confronting them. The framework recognizes that MFBs face credit, Market, operational, liquidity, legal and regulatory, strategic and insurance risks. These risks are assessed and estimated as low, moderate, above average and high based on various parameters (CBN, 2013, p. 38). The Framework stipulates that:

The composite risk rating or final rating shall be the outcome of the overall net risk moderated by capital and earnings. Accordingly, the assessment will include a review of the quality, quantity and available of externally and internally generated capital.

For the NMFIs which are not subject to CBN regulation, they are required by law to render regular returns on their activities to the CBN for statistical purposes and when they are able to meet the required capital and client base, they will become licensed to operate as MFBs (CBN, 2011). In view of these regulatory provisions, Ball and Watt (2013) note that MFIs have been influenced by the risk management culture of conventional banks thereby losing sight of their social mission. This is because the risk management framework does not recognize contextual or causal factors that drive risks. Neither does it consider the interest of other stakeholders in the risk permutations. The guideline notes that:

Inherent risk is intrinsic to all business activities and arises from exposure to, and uncertainty from potential future events. Inherent risks would therefore be evaluated by considering the degree of probability and the potential size of *an adverse impact on an institution's capital or earnings* (CBN, 2013, p. 37)

This demonstrates that the focus of the risk management framework is on the institutions without considering that the welfare of other stakeholders contribute to mitigating risks facing MFIs.

A major challenge confronting financial institutions in Nigeria often cited in literature is that of inadequate regulation and supervision. This was also reiterated by participants who made observations that point to these inadequacies. This leads to situations where policies are adopted but the capacity to implement them is lacking because the interests and motivations of the principal actors lie elsewhere. Padma et al. (2012, p. 13) note that with the rapid growth of the industry, MFIs are increasingly concerned about deploying new products and services without adequate 'risk awareness, risk management and portfolio transparency'. GTZ GmbH (2000) argues that this phenomenon can potentially raise new challenges for MFIs such as having an unskilled workforce or inexperienced management teams. Additionally, the drive for profit making from new lines of business can lead to mission drift. This is why S. Khan and Ashta (2013) describe risk management in microfinance a complex process in the sense that an attempt to control one risk may trigger another. Thus, it is crucial to examine the bigger picture, anticipate risk and act towards mitigating their potential impact rather than reacting to them (GTZ GmbH, 2000, p. 4).

Regulation of financial institution has remained problematic over time in Nigeria as it tends to focus on capital adequacy, certification of practitioners while failing to address real issues through sufficient consultation with stakeholders. In their critique of the quality of regulatory provisions for MFIs in Nigeria and Zambia, Siwale and Okoye (2017) note that regulators in Nigeria emphasize various certifications for board and management members while their counterpart in Zambia require the conduct of fit and proper person test which have proven to be ineffective in optimizing the sustainability of MFIs. They further argue that that regulation tends to professionalize the sector but undermines the social mission of MFIs and role of social investments through inadequate consultation with stakeholders. (Igbiosa et al., 2017) also found that;

Financial regulation has a negative impact on banking sector performance in Nigeria. This suggests that the apex bank has to cautiously draft policies regulating the banking

sector so that it can perform optimally. This of course should reduce systemic risk, influence other sectors of the economy and stabilize investors' confidence.

In a similar line of thought, findings from Akanga (2016) suggests that the regulatory provisions for MFIs tend to compromise governance within the MFIs thus turning MFIs into hybrid organizations with managers striving to meet their shareholders' interests. Furthermore, Ajibo (2015) argues that regulation which focuses on recapitalization and credit ratings are inadequate to address the problems of the sector leading to frequent distress and collapse of banks. Another challenge could be the complexity in identifying and assessing the needs of individual MFIs so that the various interventions will match these needs. These issues are problematic because the regulatory institutions also have their own internal challenges as explained by L. Sanusi (2010, p. 10), a former CBN Governor:

Still on the role of the authority in this crisis, the governance and management processes at the CBN also had a significant impact on its ability to deliver its mandate adequately. Governance and internal processes were unstructured and this compromised the CBN's ability to supervise the industry. Corporate governance at the CBN was laissez-faire. Board agendas were set by the Governor and consequently reflected his priorities, and there were inadequate committee structures and processes to ensure the CBN Board's independence in assessing whether the CBN was fulfilling its mission

These sentiments corroborate the perspectives about the influence of the interests and priorities of administrators of regulatory bodies on the stability of the financial sector (Dafe, 2017). The 'politicisation' of the Nigerian banking sector and its dynamics in the major banking reforms have been widely discussed in literature (e.g Egene, 2009; Mailafia, 2004; Nwagwu, 2000; Ogubunka, 2004). The major challenge for the Nigerian financial system is the seeming lack of clear focus and continuity when there is a change of leadership in the regulatory agencies. Teriba (2014) analyses the trend and politics in the regulatory body with which reflects and corresponds with the mainstream politics of Nigeria and has enormous impact of the stability of the financial system.

It is instructive to note that while the CBN Act had always allowed for a possible maximum of two terms of five years each, none of the three persons to occupy the office so far had been deemed fit for second terms in office, each tending to assume office with seemingly very high credibility only for such credibility to be eroded before the first five-year term is up. This raises a lot of questions: Is Nigeria developing a Single-Term Syndrome? Or, why do Nigeria's CBN Governors find it so difficult to succeed? Why do they end up failing so catastrophically (abstract)?

Thus, Policies that affect MFIs cannot be separated from social and political configuration of the economy. This draws attention to the place of social and contextual factors in microfinance risk management.

Apart from being subject to banking supervision and regulation, MFBs also develop their own internal control systems to monitor compliance to procedures and policies as risk mitigation strategies. Internal control measures are perceived as checks and balances within a system. Organizations come up with different control measures to ensure compliance with procedures.

Leitch (2004) notes that essentially ‘there is no difference between a risk management system and an internal control system’. He acknowledges that there are many ongoing debates on this subject but observes that ‘the scope of each phrase seems to be getting wider and are converging. However, there are differences in emphasis, with many practical implications. In their own exposition, Spira and Page (2003) seem to suggest that internal control is an aspect of risk management. Risk management however covers a wider spectrum of issues including the external environment of an institution and examines both the upside and downside aspects of risk, while internal control focuses on measures that check compliance with regulatory provisions.

Microfinance is risky in all ramifications considering its clientele and the contexts in which it operates (Chakrabarty & Erin Bass, 2013). To reduce exposure to risks, micro-insurance is often promoted to aid in compensating for risks which can disrupt the livelihood of the poor. Unfortunately, there is a low adoption of micro insurance to guard against shocks that disrupt means of livelihood as people neither appreciate the worth of insurance nor voluntarily demand it (Platteau, De Bock, & Gelade, 2017). More so, Mukhtar (2013) and Olaosebikan (2013) argue that the culture of paying insurance premium is not appreciated in Nigeria due to the high cost which is commensurate with the high exposure to risk. The low uptake insurance services in Nigeria has also been attributed to lack of confidence by the populace due to negative experiences (Ejye Omar & Owusu-Frimpong, 2007; Obaremi, 2007; Omar, 2007). Obaremi (2007) reports that ‘potentially, Nigeria has the biggest insurance market in Africa’ (p. 51) , but due to its under-performance, there is general apathy where people tend to ignore risks and depend on family and friends in times of losses or emergencies. He argues that the poor performance of the insurance industry is caused by its poor image especially with regard to negative claims payment reputation. Apart from the imperative of improving the claims performance of individual members and to regain public confidence, the reputation problem

must be tackled at industry level through strategic and intense awareness and branding campaigns to create a positive industry image.

4.5: Conclusion

Findings from this review of literature indicate that MFIs are exposed to their own unique risks as a result of the nature of their activities, their clientele and the environments in which they exist. The review also points to the fact that both the informal and formal risk management processes of MFIs have limitations in reducing their exposure to risk based on the behaviours of stakeholders and contextual factors. This implies that both risks and risk management are dynamic and subjective phenomena, in tune with the philosophy of this research. This chapter contributes to the thesis by demonstrating the relevance of understanding these dynamics in developing a risk management framework for MFIs. This is because risks are multidimensional in nature and strategies that seem effective in one context may not be effective in another.

Risks and risk management in microfinance discussed in this chapter mirror the theoretical framework of this research in demarcating the types of risks and the strategies for mitigating them. From the review of related literature, it is obvious that risks are analysed differently in various literatures, but what remains unclear are the parameters used in identifying risks or recommending strategies for mitigating risks. The underpinning factor here indicates that subjective factors such as expert knowledge and human judgement determine how risks are conceptualized and interpreted. This shows the phenomenon of risk is subjective to social construction and interpretation as upheld in the social theories of risk.

Having demonstrated that risks are subjective in nature, the next chapter examines the methodology adopted in undertaking this research anchored on an interpretivist epistemology. These indicate that the research is tilted towards a qualitative and exploratory approach because it seeks to understand human perceptions about risks and risk management in microfinance.

Chapter Five: Research Methodology

5.0: Introduction

This chapter describes the research methodology underpinning this study which explores the dynamics of microfinance risk management by focusing on the conceptualization of risks and risk management by stakeholders in Plateau State. The research methodology is presented in this thesis to outline the theoretical or philosophical perspective of the study and what these infer for the research methods and techniques employed in achieving the research objectives. Research methodology requires systematic planning and competencies so that the research output is presented in coherent and organised manner that allows for easy comprehension. To this end, the chapter has been structured to present the detailed and step-by step research process adopted in the study. The research process is presented in line with a framework which is anchored on the pillars of a research philosophy, design and methods which reflect a qualitative research approach. It also addresses the principles of reflexivity, validity, generalizability and ethics in undertaking the study.

5.1: Research Philosophy

Philosophy refers to knowledge about existence and perception of the world (Creswell, 2014; Denscombe, 2014; Mason, 2002). According to Walliman (2016, p. 12), epistemology has to do with how knowledge is acquired or what is regarded as acceptable knowledge in a discipline. Ontology on the other hand, focuses on the nature of reality being investigated. It has two branches namely; objectivism (reality or social phenomenon have independent existence) and constructionism/interpretivism (social phenomena are in a constant state of change) (Mason, 2002; Walliman, 2016). Partington (2002) notes that philosophical views are imbibed from the cultural environment. They shape the unique identities of researchers and influence their preferences for specific sources of knowledge and behaviour.

The Philosophy of research is crucial in the research process for so many reasons. By adopting an ontological perspective, taking an epistemological position and determining the intellectual

puzzle/ research questions, philosophical perspectives guide the researcher in reaching logical conclusions (Creswell, 2014; Denscombe, 2014; Robson, 2014; Robson & McCartan, 2016; Saunders & Bezzina, 2015).

This study explores risk management in MFIs in a manner that deviates from quantitative analysis- the norm in management research. It is grounded in the interpretivist epistemology - the perspective that individuals create meanings and interpretation based on their experiences and environment, and upholds that reality is flexible and unquantifiable (Creswell, 2014; Crotty, 1998; Gray, 2014; Mason, 2002). My preference for this philosophical orientation stems from the notion that microfinance risks affect not only the institutions as corporate entities but other stakeholders within and outside the institutions. Furthermore, risks are subjective (Adams, 1995; J. O. Zinn, 2008), and experienced in diverse magnitudes therefore should be assessed on the practicalities of risk interpretations and not just from the business management perspective. If risk is likened to reality, I would argue as Highfield and Bisman (2012) that reality is not static, objective or undisputable as assumed in scientific research but subjective, diverse and flexible. It stems from the mind and is perceived differently in the various social realms and organisations based on beliefs, values, cultures and experiences. However, though reality is subjective, multiple and unique to an entity, similarities in perception may exist between individuals and groups. By adopting an interpretivist approach, research participants are able to give meaning to the way things are, and to identify factors that cannot not be easily expressed or described through metrics and statistics.

5.2: Research Approach

The study adopts a qualitative research approach in exploring, understanding, analysing and interpreting how risks are conceptualized by various stakeholders of MFIs in Plateau State, Nigeria. The study draws ideas from the knowledge, perceptions and experiences of risks by participants in addressing the research questions. Qualitative research is exploratory, fluid, flexible, data-driven and context –sensitive in data collection and analysis (Creswell, 2014; Crotty, 1998; Mason, 2002).

I have adopted a qualitative research approach in undertaking this research because the questions being addressed require exploring and understanding the perspectives of participants about their experiences, roles and the contexts which shape their perceptions of risks and risk

management. A qualitative approach is deemed suitable to explore the stakeholders and contexts in the realm of microfinance risk management because the enquiry involves phenomena happening in the real world. Its approach also involves observation, unstructured interviews and focus group discussions rather than administering questionnaires or conducting formal interviews. It allows the participants to express themselves in their own words about their experiences and engagement in microfinance while inferences are drawn from their perspectives. As stakeholders, participants may be regarded insiders who can provide in depth narratives driven by their interests, identities, perceptions and behaviours in microfinance. Ekanem (2007) describes insider account as a vital qualitative approach, which involves in-depth, semi-structured interviews and direct observation incorporated in a case study research design to generate findings and interpretations from the human actors themselves. Qualitative research thus, presents data using words rather than numbers because quantification can lead to loss of meaning of the phenomenon being investigated and excludes key variables of social life (Hammersley, 2013).

5.3: Research Design: Case Study

To achieve an in-depth research, a case study research design has been adopted for this study. Denscombe (2014) explains that case study research focuses on one or just a few instances of a particular phenomenon being researched such that what is imperative is the depth rather than the breadth of study and gaining insights which may not be possible with large-scale study. Gray (2014) defines it as the study of a specific bounded system and Creswell (2014) describes it as the collection of detailed information. Yin (2014, p. 16) defines case study as an empirical inquiry which explores a ‘contemporary phenomenon in depth and within its real-world context especially when the boundaries between phenomenon and context may not be clearly evident’. Yin (2003) further highlights the importance of relying on theoretical perspectives at the preliminary stage of research design to guide the researcher in the selection of the case to be researched thereby enhancing the realisation of the research goals and objectives.

A case study design provides for in-depth analysis, thus, by undertaking this case study, I am probing deeper to understand the drivers of risks in the two models of MFIs I have selected for the study. In choosing a case study research design, a researcher may decide to investigate more than one case to allow for comparison. In such a situation, Walliman (2016) explains that a sampling frame needs to be defined from a given population after examining the desired

features to be considered as the selection criteria. These features may be of great relevance to the way an institution function but may be overlooked in a large-scale survey. To achieve this however, Rapley (2007) notes that a thorough knowledge and understanding of a case in terms of its history and complexities is relevant in order to understand the phenomenon being studied. This is a key strength of a case study, but as a research design, its limitation is the fact that making generalizations based on findings can be problematic (Bell & Waters, 2014). However, if the aim of a research is to examine interactive processes towards the improvement of performance in a system, then a case study is relevant and suitable. In undertaking this study, the overall aim is to contribute to knowledge towards effective risk management in MFIs in the state in view of the strategic roles they play in economic empowerment and poverty reduction.

5.3.1: Selection of Cases

This study examines perspectives from stakeholders in two MFIs-a Microfinance Bank (MFB) and a Non-bank MFI (NRFI) whose names shall not be disclosed in this document to protect their anonymity. The two MFIs (see Appendix 6 for narratives) were purposefully selected for comparative purposes (see Table 4.1 below) and to explore how risks are perceived and managed by their stakeholders based on their mission and the nature of their operations. This is because MFBs are more commercially-inclined than the NRFIs in provision of microfinance services. The MFIs are licenced and registered institutions operating in Plateau State which have been in business for at least ten years. By meeting the licensing requirements stipulated by the regulatory authorities, having acceptable governance structures, customer base and balance sheet size, the institutions met the selection criteria for the study. Furthermore, the ten-year period implies that both institutions have gained sufficient experience in risk management and survived the upheavals in the Nigerian financial industry.

The MFB was selected because it is a pioneer MFI in Plateau State with experience having started as a community Bank before it metamorphosed to a MFB following the Central Bank of Nigeria -CBN's launch of the microfinance supervisory and regulatory policy framework in 2005. It has a few branches and cash offices spread across the state and plans to expand to other states soon. The NRFI is a Non-Governmental Organization (NGO) involved in intensive microfinance programmes in collaboration with local and international donor agencies. It has a clientele which cuts across religious and ethnic lines in the state. The involvement of the

MFI was restricted to granting access to their premises for non-participant observation and conduct of interviews and focus group discussions. This was achieved through official letters written to them to formally seek their consent for the use of their premises and to encourage their staff and clients to participate in the research. The selection of the MFIs was conducted in line with the five components of a case study research design -the case study questions, its propositions, its units of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings (Yin, 2014, p. 29).

Apart from the indicated selection criteria, the comparative indices of the two MFIs show that both MFIs have some common attributes (i.e. both are formal institutions, founded in the 1990s, have large client and capital bases based on the standards in the sector, similar lending methodology and focused on microfinance) despite having different ownership structures and operating models (MFIs in the state fall between these two models). This forms a good basis for comparing participants' perspectives.

Indices	NMFI	MFB
Type of MFI	NGO/ Not-for-Profit MFI	Commercial/For-Profit MFI
Corporate Status	Registered NGO/Not subject to banking regulation	Licensed and regulated MFI
Year Founded	1998	1993
Client Base	5000 active clients	Over 15,000 clients
Lending Methodology	Largely group-based lending and few individual borrowers	Group and individual lending
Capital Base	Over N15,000,000 (subject to donations and grants)	Over N 30,000,000
Mission	To empower the economically active poor through micro credit and improve lives	To provide Micro Credit services with a business focus.

Table 3: Comparative Indices of the MFIs in Case Study

5.3.2: Participants Recruitment and Gatekeepers

Participants were recruited based on their roles, experience, knowledge and expertise of microfinance practice by contacting them directly and soliciting their consent to participate in my research. My professional background in commercial banking and social networks were crucial in helping me overcome the challenges often posed by gatekeepers in organisations.

I gained entry into the MFIs by making contact with and establishing relationships with the gate keepers who are senior management staff in both MFIs and convinced them to participate in the research. Their confidence in me was enhanced by my status as a student undertaking a PhD research and this perception was further strengthened as I formalised every process of interaction with an introduction letter from my supervisor, organisation and participants' information sheets and consent forms which were approved by the university's research ethics committee. The role of the gatekeepers in both MFIs was instrumental in the recruitment of participants for the study. However, in order to achieve objectivity and ensure that there was no interference by the gatekeepers in the recruitment process, I convinced them to encourage all stakeholders (board members, investors, and staff and community leaders) to give me the needed cooperation while I selected the participants I was interested in interviewing to achieve my goal. For the focus group discussions, I requested the gatekeepers to give me 100 mobile numbers of clients/customers in each MFI, but I randomly selected and invited only 30 clients in each MFI via text messages to participate in the discussions. In the case of the regulators, I visited their offices (i.e. the CBN and Plateau State Microfinance Development Agency) and interviewed relevant officials who consented to participate.

The participants were receptive as they regarded me as 'one of their own' interested in studying their activities to contribute to the development of microfinance. Some participants were initially hesitant about being interviewed because of the fear that they may not express themselves well, some were not convinced about my mission, others asked to see to questions I was going to ask them or the questionnaire I had brought, (apparently many people assume that research is synonymous with responding to a questionnaire). However, for most of the interviewees, once the rapport was established and the right atmosphere was created, the tension eased off and the conversations became engaging and captivating. Another obstacle I

experienced was with a few individuals whom I sought to interview but were unwilling to be recorded or to sign the consent forms because of anonymity concerns. In both situations, I respected their feelings and took down notes for those who resisted being recorded but declined to engage those who would not give written consent. Getting clients for the focus group discussions was less challenging especially in the NMFI because of their inclination to regular meetings.

In all, 54 participants (see Tables 4 & 5) took part in the research as interviewees or focus group discussants comprising of board members (CEOs, Bank Manager), investors (e.g. shareholders, funders, and donors), staff of MFIs (e.g. loan officers, relationship managers, risk manager, internal control and audit staff, credit officer, heads of operations, mobile tellers) and clients (e.g. customers and beneficiaries) as well as community leaders (e.g. traditional rulers). The number of participants recruited for the study is justified because in adopting a case study design of qualitative research, my interest is exploring the depth and not the breadth of the phenomenon being addressed (Denscombe, 2014).

Interview Participants	MFB	NMFI
Board Members	3	2
Investors	3	2
Staff	10	8
Regulators	2	1
Community Leaders	1	1
Total	19	14

Table 4: Schedule of Interviews Conducted

Focus Group Participants	MFB	NMFI
Group 1	8	
Group 2		7
Group 3		6
Total	8	13

Table 5: Schedule of Focus Group Discussions Held

5.4: Research Methods

Research methods in this study encompass the strategies employed in data collection, analysis, interpretation and validation towards addressing the research questions or intellectual puzzle (Creswell, 2014; Mason, 2002; Walliman, 2016). Research methods exhibit how the research process is executed leading to research findings that are valid and reliable. Research methods which adhere to standard and acceptable research practice generate output which are considered trustworthy and can be cited by other researchers.

5.4.1: Data Collection

My sources of data included the selected participants, institutions, texts from relevant document and publications of the MFIs being researched and objects seen in the course of observation and interactions while document reviews, observation, individual interviews and focus group discussions were my methods of data generation.

I collected data for my research from sources within the two selected MFIs, community leaders, staff of CBN (regulatory authority) and Plateau State Microfinance Development Agency. The period of field work which lasted for approximately six months was an opportunity to understand the workings of MFIs and the behaviours of participants in their natural setting (Hammersley, 2013). Prior to my physical interactions with participants, I had not known them personally even though I am familiar with the 14 licenced microfinance Banks (MFBs) and many Non-governmental Organizations (NGOs) providing micro financial services in the State. Before the field work, I obtained ethics approval as stipulated by the university (see Appendix 1). I commenced the process of data collection by preparing an observation checklist and interviews/ focus group discussion guide to enable me collect data that would address my research questions. I contacted the selected MFIs through letters (See Appendix 12).

Once the preliminary processes were done, the interviews and focus group discussions were conducted concurrently while observing the activities of those targeted and accessing some of their records and publications. I conducted 33 interviews with board members, investors, staff, regulators and community leaders and had focus group discussions with clients/customers from each MFI. However, in the course of the fieldwork, I came across a group of new entrants

being enrolled for a microcredit programme in the NMFI. I took advantage of the opportunity and had a third focus group discussion with them to have an understanding of their expectations and risk assessment in participating in microfinance. This interaction broadened my understanding as there was a marked difference in risk perceptions between the new and old clients. I also had the opportunity to take some photographs with interviewees and video recordings of some clients at their places of business to enhance my analysis of data after field work.

5.4.1.1: Document Reviews

This involves the review of existing literature and available records relating to the study. Data from secondary sources such as books, journals, records and other publications obtained from libraries, databases and archives of MFIs are useful sources of data for the study. For this study, the process of document reviews commenced before the fieldwork with extensive reading of previous works on the subject. Through the process, I was able to establish the conceptual and theoretical framework for the study. During the field work, I collected the available publications from the CBN and Plateau State Microfinance Development Agency, account opening forms and application forms for the various products and services offered by the MFIs. Where it was impossible to have some of these because of their sizes or other limitations e.g. bill boards, banners, big posters and other exhibition displays, I took photographs after obtaining the informed consent of the management of the MFIs. These were useful sources of information and working documents for my literature review, data analysis and interpretation of data.

NMFIs	MFB
<ul style="list-style-type: none"> • Account registers • Savings book • Weekly analysis sheets • Monthly monitoring record • Receipt booklets • Registration form • Monthly publication (magazine) • Banners • Notice Board • Loan application form • Hand card 	<ul style="list-style-type: none"> • Account opening packages • Loan application forms • Risk assessment form • Risk register • KYC form • Complaints register • Suspicious transactions register • Deposit and withdrawal slips • Asset Register • Annual financial reports • Collection of bank's policies • Bank's flyers • Bank transfer forms

Table 6: Inventory of Documents Reviewed

5.4.1.2: Observation

I visited both MFIs and spent at least three hours each day observing their activities as a non-participant observer for four weeks. This was undertaken by using an observation checklist (see Appendix 13) to guide me in assessing how risk management is operationalized by the participants with respect to financial (e.g. loan repayments), operational (e.g. frauds, security) and strategic (e.g. reputational risk, political interference) risks. Observing the staff at work gave me an insight on the practicalities of risk management rather than relying on information obtained from interviews. I was particularly interested in observing the operating environment and the conduct of staff who perform risk management functions.

Specifically, my focus was on the location of the MFIs, in terms of conduciveness and accessibility to the target market, safety and security for the business, its staff and customers, availability of business opportunities around its location e.g. markets, presence of other institutions operating within the environment, availability of social amenities e.g. roads

network, electricity, pipe borne water in the locality, state of the building (whether it is modern and well maintained), cleanliness of the environment (whether it is inviting, welcoming, clean, dirty, etc.), condition of its facilities e.g. chairs, tables, computers etc. Also of interest was the number of staff working in the MFIs, their behaviour (friendly, polite, unfriendly, confident, professional, fulfilled etc.), appearance (uniforms and dressing), conduct and language of communication. Also, on my checklist is staff's handling of their working tools, records and sensitive documents. I also observed whether the staff appeared knowledgeable and well trained. I paid attention to how they discussed non-official issues while performing their duties, responded to customer enquiries and related with one another. My checklist also contained the assessment of their corporate culture, telephone etiquette, level of discipline, level of compliance in rendering their reports/returns to regulatory bodies, organization in terms of holding meetings, having various committees, attendance monitoring, punctuality, turnaround time in attending to clients and visitors, eating, drinking, welcoming friends in their offices while at work, working late, requiring active supervision in carrying out their responsibilities, being entitled to holidays/paid leave, being secretive about divulging official information. On key risk management issues, I observed the security of their operating systems, password management, and cash management culture e.g. adhering to till limits, vault limits etc., monitoring of loan repayments, management of their exposures in terms of interest rates, exchange rates, quality of their banking software, sensitivity of their management to protecting depositors' funds, ensuring maximum returns on investments, how their internal control policies are managed and communicated to staff, involvement in providing non-financial services to clients and fulfilling their corporate social responsibility. Lastly, I took note of how they related with me and how satisfied their customers appeared during the period of my engagement with them.

These provided insights about how risks are perceived and how risk management is practiced in the MFIs. Observing participants at work gave me the opportunity to assess the risk culture in the two MFIs by matching their policies with their behaviours. The findings from observation are described and interpreted based on my observation checklist to form part of my data analysis.

5.4.1.3: Individual Interviews

The interviews were conducted within three weeks with each interview lasting for between forty-five minutes to one hour. The interviews were recorded with a recording device and non-verbal cues noted in writing.

The interview questions were designed to address the main research questions. By asking probing and open-ended questions, I obtained responses on participants' perceptions of risks and risk management in their involvement in microfinance. To achieve this, I began each interview by asking questions to stimulate the interests of the interviews and put them at ease to participate in the conversations.

5.4.1.4: Focus Group Discussions (FGD)

A focus group discussion can be arranged to obtain in-depth information from the interactions of participants on a specific topic. The participants are able to share experiences or knowledge of the issue at stake with the researcher acting as a moderator or facilitator (Bell & Waters, 2014). I began the process of organising the discussion by establishing the research questions, identifying and mobilizing participants to hold the discussion. Davies and Hughes (2014) recommend that the ideal number of participants should be 8 or within the range of 6-8 for better moderation especially if the researcher is inexperienced. They however note that in some commercial or institutional settings, up to 20 participants can be mobilized for the discussion.

The Focus Group Discussions were held with clients of MFIs who were mobilized and engaged to understand their perception of risks in accessing micro financial services. Engaging clients/customers and beneficiaries of both MFIs offered me an opportunity to listen and examine their perspectives as clients and stakeholders in microfinance. Since I contacted the participants through text messages, I did not have a prior knowledge of their gender, ages, religious or ethnic background. I had envisaged that only active and interested clients would freely respond to such an invitation. Those who turned up actively contributed to the discussions although there were more females than males for the MFB while all participants from the NMFI were female clients. The discussions which lasted for approximately one hour, were recorded with a recording device and non-verbal cues were noted.

To achieve my research objectives, I prepared a Focus Group Discussion template (see Appendix 15) to be a guide in obtaining data that address the research question on how clients as stakeholders of MFIs perceive and manage risks in microfinance. The frame of the discussion guide also included introductory enquiries about names, residential and business addresses, occupation/profession, first encounter and experiences with the MFIs. I was interested in the narration of their experiences and challenges as clients of the MFIs and their thoughts on what motivates them to patronise the MFI as well as the impact of the MFIs on their livelihood and community. To assess the implications of their risk perceptions, I enquired how their participation is affected by the risk management policies of the MFI in terms of how their financial and social needs are met. Lastly, I entertained participants' questions and general comments, and thanked them for their participation.

5.4.2: Data Analysis

In qualitative research, it is not appropriate to analyse data using mathematical or statistical tools because data exists in form of words or texts (e.g. descriptions, opinions, accounts, feelings) (Mason, 2002; Walliman, 2016). Therefore, it is essential to organise data by coding according to themes or patterns to allow for coherent interpretation. To achieve this, the data obtained from document reviews, observation, interviews and focus group discussions were analysed and interpreted using qualitative methods of analysis. In undertaking the field work, the interviews and focus group discussions were recorded using an audio device. These and other textual and visual data are useful data for analysis and interpretation.

According to Creswell (2014, pp. 197-200), after obtaining data by following a defined procedure, the raw data should be organised and prepared for analysis by transcribing the audio recordings of interviews and focus group discussions, scanning through relevant documents, typing up field notes, cataloguing photographic data, sorting and arranging data. This is followed by the process of reading and reflecting on the meaning and ideas portrayed in the text. A researcher may write notes based on the understanding of transcripts or observational field notes. This process requires a researcher to maximise the use of his/her critical thinking and writing skills.

After this comes the process of coding which may take the form of manual coding or the use of a suitable computing software to assemble the similar ideas from the transcript into themes.

Creswell (2014) and Walliman (2016) prescribe that the coded data can be analysed through description, interpretation and explanation. The process also involves intensive discourse analysis and exploration of conversations (Rapley, 2007). In line with their guidelines, my use of NVivo, a Computer-Aided Qualitative Data Analysis Software (CAQDAS) facilitated the thematic coding of textual and descriptive data. Based on the various themes generated from participants' perspectives, I was able to draw inferences and provide explanations in my analysis while using quotes to provide evidences and enhance actuality by using the exact narratives of participants.

The use of CAQDAS helps to minimise biases in order to enhance the reliability of qualitative data. Wickham and Woods (2005) reveal that an increasing number of modern qualitative researchers are adopting CAQDAS to make their work more logical and transparent. Chandra, Chandra, Shang, and Shang (2017) demonstrate how CAQDAS can enhance transparency and validity of arguments when adopting an interpretivist methodology in research. Due to the non-numerical nature of qualitative data, qualitative research is often hampered by problems of validation and acceptability because the argument advanced remains largely contested (Chandra et al., 2017; Hanson & Grimmer, 2007; Pratt, 2007; Short, Moss, & Lumpkin, 2009). However, García-Horta and Guerra-Ramos (2009, p. 151) explain that while the use of CAQDAS can be of great benefits especially in interview data analysis, it should be carefully considered and its proficiencies must not be overrated, 'since computers are still unable to perform an independent rational process or substitute the analyst's capacities'.

The NVivo software was useful in coding and visualizing ideas thereby, developing my critical thinking and writing competencies. It was used in authenticating my arguments by presenting my qualitative data in a manner that serves as an evidence to justify my claims. Reading through the texts of the interviews and FGD transcripts and recalling my interactions with participants would enable me to interpret the meanings participants create from their experiences. The query tools available through this robust software (e.g. text search and word frequency) facilitated the coding of data and the explore diagrams (mind map, project map, concept map and comparison diagram) helped me in visualizing my ideas and organising my initial thoughts. Mason (2002) notes that qualitative researchers may use visual representations (e.g. diagrams, tables and charts) where applicable to support explanations, descriptions and interpretation. The overall data analysis process (as illustrated in Figure 5) reflects the inductive nature of the study which began with the collection of data and culminated in the generation of a theory.

5.4.2.1: Importing and Organizing Data in NVivo Software

As a starting point in my analysis using NVivo, I imported my transcribed interview and FGD data which I saved as Microsoft word documents into the NVivo software. The next step was the organisation and classification of data by creating separate folders for interview and FGD transcripts. The interview folder contained a file for each participant's interview transcript tagged with their codes and the FGD folders contained the transcribed document as files for each of the FGDs I conducted. Having separate folders was crucial in facilitating the coding process as references were generated to correspond to perspectives of specific participants.

5.4.2.2: Mind Map

I designed a mind map to aid me in visualizing my initial thoughts and in creating themes (nodes) under which my ideas will be articulated. Based on this mind map, I created broad themes as parent ideas with sub-themes as child or sibling ideas. The mind map helped to capture perspectives relevant to the study and facilitated the coding process.

5.4.2.3: Case Classification

Due to disparity in participants' demographics, it was also important to classify participants according to designated attributes (see Appendix 14). This helps to ascertain whether these attributes had influences on their responses. The demographic attributes considered in this research included: age, gender and roles (e.g. clients, investor, board member, staff etc.). Classification of participants was deemed crucial to check if there are similarities and differences in attitudes and behaviour that can be linked to these attributes (gender and roles). For instance, a query may reveal stakeholders' perspectives on the influence of gender on attitudes and behaviours. Such results could generate useful findings that will enhance the quality of research output or lead to a deeper investigation. This is crucial in exploring stakeholders' interest based on their roles in microfinance.

5.4.2.4: Coding Framework

My coding of the interview and FGD data was undertaken along two broad frameworks- **thematic** and **case coding framework**. Thematic coding entails organizing and classifying data along different themes (e.g. challenges, implications, context etc) while case coding involves classifying data according to cases (NMFI and MFB). Nodes are special features in NVivo representing folders in which coded data are warehoused. B. M. Edhlund and McDougall (2012) liken a node to a container of a source material which represents an abstract concept such as topics, themes, cases and ideas.

5.4.2.4.1: Thematic Coding Framework

Based on the themes highlighted on my mind map, each theme was created as a node so that as I read through each transcript, I selected portions relating to a theme and coded to the relevant node. Each node contains similar ideas or perspectives of stakeholders based on themes irrespective of their association with the MFB or NMFI. For instance, the node for ‘challenges’ contains participants’ responses regarding the challenges confronting them in the roles. The emphasis here is on themes such that all perspectives relating to a theme can be found in a single node.

5.4.2.4.2: Case Coding Framework

Case coding is applicable where more than one case is being examined in exploring a phenomenon. I developed a case coding framework by creating case nodes to distinguish between perspectives of participants affiliated the MFB and the NMFI. I also created case nodes for groups of participants in similar roles e.g. Staff MFI, Staff NMFI, Board Member MFI, Investor NMFI etc. to enable me aggregate perspectives based on roles and type of MFI. As I coded the transcripts along the themes, I also coded along the cases to aid my analysis of data. Essentially, this helps in analysing perspectives of participants based on their affiliations and roles as it becomes easier to understand how their perspectives are influenced by their background.

5.4.2.5: Queries

After coding the interviews, I ran a variety of queries to aid in addressing my research questions. NVivo possesses useful query tools which generate results from qualitative data. Bazeley (2007, p. 180) explains that unlike quantitative data analytical software, NVivo queries do not generate neat results or values for the researcher to interpret. Its contribution is to select and sort data with a degree of complexity and accuracy which would be difficult to achieve manually. It is the researcher's role to set preferences and assess what the data is saying in relation to the research questions. Thus, the queries I ran were informed by my research questions, and these were applied to all sources (entire data), selected items or folders e.g. nodes, cases or classifications. The queries were run to explore perspective about opportunities, motivations, yearnings and expectations of participants. Participants responded to enquiries about risks and challenges, as well as opportunities, motivations and yearnings as highlighted by the references generated by the text search queries. The queries used in facilitating this analysis were the word frequency query, text search query, coding query and matrix coding.

5.4.2.5.1: Word Frequency Query

The word frequency query in NVivo can generate up to 1000 most frequent words in a body of texts. Some of these are words generated by the query may be relevant to the thematic nodes created. It could also be run to generate the most frequent words in particular thematic nodes. The word frequency query also generates a word count and a pictographic illustration in a word cloud along with the references to the source so that the words can be linked to participants. This was a useful way of obtaining key words in the text which were searched in order to understand the context in which the words were used by participants.

The query was helpful in ascertaining how different issues were prioritized by participants based on the selected nodes. For instance, in identifying and prioritizing risks, the results generated by the query indicated the most frequently used words and references which directed me to the relevant parts of the transcripts. Not all words generated may be relevant to the research, but it gives an idea about words used frequently in the course of the conversations.

5.4.2.5.2: Text Search Query

The text search query helps in tracking words or phrases in a body of texts. This query was crucial because it generated several results namely; summary, reference, text and word tree, which may be useful as the process of analysis advances. The summary view gives a concise presentation of the result by showing the source, references and coverage of the words in the data at a glance. It also directs one to the folder(s) where the word or phrase being searched appears in the transcript.

A text search query generates references to where words being searched were mentioned by participants and could serve as evidences to the arguments and interpretations. The references can guide a researcher to understand the context in which the words are used by participants by linking it to the source document. A word tree diagram can be generated from the query to give a visual representation of the result. The word tree highlights and aggregates all the references in one view so that phrases containing the searched words appear as branches of the tree. It also creates a link between the phrases by connecting similar or contrasting ideas. If any reference is selected and opened, it presents the perspective about the word being searched, and takes the researcher back to the source document to understand the wider context of the perspective.

To understand the social, economic, political and cultural factors influencing stakeholders' behaviours and attitudes in relation to risk management, I ran text search queries using some words which were generated the earlier word frequency query e.g. economy, government, culture, education, training, orientation, family, women, husband, and politicians to collate perspectives of participants. I found some references relevant to my analysis and helpful in understanding the contexts in which stakeholders perceive risks.

This raises questions about objectivity in research and the researcher bias as I relied on my intuition and judgement in deciding which issues to focus on and which to downplay. But to minimize this bias and enhance my reflexivity, I selected words and phrases based on the results generated from the initial word frequency query.

5.4.2.5.3: Coding Query

Coding query is used when the researcher intends to probe deeper into a phenomenon in order to establish relationships between nodes or cases e.g. to compare views of male and female participants on attitudes of female borrowers to repaying loans. It is particularly useful when progress has been made in coding and there are prospects for developing more complex queries (B. Edhlund & McDougall, 2016). This query was run to establish the relationship between nodes tagged as 'risk perceptions' and 'opportunities', 'motivation' and 'expectation'. This was to further explore how participants conceptualized the phenomenon of risk.

5.4.2.5.4: Matrix Coding

Matrix coding is used to represent how a set of nodes relate to another set of nodes. The generated result appears in form of a matrix or a table. The research has to set the matrix coding criteria by selecting the nodes or cases to be represented in the rows and columns. These queries reveal fundamental factors which shape and underpin the performance of MFIs in the socio-cultural context of Plateau State. The Matrix coding query also reveals how participants discussed the context in which they operate. The Matrix coding was run to compare the number of references generated for each relationship.

To explore and understand how participants assessed the economic, social and political contexts in which they operate, I ran a matrix coding query to ascertain the number of references generated for the different cases based on responses to question relating to the contexts being examined. The query generated the matrix which seems to suggest that community leader in the locality of the MFB responded more to my enquiries about the context, closely followed by investors in the NMFI. The result may be interpreted to mean that community leaders know more about their communities which also explains their roles as gatekeepers in mediating between MFIs and clients. Investors have a good understanding of the context as they carry out baseline surveys and feasibility studies before investing their resources.

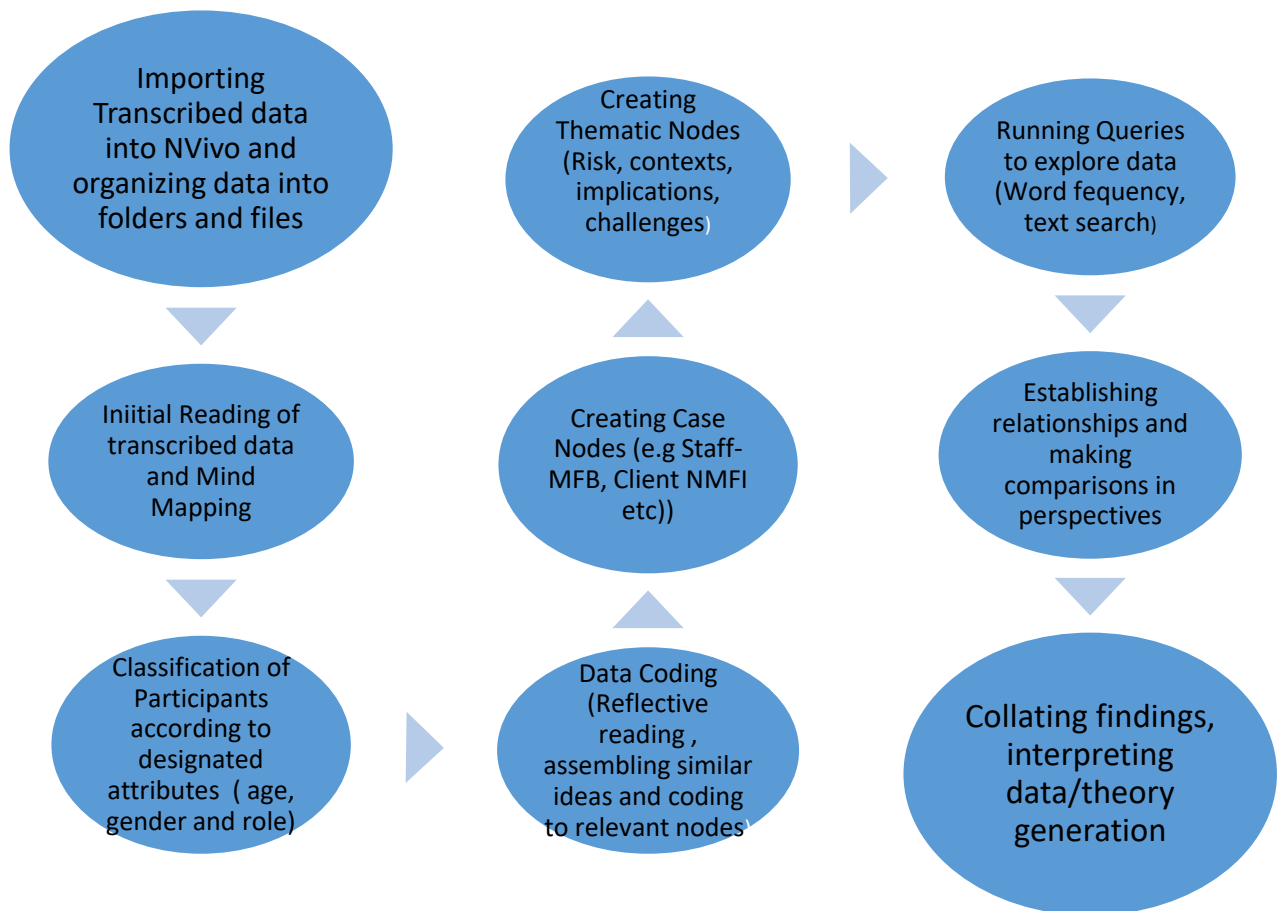


Figure 5 - The Data Coding Process

Source: The Researcher

5.4.3: Validation, Generalizability, Transferability and Reflexivity

My study is anchored on inductive reasoning given that the research process rests on the selected theoretical framework to guide the study rather than testing theories against reality as obtainable in deductive research. Generally, an inductive research begins with data collection and concludes with theory generation (Creswell, 2014). Rapley (2007) explains that qualitative research deviates from formulating hypothesis and adopting strict notions about the

phenomenon being studied at its beginning. Rather, these evolve in the course of the research with the methodological and theoretical frames acting as a base when advancing new explanations, argument and interpretations. Hence in an inductive research, a theory or knowledge is derived from sensory experience. Validation and generalization may come about by observation and carrying out repeated observation under different conditions and circumstance to verify and justify claims. By following a research process, the interpretation of research findings and the arguments being advanced are expected to lead to the generation of a theory which is valid, reliable, replicable and generalizable (Walliman, 2016). This implies that the research process is guided by the principles of trustworthiness, authenticity and credibility such that its output is considered reliable and consistent with the codes and ethics of research.

To achieve an acceptable degree of trustworthiness, the research findings ought to be valid and justifiable with convincing evidences. They are expected to be generalizable or capable of being applied outside the immediate context of the study. The principles of validity, reliability, replicability and generalizability are core elements that would enhance the quality and credibility of the research. However, a major limitation of a case study design is the fact that generalization or making sweeping statements based on one or few cases can be problematic (Bell & Waters, 2014; Robson & McCartan, 2016). Where the aim of a research is to enhance the understanding of a phenomenon within a specific context, then a case study is suitable but making generalizations should not be the overarching focus of the research. However, a researcher can develop a concept or hypothesis as the product or output of research which can then be applied in similar contexts in subsequent studies as a way of generalizing. This is however different from the deductive approach common in quantitative where a concept or hypothesis is an input in the research process, and is subject to testing before it can be validated. Bell and Waters (2014) recommend the use of the term ‘reliability’ rather than ‘generalizability’ to apply or relate the findings from one case study to another if the research is carried out objectively and methodically.

Among the many strategies for validation of research postulated by Creswell (2014), I have used detailed and comprehensive descriptions of the research setting to interpret and present my research findings. I have situated myself and my background as an insider (i.e. being a member of the community and having experience in banking) in an objective manner by being self-reflexive in my research. Reflexivity is crucial in clarifying how researchers’ experiences, background and biases may influence their judgements since they themselves are an integral

part of the research process (Rapley, 2007). A key aspect of qualitative research is its high degree of reflexivity on the part of the researcher whose biases and sentiments tend to be reflected in the interpretation of research findings. Hammersley (2013, p. 13) asserts that reflexivity manifests in qualitative research in manner that:

There is acceptance, perhaps even celebration, of the fact that data, and inferences from them, are always shaped by the social and personal characteristics of the researcher. It is recognized that it is impossible to eliminate the effect of these, and indeed that they may facilitate insight as well as leading to error. It is sometimes argued that reflexivity – the provision of detailed information about the researcher and the research process – can enable readers to allow for any effects of the researcher's characteristics, or of how the research was carried out, that might obscure or threaten the validity of the analysis

In spite of the fact that qualitative research allows for flexibility and reflexivity, I have attempted to be systematic and careful in conducting the research, and also be accountable for its quality and claims. To minimize biases, qualitative researchers should be strategic, contextual and produce valid explanations or arguments (Mason, 2002, p. 7). Researchers should fairly express their sentiments, limitations, arguments and interpretations as well as those of their research subjects but in a convincing and justifiable manner. They should constantly focus on the purpose of the research questioning its rationale such that its design and strategy are shaped their research goals and philosophy. Creswell (2014, p. 202) argues that “good qualitative research contains comments by the researchers about how their interpretation of the findings is shaped by their background, such as their gender, culture, history and socio-economic origin”. This idea is supported by other authors (e.g. Mason, 2002; Morris, 2015) who at the same time urge qualitative researchers to ensure that their biases and sentiments are minimised in their analyses and interpretations.

5.5: Research Ethics

I have adopted the British Sociological Association Ethical code as a guide to facilitate the realisation of my research aims and objectives. Walliman (2016) maintains that the ethical principles applied in conducting a research are as important as the uniqueness of its findings and contribution to knowledge because they enhance its integrity and trustworthiness. Furthermore, failure to adhere to ethical guidelines on citation and intellectual property can attract sanctions. He recommends an approach that upholds responsibility and accountability, respects all participants in a research and gives due acknowledge to all who contribute to

research or whose ideas are cited by a researcher. Creswell (2014, pp. 95-96) adds that a researcher should envisage and consider the ethical dimension of research right from the stage of proposal writing and throughout the research process. This entails selecting a code of conduct to guide the research process, applying to an institutional review board, obtaining necessary permissions, selecting a site without vested interest and negotiating authorship for publication. In the actual research process, a researcher should be cautious about the issues of obtaining informed consent, respect for privacy of participants and the site of research, giving due benefits to participants, and being objective and responsible in analysing, reporting, sharing and storing data. Mason (2002) emphasizes morality in research practice such that the processes are fair to parties involved.

Generally, the subject of ethics in research is broad and evolving. Ethics are rules guiding the conduct of a research which all researchers must strive to know and practice (Walliman, 2016). In this study, I adhered to the ethics of research as outlined in research literature by ensuring that participants were made fully aware of my role and the purpose of my research. All participants gave written consent and were assured of anonymity in the research process. Prior to the commencement of field work, the approval of the university's ethics committee was sought and obtained. Ethics Approval Form and Ethics Approval Confirmation Letter have been attached as Appendices 1 and 2 respectively.

5.5.1: Data Protection and Management

The collected data are managed in line with the ethical standards of conducting research guiding anonymity of participants and their institutions. The data are stored or uploaded into the software on my personal computer which is password-protected. It is backed up by saving it on the F-drive through the university's portal for retrieval in the event of loss. Sensitive paper documents are scanned and stored in electronic form and securely kept in a key-locked filing cabinet. Utmost care and confidentiality have been applied on sensitive aspects of the study. Paper information to be discarded are shredded and disposed in waste bags for recycling. On completion of my research, I would ensure that hard drives are reformatted and overwritten to avoid unauthorized access.

5.5.2: Gaining Informed Consent, Anonymity and Non-Covert Approach

An important factor influencing the gaining of participants' consent to take part in a research is the quality of information about the research at their disposal. It is therefore important to supply every relevant information about the research to all parties (organizations and individuals) concerned and allow them to freely give their consent before engaging them. A researcher should resist the temptation of using dishonest means to coax, threaten or force people into participating in the research against their wish. It is also unethical for a researcher to disguise his/her identity or take undue advantage of participants' circumstances or ignorance to lure them to take part in the research (Walliman, 2016). To this end, the approved supporting documents - information sheet, Invitation letter, organizations' and participants' consent form containing details of the research in clear and simple language were distributed to participants and management of the MFIs (refer to appendices). They were informed about all the parties who may have access to the obtained data. I adopted a non-covert approach in observing and interacting with participants. Participants were fully aware of my presence and informed about my mission. Once assured of confidentiality and their anonymity, participants were willing to be engaged because they viewed the exercise as an opportunity to make their voices to be heard on issues that affect them, thus contributing to the development of microfinance. Sufficient time was given to participants to give their consent freely.

An integral and challenging aspect research ethics is the issue of maintaining the anonymity and confidentiality of research subjects. By upholding the principles of anonymity and confidentiality as prescribed in research ethics, a researcher promises that identity of a participant shall not be disclosed or presented in manner that would reveal the identity of a participants in any form. Furthermore all documents, hard and software (e.g. interview transcripts, computers) with references to participants shall be protected and treated with precaution to prevent access to unauthorised persons (Bell & Waters, 2014). Participants in the study were assured of transparency in the research process and that their identity would remain confidential using codes and fictitious names (see Appendix 10). With the protection of their privacy and anonymity guaranteed, there is no threat to their jobs or personality on the basis of their participation in the research. In carrying out document reviews, all sources of information which are already in public domain are duly acknowledged and appropriately cited. Confidential documents which I had access to were treated with utmost care and anonymity

without undermining objectivity in the process. The research was conducted in manner that built trust and confidence to gain their cooperation but in carrying out my observation, my checklist was not made available to staff being observed to avoid altering their behavioural patterns. However, all participants gave their informed consent in writing by signing the consent forms and were assured that their identities would remain anonymised.

The ability to negotiate and maintain access to research subjects is vital to the success of any research that involves obtaining information from organizations, and it is particularly important in qualitative studies, which entails interacting with organizational employees and sometimes participating in the organization's activities. The intricacies of access and the process of building trust and gaining cooperation can be regarded as a political process or a research bargain that requires sensitivity to social issues and poses potential ethical challenges for the researcher and members of the organization. These challenges are faced not just by researchers going into the field as an outsider, but also by internal researchers working within their own organization. Setting limit and boundaries to interactions and engagements can be difficult and requiring the researcher to balance research modalities with the expectations of the research subjects (Cunliffe & Alcadipani, 2016) .

5.5.3: Language Barrier

Some participants were not be able to speak and write fluently in English language during the field work. In such situations, my knowledge of Hausa (the local language of the people) was used to facilitate interactions with participants. The information obtained was thereafter translated to English language for analysis and interpretation. By engaging the participants in Hausa language, the participants could freely express themselves and communicate better the issues that are of relevance to them especially in narrating their experiences as stakeholders. Language barrier was an obstacle because microfinance is a business of the marginalised section of the population who are in most cases deprived of the privileges of good education and exposure to English language. To enhance actuality and present the perspectives as expressed by the stakeholders themselves, I refrained from editing the extracts from interview and FGD data. I adopted this method to avoid misrepresenting their views because the aim of the study is to give stakeholders a voice to tell their stories in their own words.

5.5.4: Exigency Plan

An exigency plan is essential in a research so that in the event that some participants are not accessible, the researcher, in consultation with the supervision team, can recruit other available but relevant participants in order to achieve the research objectives. In doing this however, care should be taken to ensure that objectivity and integrity of the research are not compromised. During my fieldwork, I was fortunate to have a good representation of my target participants. Participants who were unwilling to sign consent form for anonymity concerns were replaced with those willing to give their informed consent in writing.

5.5.5: Exiting the Field

Exiting the field on completion of data collection can be sensitive phase for both researcher and participants. This requires careful consideration in planning a research to make the experience worthwhile and memorable especially for the participants. A researcher should not exit an organisation leaving it more difficult for future researchers who may want to gain access to it in future (Bell & Waters, 2014). It is important to show appreciation to all participants and those who provide technical and material support towards the project (Punch, 2005). Robson and McCartan (2016) emphasize the establishment of a research relationship between researcher and participants based on trust rather than a distant and uninvolved relationship. Honesty and integrity should be upheld by the researcher by keeping to the agreed terms of engagement especially in areas of anonymity, confidentiality and remuneration (Bell & Waters, 2014). It is unethical to make promises to participants without the commitment to fulfil them as could diminish their trust in other researchers and affect their disposition to participate in a future research.

In exiting from the field after completing my data collection, I ensured that the participants were not left feeling exploited or unappreciated. I tried in keeping with agreed schedules to avoid disrupting their work or leaving them abruptly. I thanked participants after my engagement with them. Due to our common interest in microfinance, I collected the contact details of some participants to sustain my research relationship with them.

5.6: Conclusion

This chapter has examined and discussed the methodology adopted in undertaking this study. It has shed light on the philosophical background, research approach, design and methods of this study. It has also provided justification backed by literature for the choice the methodology and methods to address the research questions.

The following chapters shall attempt to analyse the research findings. The next chapter shall focus on presenting findings from the field in order to explore the perception of risks by stakeholders in microfinance. This draws from the methodology of the research (interpretivist philosophy/qualitative case study) as it dwells on meaning- making based on experiences of the research subjects. The chapter aims at probing how participants conceptualize and view risks in their engagement with MFIs. It will facilitate the understanding of the contexts in which risks confronting MFIs are identified, assessed and prioritized based on the peculiarities of Plateau State. It also reflects the theoretical framework by demonstrating how contexts-economic, political, social and cultural influence risk perceptions.

Chapter Six: Understanding the Perception of Risks by Stakeholders in Microfinance

6.0: Introduction

In the previous chapter, I examined the research methodology adopted in this study. This chapter analyses data generated from the interviews and FGDs conducted with stakeholders drawn from the two MFIs selected for this study. The aim of this chapter is to analyse participants' narratives and explore the factors which constitute risk to them and their institutions. This would enable me draw inferences by comparing and contrasting perspectives from different categories of stakeholders in order to understand how the notion of risk is perceived in microfinance within the economic and socio-cultural context of Plateau State, Nigeria.

The theories underpinning this study argue that risks are interpreted based on the group identity as society selects which risks to worry about and which risks to ignore. The overarching focus of this research is to contribute to knowledge on the subjective nature of risks and risk mitigation strategies in Nigerian MFIs given the challenges and opportunities in the context being studied. In this regard, participants were asked about their views on risks confronting them and their institutions. This chapter presents what they considered as risks and how these make sense or matter to them. Their conceptualizations of risks are embedded in their experiences, biases and emotions which reflect how they perceive risks. This chapter also examines the key drivers of these risk and their impact on MFIs. This chapter is relevant in demonstrating that risks are subject to social interpretation.

6.1: Financial Risks

The interactions with participants largely revolved around certain drivers of credit risk and their implications on various stakeholders. Participants generally conceptualized credit risk as the likelihood of default in loan repayments. This was the major concern for most of the participants as both MFIs are heavily engaged in lending to micro clients in most cases without the presentation of any form of collateral or guarantee. There were diverse perspectives on factors that could elicit credit risks for the MFIs. The participants identified the major

determinants of credit risk-unforeseen eventualities, high cost of borrowing and short repayment cycle, unsecured lending practices, diversion/misuse of credit through wrong investment decisions and socio-cultural attitudes and behaviours. Findings from interactions with participants indicate that both MFIs were experiencing high default rates caused by non/late repayments of loans which they perceive as risky to their sustainability and outreach. However, risk in non-repayment of loans means different things to different participants.

It is easy to for them to collect, but to return it back is a problem. They now start telling you their family issues- when they collected, this happened, this and that, and they are unable to repay. So, what would you do? You will rather be pleading with them because if you apply some strict measures they will start saying you should take them anywhere –**Mabi (Credit Officer, NMFI, November 03, 2016).**

CBN has pegged the repayment rate to 2.5% at every given time. I can never tell you any bank that is maintaining that 2.5% in all. In plateau state, there is no bank maintaining that target. I think the best is 10% repayment rate. That is why now; you will see why I am talking about non-repayments of loans, which is what is killing microfinance bank on the plateau –**John (Loan officer, MFB, November 08, 2016).**

We have incurred losses. Sometimes I see the staff, they go to pick their properties and then keep them until they can repay before they will take back their items- **Anne (Coordinator, NMFI, November 03, 2016).**

If you look at the book of most banks, you will discover that their Portfolio at Risks, the quality is very poor. I am not supposed to give you percentage wise exposure of some of these banks, but I want to assure you that some of the banks, their rate of loans repayment defaults is as bad as 97%,96%, 70%. Those that are at 30%, they count themselves as if they are performing- **Reuben (Regulator, MFB, November 08, 2016).**

These quotes point to the interpretation of risks based on perceptions about the likely consequences of loan default based on peculiarities of the state. These also indicate that credit risk is perceived as a major risk facing the sector given the very high loan default rates being recorded by MFIs in the state and the efforts put into loan recovery- confiscation of property, pleading with loan defaulters. The conceptualization of risk in terms of probability and impact of a client not repaying a loan can be interpreted in diverse ways by different stakeholders based on contextual factors. In these scenarios, risks are perceived in negotiating with defaulting customers (Mabi), making losses (Anne) and failure of MFIs to meet targets of repayment rates (John and Reuben). These narratives do not correspond with experiences in other contexts where MFIs face low credit risk.

6.1.1: Unforeseen Eventualities/Structural Factors

A major driver of credit risk for MFIs in Plateau State is linked to unforeseen eventualities/Structural factors. Majority of participants reported that loan repayment becomes challenging because borrowers are unable to meet up with their obligations due to difficult and unanticipated situations. Some of the participants shared their perspectives about unexpected occurrences in lending to clients which can lead to losses for the client and MFI. These narratives relate to uncertainties inherent in lending even if due diligence is upheld or the prescribed procedures are followed before loan disbursement.

In lending, there is massive risk. The first is maybe, an officer gives a customer loan and all of a sudden, the customer dies. You understand. The customer can die. So, what do you do? It is risk. You can give a customer loan, even with your strict supervision and the customer runs into a problem and you will not recover your money fully. It is risk. You could as well give a customer loan and some policies, like government policies will affect the process. Look at those shops; they were there before they were brought down. We have customers. You get? So, what do we do? These are the risks- **John (Loan Officer MFB, November 08, 2016).**

Even if you have a good relationship with the customer and if the customer is in a problem and you give him a small loan. If God does not help you, you may not recover that money. The loan may not come back-**Dele (Credit Officer -NMFI, November 09, 2016).**

Participants also gave their perspectives on this notion of risk in relation to covariate shocks which constitute structural risks affecting many clients simultaneously and incurring losses for the MFI.

We face high risk of no loan payment, because our clients are exposed to various risks elements which are also beyond their own control. So, if the clients take loans and run into problems, you will find out that they will not be able to repay the loan and if they are not able to pay back, it's a risk to the bank. In a situation like in Bokkos⁴, this disease on potatoes really affected farm produce, most of the women collected Loan and farmed with it in their potato farms- **Amina (Loan Officer NMFI, November 09, 2016).**

This suggests that the possibility of disease outbreak was either not envisaged or taken into consideration in risk assessment by the NMFI. Amina reveals that the experience is a huge loss

⁴ A town and headquarters of Bokkos LGA in Plateau State, Nigeria.

for the NMFIs in terms of its financial and social performance. Financially, it is very unlikely that the loans would be recovered, so most of the loans are eventually going to be written off as bad loans. In terms of social performance, the intervention and efforts of the MFIs have not paid off as their target beneficiaries have lost a vital means of livelihood. The conceptualization of risk in this narrative can be equated with the notion of 'black swan' events which do occur rarely, unexpectedly and with enormous impact (cf. Taleb, 2010). This perspective of risk stems from the knowledge that there is always that possibility that something can go wrong—an event that is not fully anticipated (e.g. death, illness, disability, natural disaster). These are real events indicating the objectivity of risk, but the perceptions of these events (subjective risk) differ among stakeholders. These interviewees (as credit/loan officers) prioritized the risk of non-repayment of loans due to many reasons possibly because of their roles in the loan underwriting processes.

6.1.2: Perceptions about Repayment Methods

The design of microfinance loans in a manner that repayment commences almost immediately with short intervals between repayments may account for the exposure of MFIs to credit risk. Clients reported that the short period usually given before periodic repayment commences makes it difficult to keep up with their repayments. My findings suggest that the problem seems to be the inability of MFIs to design loan products that suit the needs of clients. The challenge of lack of diversification of loans appeared more pronounced in the NMFIs than the MFIs. It was gathered that the credit cycle for the NMFIs is six months within which a borrower is allowed one-month grace period, after which repayment starts weekly and a delayed repayment would attract a penalty. Some of the participants were of the view that this leads to high default rates because it often takes a long time for a business to materialize and become viable, therefore it becomes difficult for clients to sustain the weekly repayment. Majority of the participants from the NMFIs also identified this as a major cause of the high default rate especially when clients begin to skip repayments. When a client defaults for one week, the borrower must pay the accumulated repayment sum plus the penalty for late repayment. Repayment becomes problematic if there is a huge backlog to be cleared such that clients end up being discouraged from making efforts to repay their loans due to their over-indebtedness. Staff of the NMFIs also reported that the terms and conditions of the loans tend to be rigid and

there is no flexibility based on the type of economic activity clients are engaged in. Citing examples with clients who are farmers investing their loans in crop production or livestock, they note that six months is clearly insufficient to expand the business and start repaying. Their perspectives suggest that the scheme could be made more effective if the management pays attention to the individual needs of borrowers rather than having uniform rules applying to all.

We were suggesting that the period should be extended. During the review, we even asked the regional office whether there is a possibility to extend, they refused and said the six months is okay. We even suggested that they increase the rate, but they said no. The only instruction that was given to us is that if they delay, they must pay a penalty. Many of them have not finished paying the main loan let alone the penalty- **Regina (Loan Officer NMFI, November 09, 2016).**

Some perspectives also suggest that MFIs are impatient with clients when they delay in repaying loans because of unexpected difficulties which are sometimes caused by the lack of transparency of the MFIs in disclosing the terms and conditions of the loan or through hidden charges. Some narratives reveal that the MFIs engage in harassment and practices that 'demoralize the spirit of the people and weaken them' when they fail to pay loans instead of helping them to stabilize their businesses.

It is understandable that if you breach a contract, the institution that gave you money will not be happy with you but when members of your community are harassed, you will not be happy. Nobody will be happy to see his people being harassed. There are hidden things that are not made known to the community, later, if they discover that what you told them is not what is there -that will cause a friction between the communities and the financial institution- **Samuel (Community Leader MFB, November 10, 2016).**

Anne (Coordinator NMFI) however, narrates that their clients are well informed that their loans are meant to support existing businesses and not to be used as start-up capital. The weekly repayment plan is in place to ensure effective monitoring so that clients do not lose focus or misuse the funds. The NMFI still gives allowances where borrowers default if their excuses are deemed genuine because the aim of the programme is to promote enterprise and lift their clients out of poverty. Consequently, the MFI tries not to be hard on clients when they are unable to repay their loans. This suggests that the inclination of the NMFI is more towards expanding outreach than profit making.

We do a lot of monitoring to see how they are progressing. And it gives us joy, it motivates us to go into it more because it is helping them. It is really achieving the objectives we have planned to achieve, to make sure that most of them are able to send

their children to school; most of them are able to expand their businesses. Some started on a table but now they are having shops. Some have diversified, they started with maybe selling tomatoes, selling fire woods but now they have grown in other businesses to support their families- **Anne (Coordinator NMFI, November 03, 2016)**.

This calls for greater collaboration and communication between clients and MFIs to ensure that service delivery is more effective and result-oriented. Mabi (credit Officer NMFI) however, points out that the NMFI pays greater attention to expanding outreach (meeting target numbers of borrowers) based on its strategic plan rather than looking at the impact of their activities on those they serve.

6.1.3: Unsecured Lending Practices

MFIs are confronted with credit risk because the category of clients they lend to lack positive credit scores, permanent addresses or collateral to guide MFIs in granting them loans. Participants, especially staff identified this factor as a determinant of risk in lending to clients. Furthermore, physical collateral is not emphasized unless the loan size exceeds set thresholds, hence there is hardly guarantee for the MFI that loans can be easily repaid or recovered. MFIs instead rely on social collateral such as the use of guarantors, peer monitoring, joint liability and dynamic incentives to drive repayment. Some participants were of the view that the high rate of loan default and the inability of guarantors to accept liability is because MFIs do not undertake thorough due diligence before giving out loans. They argued that MFIs take it for granted that clients and guarantors have limited knowledge and experience in business and financial issues. This indicates that there are expectations that the MFIs would play an important role in developing the business and enterprise capacity of clients before disbursing loans. Some interviewees also reported that the MFIs fail to realise that the obligation of the bank goes beyond giving loans. Others explained that the MFIs do not ensure that borrowers and guarantors fully understand banking terminologies and their responsibilities before going into the contract. Some participants felt that clients are not given sufficient support/advisory services alongside the provision of credit to grow and sustain their business pursuits so that they can repay their loans with minimal difficulty.

The concept needs to be redesigned completely. We really need to support our clients' businesses. For peasant farmers, we need to find out how to help them, find out what they are doing and then pull them out of poverty, group them and get tractors to do their farming, it will improve their life span from manual labour. We need to provide them

with improved seeds and mechanized farming. As they are usually farming close or next to each other, we can look for markets for them, when you do that you are doing micro financing-**James (Credit Officer MFB, November 10, 2016).**

Other participants countered this claim by arguing that the MFIs provide advisory services to assist their clients. However, many of their clients prefer cheaper and sub-standard channels rather accessing the support services the bank offers them in a bid to maximize profits. Unfortunately, they always turn back and accuse the MFI of not doing enough when their output or business turns out bad.

6.1.4: Diversion/ Misuse of Credit through Wrong Investment Decisions

Microcredit is provided to support micro entrepreneurs to start or expand a business or to support the livelihood of the poor. Some participants were of the view that credit risk can be induced by deficiencies in the behaviour of beneficiaries. Many clients fail to use funds obtained as capital to start or expand their business as contained in the loan agreement.

You know the aim of microfinance is to help them boost their capital base but most of them are not doing well. When they collect these loans, they do not use them to do what they said they will do, so that it becomes difficult for them to pay back the loan. And it really making their lives difficult because some of them that started in 2011 are still defaulting up till now- **Susan (Staff MFB, November 10, 2016).**

Other participants also attributed the high rate of credit risk in microfinance to the attitudes of clients who obtain loans purportedly to invest in business but end up diverting it to other uses. Some clients have no other source of income to meet their consumption needs, so when loans are provided for investment, the funds end up being channelled for consumption or used to settle bills.

Some women are the ones providing for the house, when they collect the loans, they must buy food, so instead of going into business they divert the money to family issues. So, in buying foodstuffs, will they sell the foodstuff? They will eat it, so instead of trading with the money, they eat up the money in the house. Where will they find money to start repaying the loan? - **Amina (Loan Officer NMFI, November 09, 2016).**

This seems to suggest that risk is deliberately taken by making choices based on the hierarchy of needs or human judgements. In this situation, the need to buy foodstuff or settle family issues supersedes the need to invest in a business. Therefore, the client takes risk to utilize a loan purposely collected for investment to meet more pressing consumption needs.

Other drivers of credit risks identified by participants relate to instances where clients are ill-prepared for entrepreneurship but are quick to pursue and accept credit without weighing the implications or planning on how to use it profitably. Clients also tend to engage in the same type of business such that it becomes unprofitable because the market is saturated

I will cite example with my community. What sells there is Burukutu⁵ and meat, but if all the women brew and sell Burukutu, who will buy it all? There should be plan, since it is homogenous, one person should produce today, another person tomorrow. But if there is too much supply, the men will be drinking and saying there is plenty, and they will not pay. Or, if I'm selling beans, then you should sell rice...So there should be a rotational arrangement and diversification- **Hannah (Credit Officer/NMFI, November 11, 2016).**

Many participants also held the view that clients often fail to utilize microfinance funds in income generating activities while others simply obtain loans due to peer pressure or allow themselves to be used by other people to collect loans from MFIs and end up falling into the trap of indebtedness. Others also held the view that funds can be misused on ostentatious spending especially on the part of women who are the target beneficiaries of microfinance.

You know you women know how to spend a lot. You just see anything passing and you spend, and you spend without keeping records of what you are earning. Because of this behaviour, we have meetings with them as part of our activities to train them on things like how to manage their business- **Clement (Community Leader, NMFI, November 11, 2016).**

When we loan money to these women, we advise them to make sure that it is business that they are using it for, to take care of themselves. But, most times, they will take this money and go and buy Christmas clothes for their children. You know you have not helped them-**Anne (Coordinator NMFI, November 03, 2016).**

From these perspectives, credit risk could arise due to the misapplication of funds by the beneficiaries themselves which in turn expose MFIs to risk. Risks are perceived to be induced by deficiencies in human behaviour and attitudes. This brings on the complexities of human rationality- how individuals rank their preferences, take decisions or make their choices. What matters most to an individual may be inconsequential to another, and these are dependent on the context in which an individual operates.

⁵ A locally brewed alcoholic drink made with guinea corn or millet, and commonly consumed in Plateau State, Nigeria. This alcoholic beverage is often produced in Tropical African countries such as Nigeria, Kenya, Ethiopia and Burundi as one of the major traditional and local alcoholic drink (Wikipedia).

6.1.5: Socio-Cultural Attitudes and Behaviours

In the view of some of the participants, cultural factors also account for credit risk in microfinance. Participants linked cultural characteristics to risk by in a manner that suggests that attitudes and orientation of borrowers stem from their orientation and cultural background.

We have very bad culture, very bad Culture, oh paying back loans. Everybody is behaving as if it's a national cake, so you discover that it's a problem all microfinance banks are facing, other types of banks face the same thing in the issue of paying back loans - **Justina (Head of Operations, MFB, November 14, 2016).**

Following the example of Grameen Bank.... talking about the group lending. People should be in groups to be able to access loans to reduce the exposure of the banks to low loan repayment but if you look at Nigeria, you must modify it and you know in the geographical areas or zones in Nigeria, every culture has its own peculiarity. So you should be able to investigate into the culture of that environment and then look at how you can go about implementing your micro finance strategies and that will enable you to succeed. You see, there was a time we were implementing a financial project in the North and we called it 'Returns on Investment'. They told us that 'Returns on Investment' is 'haram'⁶. Are you getting me? So that's why am talking of looking at the environment- **Boniface (Investor –MFB, November 14, 2016).**

These quotes suggest that cultural factors impact on the perception of risks in microfinance by stakeholders. Paying interest on loans referred to as returns on investment in the above quote conflicts with Islamic religious beliefs. Thus, adherents of the Islamic religion who live by its values do not use conventional or western microfinance services that could threaten their beliefs. Risk perceptions and behaviours towards microcredit are informed by political orientation of clients. The Nigeria's political terrain characterized by 'money politics' where people see public funds and bank loans as windfall makes loan repayment very difficult.

These are some of the practical challenges that we see. And then, there are some who just want to make quick money. They are not ready to do anything. They think that it's just a windfall. I think the political atmosphere to some extent has so much affected the psyche of a normal Nigerian where certain period of the people's life is just that of rascality with public funds. So, people get this windfall. If you're lucky you fall into the right party, you have money to play around with. So, they just see this as miracles they

⁶ Haram is an Arabic term meaning forbidden. This it may refer to: either something sacred to which access is forbidden to the people who are not in a state of purity or who are not initiated into the sacred knowledge; or to an evil thus "sinful action that is forbidden to be done". Wikipedia

tie it back to the faith and they don't see that it is public resources that is misused at that level- **Buba (Board Member, NMFI, November 15, 2016).**

Another risk is that our clients do not even know the risk of a loan because most of them are used to grants -like government giving free money. So, when they collect loans, they think it is the same thing. When you over- pressurize them, some will tell you that -they have not eaten, that the economy is biting hard, is it your money that you want to collect? So, it is a challenge. In Nigeria, people have not been taught over the years about banking services in terms of loan, so it becomes a challenge for micro finance institutions- **Paul (Staff-MFB, November 15, 2016).**

The idea that 'government is sharing money' tends to pervade the minds of people to view bank loans as grants which are not meant to be repaid. This idea was corroborated by Audu (Investor-MFB), who noted that many microcredit schemes run by the government have failed to achieve any meaningful impact due to the poor orientation of people to business and enterprise. Recipients and beneficiaries are often wrongly targeted and those privileged to get the funds see it as their own share of the 'national cake'. There were also submissions by some participants the behaviour of defaulting borrowers is contagious having negative influence on other borrowers and shaping their behaviours.

They see it as a grant to assist them and they wouldn't want to pay thereby causing problems for other women, in that even if they want to pay and the other women are not willing to pay, it will affect them- **Mabi (Credit Officer, NMFI, November 03, 2016).**

Some participants felt that because of the awareness that MFIs receive grants from government and international donors, there is a widespread attitude that there is no need to make effort to repay. The statement that the 'psyche of a normal Nigerian' is affected tells a lot about how widespread this problem is. Past experiences also influence people's disposition to loans repayment because many beneficiaries of similar interventions in the past got away without any repercussions for failure to repay loans. Christen et al. (2003, p. 21) reveal that:

The borrower's main incentive to repay a microloan is the expectation of access to future loans. Thus, outbreaks of delinquency in an MFI can be contagious. When a borrower sees that others are not paying back their loans, that borrower's own incentive to continue paying declines, because the outbreak of delinquency makes it less likely that the MFI will be able to reward the borrower's faithfulness with future loans. Peer dynamics play a role as well: when borrowers have no collateral at risk, they may feel foolish paying their loans when others are not.

The financial sector is not unaffected by this as high loan default rates have led to liquidations, bankruptcies and collapse of financial institutions in Nigeria. This is worsened by the fact that the logistics for recovery of debts for the MFIs and other loan providers is cumbersome. It was interesting to note that there are perceptions held by practitioners about specific localities with regard to attitudes towards loan repayment. The perspectives seemed to suggest that risk perception of MFIs vary among different communities and also that the locality a client hails from is a determinant of how he/she gets access to credit.

We have discovered that that there are some set of people, in some geographical locations who do not repay loans. They told me about a clan in their place that don't pay loans. If anybody from that locality applies for loan, they close their door and it is true within this Plateau State- **Paul (Staff MFB, November 15, 2016).**

This implies that clients may be assessed based on past experiences or antecedents of people from their communities rather than their own behaviour.

Another dimension in the interactions with stakeholders on the perceptions about credit risks in microfinance is closely linked to gender. There were also diverse views on the influence of gender on repayment rates. In analysing the behaviour of female borrowers in relation to credit risk, different perspectives are pointers to the fact that culture and orientation are determinants of perceptions and behaviours. In separate conversations, two participants were of the view that women from some localities have notorious reputation of evading loan repayment. As security for the MFI, more stringent measures are applied before loans can be advanced to women from one of the villages mentioned. There were however, mixed responses on how staff of the MFIs perceived clients' attitudes towards loan repayment based on their gender. It was observed that the gender of interviewees seemed to influence their responses on whether female borrowers are more credit- worthy than males. I found that while the female participants felt that female borrower are generally more dependable and credit worthy in microcredit, many of their male counterparts did not agree on this popularly held view.

They say that women are flexible and that women pay loans better than men but not in my area. Our women are so funny, and their hearts is so strong. They don't pay loans. I have discovered these things do not work generally but maybe they have highest percentage in some other places globally. In my area, the banks are suffering now because of the kind of loans the women are sitting on. The banks are in serious problem. I had a chat with my former MD recently and I felt sorry for him- **John (Loan Officer MFB, November 08, 2016).**

Quite contrary to this perspective, some female interviewees believed that it is in the innate nature of women to be better in loan repayment. Their conviction is based on the common assumption in microfinance that women are more credit worthy than men because of the small amounts they require as loans to run their businesses.

As far as micro lending is concerned, women are more dependable I really cannot give the reason for that, they are more prudent, more meticulous, so conscious of the fact that it is borrowed money, but for the men, they could easily spend or lend out of the money. The men hardly borrow N5000 unlike the women who can do business with less than N5000. Men feel that amount is too little that is why repaying loans is easier for the women compared to the men- **Grace (CEO/Board Member MFB, November 15, 2016).**

This perspective is further strengthened by the idea that women pay their liabilities faster and more reliably than the men, because they are always mindful of their reputation and would not avoid situations that can bring embarrassment to their image. But, some participants challenged this notion on the basis that the claims about female borrowers have been influenced by ideas propagated by the authorities who promoted microfinance as a useful tool for achieving women empowerment.

It depends on their target market. It's not necessarily women. It is being advised even by regulators that the percentage of women is supposed to be higher than the percentage of men on the platform. But we also challenge them that if women are not faithful, should we continue with them? Because in the environment, the women are not faithful and if we see faithful men we have to work with them. But, we are trying. In fact the example I cited about group lending, these are women that did all those things so that they will play over you, the women can be deceptive on the issue of money- **Peter (Loan Officer NMFI, November 16, 2016).**

These findings suggest that perceptions could be influenced by the knowledge of experts, but their interaction with the realities of a particular context can alter the views and reasoning of people about the phenomena. U. Beck (1992) refers to this when he argues that risk issues are subject to contests and debates based on the legitimacy of knowledge. Douglas and Wildavsky (1983) refer to cultural identity as a determinant in the interpretation of risk. In this context, the popularly held views about the behaviour of female borrowers are being contested based on knowledge and experiences.

This sub-section has analysed and identified the main determinants of credit risk by examining perspectives held by different categories of stakeholders based on experiences within their socio-cultural setting.

6.1.6: Harsh Market Conditions

Market risks can be induced by any force that alters the configurations in the market (e.g. prices, interest rates, exchange rate, inflation etc.). Market risks also have to do with the obstacle of having access to funding opportunities to enhance their outreach as well as the impact of the harsh business climate in Nigeria on the performance of MFIs. The perspectives of clients were also incorporated in the analyses to explore how their behaviours and attitudes with regard to how their business exploits and savings drive affect MFIs.

It was reported that the MFB faces interest rates risk, given that, that investments could be adversely affected by changes in interest rates. Another dimension of interest rate risk is the challenge in knowing what rates competitors are charging and when CBN has changed its lending rates. In the NMFI, clients do not pay interests on loans, it was reported that the 20% service charge clients pay is not sufficient to provide sustainable microfinance due to rising costs and inflation. At the same time, increasing the rate while a loan is running would increase the burden of the clients.

They pay us a service charge. We call it service charge because it is not enough for us to call it interest rate. You understand. Just twenty percent of what we will give them is our service charge. For example, if we are given you N10, 000, you will give us N2000 as our own service charge. So that is the amount that we use in running the activities of the department, paying salaries, vehicle maintenance, stationery and other things- **Christy (Accountant NMFI, November 08, 2016).**

This explanation reflects the non-commercial stance of the NMFI since it does not charge competitive rates to make profit but operates to provide microcredit at a rate expected to cover its running costs.

With regards to foreign exchange risk, many participants from both MFIs did not seem to be affected. The only reference made about exchange rate had to do with funding opportunities. The NMFI receives grants from foreign donors in stronger currencies. It was revealed that the NMFI gains when it converts foreign currencies to the local currency at a high exchange rate. It is thus, able to provide more loans and expand its outreach. However, in the case of the MFB, higher exchange rates lead to increases in rates at which the CBN lends to MFBs and other financial institutions, which ultimately compels the MFB to review interest rates on its existing

loans. The MFB relies more on alternative sources of funding rather than accessing funds from the CBN because of uncertainties and exposure to foreign exchange risk. There were also perspectives suggesting that while MFIs are agitating for increased funding, the CBN has a lot of funding opportunities which some MFIs rarely access due the terms and conditions tied to these facilities.

Expanding the scope of market risks to the effects of macroeconomic indices on clients of MFIs, it was found that the current socio- economic situation in Nigeria is seen as major source of risk to MFIs. In most cases, clients of MFIs (especially rural dwellers) are unable to tap into the benefits of economies of scale or earn incomes that are commensurate with their efforts.

The economy shook us very well. We are the only two that are still in business. The other women, they have folded up. Like my provisions store, these days, prices are high, the business is not booming like before, the gain is not like before. Like now you can buy a bag of sugar for N19, 500, you can't get up to N1, 000 gain (profit) but before when you could buy a bag of sugar for N6, 500, you can get up to N2, 000 gain. So, this is the problem we are facing these days in terms of selling provisions- **Leah (Client NMFI, November 11, 2016,)**.

The economically active poor are particularly affected because of their vulnerabilities which further worsens effort toward their financial inclusion. There was a wide consensus among participants that, with the high rates of inflation, interest and exchange rates, many businesses are struggling to survive which impact negatively on the performance of MFIs. The performance of the MFIs is largely dependent on how well their clients thrive especially in business.

The poor savings culture in Nigeria contributes to the exposure of MFIs to market risks. While the perspectives from participants suggest that the NMFI does not rely on its clients' savings deposits (even though it provides opportunities for clients to save), the MFB is more aggressive in deposit mobilization through the allocation of targets for its marketing staff. Many participants from the MFB reported that funds pooled through deposit mobilization are important sources of funding for the MFBs making it to operate like and compete with commercial banks. Low savings is detrimental to the MFB because it could affect its working capital (resulting in liquidity risk) and decrease its investment portfolio. Some participants also expressed the view that, with the recent economic recession in the country, the savings habit of a typical Nigerian leaves a lot to be desired because people hardly earn enough money to afford the necessities of life, and so do not contemplate saving. The perspectives obtained from participants in the FGD reflected the challenges of saving money often faced by the 'market

women'-a common term used to describe women engaged in petty trading in Nigeria. Majority of the clients reported that they face difficulty in saving money because of the current high inflation rate. Money loses its value at a very fast rate such that the turnover from their business is hardly sufficient to sustain the business. Many clients engaged in business were of the view that it is less risky to stock goods in their shops than keeping cash idle in the bank attracting minimal interest.

Investment and access to capital are challenges and sources of risks for clients of MFIs as well. Participants reported that many people are no longer having the paid jobs due to recent lay-offs resulting in high unemployment rate in Plateau State. A large segment of the population is venturing into various forms of business enterprise but access to capital remains a major challenge. The situation is worsened by the fact that the number of MFIs is insufficient to cater for the needs of the Plateau people and the conventional banks in most circumstances do not serve the micro client class in the state. Unfortunately, the few MFIs striving to serve the financially excluded populations are faced with challenges of accessing funding opportunities themselves.

In the context of the MFIs being studied and in relation to funding, it was gathered that the MFB accesses funding from its promoters and shareholders as well as through deposit mobilization. It also draws funds from CBN designated reserves for MFIs such as Micro, Small and Medium Enterprise Development Fund (MSMEDF) and the Anchor Borrowers' Scheme. Grace (MD/CEO MFB) narrates that the bank thrives on its broad banking products and services (target savings, compulsory savings, hire purchase, micro insurance, health insurance etc.) which make it sustainable and give it a competitive edge in the business. In fulfilling its social mission, the bank engages in community service, supports water projects in aid of widows and offers advisory services to promote financial literacy. The NMFI on the other hand, is not subject to CBN regulation but is authorized to accept deposits from its clients in addition to providing microcredit. It relies largely on grants from the government, foreign and local donors to finance its lending activities. It renders periodic reports to funders as part of the mechanism in place to ensure accountability and enhance outreach. Different donors have guidelines which the NMFI is expected to comply with in relation to the target beneficiaries and procedures for loan disbursement and repayment. Apart from the provision of microfinance services, the NMFI also focuses on non-financial activities in the domain of Peace building, women empowerment, good governance and humanitarian and emergency response. It was gathered that attaining sustainability is challenging due to the irregular flow of grants but the

NMFI has excelled in sustaining its outreach through its various microcredit schemes in spite of declining financial aids from donors which has impacted negatively on the general performance of MFIs in recent years. It was revealed that many NMFIs in the state are struggling to attain sustainability due to the high default rates and low service fees they charge. Thus, it has become difficult to meet their running costs and new demands for loans since many of them operate on a non-profit basis.

Accessing funding from the CBN and other funders is also challenging as many participants reported. There could be conditions and criteria tied to these funds which the MFI may be unable to meet or, where the funds are obtained, there could be exposures to further risks which can threaten the corporate existence of the MFI. Despite the numerous challenges being faced by stakeholders, many participants appeared to be optimistic and resilient in pursuing the social mission of microfinance in Plateau State.

6.1.7: Pressures in Cash and Liquidity Management

The major drivers of liquidity risk can be analysed based on perspectives shared by participants-presence in areas prone to natural disasters, operational challenges in cash and liquidity management, high demand for credit due to funding gaps and socio-cultural factors. Thus, many participants made references to the liquidity crises they have experienced during periods of the potato disease, flooding and conflicts in the state. Interviewees recounted how the NMFI almost ran out of cash and could not expand its outreach because many of its clients engaged in farming potatoes defaulted on their loans.

Like in our place, you know our people are into Irish potatoes⁷, and you know that Irish potatoes for the past two years or so have been having problems. And so many capitalized on it. They collected the money and farmed potatoes and they couldn't get anything from it to pay us back. It was difficult because we could hardly give out more loans because the purse was almost empty- **Regina (Loan Officer-NMFI, November 09, 2016).**

⁷ Irish potatoes refer to species of potatoes which are different from sweet potatoes, and widely cultivated in Plateau State. They are commonly called 'Irish' potatoes because they were 'introduced into Nigeria early in the 20th Century by European miners in Jos Plateau. Jos Plateau has high altitude and thus, cool climate, which is favourable for the development of the crop (Zemba, Wuyep, Adebayo, & Jahknwa, 2013).

When this potato blight started, repaying loans became a problem, serious problem. Some of the clients will confess to you that they don't even know how they will pay their loans. So that one is not the issue of taking the client to the police or vigilante⁸.it is the issue of finding a way out for the community-**Peter (Loan Officer-NMFI, November 16, 2016).**

There were also experiences about the MFB being unable to mobilize sufficient funds and grant loans to so many prospective clients who needed credit in the aftermath of the recurring violent conflicts in the state. The experiences of liquidity risk stem largely from the inability of the MFB to access immediate cash from the correspondent bank to meet its withdrawal obligations. Given that the MFB has an insurable vault limit of N15 Million, it faces liquidity risk in balancing its cash needs against anticipated withdrawals. This is problematic for the bank because exceeding the vault limit in anticipation of withdrawals will increase the bank's exposure to other risks-security/theft risk (e.g. armed robbery attacks) or compliance risk (may attract sanctions by head office or regulators). On the other hand, failure to meet payment obligations because of not having sufficient cash has negative consequences on reputation of the bank (reputation risk). Moreover, the bank is exposed to a lot of risks when it moves cash to and from its correspondent banks, most of which are not around its vicinity. There could also be instances when it is difficult to mobilise funds from correspondent bank at a short notice to pay customers who usually do not need to give notice about their intentions to withdraw their funds. The correspondent bank may also be in the same situation as the MFB as it also has a vault limit to maintain and often must draw from its balance held in the CBN when the need arises. This constitutes risk to the bank as the customer may not understand why a bank cannot pay him/her on demand.

Sometimes you can't ascertain when a customer is coming in to withdraw, for example, our vault limit is 15 million, you just wake up in the morning and discover that one person is bringing a cheque of 3 million and the cooperatives are also taking their money, most of them withdraw between N6 to N8 million, and there are other withdrawals as well. The only correspondent bank that is within this locality is just right here, but the problem is, if you go there 100 times to withdraw N1million, you won't even get it. My cheque has been there for 3 days now, for only N1.2 million, I am unable to withdraw that money to pay our own customers- **Justina (Head of Operations-MFB, November 14, 2016).**

⁸ A vigilante is a civilian or organization acting in a law enforcement capacity (or in the pursuit of self-perceived justice) without legal authority.

If situations like this are not properly managed, the bank's reputation will be at great risk as there could be a run on the bank if the news enters public domain. Based on past experiences, many bank depositors have lost money saved in banks when the bank suffers bankruptcy. Customers are generally very sensitive in observing how readily a bank can meet its obligation to them.

You know our customers are not experienced, they only know that their money is in the bank, they will come and withdraw and go. They can come to the bank and the bank may not have money at that time because the bank has to withdraw money, even the conventional banks do go to CBN to withdraw money. They don't have that knowledge, so, when they walk in here and discover that after 10 minutes, 20 minutes and you're not paying them, you're in trouble- **Gregory (Marketing Staff MFB, November 18, 2016)**

At such times, bank authorities need to be extra careful in managing information as a small mistake can lead to huge losses. Participants also reported that the MFIs experience liquidity crisis especially at peak periods such as periods of salary payment or festive seasons. Both MFIs experience liquidity risk in meeting the ever-growing demand for credit and reduction in savings at certain peak periods. The issues relating to managing liquidity risks in MFIs can have potential negative effects on MFIs and failure to manage liquidity crises can lead to failure of the MFI.

Apart from credit risk, another risk is having enough money to pay our customers. Our customers are seasonal customers, if you don't monitor and diversify your products, you will be in trouble. The pressure that we are having is very high. In fact, every morning we run 'helter skelter' to withdraw money because this is the time that our customers are doing storage, and this is also the time that cooperative societies are taking their money to go and share for Christmas. You discover that those doing dry season farming are going back to their farms. So, there are more withdrawals now than savings and so if you are not careful to even consider this period you just spoil your reputation which will also affect the reputation of the organization- **Justina (Head of Operations-MFB, November 14, 2016)**

This implies that MFIs are exposed to liquidity risk resulting from their inability to meet depositors' demand for cash especially during Christmas/other festive seasons. Coincidentally, these are also periods when people hardly save because of increased spending on items required for the celebrations.

Furthermore, the demand for loan far surpasses the repayment of existing loans for most MFIs leading to gaps which expose them to liquidity crises.

... So, you find out that always on a daily basis we're having shortage of money all the time. The little cash we have, we give it out. But the demand of loan is just too much on microfinance. Like in my own case now, the application forms that we have not approved, waiting for disbursement is up to 7 -8 million and we even have depositors that are waiting to collect their money- **Bello (Staff MFB, November 02, 2016)**

This infers that the demand for loans is very high amidst unattended withdrawal requests. This creates tensions for MFIs due to their inability to meet the expectations of their clients. The MFB has many loan application forms awaiting approval and disbursement and at the same time, it has depositors who are waiting to withdraw from their accounts. This was also a source of risk in NMFI. This challenge is a crucial concern affecting the performance of MFIs and could be overcome if there are more funding opportunities available to MFIs. This tends to be problematic because the loanable funds of the NMFI are constantly overstretched due to the high rate of client enrolment and the declining volume of donor funding. This makes the NMFI to turn down many loan requests or tighten the criteria for eligibility in order to streamline its lending activities thereby limiting its outreach to the poor.

6.2: Operational Risks

Participants from both MFIs acknowledged their exposure to operational risks in relation to their transactions, fraudulent practices and legal and compliance issues. There appears to be a challenge in adopting cost-effective strategies in delivering service to clients. Given the limitation of their available resources in terms of logistics-staffing, transportation and general running costs, I found that it is challenging for the MFIs to attain the desired level of efficiency in their operations. The MFB is confronted with operational risks emanating from the likelihood of errors in processing transactions, issues with banking software and staff integrity as well as compliance issues with regulatory bodies.

6.2.1: Fraud and Integrity Risks

Both MFIs and their clients are exposed to fraud and theft risks due to the low adoption of technology which can address the challenges of cash transfers. While observing the disbursement of loans in NMFI, I witnessed how cash was physically handed over to clients in the absence of security agents around the vicinity. The practices adopted by both MFIs in terms of loan repayment, cash collection in customers' premises and processing of deposits were identified by participants as loopholes for the perpetration of fraud by staff. Participants generally reported that the tendency to commit fraud was highest among cashiers, mobile

tellers, loan officers and group leaders, who have access loan funds or collect deposits from clients' premises or in the bank. In the NMFI, it was revealed that some group leaders have misappropriated the loan repayments of their group members and altered the clients' accounts because they are custodians of the groups' records and act as intermediaries between members of their groups and the NMFI. The cash handling procedure of the MFB was also identified as a risk factors being that tellers process and pick up cash from customers' premises.

Along the line, we discovered that when they need the forms they go to the group leaders because most times they always give the group leaders. The group leaders have their books. We come to enter it, then the credit officer will go and collect it from them (i.e. the group leaders). So, along the line we realized that when they keep them they squander the money, they can't refund it up till now. Some of the leaders are still paying the monies of other members. That's the major challenge **(Mabi Staff/ NMFI, November 03, 2016)**.

In relation to handling and verifying clients 'deposits made in the bank or collected by mobile tellers during cash pick-up, the MFB faces enormous risk.

That one is the biggest risk we are facing. The main thing is trust. We just say we trust this person, but we don't really have it. Sometimes you just have to call our customers randomly, as though we want to say hello to them. We then tactically ask if they have made any deposit recently and if the person says yes, we then ask how much was given to our staff- **Gregory (Marketing staff- MFB, November 18, 2016)**

He adds that the strategy is hardly effective because it is difficult to contact every depositor to confirm the amounts they have paid to a teller. As relationship managers, they also try to understand the pattern of customers' transactions to aid them detect fraudulent diversion of customers deposits. On the issues of staff integrity, he notes that the MFI faces challenges because some staff (especially mobile tellers) collect money and fail to deposit in customers' accounts. He adds that the tellers '*will just talk about it leisurely and you will not even know but you don't have a way of knowing unless a customer complains to you*'. He attributes this habit among staff to the fact that staff of MFIs are grossly underpaid comparable to their contemporaries in commercial banks.

Sometimes when a customer gives them N5000, they will come and remit N3000. When they receive their salaries, they will now make it up and you know things like that will make customer to distrust the bank. Some customers don't even know how to read an alert⁹ because of illiteracy –**Gregory (Marketing/MFB, November 18, 2016)**.

⁹ A deposit or withdrawal notification sent banks via sms or email to customers on their accounts.

Findings also suggest that in the NMFI, staff who steal clients' monies are made to refund the stolen sums through deductions from their salaries, and some get sacked for fraudulent behaviour.

We have problems with our staff, but it still boils down to money issues. Some of the staff collect loans and squander it, they don't really understand, so it has cost some of them their job, some of them are still paying, we are still withdrawing from their salary you understand but I think we have put in some external control measures to help reduce that within the organization- **Anne (Coordinator NMFI, November 03, 2016)**

These narratives suggest that both MFIs face considerable fraud /integrity risks which could undermine their performance. To discourage fraudulent behaviour, John (Loan Officer, MFB) reveals that *'we are trying to train them, advising and pleading with them and then talking about God all the time so that they will see that it is wrong'* implying supervisors evoke spiritual sentiments to make staff adhere to professional ethics and conduct in carrying out their responsibilities. This suggests that the strategy of appealing to one's conscience or instilling the fear of the wrath of God is used as a strategy to curb fraudulent tendencies and reduce fraud risk among staff in this context due to the inclinations of people to religious beliefs. This brings in the role of religious beliefs in shaping risk perceptions in microfinance.

Participants also reported that other risk factors in relation to fraud and integrity could also emanate from clients. Group leaders entrusted with members loans repayment could also steal funds instead of remitting to the NMFI as soon as it is collected.

The group leader may claim that a client didn't pay, well, we usually ask them to take us to the client, so we can interact with the client ourselves. In the Process, we will now say take us to Mrs. A's house to know why she did not pay. If she starts giving excuses, we will say 'just tell us the truth maybe you have used the money'. That is the time the truth will come out- **Mabi (Loan Officer NMFI, November 03, 2016).**

This happens because the NMFI allows money to remain in the custody of group leaders for a long time such that, when faced with their own personal problems and emergencies, they use the funds in their care until such a time when they can repay it. Most participants however agreed that most group leaders are usually people of proven integrity.

Another source of risk confronting MFIs is that clients' fraudulent behaviours could also manifest where bogus credit groups are formed by one individual to collect loans meant for a group.

You may discover a dad and a son or a wife and a daughter or a son in a group, there is a probability that they are collecting to give just one person, and of course, if one person collects that money, his business may not have the capacity to pay back the loan. You have to watch out for similarities in names of group members and do your own research, then you will find out they are kith and kin- **Benjamin (Board Member, MFB, November 18, 2016)**

A woman will go and connive with nine women, they will come as a group and collect the loan. The office will be thinking it is dealing with ten people until when there is problem. When you begin to call on phone or look for them, they will begin to come up with stories and their secret will be exposed... ‘this person brought us, we collected the loan for her’ **(Esther- Accountant- NMFI, November 17, 2016).**

These narratives identify potential loopholes in group lending which expose MFIs to client-perpetrated fraud. Participants reported challenges affecting their productivity and performance regarding limitations of technology and manual accounting procedures. Apart from risks arising from the costs incurred and inefficiencies experienced, these factors also lead to high error rates and create loopholes for fraud. It was revealed that the MFB experienced difficulties in switching to a new software and often records errors in their accounting procedures and inefficiency of a new software.

We were using a different software before and we really had challenges with that one. We had to change to this one recently in June. We are still having some issues because it is like our credit report is giving us a wrong picture. It just jumbles the whole thing which makes us to have issues. I am not the marketing person, but the marketing person keeps complaining that there is a lot of manual writing which makes it look like we are going manual- **Susan (Staff MFB, November 10, 2016).**

The NMFI also has high exposure to operational risk due to problems relating to its accounting procedures, documentation, record keeping and general administration. Both MFIs continuously devise strategies to mitigate and reduce the impact of these risks to their performance. It was found that operational risks could result from ineffective planning and organisation in service delivery which impact negatively on customer experience and satisfaction. Field staff often face difficulties when they are expected to visit clients and receive their repayments. Issues could range from a driver not being available to convey them to visit clients or the official marketing vehicle developing a fault and no alternative is provided, or monies not being disbursed to pay transportation fares for field staff. When these occurs, it becomes difficult to recover loans because clients would have waited in vain for their arrival.

I complained to the office because our car had issues so they asked me to leave it until the car is fixed before I can go for collection, and if such happens, if the clients are supposed to make repayments for two weeks, they will give you one week payment, they will say ‘we kept the money, but didn’t see you, so, we used the money-(**Amina, Credit Officer NMFI, November 09, 2016**)

This quote was corroborated by many clients who explained that loan officers sometimes fail to keep appointments when clients are prepared to repay loans, only to make unscheduled visits when they are not expected, or the money may have been spent on other pressing demands or used to restock their businesses, since it is unsafe to keep cash at home. This implies that the logistics for operating microcredit scheme can be faulty, exposing the MFI, staff and clients to risks. This is perceived as a risk because it undermines efforts towards achieving their social mission.

6.2.2: Low Level of Knowledge and Skills and Poor Orientation

Another major challenge which poses risks to MFIs is the low level of knowledge and skills gap, inadequate training and poor orientation among stakeholders generally. This has been a key problem for the microfinance sector in Plateau State. There was consensus among participants that staff and managers are inadequately trained and lack the requisite knowledge, orientation, experience and skills in service delivery and to drive innovation in the sector. These factors impact negatively on performance of MFIs and the quality of service delivery.

Staff of MFIs are considered as important stakeholders who make significant contributions towards achieving the goals of MFIs. They act as a link between management and clients/communities and execute many risk management functions in the MFI. Their level of knowledge, skills and behaviour is crucial in the risk management process. They need to be empowered with knowledge, skills and behaviours to boost their confidence in delivering good quality service in order to avoid the undesired consequences. However, many participants in both MFIs felt that staff of MFIs do not have the requisite knowledge and skills in the field of microfinance. The method of recruiting staff of MFIs poses a challenge to the sector. Many are employed locally with no skills or experience and no organised training is done for them. The recruitment process may be fraught with a lot of irregularities-nepotism and questionable qualifications. In many instances, suitable references are not obtained, and credit checks are not conducted to check employment history or level of integrity. Participants were generally of the view that the best way to enhance the capacity of staff is to train them professionally by

organizing on-the-job training for them and mentoring them to appreciate the practice of microfinance. Others recommended that the sector could benefit more if staff are paid well and motivated by recognizing and acknowledging hard work.

Another significant source of risk in microfinance lies with clients of MFIs whose exposure to financial literacy, business and enterprise tends to be low. Many have limited knowledge of how to get the best deal from the banking relationship. Many participants were of the view that it is common to find clients being heavily indebted due to wrong investments and then, making unwise decisions to remedy existing complications which could further expose them to banks who may take advantage of their ignorance and naivety.

You see somebody who has never done business and you give him loan, he may not know the direction of where to start or where to go. The worst part of it is that money is something that melts like wax. If you think that you can just keep money in one place, before you know it, gradually you will run into trouble. If you have no plan, you are not different from someone who has a plan but has no money to execute it. If you are setting up a business, you have to know where you can sell. Some of them join the bandwagon- **Clement (Community Leader -NMFI, November 11, 2016).**

It was reported that dealing with illiterate customers makes work cumbersome and time-consuming for staff of the MFIs which they perceived as a major risk for practitioners.

You know because we are dealing with people that are mostly illiterates, people who don't know how to read and write. We are having issues. Because you know in banking environment, we need people to know how to read or write so that they can write their names, write things you can understand. Like myself, I am in internal control, I try to check all the transactions. Somebody wants to write N230, 000, he will write like 200 before he writes 30... We are dealing with illiterates. They can't fill out forms, we need to do it ourselves and the work is too cumbersome dealing with a lot of people –**Clara (Internal Control MFB, November 17, 2016).**

Apart from the challenges of illiteracy, many clients also lack integrity in providing accurate information about their status.

Most of them are illiterates, the ones were dealing with, they're not educated so you have to take your time explain things to them, treat them like children. Most of them, when you go to them for mobilization you go to their area they will show you the things they're doing, they will show you a house, but when you go there the next time after giving them the loan, you will not see them in that house- **Hannah (Credit Officer NMFI, November 11, 2016).**

Another related problem identified is the quality of orientation given to clients at the start of the relationship. It was reported that there are instances where documentation is not done

properly, forms are not signed, or clients are given contradicting information leading to agitations and conflicts.

Sometimes, improper orientation is given to the women because there was a time I went on field, I noticed that most of the materials were not well signed or completed before they were issued the loans. When you ask a woman, she will say- ‘when this person came, that was not the way she told us’. You understand. So those are some of the challenges as well. Somebody will say ‘we were told to pay this amount, why will you say we should pay a different amount’? It means there is a problem with the orientation-
Dele (Credit Officer NMFI, November 09, 2016)

These perspectives reveal stakeholders’ experiences relating to the risks and challenges of poor knowledge, skills, orientation and training have similar concerns and opinions on the state of both MFIs (MFB and NMFI).

6.2.3: Legal and Compliance Risk: Inappropriate Regulation and Poor Implementation of Policies

MFIs are exposed to risks due to lack of proper implementation of regulatory provisions. Many participants reported that the policies in place are not put into practice because policy makers, practitioners and regulators are not knowledgeable or are easily compromised by shallow reasoning and sentiments. The exposure of many MFIs to risks is high due to poor quality of boards, management and regulation.

Most of the people who are supposed to implement policies are not knowledgeable and it becomes a challenge. Government policies should be implemented effectively, and I believe that by doing that, we will get the right result and then the banks on their own should seek for knowledge because most of the banks there are selected based on sentiment and emotions. The management of the banks should not be centred on religious or tribal sentiment. They should get competent people to manage the banks-
Augustine (Regulator MFB, November 22, 2016).

But other interviewees held a contrary view that the regulatory and supervisory framework for MFIs is robust enough to guarantee high quality of board membership for MFIs.

The concept of microfinance banks came up with several guidelines given by CBN on how to operate them, and some of the concepts they introduced were not in People’s Bank or community banks, so that it will minimize the rate of failure of the microfinance banks. You must have a sound board for the microfinance banks. There are criteria for board membership. You don’t just pick anybody to make him a board

member. They must satisfy certain criteria in terms of educational qualification and reputation- **Pam (Investor-MFB, November 22, 2016)**

Participants also identified risks in failure of the MFI to adhere to regulatory provisions and legal tussles the MFI can be engaged with. Some participants highlighted other areas the MFB could be vulnerable to compliance and legal risks.

For us here, they came around in May and examined us and made their observations. Normally before they go, on the last day of their visit, they will sit with management and with the board to discuss their findings or the exceptions. Where you can defend yourself, you defend yourself and where there are documents that need to be backed up, even after they have gone, you still send it to them and where they find out that you have covered, they strike off, then leave the outstanding issues till you are able to respond to them adequately. They will normally write their own reports on the health or otherwise of your institution- **Clara (Internal Control-MFB, November 17, 2016).**

If regulatory bodies say you must do this, then you must do it. If we are asked to make our interest rates public and we fail to comply, it becomes a problem. The bank has to be transparent. We must be insured by the Nigeria Deposit Insurance Corporation (NDIC) and our personnel have to be insured against accidents. We also ensure that the drivers do not drive with expired licenses, and we have to pay taxes on time, same goes for pension- **Patrick (Risk Manager-MFB, November 22, 2016)**

It was reported that in the event of litigations, the MFB can be exposed to risk and incur costs to get a mediator between the third party and the bank especially if the case has to go to court. In the NMFI, participants did not have discuss their experiences in relation to compliance and legal risks because the NMFI is not regulated by the CBN. However, the MFI still operates within the ambit of the law guiding NGOs operating microcredit schemes to mitigate risks that could arise in dealing with clients and staff. For instance, the NMFI complies with legal requirements to enrol its staff with Pension Fund Administrators (PFAs) and operates on non-profit basis in line with its registration provisions to avoid sanctions. It was revealed that in rare cases, the NMFI uses the police or confiscates clients' property to enforce repayment when all recovery efforts fail.

Sometimes we use police on them. Sometimes, we collect their property if they fail to repay their loans, as you can see the televisions and sewing machines here. Some of them will come here and clear their debt before taking back their property. Some of them don't turn up to pay so their things are still here. But, we try to avoid getting to this level- **Esther (Accountant, NMFI, November 17, 2016).**

Both MFIs have strategies in place to guard against occurrence which can expose them to consequences due to breach of the law.

6.3: Strategic Risks: Insider Abuses

In Nigeria, MFIs face risks arising from insider abuses where administrators or staff misuse their privileges to the detriment of the MFI. This can occur even when there are policies and procedures guiding administrative processes because of deficits in compliance. According to Audu (Investor MFB), insider abuses sometimes occur in the MFB, though it is expected to comply with CBN prudential guidelines and code of corporate governance. Despite the structured procedures in place to curtail insider abuses, there could be loopholes to engage in unethical practices. He argues that the existence of various committees in MFI mandated by the CBN to check insider abuses often fail to mitigate such risks because;

A member of the management Board may bring his people or change names and take loans and when those loans go bad, he knows where the loans have gone, and he cannot really prescribe any punitive measure because he knows that he is involved- **Audu (Investor MFB, November 04, 2016).**

The regulatory provisions of the CBN's revised regulatory and supervisory guidelines for microfinance banks in Nigeria (CBN, 2012) specifically state that:

Every director and officer of an MFB, who has any personal interest whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility, or vendor services from an MFB in which he/she is serving, shall promptly declare the nature of his/her interest in writing to the Board of Directors of the MFB and the declaration shall be discussed at the board meeting **(Section 11.0)**

No MFB shall engage in the provision of leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries won five per cent or more of the equity of the MFB, without the prior approval in writing of the CBN **(Section 2.2: 1).**

Some participants feel the problems exist because the idea of formal microfinance is still relatively new in Nigeria being that the framework was launched in 2005. There is a knowledge gap in microfinance operations in Nigeria given that investors have often not grasped the social mission of microfinance as many invest in it with high expectation of returns on their investment. This creates a gap between sustainability and social impact in the industry since providers lack the capacity to administer the banks optimally.

As regards risk issues one could say the understanding of operation is not yet fully there. Most micro finance investors see it as an opportunity for making profits they are more concerned about the bottom line rather than the social impact. The different governments have different approaches to micro finance operations, which could be a potential risk- **Bitrus (Board member MFB, November 15, 2016).**

The risk of mission drift for most MFIs can be attributed to changes which have occurred within the industry. Many managers lack information and knowledge to make informed decisions and are not driven by the social vision and mission of microfinance. Social investors have high expectations of returns on their investments and in Plateau State very few investors have the full grasp of the concept of social investment.

Microfinance is a business that you don't invest and reap immediate, you start with goodwill, teaching the people to fish and not just giving them fish. As an investor you look for opportunities for investment, but we are trying to create awareness to engage in cooperative activities. Most activities are usually publicized. You see that in NGOs supported by donors, social investment has not been developed yet- **Kim (Investor NMFI, November 18, 2016).**

Participants, especially staff expressed concern over the desperation of some investors for quick and high returns. This desperation could lead to some directors and shareholders interfering inappropriately in the affairs of the MFB and putting pressure on management to go against the dictates of regulators.

Just like I told you, the directors, of course they are thinking about their investment and if their investment is not rewarding, of course they too get frustrated. But if they can allow the people managing the bank to do their job but sometimes, you will be seeing interference from outside telling you to do it like this, while the CBN is telling you, you can't do it that way. CBN is even saying the directors should also go for training so that they will understand what microfinance really means, because if they don't understand, we will just be confusing each other. You know some directors will actually suggest that we go and buy grains and resell to make bigger profits- **Justina, (Head of Operations, MFB, November 14, 2016).**

This remains a challenge in Nigerian microfinance because there is no developed framework defining MFIs' unique identity and expected role in financial inclusion.

Due to the participation of religious and ethnic groups through part or full ownership of MFIs the motivation for establishing MFIs in Nigeria tends to be linked to ethnic, religious or political influences rather than a genuine intention to promote financial inclusion. Clients also tend to patronize financial institutions perceived to be owned or managed by people from their religion or ethnic group. Unfortunately, regulators are sometimes influenced by sentiments to

undermine merit and competence in carrying out their regulatory functions. This is perceived as a significant factor resulting in mission drift as ethnic and religious sentiments influence investment and management decisions by investors and board members. Participants were of the view that some investors and administrators of MFIs tend to be driven by other motives rather than achieving the social mission of microfinance. Some views expressed by few participants (Investors) may suggest that their interest in investing in microfinance is spurred by the desire to have an identity, a voice and be able to compete with other parts of the country in the ownership of financial institutions.

Participants generally agreed that MFIs are faced with risks due to the fact religious sentiments and affiliations have strong influences on developments in the banking sector. The desire to minimize the disadvantages of being excluded in the industry can influence the adoption of policies capable of disrupting the system.

Many participants were of the view that investment in microfinance is largely driven by sentiments and emotions leading to situations where incompetent people are appointed as managers or staff to give a sense of belonging to certain interest groups without considering their competencies

Most of the banks are selected based on sentiments and emotions. Are you getting me? 'Mr X is doing well as a microfinance bank' or 'I have the money to establish it'. Then again, the management of the bank should not be centred on religious or tribal sentiment. They should get competent people to manage banks. That is why most of the banks are not progressing. It is because it is a family affair, so we must look for somebody within the family to handle it. **(Benjamin –Board Member, MFB, November 18, 2016).**

When the consolidation was effected, but Lion Bank was still existing, so it ended up being acquired by Diamond Bank. Bank of the North, along with other banks formed what we now call Unity Bank. The other banks that had their presence are still there, like Union Bank, First Bank, UBA which are much stronger. They ended up being among the 25. In the middle belt, there was a wide space left. Lobby Bank owned by Benue state and Lion Bank by Plateau and Nasarawa state. Unity Bank too had some presence in the entire North. There was no commercial bank that the entire middle belt could hold unto to say this is our bank- **Pam-Investor MFB, November 22, 2016.**

These suggest that some board members were more concerned about the political risk of Plateau State not having independent, locally controlled financial institutions than about

financial risks. As a result, they insisted on hiring local managers over better qualified candidates from outside the state. However, some participants attributed this to the shift from community banking to microfinance banking as many community banks which transformed to MFBs are still affiliated to ethnic or religious groups.

6.3.1: Customer Relationship Management

In the course of interacting with participants, there were diverse opinions around the issues of trust and risk perceptions among stakeholders. Reputation risk can result from bad corporate image and poor handling of customer complaints. It also emanates from having staff who are not skilled in managing relationships with their clients by understanding their peculiar needs and communicating well with them. Participants revealed that clients do not have much knowledge about banking and when staff lack good rapport with customers, it becomes very difficult to manage clients and could even lead to the end of the relationship.

We have risks- like staff that are not skilful, you need capable hands to do the work but because most of our clients do not have much knowledge about banking and so when you don't have high skilled staff that have the knowledge of good relationship. To manage a relationship can be very difficult. Because, like that woman that was talking to me yesterday, if she didn't meet someone like me that can talk to her, you see that will mark the end of that relationship because the customer may get annoyed- **Justina (Head of Operations MFB, November 14, 2016).**

Failure to meet clients' needs and expectations and manage a good public image can lead to high loan default rates, low client enrolment, reduced customer loyalty and high dropout rate which are detrimental to the sustainability and outreach of MFIs.

The degree of trust and the quality of relationship between the MFIs and their clients influence risk perceptions. Based on their roles, interests and motivations in microfinance, participants have perceptions about different categories of stakeholders. For instance, some staff view clients as business prospects while others perceived them as potential risks. Some practitioners understand that clients are engaged in various economic activities, but their lives are not improving, not because they are lazy but simply because they lack the capacity to access capital to grow their business while others lack the knowledge to improve their businesses. Interviewees from the MFB reported that its clients are empowered with knowledge and small loans for investments in its Integrated Agriculture Scheme. Under this scheme, customers are taught how to utilize the limited resources they have in profitable ways. They coach the youths in the community in ways they can use small pieces of land to rear livestock like sheep, goats

and fisheries rather than keeping poultry which is the dominant business in the domain of livestock farming. Many people in the locality only know about poultry keeping which is capital intensive because of the high cost of feeds and has high risk of failure if there are outbreaks of infections. The business is seasonal, and the market tends to get saturated leaving the business owners with small profits at the end of the business cycle. The MFB empowers clients to diversify and create markets for new alternatives which are cheaper, more convenient and profitable.

Even if you have a small piece of land, we teach you how to utilize it. We will now empower you. And with this, you see that the interest of our youths is coming back to the bank because they can use a small piece of land to invest livestock in different ways. It is not necessarily poultry because what our people know is poultry. But we want to teach them how to rear livestock like goat, sheep, fish in small quantities- **Gyang (Marketer- MFB, November 10, 2016).**

It was also reported that the MFB offers banking services at weekends which gives it an advantage over other commercial banks in the locality.

I don't have time for myself. From Monday to Sunday I am always in this bank because as the Operations Manager I had to bring up an idea. Now at weekends, what happens to our customers? On Sundays, what happens to their church collections? I had to at least bring up the idea that we have staff on stand-by every weekend, two or three, they have to sacrifice. We give them weekend allowance. They work on Saturday from 8am to 6pm. On Sundays, after church services, they go to the churches to collect offerings gathered for safekeeping. The advantage we have over other banks is that the churches now know that every Sunday their money is safe- **Justina (Head of Operations, MFB, November 14, 2016).**

However, participants also reported that dealing with clients can generate some complications.

From the point of introducing the customer to the bank, we begin to manage our own risk. From the point of entry into the bank, we know that that customer is a risk. Some might not give you complete documentation, they don't want to give their BVN and other documents because they do not want to use the same identity they use in other banks (**Gyang-Marketer MFB, November 10, 2016).**

This suggests that there could be an element of distrust in the MFI-client relationship which could have negative impact on clients' experiences and loyalty to MFIs. In the course of interacting with clients during the FGD, clients reported that they are sensitive to being seen as risks or a threat by staff of MFIs. Some clients reported that approaching a bank to start a banking relationship is quite nerve-wracking because an intending customer is seen as one not worthy to be trusted even without exhibiting any fault. If he or she is unable to present a proof

of identification, then he/she is believed to be fraudulent and so, should be avoided or discarded. It is expedient for the bank to carry out due diligence and even undertake physical visitation to homes or business premises of intending clients before commencing a banking relationship in order to safeguard the bank's interest. It was reported that the non-repayment of loans by clients has negative impact on the career progression of staff if they are found culpable of negligence in undertaking due diligence before a loan is approved or disbursed

We take maximum precautions in opening account because of the people we deal with, in order to mitigate risks, we do not open accounts for dubious people, you lose a lot of money when people just open account without checking it gives out bad signals to the public and we can get into trouble, so we check very well, in terms of transactions-
John (Loan Officer MFB, November 08, 2016)

Other clients reported that empathy is not shown, and care is not taken to verify their identity of the customer and understand his/her circumstance. Assistance is seldom offered to guide and support the customer to regularize his/her status as highlighted in the quote below.

My husband was killed in the crisis and our house was burnt at Angwan Rogo¹⁰. So, when I went to the bank to open an account where I will receive my husband's death benefits, they refused to attend to me because I didn't have any ID card because everything in my house got burnt. Only I and my children managed to escape. It was really a difficult time for me. I turned to leave the bank but another customer who was on the queue advised me to see the bank manager- **Agatha (Client MFB, November 04, 2016)**.

Some clients reported their feeling of being stripped of their integrity and dignity because they are perceived as not 'learned' or are engaged in lowly economic activity. This gives the impression that the level of creditworthiness is equated to the level of education a client has attained. There were perspectives that some staff treat clients with disrespect especially when they are processing their loans.

They make it appear as if they are giving you their personal money. They threaten you and speak rudely to you 'if you don't submit this or that, I will not approve your loan'. Most of them do not relate well with customers. Some of them have very poor manners-
Habu (Client MFB, November 04, 2016).

It was also found that most clients try to meet all requirements even if it means employing dubious means (e.g. giving false information, BVN details) to overcome any impediment that could stop them from getting what they want. There were perspectives that clients will not give

¹⁰ A local settlement/community in Jos City, Plateau State.

false information or be fraudulent if they are confident that the MFI will understand their situations and offer them genuine help. But, other participants emphasized that clients ought to realise that MFIs are not charity organisations. They are set up by individuals who are business men and women who have embraced social investment and have expectations of returns on their investments. Thus, clients have to prove that they are trustworthy to earn the trust of the MFIs.

It was also found that the low level of educations among clients of MFIs diminishes trust and contributes to their riskiness and masks their identity because it is difficult to track their addresses.

The people we deal with are not learned and then it is a very serious risk in terms of advancing loan. Most of them, their identity is unknown. You give a facility to a farmer who will then tell you that his farm around Rikkos and you may go there, you may not see the farm and then you want to do a KYC (which is Know- Your- Customer). It is always difficult to identify them which is a difficult risk- **Mabi (Loan Officer- NMFI, November 03, 2016).**

However, not all practitioners viewed this as an impediment. Some participants (Staff) reported being able to work with microfinance clients despite their less privileged status

You cannot work here without a passion. Why am I saying passion? Because you have to talk with less privileged, those who are not of your standard. If you are one who wants to talk with the high-grade people, you will not work here because there are mamas that are dirty, but you just have to relate with them. Yes, when you go to them, you must go down to their level. There are situations we go for advocacy or village setting, you meet them in their enclaves, and you have to be like them. If you don't like it, then, you cannot get to them and they will not trust you with their resources- **Bello (Loan Officer MFB, November 02, 2016)**

Some clients also expressed displeasure at being made to join a group in order to have an identity and be able to access the MFI's products and services. They felt their choices were limited when it comes to making decisions to stand alone or join a group. Patrick (Credit Officer-MFB) justifies and explains the criteria used in assessing the creditworthiness of clients. If the risk appetite of the bank can accommodate a client, he/she is admitted as an individual borrower, and if not, the risk is transferred to be borne by members of his/her credit group.

When clients come to the bank, the bank decides how to treat them. If their capacity cannot allow them to stand alone, they do not have any option than to join the group. I will tell you a typical example. These women that sell yams,

they may not need up to N5000. If you treat her as an individual; you might not get an identity. But if she joins a group with a leader and a signatory to an account that is jointly owned by them, the leader coordinates the group which reduces your risks- **Patrick (Risk Manager-MFB, November 22, 2016).**

While group lending is an effective attribute of microfinance, it is expedient that needs and disposition of clients are taken into consideration to enhance their satisfaction and minimize risks to their self-esteem.

6.3.2: Challenges in Meeting Social Expectations

MFIs face risks which could damage their reputation if they are unable to meet up with social trends and expectations in their operating environment. This can affect how clients find them appealing and how they are attracted to patronize their products and services. In terms of meeting the social expectations of society, majority of the participants were of the opinion that MFIs lag far behind commercial banks. Their perspectives seem to suggest that MFIs face risks from the low usage of technology and the lack of skilled manpower to deliver electronic banking product to their customers.

Microfinance banks do not have the facilities that the community needs. Even the low-income earners that are supposed to be our customers don't want to bank with us. How many microfinance banks are being able to give SMS alerts regularly or issue the mandatory BVN? **Paul (Internal Control/MFB, November 15, 2016)**

From the above submission, it can be deduced that the low level of knowledge and skills of staff of MFIs makes them unfamiliar with current trends and terminologies in the industry (e.g. BVN-Bank Verification Number). This makes it difficult to meet expectations of customers and improve their experience and loyalty. Societal influences and customers' desire to meet up with current trends in the industry are contributory factors that shape the perceptions of risks. For the clients, there could be risk to their social status and self-worth as no one would desire to be associated with a bank which does not offer the trendiest products and services.

If they go out in the society, they hear people talking about alerts, ATM card, BVN. Now, as far as they are concerned, they are supposed to have these products in their own bank. And if you come to microfinance bank even the staff they do not understand 'alerts', what is the meaning of BVN? What is this ATM card? It's a challenge, it's a risk. Most of them, no matter how small their income is, they don't want to bank with a microfinance bank because they want to use the ATM. They want to feel among- **Paul (Internal control- MFB, November 15, 2016).**

This suggests that some clients of MFIs may desire to have a sense of belonging by having access to digital financial products. This indicates that MFIs need to upscale based on the standards in their operating environment. To minimize risks of appearing to be obsolete, MFIs should be innovative and create their own brand identity which would give them a competitive edge in the business environment.

6.3.3: External Business Risks: Natural Disasters, Security and Accessibility

Major obstacles inhibiting the impact of MFIs in poverty alleviation in Plateau State which constitutes risk, are the issues of accessibility, security and natural disasters. External risks also include the possibilities of natural disasters such as flooding and drought and accidents such as fire incidences which are common occurrences in the state due to seasonal and climatic factors. Participants perceived risks in dealing with clients from inaccessible areas especially in rural communities. MFIs are the specialized institution that can create access to finance for those in the most difficult terrains, but this has remained unattainable because the incentives and infrastructure are lacking.

It is only the micro finance institution that will be able to go to the most difficult terrains in our communities. So, there is huge potential provided the government can provide the incentives and infrastructures that will create an enabling environment for these institutions and banks to thrive. Let me give an example with my local Government; Mangu. It's a very big local government and it is like the commercial hub of the state in terms of marketing of agricultural products. How many commercial banks are there? There are about two to cover the entire local government- **James (Credit Officer MFB, November 10, 2016).**

Most participants also identified risks in the difficulties experienced in reaching the unbanked and underbanked especially in rural communities lacking basic infrastructure in the state has affected the outreach and sustainability of MFIs.

As I said from the beginning, the terrain, lack of funds, language barrier and the distance and the way these communities are set not like the town where you have so many opportunities for change of business in case one business does not work out. There are difficult terrains. Accessibility is another thing and also with the way the market or business is, if they are not able to make profit, repayment becomes problem- **Sylvester (Investor NMFI, November 03, 2016).**

It's highly demanding, you have to sacrifice a lot of your time. Because the best day you can get these farmers is on a Sunday, if you go another day, you can only meet them in their farms or in their various villages, so you can't get them- **Justina (Staff**

MFB, November 14, 2016).

It is very difficult to recover loans from people in the villages because you will not have good road to go and recover the money, you will not get the customer on phone. In the southern part of Plateau where crisis was virtually everywhere. Today you may find a client here in this community, tomorrow you find out that the client might have disappeared. And even if you find him, he may be in a state that you cannot begin to ask him about the money or facility you have given to him. He might have used it to take care of himself or maybe to escape from the crisis- **Paul (Loan Officer MFB, November 15, 2016).**

The security situation in the state characterised by frequent violent conflicts and high crime rate has negatively affected MFIs. MFIs cannot operate during times of violent conflicts. The series of ethno-religious conflicts in the state have led to the displacement of clients, destruction of means of livelihood and difficulty in accessing some communities. The conflicts have led to situations where staff cannot freely establish business relationships with people of different faiths because of the religious hostilities between Christians and Muslims. Marketing efforts have to be restricted to areas considered ‘safe’ on the basis of one’s religion.

We try as much as we can to limit the lending to specific areas. We don’t cross over to unsafe areas. There are areas you might want to go into and you are not comfortable. Would you want to go there because you want to go and give loan? You wouldn’t go because what about after giving the loan, how do you recover the money? So you shouldn’t- **James (Credit Officer MFB, November 10, 2016).**

Also, the high rate of crime such as armed robbery attacks on staff and customers conveying cash are risks the MFIs are exposed to. It was also found that some localities which have high potentials for business activities are usually unable to attract banks because of insecurity. The state of security influences how risks are perceived and assessed. There could be business prospects and clients’ demand for an MFI in a locality but if security will be compromised, investors may not be motivated to invest there.

I discovered that there is money in Namu but the risk is very high. It was left for us to mitigate the risk. I went to the police station and the people locked in their cells were all armed robbers, real robbers. When we visited the man in charge of the police station there, he told us that they do not use ordinary police, which was another additional statement. It is good to be trained as a banker because our customers in Namu will never tell you this other side. They will convince you that the people are waiting for you, money is ripe ready for harvest, but the other side, they will never tell you. It is now left for you as banker to do your job. No one sent me personally to go to police station,

but I had a chat with a police man and I got the idea that ordinary policemen should not be used in that place, which is a serious thing- **Benjamin (Board Member, MFB, November 18, 2016).**

This quote indicates that what mattered most was the security of the location rather than the prospects of having a large clientele. This reflects the Systems and Edgework Theories of Risk where risks are viewed as outcomes of decisions, choices and emotions. The narrative also reflects how expert knowledge and experience influence the perception and assessment of risks as findings from a visit to a local police station were used to assess the level of risk in the locality. This demonstrates the assumptions of the Risk Society Theory where risk are framed based on interpretations of people who lay claim to expert knowledge.

6.3.4: Competition

Many participants identified competition in the financial sector as a major determinant of risk. There appears to be no boundaries in the designated roles of commercial banks and MFIs which often lead to competition and confrontation between them. Findings suggest that Practitioners have limited understanding of their customer mix to be able to adapt their products and services to suit them, and the MFIs themselves have drifted from their social mission

We are talking of small loans to people that have been excluded on the mainstream of financial system but as it is now, microfinance banks are scrambling for macro finance clients instead of dealing with the market women. Instead of going to Farin-Gada Market¹¹, you will see them in the Government House¹² looking for accounts- **Reuben (Regulator MFB, November 08, 2016)**

While this quote suggests that MFIs canvass for high net-worth customers (such as top government officials), rather than micro-clients (in local markets), the perspectives about mission drift was disputed by other stakeholders who were of the view that the MFIs were on track in fulfilling their social mission of empowering the poor through their social investments. They argued that in facing competition from commercial banks, MFIs have also devised innovations to support and empower their customers as part of their corporate social responsibility to expand their own outreach and profitability. A starting point for them is

¹¹ Farin-Gada Market is a popular vegetable (especially tomatoes) market located in Farin-Gada Area of Jos City.

¹²Government House is the official residence of the Governor of Plateau State, housing offices of key government officials of the state.

understanding their business environment and unlocking opportunities by empowering their customers.

Looking at it at that micro level we were able to say that you give them something that will boost their capital base. That was the motivation. We saw that if their capital base is broadened they will be able to do greater things and go places and we have seen results out of it. For some, from the little they receive, can send back their children to school, have meaningful life in the community and cope with the livelihood struggles. We see the women struggling day in day out, they are our source of motivation. If they are entrusted with this little, it means that they can do great when they have bigger opportunities- **Kim (Investor NMFI, November 18, 2016)**

6.3.5: Political Risks and Inadequate Governmental Support

Participants from the MFB generally identified political risks as a major risk threatening its sustainability. References were made to external interferences by politically exposed people or powerful elites who influence the approval of loans and employment for them or their acquaintances. Failure to do their bidding can expose the MFB to unfavourable consequences like loss of patronage or funding support from the government. Yielding to their demands on the other hand, can expose the bank to more risks. Participants narrated their experiences in relation to the risks the MFB locality faces from external interferences.

It is not easy to operate within this. It is a great risk because even between the staff, if a staff is being laid-off or punished, people will come begging on his/her behalf. The affected staff may use someone close to you as the manager to plead. What do you do when your brother comes to plead for someone? And it is the same with the issue of the loans. When a customer brings in a third party to beg or harass you. The third party may be someone you know very well- **(Justina, Manager-MFB, November 14, 2016).**

A striking revelation was an allegation that politicians who engage in such practices can go to the extent of 'killing' the individual who collects the loan under false pretence to swindle the bank and avoid being exposed as the real debtors of the bank

Even in the issue of loan. Just like that they will just refer people to us to give loans. If you are not careful, it is the same people who will kill the man. Maybe they are pushing the person to collect the loan but in long run, they are the actual beneficiaries of the loan. Because here on the system it is the person, but in the background, they are the real debtors. This issue of referral is causing a lot of problem in microfinance- **Susan (staff MFB, November 10, 2016).**

This may be a reflection of the exposure of financial institutions to political risks often driven by the high level of corruption in Nigeria which has resulted in the failure of many financial institutions (Dada, Owolabi, & Okwu, 2013; Fagbadebo, 2007; Reuter, 2012). These perspectives can be understood in the light of developments reported by the media such as news stories about the Nigerian Police investigating the murder of a Spring Bank worker ‘after lending N12Million to his alleged killers’ (Ndah, 2011) and controversies trailing the proposed scrapping of the Bank of Industry (BOI) (Amanze-Nwachuku, 2016; The Icon, 2016). The Icon (2016) specifically reported that ‘those behind the move were top Nigerian politicians and government functionaries who sourced loans from the BOI to execute their election campaigns and businesses but could not pay back’.

In addition, there were perspectives that managers could be pressurized to employ unsuitable candidates recommended by influential people.

Somebody well known in the community will just refer somebody to you to offer employment without undergoing the processes of employment. When you employ the staff and the person is not performing well. What do you do? You don't throw the staff away. You keep on managing the person and at the end of the day the result the staff is producing will be bad. The output will not be good. It will be costing you more- **Paul (staff /Internal control MFB, November 15, 2016).**

The role and intervention of the government in microfinance is another source of political risk for MFIs. Many of the participants were of the view that the government has inconsistent policies and poor implementation strategies which impede on the growth of the sector. Their perspectives suggest that government does not support MFIs as it supports other financial institutions. An example is not allowing them to maintain public sector accounts like the commercial banks. The recent introduction and implementation of the Treasury Single Account (TSA), where public-sector funds are now domiciled in the CBN has changed this perception. In the past, commercial banks were benefitting from public funds while MFIs could not open accounts for government ministries, departments and agencies. Some participants were of the view that government sometimes issues directives which hurt the MFBs. An example is the

directive that all workers without a Bank Verification Number (BVN) should not be paid salaries. Many clients (whose salary accounts are domiciled in the MFB) and even staff of the MFB were affected because MFBs are not included on the platform of BVN. It took a lot of negotiation before the federal government directed commercial banks which serve as correspondent banks to MFBs to generate the BVNs for customers of MFBs without being required to switch to the commercial bank. This policy initially affected the MFBs negatively because many of their clients closed their salary accounts and switched to the commercial banks to be avoid forfeiting their salaries. The experience was hard for MFBs because it empowered the commercial banks to poach their customers. Another way in which the government makes MFIs unattractive to the public is the way salary remittances to MFIs are delayed.

During payment of salaries you discover that the government delays the salaries of microfinance Banks because they cannot access our accounts online. They will heap the bulk amount in one of the corresponding accounts and then email the schedule, which is cumbersome and stressful. But for other banks that are online, they can access to all the accounts and send the salaries. So here, our customers are complaining about delays in salaries, and you find out that First Bank pays their own customers three days before we pay our customers- **Paul (Staff MFB, November 15, 2016).**

The delay in salary payments discourages customers from maintaining their salary accounts in MFB which in turn makes it difficult for the MFB to secure loans disbursed to salary earners. Grace (Board Member MFB) identifies risk in the manner the government adopts policies without understanding their implications on MFIs.

When they started microfinance banking system in Nigeria, they did not study it well like other countries. One problem with us in Nigeria is that we go outside and pick something, we don't even look at the environment. Who are these people that I'm selling this product to? So, they don't carry us along that is why I said we almost got it wrong- **Grace (Board Member MFB, November 15, 2016).**

Apart from failure to understand the local environment in which policies are implemented, a major challenge is the wrong targeting of beneficiaries or the wrong-timing of interventions.

The bank or government may want to help the community, but this goes to the wrong hands. Let me use fertilizer as an example. If they want to help farmers with fertilizers, and the fertilizers do not go to the farmers directly but to all these market men and women. They will sell the fertilizers at very high prices to the farmers. Give farmers these products directly. That will go a long way in helping them. But if you give it to the wrong person. It will not reach them and there is no way you can have a bumper harvest. If you want to give a farmer fertilizer, don't give him at the wrong time. Give

him these things earlier before the rainy season. When you give somebody fertilizer in July or August when the rain is almost gone, that will be for another year. Try and help at the appropriate time so that the people will utilize it- **Clement (Community Leader, November 11, 2016).**

MFIs are also constrained in achieving sustainability and outreach because of inadequate government support in infrastructural and human capital development by promoting research to seek ways of combatting diseases which affect crops as many clients are engaged in agriculture.

Government should support with training on how to go about this issue of loan and then amenities also should be provided to most of this microfinance clients in the villages. If in most of these villages we have good roads and networks, we will not have problems. Most of these people that stay in the villages are predominantly farmers. We have been having one sickness called potato blight where it has been drawing people back. Because most of our people farm these Irish potatoes very well. They will cultivate plant and before maturity they will just die off. And then the produce will be nothing to write home about. And this thing has been happening for close to four years now and the government and the research Institute in Vom¹³ are doing nothing about it - **Justina (Manager MFB, November 14, 2016).**

Majority of the participants were of the view that the government fails in supporting MFIs through inconsistent policies and lack of transparency in their commitments to MFIs which constitutes risk to the MFIs.

Another risk we are facing is inconsistency in Government policies. Government can reduce some of these risks by setting aside some amount of money to support microfinance banks and their clients-most especially the farmers, at a reasonable interest rate. But when they will just announce on paper that- we have set aside N200 billion. To access such facility is cumbersome, very difficult and at the end of the day, the farming season will come and go with no substantial release of funds- **Grace (CEO/Board member MFB, November 15, 2016).**

While most participants were not satisfied with the government's support to MFIs, a participant made mention of monetary support given by a past administration in the state indicating that MFIs rely on government funding to strengthen their sustainability and outreach.

¹³Vom is a town in Plateau state, central Nigeria, situated on the Jos Plateau near the source of the Kaduna River, 18 miles (29 km) southwest of Jos town. It is the site of the National Veterinary Research Institute (1924) and of western Africa's first veterinary school (1942) <https://www.britannica.com>

The government is not supporting us even though we must appreciate the past state governor, Da Jonah Jang¹⁴. When he came on board he gave each microfinance bank N20 million. We heard that some were even given more than that. And up till that time that he gave us the money, till now, the government has not asked for the money even though he gave it to us as loan. And we are still using the money. If federal government can do that and then other state governments I think they will improve microfinance banks to some level- **Paul (Credit Officer-MFB, November 15, 2016)**.

There were also submissions that the government supports MFIs by making available intervention funds and supervision, but the MFIs hardly take advantage of these opportunities by failing to meet the criteria for accessing these intervention funds to assist the economically active poor.

One of the major elements that is affecting microfinance bank in Nigeria is over reliance on public sector funds. Most of them are running salary accounts and the risk of government not paying salary is very high. If government does not pay salaries, what becomes of that bank? You see that their risk portfolio is high. These are some of the reasons microfinance banks should go back to the basics of microfinance- **Augustine (Regulator MFB, November 22, 2016)**.

This narrative suggests that there is failure on the part of MFIs to focus on their target customers. These analyses reflect the perspectives participants hold about political risks/ government's role in microfinance which also shows that much more support is being expected to help MFIs attain greater sustainability and outreach. Interviewees from the NMFIs did not report being affected by political risks possibly because of their ownership structure and lending methodology and non-profit making status-no shareholders, less reliance on public sector funding, smaller loan sizes.

6.4: Conclusion

This chapter has found that sustainability of both models MFIs (commercial and non-commercial) in the state is at risk and challenging for all stakeholders due to economic, social, political and cultural constraints. So far, the analysis has identified the key drivers of risks in microfinance based on the issues which emanated from the conversations with participants. While findings suggest that MFIs are faced with financial, operational and strategic risks, I

¹⁴ Jonah Jang was the Executive Governor of Plateau State from 2007 to 2015.

have attempted to bring out the voices of stakeholders about what they perceive as risks which affect them and their MFIs. This will enhance the understanding of how risks are conceptualized within the social context of the microfinance subsector in Plateau State.

Based on the perspectives obtained from participants, it is obvious that risks are perceived in terms of difficulties and challenges experienced rather than measurable probabilities and impact of occurrences. The responses of participants were descriptive or narrative not mathematical or statistical indicating the subjectivity and flexibility of risk (which is the core of this thesis). Risk are identified in relation to happenings in the social environment not as values or estimates. In analysing the perception of risks by various stakeholders, it was clear that there were differences in participants' perceptions of risks based on their roles, areas of expertise and nature of their institutions. This supports the submission that risks means different things to different people, and the fact that experts and lay people perceive risks differently (Slovic, 2000). While experts use quantitative measurements in assessing risks and enacting policies, lay people assess risks based on their perceptions and experiences, and navigate through them using their risk balancing capabilities(Adams, 1995). This accounts for the mismatch between risk management policies and practices. These findings also reflect different dimensions of the social theories of risks which underpin this study.

The next chapter will focus on how risk conceptualizations by stakeholders influence risk management practices of MFIs based on the research findings. It will explore the implications of these on the decisions, behaviours and interests of stakeholders and address part of the research questions.

Chapter Seven: Risk Management Strategies in Microfinance: The People and the Structures

7.0: Introduction

The preceding chapter was focused on understanding the conceptualizations and perceptions of risks by stakeholders based on the research findings. This chapter presents the research findings and analyses risk management practices in the two MFIs to explore how the conceptualization of risk impacts on the behaviours and attitudes of stakeholders in their engagement with the MFIs. The chapter thus explores two paradigms of microfinance in the case study- (commercial and non- commercial MFI) to contribute to the growing research on the dichotomy between sustainability and outreach in microfinance. It focuses on the social actors who are the stakeholders in relation to their practice of risk management. The aim of this chapter is to address research question four which seeks to investigate how stakeholders' perceptions influence their decisions, behaviours and interests in relation to risk management.

The dynamics of risk management relates to roles and responsibilities have to do with job specification or designations, job experience, cognitive abilities, training, knowledge, skills etc. which create the consciousness in people about the risks prevalent in a specific context. In presenting my research findings, I have attempted to explain the issues that featured prominently in my interaction with each group of stakeholders. My interactions with participants helped me to explore their approach to risk management and understand how they conceptualize risks. It is pertinent to note that based on participants narratives, there tend to be discrepancies between *what they say they do* and *what they actually do*.

Risk management is a dynamic process because it is undertaken by human beings who tend to be influenced by knowledge, skills, interests, motivations and expectations. To understand and identify risks confronting MFIs, the pertinent puzzles in an enquiry are: what is the risk? Why is it risky? Even though the responses on participants' conceptualization of risk are embedded in their narratives, it is obvious the MFIs being studied are confronted with financial, operational and strategic risks arising from contextual problems- high loan default rates, harsh business climate, security challenges, political interference, socio-cultural factors (as found in the previous chapter). These are perceived as 'risk' because they pose danger to the financial and social performance of the MFIs.

There are marked differences in the risk management approaches adopted by the MFIs, owing to their ownership structure and mode of operation, being that one is a regulated microfinance bank (MFB) while the other, is a non-bank MFI (NMFI). The narratives of participants helps to understand what they do, how and why they do it, in their efforts to strengthen their resilience and reduce their vulnerability to financial, operational and strategic risks in different aspects of their activities. It provides for a better understanding of the economic, social and cultural contexts in which participants conceptualize and manage risks in their engagement with MFIs.

This chapter aims at examining the structures and roles of the stakeholders in the risk management process of both MFIs. To achieve this, I have examined the dynamics of the risk management practices of the MFIs. I have also explored the practices which participants identified as relevant in mitigating and controlling risks in the two MFIs- group lending, dynamic incentives, joint liability, guarantors, micro-insurance, internal control, regulation, monitoring and supervision.

7.1: The Risk Management Dynamics of the MFIs

In the MFB, risk management is the responsibility of board members, management, internal auditor and credit and risk officers. The MFB strives to abide by the codes of corporate governance and risk-based supervision framework as enshrined in the regulatory and supervisory policy of the CBN. Generally, the participants from the MFB acknowledged that there are prospects for a vibrant microfinance sector in Plateau State, but the sector is deficient in implementing the prescribed risk management policies. A new agency- Plateau State Microfinance Development Agency has been established to support the development of MFIs in the state. The role of the agency is multi-dimensional, but a key aspect is to support MFIs by ensuring that they work within the regulations of the CBN and attain sustainability. The agency pays attention to their areas of weakness and collaborates with the government to offer interventions to struggling MFIs. Interviewees from the agency reported that it acts as a regulatory body and assesses the performance of MFIs to ensure that they are responding to the various interventions.

When we do our need analysis, we will be able to know the kind of intervention. As I am talking to you, most of the banks use to think that there are no markets in the state, but based on some of these interventions, they have increased their client base. Even in two months, some have made over 2000 clients because of the intervention. And then

we assist them in changing their mind set of their clients. Our agency is not limited to the banks alone because if the customers or the target group that the micro finance bank are targeting, if they are not doing the right thing, it will have a resultant effect on the bank – **Lucky (Regulator MFB/NMFI, November 07, 2016)**).

They reveal that the needs of the MFIs vary, and therefore the type of intervention offered to them is need-based. Participants explained that it was wrongly assumed that all MFIs needed training, and all were given uniform training. There is now greater awareness that MFIs have different areas of strengths and weaknesses. Some MFIs have excellent processes and marketing strategies but are deficient in risk management, while others have excellent risk management strategies but do not have marketing strategies or technology. Risk assessments is necessary to determine the best type of intervention to offer and this should not be limited to the MFIs alone, but also on the markets and clients whose activities and behaviours have resultant effects on the MFIs. The agency engages in capacity building for clients and supports them to manage their businesses profitably. Their understanding of risk management presupposes that risk-based and need-based supervision aid MFIs to operate within the ambit of the CBN regulation. These views reflect the positivist disposition of policy-making institutions where the focus of risk management lie in compliance with regulatory provisions.

Even though participants from the NMFI did not mention it in any of the interviews and FGDs, it is obvious that the NMFI is largely modelled after the non-profit model of microfinance pioneered by Prof Muhammad Yunus in his native Bangladesh in the wake of a deep poverty crisis induced by conflict (war), flooding and famine. In a similar manner, the idea of entering into the business of microfinance by the NMFI (a registered NGO) was motivated by the incessant conflicts in the state leaving many of its inhabitants in abject poverty. (Krause, 2011; Osaretin & Akov, 2013) The vision is primarily to alleviate poverty through economic empowerment and not profit-making. The original focus of the NMFI is to respond to the social development needs of people by providing support to people who are marginalized in their communities. Each of its branches adopts its own strategies and methodologies of meeting the social development needs in its immediate environment within the sphere of peace building, women empowerment, and good governance, humanitarian and emergency response. Given the prevailing peculiarities of the state characterised by high poverty rate, large army of unemployed people and high degree of susceptibility to conflict, the NMFI established its microcredit programme to encourage entrepreneurship as a strategy not only to alleviate poverty but to promote peaceful coexistence among people of diverse religious and cultural

backgrounds. As a risk management strategy, the NMFI provides credit to support existing businesses and not to raise start –up capital to ensure that clients already have experience in entrepreneurship.

We had a survey and identified key areas of challenges, and some of the challenges were centred on poverty, extreme poverty especially among women and families, and you know by extension, once it affects women it affects the whole family. Going with our mission of looking at the highly vulnerable, we came up with idea of supporting them to become self-reliant, to improve their family income and welfare and so on. And so, we talked about having maybe some small loan scheme for investment in business. We decided that what we will do is training the women leaders on how to manage small scale business, simple book keeping and so on- **Anne (Coordinator/Board Member, NMFI, November 03, 2016).**

Risk is thus perceived in terms of vulnerability and exposure to adverse and dehumanizing effects of poverty on women and families. This narrative portrays the non-commercial status of the NMFI and its promotion of social performance over financial performance. Its focal goal is the social mission of microfinance rather than profit-making. The NMFI is run as a registered NGO with an organisational structure where staff are assigned roles and responsibilities to be carried to pursue its mission and goals. While it has plans to transform to a regulated MFB, it is currently not subject to CBN regulation. It relies mostly on grants and donations to fund its activities and microcredit schemes in a bid to expand its outreach.

We provide credit to support microenterprises. We are supported by an organization from Switzerland and they are supporting it. And while they support it, as it grows, they withdraw and expect you to continue. The funds take care of many widows and the other women in the rural communities and it doesn't have much service charge. It is just to help in running the office and paying staff salaries - **Anne (Coordinator/Board Member, NMFI, November 03, 2016).**

It was also gathered from participants that the NMFI has no shareholders who are seeking returns on their investments.

I was born in the village, I loved the village life, though I worked in financial institutions in the urban centres for 20 years, I figured out that commercial banking was not for rural people like me. They were ignored, never got help, the commercialization excluded them. When the microfinance frame work was established, I, having worked for 20 years, was ready to bring what I have learnt to the rural areas. With this I help people in the rural areas. Most times, we see graduates who have graduated for long but have no jobs to do. We try to empower them and make them make something out of life- **Sylvester (Investor –NMFI, November 03, 2016).**

This reflects how passion and emotions influence risk taking behaviours of stakeholders as highlighted in the Edgework Theory of Risk. It was found that some board members are engaged on voluntary basis and simply act as custodians and managers of funds obtained from donors. They are enlisted based on their interests, personal pedigree or status to attract and gain the confidence of funders and donors. The managers who administer the NMFI and staff who carry out various roles earn salaries and allowances. The NMFI requires the consent of a spouse or a male family elder before enrolling a female client. At the point of enrolment, clients fill forms and provide their passport photographs and given their hand cards.

In the MFB, however, the business is run with aim of making profit while providing financial services to the poor.

This MFB can be described as a miniature commercial bank where you have all the major departments like the operations department, credit and marketing, administration among others. All these major departments have different control measures embedded within their work processes- **Clara (Internal Control Dept, MFB, November 17, 2016).**

The MFB was established by its promoters whose vision is to harness their resources and investments to empower the community by providing general banking products at grass root level.

We have various types of savings account, target savings account, compulsory savings account. We have helped the grass root traders to save on a daily basis and we go to their door step to collect their savings at that level. We have business advisory services for those with little financial literacy. We encourage financial book keeping and that has helped a lot. We have been working on setting up cooperatives to help them to work together and enhance their performance especially in farming. We help give them implements also. In the cooperative, we will assist in making sure that the government intervention funds should be available for them, when they are in groups it is easier- **Grace (CEO/ Board Member-MFB, November 15, 2016).**

Furthermore, it has a board of directors and membership into the board is by appointment or election at Annual General Meeting (AGM) based on the share of equity held in the bank. Perspectives of staff of the MFB suggest that it has shareholders who have high expectations of dividends at the financial year end which they perceive as a factor inducing mission drift risk.

We face problems with the shareholders. Somebody will be a shareholder but, he will not be a customer and yet, he will want to be paid dividend at the end of the year. So, who will operate for them to get the dividend? And those are the people that will shout

on you every day, 'we want our returns'. Most of our shareholders see microfinance as a normal investment opportunity- **Justina (Staff MFB, November 14, 2016).**

7.2: Lending Methodologies, Loan Underwriting Processes and Roles of Guarantors

The NMFI resorts to strategies hinged on social networks such as group lending, joint liability and ensuring accountability in managing the accounts of their clients. Its programme is focused on empowering the economically active poor by promoting group lending. The relevance of group lending is to facilitate the peace-building efforts as part of its non-financial services.

The essence of bringing them together is just to have them work as a team, to create that unity. As we work in this organization we always harmonize our projects together. As you know we have the peace building department, *we preach about peace and as we are giving them our loan, it's not all about the money*, we preach peace to them and the matter of what is happening, looking at the situation in Plateau State and the country at large. We try to preach peace to them no matter what's happening that we cannot do without each other- **Regina (Loan Officer –NMFI, November 09, 2016).**

It serves mostly women and widows- who are perceived to be marginalised and vulnerable in society, through microcredit and deposit mobilization. Many perspectives were generated on the complexities of the practice of group lending by the two MFIs. The perspectives obtained show that group lending is perceived both as an opportunity and challenge by participants looking at its perceived benefits and costs. The case study MFIs engage in both individual and group lending. However, while the NMFI was focused more on group lending but is now lending to individual borrowers, the MFB was lending more to individuals but now shows preference for group lending. Participants drawn from the NMFI highlighted the benefits of group lending to include; peer monitoring, reduced costs in credit administration, greater outreach and stronger solidarity among clients while participants from the MFB perceived it as a strategy for securing microloans. This is in the sense that the MFB tends to deal with a group as a registered cooperative or partnership with a formal identity rather than a group loosely bound by social or communal ties as practiced by the NMFI.

We encourage the groups to be registered corporately. It is much easier because they already have a structure and leadership and they have been together for some time. Those ones are easier to manage than the ones you meet, tell them about the products and they put their heads together, get to have elections to choose their group leaders. Those ones may have challenges in the group that could affect the relationship **(Gregory, Marketer-MFB, November 18, 2016).**

Both MFIs resort to strategies of managing risks by granting dynamic incentives and providing credit to support existing businesses rather than start –ups (to ensure that clients already have experience in entrepreneurship. It was explained that the NMFI operates on the principle of giving dynamic incentives to clients who demonstrate credit-worthiness.

We are able to organize women into groups, they come as a group of ten. We carry out an orientation on simple booking keeping rules and how they can manage their loans. When you come maybe the first time you are given N10, 000 to run and it takes about the period of one month then you start with payment, when you finish you graduate to N20, 000 and then N30, 000 and to N40, 000 and there are individuals who come in for a large amount of money but you must have gone through this processes for us to assess your abilities so that we can now increase your loan- **Anne (Coordinator NMFI, November 03, 2016).**

It was reported that the NMFI engages in group lending by going to the community for mobilization after carrying out a baseline survey to obtain the demographics of the locality.

We have standard operating procedures that we follow which include identification of the community that is the baseline survey. During the baseline survey, *there are visits to the community heads and other stakeholders*. We look at the strength of the business of the women. If their strength is higher than what we offer, we let them understand but if it is okay for us to partner with them -**Regina (Loan Officer, NMFI, November 09, 2016).**

This indicates that the selection of communities is the outcome of interaction between the NMFI, community leaders and stakeholders after assessing the businesses of potential clients. These are the gatekeepers whose ability to negotiate with the MFIs would determine the fate of the community (whether the community will benefit from the services of the MFI). Furthermore, the gatekeepers are considered as the ‘elites’ of the community (traditional rulers, women leaders, church leaders).

When we go to community for mobilization, we talk to the traditional leader of the community. *Those people who are respected in the community*. They normally link us to the women leader. I believe those women (i.e. women leaders) know the women (potential clients) in the community. *They know those ones that will be reliable and those that will not-* **Amina (Loan Officer NMFI, November 09, 2016).**

Sometimes it is the church. We could go through a church then the church members or leaders of the church can recommend the women. Because part of the community survey is to meet the stakeholders either religious or community –**Mabi (Credit Officer NMFI, November 03, 2016)**

These quotes suggest that the potential clients have no voice at this stage because it is assumed that the gatekeeper knows them and can assess their capabilities. To reduce the risks of moral hazard and adverse selection associated with MFIs, the NMFI has devised its own client selection process as part of its baseline survey of target communities.

We allow them to select the beneficiaries. Sometimes, it is done by the community leaders. They will say '*we will give you the women we know, and we trust*'. Then we allow them to do it at their level. They accept it that way. They will select the women for us. So, we will now leave and then they will inform us when they have selected the women. Then, we can go back and see the women. So, it is all part of the baseline survey- **Dele (Credit Officer, NMFI, November 09, 2016).**

The rationale for allowing the gatekeeper to select potential clients is to prevent the MFI from interfering in the selection process and to create a sense of ownership of the scheme in the community. Having all group members from the same community eases loan recovery and the MFI recommends that gatekeepers mix up clients irrespective of their religious beliefs;

We allow them to do the selection themselves, and *we always tell them that they select people from the same community to form a group*. Being from the same village or community helps to ease our work in terms of collecting back the funds. Because if a woman from group one is from a different village among them it will make the work difficult, and, *we always tell them to mix up. We don't mind whether it's a Muslim or a Christian, because we deal with all of them*. We allow them to do that for their own convenience and to *let them then know that the project is theirs, it's not ours*. Let them claim the ownership of this- **Amina (Loan Officer- NMFI, November 09, 2016).**

Another reason given for allowing gatekeepers to screen and select clients is the paucity of funds to meet the increasing demand for credit.

They screen these clients themselves and know that these are the right people. The number of interested people is always high, but we just have to begin somewhere, and we hope that with time, the funds will reach other people. We will be able to absorb others into the scheme to see how their livelihood is improved –**Christy (Accountant NMFI, November 08, 2016).**

In the MFB, there seems to be a laissez-faire approach where the group exert greater power and control over their affairs without the interference of gate keepers during the client selection. The gate keepers are needed to act as guarantors for borrowing clients. The narratives suggest that group lending is carried without facilitation of gate keepers, and the MFB is not involved in the formation of groups. It was revealed that groups are formed by clients themselves, who then approach the MFB to request for credit. Members of the group can later choose to separate from the group and be treated as individual borrowers if they wish.

We don't form groups for them. They form their groups. Of course, as time goes on, some of them might want to pull out from the group. We don't say no. If you want to pull out, we send you to our departmental heads. If you are pulling out from the group, that means we will treat you as an individual customer- **Gregory (Marketer- MFB, November 18, 2016).**

In trying to understand the frequent reasons for the disintegration of groups, it was reported that clients usually opt out if they desire to increase their loan size above what their group is collecting. Hence, clients of the MFB enjoy greater freedom in choosing what loan size they want, if they can prove their ability to repay unlike their counterparts in the NMFI who in most cases must operate within a group and graduate as a group to collect a bigger loan as part of the dynamic incentives.

The reason is usually relationship and maybe money. Maybe they feel they should have been enjoying N300, 000 or N500, 000 but their group is enjoying N100, 000 or N50, 000. A client may not continue with group because he is now big and wants a bigger loan. He may want to join a group of his own type or stand-alone- **Benjamin (Board Member, MFB, November 18, 2016).**

Some narratives also seem to suggest that groups can come from outside the locality of the MFB which could result in the inability of the MFB to monitor them.

Some groups are made up of farmers and they are in Shendam¹⁵. The challenge is, who monitors them? We don't have a branch over there. You need to monitor your loans to ensure that they come back. So that is the challenge (**Gregory, Marketer-MFB, November 18, 2016**)

This also implies that could be minimal contact and distant relationship between group members.

There are other challenges like gathering the women. They are not in the same area because of the setting, you need to go, bring them from different hamlets and areas. Some of them live far from where they would come and meet us. So sometimes, getting these women to come together at once is also a problem (**James, Credit Officer MFB, November 10, 2016**).

From this analysis, it can be inferred that there is a departure from the original model of microfinance and a gap exists between clients and the MFIs. This is in the sense that gatekeepers are introduced in the contract and given a place of prominence to mediate between the MFI and its clients in NMFI. It was also noted that relationship with clients commences

¹⁵ A town and Headquarters of Shendam LGA Plateau State, Nigeria.

after they have been selected by gatekeepers. Findings further suggests that collaboration with clients begin when problems emerge, and solutions are being sought.

We organize interactive forums in communities so that *clients can talk about their challenges, and you get some of the details of those challenges*. It helps us to refocus on what next to do, what strategy to use because you know, when you are dealing with cash, it is very difficult to maintain the discipline. We are also very conscious of the environment where we operate- **Mabi (Credit Officer NMFI, November 03, 2016)**.

There is no evidence in literature indicating that community leaders were involved in the selection of eligible beneficiaries or tasked with the responsibility of grouping potential clients based on their self-determined criteria. Neither were guarantors required before approval of loans. While relying on gatekeepers may bring benefits to the MFI by helping them select the right clients and enforce repayment by using their authority in the community, there is also a possibility that gatekeepers could bring in their individual biases or subjectivities in the risk assessment of clients. There is evidence in literature that suggests that group members knew each other, shared common cultural values and were engaged in productive businesses while supporting and monitoring each other. Many participants were convinced that clients are generally comfortable being in groups as they can choose their group leaders (chairperson, secretary and treasurer), hold meetings independently to discuss their problems and encourage each other.

We have several of them who started with little money by putting up a table by the roadside to sell things. In Tina Junction, we have one who now owns a shop and she is now a distributor. From the proceeds she got from this business she has a three bedroom flat. And we also have one here in Farin-gada who was able to sponsor her daughter in the University and her shop has grown, she has expanded her business. And we also have one too who sells charcoal and other things, she sells moi-moi and she is a teacher also, you know their salaries are hardly paid, from the proceeds of her business she was able to build a house. She is a widow and she is training her children and doing well - **Hannah (Credit Officer NMFI, November 11, 2016)**.

Seriously, it helps them. The first time that we went, we were even afraid to give them the loan because they were looking sick and frustrated, as if they will die the next day, very impoverished. So, by the time that they collected that loan, they were paying and after the sixth month, they collected the second loan. I now asked the group leaders that all of them should come so that we can have a discussion and to my greatest surprise they were doing well- **Regina (Loan Officer NMFI, November 09, 2016)**.

Some participants had a contrary view and reported that the use of group leaders for mobilizing clients and loan repayment is problematic and risky because losses can be incurred if group leaders are unable to account for funds remitted to them.

We discovered that we go to collect our funds, they go to the group leaders because most times they give their monies to the group leaders. The group leaders have their books. Along the line, we realized that they (group leaders) squander the money, they can't refund and up till now, some of the individuals are still paying the monies of other members. That's the major challenge- **Mabi (Credit Officer NMFI, November 03, 2016).**

There could also be problems arising from interpersonal relationship between group members and leaders which can make group lending complicated

What I want to add here is sometimes even the leadership. Some leaders want to be domineering. You don't know their personal relationship with the group. Sometimes they bring their personal relationship into the group meetings. You are not in that environment. Maybe one or two of them might have issues and they might decide to bring into the group and before you know, you will begin to have factions so that will tamper with the relationship between members- **Peter, (Loan Officer, NMFI, November 16, 2016)**

But my discussion with clients gave rise to mixed reactions and opinions in relation to group lending as a strategy for improving repayment rates. While some clients expressed satisfaction with the group setting, other were obviously dissatisfied and voiced their concerns regarding joint/shared liability of group loans. Some perspectives suggest that group lending can be effective when members of a group have a special relationship or common interest which transcends their dealings with the MFI. This could be belonging to the same extended family, social or religious club or even among colleagues.

It works well for me and my group members because apart from being in the same credit group, we are all junior staff of the local government. We are always together and understand each other. We started using this service when the government started delaying the payment of our salaries for months. We had to think about other alternatives of earning some income to provide for our needs and families. We don't have problems with repayment because as soon as we are paid our salaries, I make sure that every member sets aside an amount to settle our loan- **Janet (Client/Group Leader NMFI).**

Similarly, it was found that clients felt that physical proximity to each other makes it easy for the loan collector to meet all members and receive their weekly repayments. Peer monitoring

also motivates group members to work harder to be able to access more loan from the bank for the expansion of their businesses.

We are all active market women selling different products in the same market, we don't interfere with each other's business. Our group leader comes and collects our weekly payment every Saturday evening before the market closes. We set targets that we know we can reach. So far, our experience has been wonderful-**Anita (Client MFB, November 04, 2016).**

However, other participants (clients) had negative experiences of group lending. Many clients reported that some group members may deliberately refuse to pay and jeopardize the group's chances of accessing loans in future. Others expressed dissatisfaction because their privacy and reputation cannot be secured in the event of default as their personal and financial difficulties end up being topics of discussion at group meetings. In addition, majority of the clients reported that they face risk of psychological and mental stress due to their indebtedness or when their group members have difficulty in repaying their loan which discourages their involvement.

The last time we collected. Things were not going smoothly with the market. Whenever I see Mathew (the Loan Officer) my heart will just break. When I hear his motor cycle, my heart will skip. He will just come and say-You're sleeping. We have come ooo! I will say okay I'm coming to the office because I'm the group leader, the group collector. Some will turn up and pay the money. Some will not pay-**Kate (Client/Group Leader -NMFI, November 11, 2016).**

Even Juliet (another client) can testify that in the group there is a woman that hasn't paid. They will always ask me, I will say you know her very well because you people are attending the same church. Next time, if I am collecting the loan, I want to access it alone, I want to be alone- **Patricia (Client NMFI, November 11, 2016,)**

To overcome the problem of situations where group members are unable to repay their share of the loan, some groups maintains a special fund where each group member contributes a small amount to meet up with their repayment in the event of any emergency and also to serve as additional savings for members.

We know that sometimes a member can be away from business due to sickness or domestic problems. So, we aside this money to cover for such. At the end of the year, if we have substantial money in the purse, we divide it into three parts. We retain one part in the common purse, share one part as bonus for all members and use the last part to organise lunch/party for ourselves to close the year- **Anita (Client MFB, November 04, 2016).**

From the discussions with clients, it can be understood that perceptions about group lending are shaped by past experiences. I found that clients who had negative experiences of being in

a credit group preferred to access credit as individuals rather than as a group in the next credit cycle. Those without negative experience of group lending appeared indifferent and did not mind the group arrangement in dealing with the MFI.

The use of guarantors has become a popular practice in microfinance. It was found that it is mandatory for borrowers in both MFIs to present guarantors as part of the loan underwriting process. The NMFI collaborates with gate keepers who are usually the community leaders to endorse eligible clients and act as guarantors to help in debt recovery. In rare cases, the NMFI confiscates clients' property or involve the police when all peaceful attempts fail in loan recovery. In contrast, I found that the MFB is inclined to business and accounting approach and its risk management frameworks is designed in line with formal risk management process of the conventional commercial banks which is hinged on compliance with policies and procedures to avoid undesirable outcomes. The MFB engages in both individual and group lending. It encourages savings and provides start-up capital for potential entrepreneurs. It also finances group farming and engages in equipment leasing. It was also reported that it is common practice in the MFB that references, and guarantors are provided before staff are recruited.

When recruiting staff, we get people who can be sincere and can work in a financial institution, we obtain references and guarantors. We also closely monitor their activities **(Grace MD/CEO –MFB, November 15, 2016)**

This is considered important to verify the integrity of a prospective staff and reduce the risk of staff-perpetrated fraud. Being that the MFB lends from depositors' funds and issues bigger loan sizes, it takes necessary precaution and complies with prudential guidelines set out by regulators. Participants' interviews suggest that the loan underwriting processes are more rigorous than obtainable in the NMFI. Loans above N500, 000 must be collateralized while uncollateralized loans require the presentation of two guarantors who can be tracked to repay the loan in the event of default.

There are certain criteria which we use for risk assessment before approval of loans. We call it the 5Cs: Character, Capacity, Collateral, Condition and Capital. In the developed countries things are organized in such a way that things and people can be tracked, so credits can be easily given to people but here we don't have the records of these people, so before we give them the loan, *we collect the guarantor's cheque*. **Benjamin (Board Member, MFB, November 18, 2016).**

This may suggest that the MFB is able to secure its loans by drawing from the guarantor's account if a borrower defaults in repayment (since it collects and retains the guarantor's

cheque). The bank also monitors its portfolio at risk so that the status of outstanding loans reflects in its books and are categorized into four ways- performing loans, pass and watch, sub-standard and loss. Delinquent customers are handled by the Recovery Department of the bank based on the bank's procedure for loan recovery.

There are customers who might be proving difficult. You know when customers prove difficult; we move them to the Recovery Department. In loan recovery, there are different stages. The first thing is to meet the customer and try to restructure the loan. If the customer is still proving difficult, that is after he has agreed to restructure the loan. When you begin to hear the client complain that he is tired of paying the loan, you start looking at other options. Does this customer have collateral for this loan? What do we do? Should we invoke the other side? Is it time? Yes or no? Are there other means? Does he have a guarantor? Who are the guarantors? Can we talk to them? If the customer begins to show signs of aggression, we can't just go to his or her shop and start fighting. The best thing is to leave him to the bank because he can't fight the bank. These are the stages- **James (Credit Officer MFB, November 10, 2016).**

This indicates that there is a formal procedure which the MFB follows in recovery and dealing with guarantors. In dealing with delinquent borrowers the MFB takes care to ensure that its reputation is safeguarded. The MFB has an organizational structure with staff having assigned roles and responsibilities in handling credit issues. There was however the perspective that staff who authorize loans that go bad can be penalized to serve as a deterrent for other staff to be cautious handling credit.

It was found that the NMFI also requires guarantors as a precondition for obtaining loans, but the terms may not be as rigid as obtainable in the MFB (e.g. collecting guarantor's cheque). The NMFI requires clients to provide two guarantors in the absence of physical or cash collateral whose role is to vouch for the character of an intending borrower and pledge to repay the loan in the event of a default. A common practice is to admit a community head, husband or family heads to act as guarantors before loan disbursement to aid in loan recovery. The NMFI collaborates with the guarantors who are usually the community or religious leaders to help in debt recovery. The NMFI confiscates clients' property, involves the police or religious leaders when all peaceful attempts fail in loan recovery as explained in the following quotes.

As for the problem with the group lending, what we have done for now is to still meet the priest and with the priest talking to them, sometimes they are afraid of their priest, so we threaten them with the priest or we tell them that we should come to their house and collect their properties. We have even gone with their leaders to their individual houses to collect their properties. With this, some of them make effort to pay their loans- **Dele (Loan Officer-NMFI, November 09, 2016).**

Some participants showed preference for community leaders acting as guarantors or mediators between MFIs and clients. These sentiments define the authority of a community leader in a typical African setting whose exalted position empowers him to govern and influence affairs of his subjects.

If you give me money to disburse as loans to people. I will prefer to go to the village head or community leader. When I go to the village and sit down with their Chief and make the agreement. If there are any issues along the way, it will still come down to the same Chief or Mai Angwa because they are his people and he knows how to get them, I know I will still get the money back- **Gregory (Marketer-MFB, November 18, 2016).**

You cannot achieve anything in microfinance without getting the gatekeepers, it is development work. So you know we have a value system in Nigeria where most of our people believe in their pastors, imams, community leaders, so before you can get it right, microfinance banks must carry a crusade down to the grassroots community associations, church organisations, Muslim organisations to enable them to have a buy-in into what they are doing- **Augustine (Regulator- MFB, November 22, 2016)**

While it is advocated that community leaders play significant roles in mediating between MFIs and communities, some participants also argued that their intervention can do very little when complications arise. Many were of the view that dealing with influential community leaders who act as guarantors for loans obtained by members of their communities can be potentially problematic. This is because community leaders tend to enjoy some degree of immunity such that even if a loan they guarantee goes bad, the MFI may be constrained to act against them to recover its funds because of the special privileges that go with their status. Many participants felt that such a risk mitigating strategy can end up being counter-productive to the MFIs because it is challenging to determine the extent of a guarantor's liability in the event of a loan default. In seeking to understand the role and position of the guarantor and their implications on an MFI granting loan on the strength of such guarantee. It was reported that MFB initially took it for granted that there could be serious challenges and abuses if background checks are not carried out on both the borrower and the guarantor. To avert the risks from the MFB assigns a staff to carryout physical verification to ensure that the borrower and guarantor are from the same locality.

We were not too mindful of where they are coming from. You discover that they're from different localities, they go and look for one Mai Angwa to sign for them because we are using their Mai Angwa as guarantors. We discovered that we got it wrong. Because we were thinking they're from the same locality, but they were not. So, the

idea we brought up is to ensure that we know their houses. We talk to the Mai Angwa and let him prove to us that these are his people - **Justina (Head of Operations-MFB)**.

The strategy of verifying that the borrower and guarantor live within the same locality may not be the solutions to the problem as according to Jerome (Board Member-MFB), the MFIs are exposed to a lot of risk owing to the absence of collateral in lending to customers. Commercial banks are able to secure loans by reclaiming assets of delinquent borrowers whereas the CBN has confined MFBs to lending without collateral except for loans above N500, 000. This is seen as unfavourable to MFBs because substantial loans end up being written-off after recovery efforts fail. Based on the demographics of their clients who mostly reside in rural or semi-urban areas, it is difficult to get a guarantor who has the capacity to stand for a client. MFIs therefore, prefer to work with community leaders or salary earners whose accounts are domiciled in the MFI even though this does little to save the MFI from incurring losses as it difficult to find trustworthy people. It is equally challenging to find clients who can provide suitable collateral for big loans because the lands or property presented as collateral may not be certified or registered as most are acquired through inheritance.

We have a lot of non-performing loans. So I look at it- like why should CBN allow us to be using guarantors- even though they have improved it a little in SMEs that loan from 500,000 we can use collateral but for those ones like N50-N150, 000 thousand, it's only a guarantor, and if you have an issue with the guarantor you may end up writing off that loan and how long should you continue writing off loans. You will die a natural death. - **Bitrus (Board Member-MFB, November 15, 2016)**

It is also noted that the practice of using guarantors deviates from the original model of microfinance. Yunus' Grameen Bank applied the principle of joint liability which was sufficient to motivate repayment and reduce exposure to credit risk. Having guarantors has both benefits and challenges generated some complications and risks in both MFIs as reported by participants. This implies that individuals who agree to assume the role of a guarantor of a loan in some cases may not possess the ability or willingness to guarantee repayment. The acceptance of such a responsibility may simply be borne out of the desire to genuinely help or be seen to be helpful because the guarantor's personality, role, prestige or privileges. In some sense, there is an element of risk evoked by possibility of losing valuable- reputation, goodwill, prestige, authority, if a proposed guarantor declines to accept such a responsibility. Failure to take up this responsibility would undermine the goodwill and respect he commands from his people.

As a Ward head, my people expect me to protect their interests and I really want to see my people being empowered. The major factor is that we look for people who are into small businesses to build them up because money cannot be given to somebody who is not doing anything. If I fail to support them, then I have failed as a leader. But if they are unable to pay back, where do I get the money to pay back the debt. There are challenges as I told you earlier some people will get money and will not utilize it. They will run into trouble. I help them to collect but cannot determine how they utilize it - **Clement (Community Leader –NMFI, November 11, 2016).**

My role directly is to see that there is no breach in the contract terms that people are faithful to the terms of the agreement when these services are provided to them-**Samuel (Community Leader –MFB, November 10, 2016).**

In addition to providing two guarantors, the NMFI requires the consent of a spouse or a male family elder before enrolling a female client to serve as a guarantor. This is often necessitated by the desire of the MFI to secure its position by tapping into family ties to ensure that the guarantor accepts liability for the loan. The NMFI has adopted this strategy to ensure that a husband is aware of his wife's involvement with the NMFI.

Forms that are normally given, the guarantors expected to sign them. All the things they need to bring along to the orientation are collected. I have had situations where a woman will come in saying that her husband did not know that she is into this or the husband collected the money. So, looking at those things, we now insist that the husbands must sign- **Mabi (Credit Officer – NMFI, November 03, 2016).**

Some staff held the view that the consent of husband serves as both a guarantee and motivator such that loan repayment can be problematic if a husband refuses to give consent or if a client is single or widowed.

Many of the women are likely to default without their husbands' support and consent. We have had cases that the husbands have to come and settle cases with the money, even if you are a widow, you have to get a guarantor' (**Mabi, Credit Officer-NMFI, November 03, 2016).**

Amina (Loan Officer-NMFI) confirmed that their loans are secured to a limited extent using guarantors and the reservation of household assets as collateral. There were diverse reactions from female clients during the FGD on whether they were comfortable or experienced risk with the requirement of the NMFI that a husband or male head of family must give consent and agree to be one of the guarantors needed before loans could be advanced to them. Those in support of this practice were of the view that, with their husband's (or family head) involvement in the agreement, they felt more secure and are given greater support to succeed in their

businesses as the husband would do everything possible to protect their interests and save the family from embarrassment.

On that day, when we all gathered and went to her house to collect their property and sell to be able to pay back the loan. When we got there, her husband pleaded with us not to embarrass their family as their neighbours were watching. He begged us to give him two days to look for money and pay the group. That was how we solved that problem. It is very good for the husbands to sign and agree before we collect this loan because anything can happen, it can be death or sickness- **Mary (Client-NMFI)**.

Others were also comfortable knowing that even if their businesses fail, the MFI will pressurize their husbands to pay. Those against this practice felt it was unfair to make it mandatory to obtain the consent of a husband or family or be recommended by a community leader, since not all families enjoy harmonious relationships and a community leader may not be favourably disposed or fair in dealing with all members of the community. Some participants also raised the issue of widows and orphans who had no husband or family to stand as guarantors for them.

If I have what it takes to run a business successfully and I have credible and capable people who can stand as my guarantors but my husband is not cooperating with me. Why should I miss out on a big opportunity just because of a man? Why should my future and destiny be tied to my husband or community leader? It is not fair at all. I think they have to look at their rules again- **Rabbi's (Client/ NMFI)**

It can be difficult when you have no husband or father to sign for you, some family members will not want to support you because they don't want you to make progress or to be better than them. Even if they know that you can run your business very well, they will not want to support you. It is better to allow people to choose who they want to be their guarantors- **Kaneng (Client/ NMFI)**.

Some clients also felt that their husbands were the actual beneficiaries of the loans because they control how the funds are spent while they are being 'used' to obtain the loan. The credit groups are normally dominated by females and a man would not be too comfortable fraternizing with other females especially in financial matters. It is therefore most convenient to get a wife or daughter to be part of the group while the male remains in the background spearheading the business.

From these perspectives, it can be deduced that the idea of requiring spousal/guarantor's consent and community leader's endorsement before obtaining a loan has both benefits and challenges to female borrowers. The practice of microfinance in this context has been blended with the culture of patriarchy associated with a typical Nigeria society as a strategy of mitigating against default in loan repayment. The narratives seem to suggest that this practice

poses risk of loss of dignity through exposure to manipulation, exploitation and abuse. However, this thought was countered by the community leaders who view microfinance as an intervention which empowers women.

The women in the community need these loans. Because these are people who are into very simple livelihood struggles. They sell little things like kunu¹⁶ and groundnut. From the little money they get, they are able to send back their children to school and live meaningful lives. Secondly, when you look at the neighbourhood there are business opportunities all over the place. It is really a business community. There is school, the university is close by and a lot of students off- campus are also here and these are people who are patronising their businesses -**Samuel Community Leader/MFB, November 10, 2016).**

Women are always seen as people who can do something. We are actually trying to empower women to have a chance, to take control and it begins from the very little things. If you do not begin in the grassroots like this, it is always difficult. We want to give women the voice, the needed voice in the little things they are doing. If they are empowered at that level, they can go places. Most of them want to send their girl child to school because if somebody has three the children and two of them are girls and the other a boy, the priority is going to be the boy and not the girl child. This is because the traditional and cultural formation in our mind is that the man will always be better so part of our deliberate strategy is to see that women are empowered-**Clement (Community Leader-NMFI, November 11, 2016).**

Participants whose roles relate to risk management, identified insurance as a risk management strategy to compensate for losses. It was however generally agreed that insurance does not have a wide appeal unless it is a necessary condition for getting a benefit or fulfilling a legal requirement. For instance, getting insured with the Nigeria Agriculture Insurance Cooperation (NAIC) is a prerequisite for obtaining an agricultural loan from the MFB because of the risk involved.

If a farmer takes a loan and there is draught, you will find out that he will not be able to repay the loan and if they are not able to pay back, it's a risk to the bank. *What we do is ensure that these customers insure their goods or their businesses with the (NAIC) Nigeria Agriculture Insurance Cooperation so that it will reduce the risk of exposure of the clients and the bank-* **John (Loan Officer –MFB, November 08, 2016).**

¹⁶ Kunu (also known as kununzaki) is a popular non-alcoholic drink consumed throughout Nigeria, mostly in the north. It is usually made from a grain such as millet or sorghum.

Participants were also of the view that considering insurance as a prerequisite for advancing loans would increase the cost of borrowing for the poor. Therefore, the bank does not compel its clients to obtain insurance unless the loan size is big, or the nature of business is risky. Other narratives submit that insurance for the average MFI clients is problematic because of the understanding that insurance is a full package, such that failure to be up-to-date with the payment of premium may disqualify a client from being compensated when losses occur.

If you ask an insurance company to insure their business before you advance your facility to them, then you discover that accessing the facility is also high. At the end of the day, he will only be working for the bank and the insurance people. In case nothing happens, he cannot collect the money back, and if he skips payment, the insurance company will have a reason to deny him full compensation. He does not see it that that way rather, he wants to continue in the way he does his things- **Justina (Head of Operations- MFB, November 14, 2016).**

Most of the participants were of the view that apart from insurance premiums being very high beyond the reach of micro-clients, the few insurance companies have their own internal challenges arising from poor patronage. Participants submitted that staff of insurance companies are poorly paid and lack the necessary support and incentives to effectively deliver services that are appealing to potential clients.

Most low- and average-income people in Nigeria cannot afford insurance premiums when you consider their incomes. Some insurance companies do not pay salaries, their staff work on commission basis based on how they are able to meet very high targets. Some staff earn as little as N15, 000 as commission. They still must spend out of this little amount to scout for customers because marketing vehicles or transport allowance are not provided. How can insurance work? – **Paul (Staff MFB, November 15, 2016).**

However, some participants disagreed and argued that insurance has not been promoted to the extent that clients are able to see real evidences of its benefits in the lives of people around them. Their submission identifies inadequate knowledge and awareness due to low publicity about the importance of insurance as the reason for its low patronage.

Talking about women, a lot can be done, many of these women are farmers, they are in the whole chain of the production but if we can empower the women to specialize. There could be insurance schemes for them, they may not understand, but once it works for one person and all others see the importance. If we encourage the woman in the street to join an insurance scheme or even take life assurance, we can affect their lives positively. You can have a child educated with an insurance scheme- **Grace (MD/CEO MFB, November 15, 2016).**

Findings suggest that the adoption of micro- insurance services can be enhanced through the design of products which add value and reduce the vulnerability of the poor to both idiosyncratic and systemic risks.

7.3: Internal Controls, Banking Supervision and Regulation

The MFB adopts a more formal approach to the risk management process in line with guidelines prescribed by regulators. However, some participants were of the view that the relevance of risk management is yet to be appreciated by MFBs as in most situations, risk managers are employed simply to fulfil statutory requirement.

My experience is that a lot of MFIs don't see risk management as a key element that is required for the success of an institution. Most of them have hired risk managers because it has become mandatory, ordinarily they pay more attention to marketing, operations and all that, even when the risk officers are on board they are not given the necessary power to carry out their responsibilities- **Patrick (Risk Manager MFB, November 22, 2016).**

In the MFB, risk management functions are demarcated from internal control functions while the NMFI has neither of the departments.

But where you have an internal control person who is resident, he can track every day-to-day transaction. If I am to show you the requirements of internal control, they are so many. You are supposed to check all the units, including the I.T unit to check what is done, even if the posting, whether they are right. That is an area that a lot of work needs to be done. The vouchers could be reading correct, bit the posting could be something else, and you know with I.T, money could be removed with just a press of a button. Money is lost. If you are not able to track it immediately, the money would have gone and the person that perpetrated it could also go with the money- **Clara (Internal Control- MFB, November 17, 2016)**

This implies that there is a degree of flexibility and use of discretion in the standards set by organizations based on their appetite for risk-taking. Since the MFB is a miniature commercial bank which has different departments like the operations department, credit and marketing, administration among others, it is essential to have internal measures to monitor compliance and report exceptions. A control person is responsible for ensuring that these control measures and processes are maintained and reviewed regularly and monitors and tracks exceptions. Where there are exceptions, he/she cautions staff who fail to comply with procedures and follows up to make sure they are corrected. Where the exceptions persist, he/she is expected to

escalate it to a higher authority. It was found that the Internal Control Department monitors the interaction of the MFB with its correspondent banks which are commercial banks that have more national spread especially in maintaining the prescribed vault limit, monitoring withdrawals and deposits out and into the MFB's account with the correspondent bank. Since its vault is insured up to a certain limit, if cash kept in the vault overnight exceeds this limit, he flags it as an exception because the bank stands to lose if anything goes wrong. If the limit is exceeded, the excess cash should be moved to the correspondence bank. Part of the control measures in place include carrying out on-the-spot check without prior notice and confirming that the value of physical cash in the vault agrees with the balance on the system. Where there are discrepancies, the control person raises issues and finds out what could have happened. Participants reported that in banking operations, there are a whole lot of control measures that they look out for while in credit and marketing they examine the criteria of approving the loans. They check to monitor compliance with regulatory provisions. If there is any exception, they ensure that it is regularized or escalated for further action. It has Internal Control Auditors who check and caution non-compliant staff. Auditors review all processes of the bank, notes exceptions, follow up on and escalate unresolved issues to management. They monitor the bank's transactions with its correspondence banks and review operations in areas of documentation, visitation and maintenance of vault limits. The credit officers are the final lending assessors who use their skills and intuition in recommending eligible borrowers. They offer pre-loan education to borrowers and pay unscheduled visits to monitor their customers. The MFB employs mobile tellers who engage in cash pick up services and loan recovery. The MFB has a structured selection process and obtains references before recruitment of staff. One other strategic unit of the bank which is one of the first points of contact when a customer comes in and wants to have a relationship with the bank is the customer service unit where all the accounts are opened and all the data about customers (residential or office addresses, proof of identification etc.) are maintained. To confirm that all these things are genuine, the control person checks to see if all records and documentation about a customer are correct. As part of its account opening process, The MFB requires clients to provide valid means of identification or to be identified by their community/religious leaders. Physical visitation of clients' residence is required to verify addresses. The MFB outsources address verification to consultants

When you come to open an account with us, we give you a form to get your bio-data. From that form, we are also supposed to pay visits to ensure that the customer who claims to have business premises or works in an office or resides in a location or area to confirm whether he is a genuine person because where

you do not check these things, certain accounts are being used by terrorists. They just come and open accounts and from that account, they begin to finance terrorist activities from that account- **Gregory (Marketing Staff- MFB, November 18, 2016).**

It was also reported that the MFB reports high value and suspicious transactions to regulatory bodies such as the CBN, NFIU (Nigerian Financial Intelligence Unit) and EFCC (Economic and Financial Crimes Commission). Banking supervision has been stepped up by the CBN with the rise in the number of MFBs to fill the vacuum caused by the reduction in the number of commercial banks. Its supervisory units have also been increased with more staff so that they can effectively cover the MFBs. The officials visit at least twice a year to check the records. At the end of their inspection, they sit with the management and board to discuss their findings or the exceptions. Where there are exceptions, they demand explanations and follow up until such exceptions are regularized, they will normally write their own reports on the health and solvency of the bank. There are indices used to calculate to see whether the bank is solvent such as its liquidity, capital adequacy and the quality of loans. Despite having control measures in place, participants' narratives seem to suggest that there are undercurrents which characterise the operationalization of internal control in manner that the processes are mere formalities.

You cannot rule out certain things behind the scene. When I worked for a commercial bank at some point, I knew certain things that some of the commercial banks were doing. If they have their own connections at CBN, they know how to go about it such that when they default, they will not be penalized, and life goes on- **Clara (Internal Control-MFB, November 17, 2016).**

Other aspects of risk management related to internal control include the maintenance of a complaints register to register all the complaints and trying to solve them. Legal risks are managed by getting a mediator between the third party and the bank especially if the case has to go to court. The MFB has a risk manager whose role includes; maintaining the risk register, carrying out periodic risk assessments, checking that the drivers do not drive with expired licenses, monitoring compliance on the timely rendition of taxes to various tax authorities and the remittance of pensions to various Pension Funds Administrators. A challenge which generates tension comes from the hierarchical order which does not allow reporting infractions directly to the MD and the board.

A risk manager should be independent without external control, but here I still have heads of departments, so I don't have the power to question some of these head of departments as they could tell the MD bad things about you, and I won't have any

protection but am lucky that I have some good experience that helps-**Patrick (Risk Manager- MFB, November 22, 2016)**

His role is also constrained because there are not organized systems for carrying out credit checks before giving loans to people as obtainable in developed countries. In risk management, it was found that the NMFI neither has a risk manager nor an established risk management department but is guided by its own rules and regulations as well as laws governing its administration to achieve its objectives and manage its risks.

The procedures for monitoring and supervision of all activities of MFIs are crucial in making them sustainable and enhancing their efficiency. Since the business of microfinance requires financial discipline on the part of practitioners and clients, there was a wide consensus among participants that monitoring and supervision are key aspects of risk management. It was observed that the MFB uses technology for its transactions more than the NMFI. It has a banking software for generating its credit reports, reconciliation of accounts, treasury operations and other general banking transactions. The operational processes of the NMFI are partially automated as it uses a simple banking software for posting transactions. The processes of handling loan repayments could generate errors that will have negative implications on its operations or lead to diversion of clients' deposits and savings.

At the point of enrolment, clients fill forms and provide their passport photographs and collect their hand cards. Receipt booklets are issued to staff when they visit clients to collect repayment. Our staff issues the receipts when they collect loans and there is also the hand card given to the client. The client will ensure that our staff records their repayment correctly in the hand card and gives a receipt. We will now ask the clients of their receipts and check if that money has been paid in by the credit officer. There was a time that we noticed that some credit officers did not remit that amount, they were held responsible to provide that amount while sometimes they can make a mistake in writing when submitting the money. They may write a different group number mistakenly, and we will now post the money into the wrong group- **Esther (Accountant, NMFI, November 17, 2016).**

It also has field workers attached to each credit group who pay routine visits to clients to monitor their progress and collect their loan repayments. Receipts are issued to clients as proof of repayment. In addition, clients keep records of their loan repayments and savings in their hand cards while the NMFI maintains savings books, weekly analysis sheets and monthly monitoring record to keep track of repayments (to manage transactional risks). These strategies aimed at mitigating risks or minimizing the possibility of loss to the NMFI. I sought to know the control measures in place to reduce the incidence of theft by staff.

Initially when we started, we had only a program manager, the coordinator and financial department, but when we discovered that staff were stealing the organization's money. We had to devise a means to employ a manager who oversees the credit officers and we introduced so many rules and improved in record keeping. We introduced the use of receipt, handbook- the one they record monies they collect from the clients, and now we introduced a saving book. The beneficiaries will have one and the office will have one. Then we have weekly analysis sheet. Every week, they must record the names of clients they collect money from and those they were not able to reach –**Anne (Coordinator/ Board Member -NMFI, November 03, 2016).**

In addition, she narrates that each credit officer has his/her own area of coverage. When they return from the field with their reports, the manager cross checks to know whether the entries are corresponding with the outstanding balance in the official records. There is also a Monitoring and Evaluation (M&E) team that goes to the field every month to reconcile the books with the actual beneficiaries. The credit officers not allowed to hold money for more than 48 hours after collection. In its office, the NMFI maintains accounts for keeping records of it receipts, payments and running expenses.

We have three main accounts running in this department. One of the accounts takes care of the micro credit loans, which is the loans that will be issued out and will be repaid. As we give you the loan if we retrieve the loan from you, we will take it to the account. The second account is for the service charges. This is the account that we use in running the activities of the department, paying salaries and stationeries and other things, even vehicle maintenance and the rest of them. And then the third account we have is for the savings. That one is strictly for the savings of the women. We extract it from their returns, whatever they brought in as savings we take it to that account-**Regina (Credit Officer –NMFI, November 09, 2016).**

These narratives describe the strategies used by the MFIs to enhance accountability and efficiency in their operations. To reduce its own exposure to risks as a corporate entity and to protect depositors' funds, the MFB is mandated to insure all deposits with the Nigerian Deposit Insurance Corporation (NDIC) and undertake insurance policy to protect its assets and personnel to fulfil regulatory requirements. The MFB operates the regulated financial institution model of microfinance because it is subject to CBN licensing, regulation and supervision. In mitigating and controlling risks, participants gave their perspectives mostly based on the laid down procedures they are expected to follow. The two MFIs have different approaches to risk management with the MFB following the path of regulated commercial banks based on the risk management framework prescribed by the CBN. The MFB is also renders periodic reports and statements of accounts to the CBN. It reports suspicious transactions and lodgement into individual and corporate accounts which are in excess

N1million and N5Million respectively. To mitigate risks, the MFB also complies with the code of corporate governance about the composition of its board of directors and their limits for approving credit. The MFB uses CBN's benchmark of the 5 Cs in its risk assessment- character, capacity, collateral, condition and capital. It adheres to the single obligor limits of 1% for individuals and 5% for corporates as stipulated by the CBN to monitor the credit approval limits. Small loans are disbursed without collateral, but guarantors must be provided. Any loan above N500, 000 must be backed by a collateral security. Loans (especially agricultural loans) are secured through insurance and by maintaining close relationships with customers through KYC (Know Your Customer).

A major limitation in microfinance risk management is the mismatch between policy and practice which has led to the low performance of the sector in the state.

Well, you know that the challenge over time in Nigeria is that there are policies, but the issue is enforcement. So, we should always not just borrow success stories from other countries and try to implement them verbatim in our country. We must look at the operating environment and fine tune some of these success stories to suit our operating environment. I have discovered that in the microfinance regulatory and policy framework, the revised version, the CBN talks about every local and state government making available one percent of its subvention to support MFBs but in practice, it has not been attainable- **Gregory (Marketing Staff- MFB, November 18, 2016).**

Despite having explicit policies and guidelines, both MFIs are still confronted with a lot of risks and challenges because of the absence of a framework for strengthening a risk culture and a favourable macroeconomic environment for implementation of policies. The sustainability of the sector is threatened due to inadequate risk management as development partners and global influencers of microfinance seem to be far ahead in charting the course for MFIs and injecting huge investments to fund their activities without adequately assessing the risks and challenges in their operating environments which make it difficult to serve the poor and vulnerable.

In risk management, we try to ensure that the banks work within the regulations of the Central Bank of Nigeria. What we do specifically is to ensure that they remain sustainable because most microfinance bank hardly last for longer period because of bad management and poor practices. So, we help to strengthen them, and we give them what we call 'risk-based supervision strategy' to ensure that in an area of weakness, we give them intervention. We also serve as mentors to the banks, coaches and trainers depending on the needs of the bank at that period- **Lucky (Regulator-MFB &NMFI, November 07, 2016).**

This narrative admits that there has been no enough knowledge about the complexities of regulating MFIs which threatens the sustainability of MFIs. Findings also suggests that there are different standards or yardsticks by which MFIs are regulated. The way the CBN supervises and regulates MFBs indicates that the attention it pays to a bank is dependent on its balance sheet size capital

Microfinance banks are in 3 categories. If you have a bigger microfinance bank, you will have enough capital. CBN will not regulate you that much, they will know that you have enough capital to take care of the business you are doing. Like a one-unit microfinance bank that we are, we are only allowed to give loan to a single person to a tune of N200, 000 only. So, if you give like N300, 000-N500, 000, you will be contravening the policies but if you can give to a corporate customer or an organisation about the sum of N1 million that is okay. But if you are a mega micro finance bank, you can give because they know you have the money- **Justina (Head of Operations-MFB, November 14, 2016).**

A few participants' perspectives support the claim that reforms in the sector tend to be geared towards the interests and background of the head of the regulatory body.

If you have been following even from the media when Soludo came with the consolidation concept, he took the industry like a storm. Those reforms had never been done before. At the end of it, he was beating his chest that, at least he was able to sanitize the financial system. He has trimmed down the number of banks from 90 to 25 banks. We had 25 strong banks that should be able to withstand shocks, but immediately after Soludo left, he was purely from the academic circle (a lecturer and professor). He did not have the practical know-how in the banking industry. He knew more of it in the theory (**Clara, Internal Control- MFB, November 17, 2016).**

Prof Charles Soludo was succeeded by Lamido Sanusi an experienced banker. Soludo's major achievement was the consolidation of the banking industry which saw the emergence of 25 'strong' banks after series of mergers and acquisitions (Charles C Soludo, 2006). To corroborate the claim that Soludo's reform was influenced by his academic background, Adeyemi (2006) notes that the programme was 'policy induced' as the 18 months given for banks to raise the N25 Billion minimum capital base was practically inadequate. Sanusi's approach as an insider and one conversant with practices in the banking industry upturned many achievements of Soludo. Alford (2010) reveals that his (Sanusi) reforms were informed by the global financial crisis and the mismanagement of banks. This led to the removal of MD/CEOs and bailout of banks which were declared 'strong and healthy' a few years earlier by his predecessor (Ikpefan, Iyoha, & Ojeka, 2014; Osuala, Nto, & Akpan, 2013). Lamido was

suspended before the expiration of his tenure in a controversial circumstance marked by accusations and counter-accusations related to financial recklessness, misconduct and allegation of misappropriation of oil revenue from the federation account. His suspension had political undertones as reported by several reputable news media (e.g. BBC News, 2014; Vanguard, 2014). He was succeeded by Godwin Emefiele whose reforms also brought major changes to the sector with far-reaching effects on stakeholders in the banking sector- retrenchments, demotions, decrement of salary, redeployments, layoff, lack of jobs commitments and redundancy (Yusuf & Olamide, 2018, p. 1226).

This demonstrates that banking regulation as a risk management strategy in the Nigeria financial sector has a lot of political subtleties. It reflects power struggles in managing the regulatory apparatus of the country in a manner that it becomes difficult to identify an acceptable governance code. In this context, the agenda of the CBN at any given time is influenced background and interests of the ruling CBN governor. This implies that whatever set of policies are defined as best practices in a particular dispensation may be discarded when a new person steps in to assume the same role. Thus, there appears to be lack of continuity or a consensus on the path to follow in managing the risks. This indicates that risks and risk management are subjective in nature given that objective targets are enfolded in subjectivity due to human intervention. This reflects the theoretical underpinning of this thesis based on the understanding that risk issues are subject to contests and diverse interpretations.

7.4: Conclusion

This chapter has attempted to explore various risk management practices in the two MFIs with a view to understand the behaviours and attitudes of stakeholders from the narratives of participants and review of literature. It has analysed participants' perceptions about the risk management strategies of MFIs to understand how their behaviours facilitate or obstruct these strategies.

Its findings suggest that there is a mismatch between policies and practices evident in the ineffectiveness of risk mitigation strategies which often fail to yield desirable outcomes. The chapter also demonstrates that ownership structures and lending methodologies influence risk management processes of MFIs given that the two MFIs adopt different strategies of managing risks based on the interests of key stakeholders. Findings also indicate that the drive for profit

making and commercialization of microfinance has led to a drift from the original mission of microfinance due to the influence of globalization. Due to the promotion of the commercial model of microfinance by the government through regulatory agencies, MFB is inclined to formal risk management while the NMFIs blends both formal and informal processes leading to deviations from the social mission of microfinance. This has led to the adoption of practices as well as the incorporation of new stakeholders (e.g. shareholders, community leaders) whose participation has disrupted the goal of microfinance. In other words, risk management in microfinance is no longer based on reliance on social capital and collateral but is largely influenced by practices of conventional banks.

The core contribution of this chapter is the demonstration that risk management is a flexible and dynamic process which is constantly evolving. It involves the influences of social processes and institutions (expert knowledge, the techniques of governance, human judgements, emotions, trusts, etc.) which are unquantifiable variables. This reflects the theoretical assumptions of the social theories of risk which assert the subjectivity of risk. The chapter also highlight the identities, interests, perceptions and behaviours of stakeholders in the risk management processes of MFIs.

Chapter Eight: Discussion of Findings

8.0: Introduction

Having analysed risks in microfinance as perceived by participants and examined the risk management practices of the two MFIs within the context of the study in chapters six and seven respectively, this chapter discusses the findings in greater detail to expand on the core of this thesis. The preceding chapters addressed my research questions on how risk perceptions and risk management by stakeholders. This discussion aims at unpacking the findings from the field and situating them within the theoretical framework of the study and existing literature. The objectives of this research revolve around the dynamics of microfinance risk management by exploring how risks are conceptualised, understood, experienced and managed by different stakeholders based on the situational context of Plateau State. To achieve this, the concepts of risk management and microfinance have been explored in literature chapters to understand the relationship between these two concepts and establish the conceptual framework for the study. Since the original contribution of this thesis relates to the subjectivity of risk given that research on risks in microfinance tend to be inclined to objective and positivist treatment of risk. This chapter shall attempt to incorporate the two theories guiding this study (social theories of risk and the stakeholder theory) in discussing its findings.

The major finding from this study suggests that risks in microfinance are interpreted by stakeholders whose perceptions are shaped by the social context in which they engage with MFIs. This thesis is predicated on the knowledge that MFIs face risks in many ramifications and also in subjective terms given that stakeholders' identities, perceptions, interests and behaviours influence their risk conceptualization. The chapter is thus, hinged on Social Theories of Risk and Stakeholder Theory to discuss risks and risk management strategies as identified and perceived by participants in the study. It does so by analysing the risk elements in the narratives of participants- what it is, that constitutes harm, danger, missed opportunity, opportunity, chance, uncertainty etc. for them based on different connotations of the concept 'risk' in the theories examined. Its overarching aim is to demonstrate the subjectivity of risk in terms of its attributes that are beyond measurement in objective and absolute terms.

To this end, this chapter has been segmented to connect the research findings to the theoretical framework of the study. The next section (8.1) explores the notion of risk in the light of the

research findings. Section 8.2 discusses and applies the key element of the social theories of risk to understand how risks are interpreted in microfinance based on the data generated from the study. Section 8.3 focuses on the applicability of the stakeholder theory in relation to the research findings to understand how the behaviours of stakeholders and the risk management framework of the MFIs are influenced by social processes. Section 8.4 will attempt to establish the relationship between the theoretical framework and the core of this thesis- stakeholders and contexts in microfinance risk management. The final section 8.5 examines the core new knowledge area as the academic contribution of the study.

8.1: Understanding the Concept of Risk in the Light of Research Findings

This thesis attempts to understand the notion of risk in literature in order to establish the conceptual and theoretical framework of my research. This has been addressed in chapter two where the dichotomy between objective and subjective risk has been analysed based on the review of literature. It was established that the notion of risk remains controversial due to epistemological differences and its usage, given that its meaning has evolved in various disciplines over time. It is popularly understood to be the likelihood of loss after being exposed to a hazard or failing to take advantage of an opportunity. This could mean possibility of harm to health, wealth, well-being, self-esteem, or violations of beliefs, values, cultural convictions, social status (Klinke & Renn, 2002). Thus, this thesis upholds that objective risks and risk management strategies of MFIs tend to be subject to interpretation based on the identities, interests, perceptions and behaviours of stakeholders.

In my literature review chapter on the concept of risk (Chapter 2), I examined the nature of risk and highlighted the controversies between the positivist/ and interpretivists in conceptualizing risk. I emphasized that the crux of the contention seems to be on the problem of risk measurements in absolute or objective terms. Scholars who subscribe to the interpretivist ontology hold the view that risk as a phenomenon is socially interpreted/mediated because it is problematic to estimate the probability of occurrence of negative event in absolute terms because human behaviour can alter the predicted course of occurrence. It is equally problematic to calculate the impact of a negative event because perceptions and experiences of risk differ among people and cultures. Thus, quantifying risk in absolute terms is complicated in estimating both the *probability of occurrence* and the *impact* of an event, and these are key terms in defining risk. This can be illustrated with the scenario of comparing the probability of occurrence and impact of default in loan repayment for MFIs in the UK and in Nigeria. The

probabilities are likely not to be as high for MFIs in the UK as those for MFIs in Nigeria given that in the UK, borrowers' behaviours are checked by controls such as the effective credit scoring system and ease of verification of address, whereas it is a big risk for MFIs in Nigeria where such control measures are not developed. If these probabilities are to be compared for different periods of time, there are likely to be differences because people's borrowing habits change and society itself transforms over time. This demonstrates that the perception of risk is subject to both time and place in the sense that the probability of occurrence and the impact for the same event are not likely to be the same in different social contexts (UK and Nigeria). The argument advanced in this thesis is that threats could exist as real events (e.g. structural risks like natural disasters, social unrest) but it takes human interpretation and perception to assess its severity. Mckernan (2001, p. iii) in his thesis on 'Truth, Objectivity and Subjectivity in accounting while making a case for objectivity in accounting still argues that objectivity is always a matter of degree, supporting the notion that absolute objectivity does not exist in the real world. On the other hand, the shortcoming of subjectivity could imply that there are many loose ends in analysing a phenomenon due to lack of consensus. Excessive inclination to subjectivity becomes problematic in explaining a given phenomenon as there would be no right or wrong interpretations because everything depends on perspective. Thus, this thesis does not dispute the notion of objectivity in risk analysis but it challenges the inclination of researchers to excessive quantitative modelling of risk without recourse to social interpretations by social actors (stakeholders).

I have also explored the perspectives from the stakeholder theory and examined the place of stakeholders in microfinance risk management to understand the contexts in which risks are framed. The aim of microfinance risk management essentially is to safeguard the investment of directors or shareholders' and depositors' funds and create value for all stakeholders in service delivery (Goldberg & Palladini, 2010). The concept of social protection has been incorporated in social risk management to safeguard basic livelihood and encouraging risk taking through entrepreneurship among the poor since they are the most susceptible to risk and have limited access to risk management knowledge and skills which would enable them undertake risky but profitable activities to alleviate their poverty (Holzmann & Jørgensen, 2001, p. 529). Stakeholders possess unique identities in microfinance owing to their interests and roles which influence their engagement with MFIs. As the social actors who interpret risks, their perceptions and behaviours are influenced by the peculiarities of the social context. Applying this logic to this study, it can be inferred that the conceptualization of risks in

microfinance among participants was not absolute and definite as perspectives differed on the perceptions and experiences of risk. Participants narrated their experiences based on their exposure and vulnerability to the risks. Table 7 shows the key findings based on the themes emerging from the analysis of data.

- The study found that majority of participants perceived the non-repayment of loans as the greatest risk in microfinance in Plateau State.
- Other sources of risk for MFIs include; diversion or misuse of loans by clients, low level of knowledge and skills by practitioners, competition with commercial banks, inadequate support by the government, poor customer relationship management, low adoption of financial technology, influence of patriarchy, political interferences, recurring ethno-religious conflicts, poor orientation and awareness of the social mission of microfinance.
- Many social factors (e.g. culture, religion gender and patriarchy) were found to influence the conceptualization of risk in the context of the study. Moreover, these factors are sources of tension in the risk management practices of MFIs. For instance, gender and patriarchy leads to inequalities where female clients constitute the majority of the customer base of MFIs but, there is male dominance in their governance and operating structures (e.g. composition of boards and investors, the role of guarantors and gatekeepers).
- The frequent violent ethno-religious conflicts in the state worsens the risks of moral hazard and adverse selection confronting MFIs in the state. This causes the disruption of the activities of the MFIs and displacement of their clients.
- The risk management frameworks of the two types of MFIs studied have limitations caused by their ownership structures and operating methodologies. These, in turn, threaten their sustainability and outreach in poverty alleviation and financial inclusion.

Table 7: Findings from the Themes Emerging from Data Analysis

Source: The Researcher

This thesis examines risks in microfinance based on an interpretivist worldview. The interpretivist view of risk upholds that risks can be defined only in relation to a social context.

This means that what is considered as risk is subject to societal selection and interpretation (Dake, 1992; B. B. Johnson & Covello, 2012; Lupton, 1999b). Thus, in relating this to risks in microfinance, it implies that it is the social configuration of society that determines what is risky and what is not.

8.2: Applying the Social Theories of Risk to the Research Findings

In analysing the Social Theories of Risk grounded in the interpretivist epistemology in chapter two, it has been highlighted that risks transcends objective knowledge and is significantly influenced by values, rationality, power and emotions (Ney, 2011b). The academic debates on objectivity and subjectivity in disciplines like accounting, business and finance has remained inconclusive due variations in perspectives. In the context of the study it is upheld that risk perceptions are shaped by social processes exemplified by the social theories of risk. These theories have been discussed in chapter two but to apply them to the research findings, I have identified their core elements and the areas in which they apply to risk in microfinance (See table 8). The theories were put forward to highlight the subjectivity of risk in different contexts and for different phenomena. For instance, Beck's and Giddens' focus was on risk being the output of modern industrial societies and environmental risks, Foucault's contribution was on governance as an instrument of minimizing risk and ensuring the welfare of populations. In the systems theory, Luhmann's interest was on social systems, with risk seen as a product of decision making and communication between the component parts of a system. Stephen Lyng's Edgework theory was focused on voluntary risk taking in activities that are presumed to be dangerous e.g. risky sporting events, criminal activities, stock trading etc. Mary Douglas and Aaron Wildavsky developed the Cultural Theory to explain how group identity shapes how societies select and ignore risks. The common denominator of these theories is the assumption of the subjectivity of risk either as a phenomenon or in the way it is managed.

However, in the light of the assumptions of these theories, not all participants' perspectives of risks were found to present a common definition of risk or aptly capture a uniform way risks are being conceptualized in microfinance. This proves the multidimensionality of the concept 'risk' and supports the notion that it is a subjective phenomenon. For instance, most of the perspectives seem to suggest that risks are perceived in negative terms as dangers or problems rather than having positive connotations which relate to opportunities, pleasures or passions as upheld in the Edgework Theory. Similarly, risks were viewed as real dangers with tangible evidences rather than social constructions as suggested in the Risk Society, even though various

interpretations were given based on levels of exposure, vulnerability and past experiences. The theory of Governmentality seemed to apply most to the processes of risk management rather than the identified risks themselves. The Systems Theory relates with similarities and variations in risk perceptions among and between different categories of stakeholders (as important components of the system), but risks were viewed beyond mere outcomes of decision making. The perspectives given suggest that risks are real fears and impediments which are sometimes beyond the decision-making capabilities of stakeholders. The assumptions of the Cultural Theory appears to connect the most with the research findings given that common identities, interests, perceptions and behaviours tend to influence how risks are selected, prioritized, problematized or ignored by stakeholders. In other words, contextual, social factors (e.g. culture, beliefs, politics, values etc.) influence how risks are interpreted and prioritized.

Despite these findings, this thesis contributes to theory by drawing on the assumptions of these theories to examine the notions of risk and risk management in microfinance in the context of this study as illustrated in Table 8.

Theory/Theorists	Core elements	Areas of Applicability to Microfinance
Risk Society- (Ulrich Beck and Anthony Giddens)	<ul style="list-style-type: none"> -Risk are outcomes/products of innovations and inventions -The probability of occurrence and impact of risks are beyond prediction and calculation - Risk definition is subject to expert knowledge 	<ul style="list-style-type: none"> -Structural and black swan risks (e.g. death, ill health, natural disasters) - Risks in lending to micro clients -New technology (e.g. digital payment systems) -New products and services -New licensing requirements -New/reviewed prudential guidelines -Modifications in operations -Effects of globalization
Governmentality- (Michel Foucault)	<ul style="list-style-type: none"> -Governance -Administration -Management -Power and authority 	<ul style="list-style-type: none"> -Political interests and manipulations of authorities -Ownership structures -Interests of regulators, inspectors & auditors
Systems Theory (Niklas Luhman)	<ul style="list-style-type: none"> -Rationality in decision making -Expectations -Choices -Trust 	<ul style="list-style-type: none"> -Policy making -Institutional vision and mission -Goals and objectives -Risk management policies
Cultural Theory (Mary Douglas and Aaron Wildavsky).	<ul style="list-style-type: none"> -Society -Culture -Values 	<ul style="list-style-type: none"> -Religious beliefs -History -Values -Norms -Gender -Patriarchy -Financial orientation -Environment -Social stratification (class differentiation)

		-Corporate culture
Edgework Theory (Stephen Lyng)	-Voluntary risk-taking -Emotions -Passion -Motivation -Identity	-Entrepreneurship -Investments -Mergers and acquisitions -Rebranding

Table 8: Showing the Applicability of the Social Theories of Risk in Activities of MFIs

Source: The researcher.

8.2.1: Risk Society

The social theories of risk uphold that risks emerge from social processes encompassing people, environments, institutions and relationships. The theory of Risk Society highlights the failures of technological advancement and industrialization where innovations are always accompanied by the production of risks which are the resultant unintended consequences (U. Beck, 1992; Loon et al., 2000; J. O. Zinn, 2008). Thus, Beck reiterates that the social construction of risk always accompanies the social production of wealth (new innovations). While this thesis does not uphold Beck’s assumption that risks are wholly constructed because some risks exist as real dangers or events, it argues that risks are interpreted based on perceptions and experiences. In relation to the finding of this study, risks could emanate from microfinance (as an innovation) but are not necessarily social constructions (created by social processes) because real dangers (e.g. death of client, loan default) exist in microfinance which are perceived differently by stakeholder. Thus, the interpretivist philosophy applies more to risk analysis than social constructionism.

Evidences of this includes quotes by John (Loan Officer MFB), Dele and Amina (Credit Officers – NMFI) in Section 6.1, on unforeseen eventualities and structural risks - effects of conflict, loan default and potato disease. Beck postulates that risks are beyond calculations and prediction. Another key premise of the risk society is that risk definition is subject to interpretation by those who claim legitimacy of knowledge. Giddens relates risk to the manner in which lay actors and technical experts interpret and order the social world through globalization. Applying these assumptions to the realm of microfinance, it can be inferred that the challenges of poverty and financial exclusion which are inherent in the society have given rise to innovations such as

microfinance to render financial services which empower the economically active poor and lift them out of poverty.

Beck argues that risks exist as unintended consequences of innovation or business idea. This relates with findings from this study and is evident in the resistance of Muslim communities to interest-based lending (Returns on Investment) The quote by Boniface (Investor –MFB), Section 6.1 and the pressures on staff from directors to buy and sell grains in order to recoup investment (Quote by Justina, section 6.3) show the unintended consequences of microfinance as it suggests that such investors care more about making profits than empowering the poor. In Chapter three, Microfinance is likened to a financial innovation developed to address the problems of poverty and financial exclusion. Arvind Ashta et al. (2013) also describe it as a social innovation because it has its unique feature of group lending and dynamic incentives to reduce risks reduce risks in lending to the poor, and even transform them to profitable customers. It is novel because it has permeated a terrain that conventional banks were not willing to explore. In its early years, it was perceived as a veritable instrument that could transform the poor into budding entrepreneurs and eventually rid the world of poverty. It attracted global accolades from world bodies-EU, UN, World Bank and was supported by renowned philanthropists-Bill and Melinda Gates, Ford Foundation, Pierre Omidyar. Its pioneer Mohammad Yunus was very optimistic at its beginning about its potential to end poverty such that images of poverty would only be visible to future generations when they visit a Poverty Museum (Bateman, 2010). This projection was based on his expert knowledge and expectations, quite contrary to these however, evidences from several empirical research show that poverty remains a global challenge in all ramifications. While many factors other than shortcomings of microfinance can be adduced for global poverty rates, there are many unanswered questions on the efficacy of microfinance in poverty reduction. Some critics have argued that it is largely incompatible with sustainable economic and social development on ideological grounds (Van Rooyen et al., 2012). While some degree of progress has been achieved in relation to its goal, it has also generated some unintended consequences and new challenges (e.g. problem of loan repayment, high cost of administering micro loans). Quach (2005) found that access to finance had insignificant positive impact on poverty alleviation based on empirical evidence from rural Vietnam. His work suggested that it may not be a cost-effective strategy for poverty reduction. In assessing the performance of MFIs in Europe, Dayson and Quach (2006) point out that MFIs are perceived to be unsustainable because they are not able to optimize the benefits of providing credit due to the small sizes of their loans as well the risks associated with their clientele and

high operational costs and inefficiencies. Findings based on participants' perspectives also suggest that the small-scale businesses their clients are engaged in, seldom allow for the economies of scale. This may imply that microfinance does not impact sufficiently on the capacity of the poor to overcome poverty or that their businesses were not generating incomes that are commensurate with their efforts or make any significant difference to their livelihood (see section 6.1). Apart from the achievements rolled out by the participants from the supply side (board members, investors, staff and regulators) on the positive impact of their services, there were very few success stories from their clients themselves. Based on the narratives given, it can be understood that many of the clients still on the programme were just a little bit comfortable and stable with the proceeds from the businesses, but if there were any disruptions (disease outbreak, sickness, economic recession), they slumped back to their former status. This indicates that microfinance as an innovation may not have achieved its intended goal based on the projections of its pioneers and promoters. Critics on the other hand argue that microfinance as an innovation is incapable of alleviating poverty based on economic ideologies given that poverty continues to loom in many Asian, African and South American countries where microfinance thrives. They maintain that poverty can only be eradicated through initiatives built on the principles of economies of scale. In the context of this study, it can be inferred that the provision of microfinance services has contributed in advancing financial inclusion but its impact on the livelihood of the poor is still very doubtful because of the lack of an enabling environment which supports entrepreneurial efforts of the economically active poor. The major challenge here appears to be the inability of MFIs to sustain the growth of clients' businesses so that they are permanently lifted out of poverty.

The extent of these unintended consequences are sometimes beyond calculation and prediction as they are immeasurable in objective measures leading to the transformation of the society with new risks being generated. This is linked to uncertainty which limits human ability to influence or manipulate what the future hold. This relates with the dynamics of the microfinance industry characterized by the emergence of different models developed to address shortcomings of existing models and end up having their own limitations. This can be likened to Beck's idea of reflexive modernization which occurs as a spontaneous effect in response to new challenges. As microfinance evolves, new innovations, models and approaches continue to emerge to address new issues. This is where the notion of contest and debates by those who claim legitimacy of knowledge comes in, such that risk issues become controversial and unresolved (see section 3.7). The existence of risks in microfinance leads to debates on the most suitable risk management measures to adopt (e.g. group lending, joint liability, public

repayment) among authorities (e.g. policy makers, researchers, practitioners) who are considered as experts in the field.

In the course of interacting with participants, many demonstrated knowledge about the various risks the MFIs are exposed to due to knowledge obtained from their background and training. Armed with knowledge and authority, they are able to bring these to bear in their assigned roles and responsibilities, while shaping perceptions and behaviours of those who do not possess this expert knowledge. In relating this to the theory of risk society, risks are dependent on the knowledge and interpretation of those who claim legitimacy of particular forms of expertise and competencies (J. O. Zinn, 2008). Risk issues are subjects of debates by different stakeholders who lay claim to expert knowledge. Based on the findings from this research, participants' perspectives reflected their areas of knowledge, expertise, experiences and interests. Different stakeholders hold diverse views and play different roles in the risk management process depending on the legitimate power and authority they exercise within the sector. The thesis has scrutinized the roles/identities of different stakeholders e.g. community leaders as gatekeepers and guarantors in Section 7.2 who play active roles in the selection and screening of prospective clients based on their status in society. Similarly, Section 6.3 highlights the tension arising from staff's perceptions about the interferences by board members given their drive for returns on their investments. The perceptions of political risk arising from the pressures staff and managers face from influential and politically exposed persons also reflect the tensions which obstruct the risk management strategies of MFIs.

Risk interpretation based on expert knowledge is reflected in the quote by Benjamin (Board Member, MFB) (section 6.3) about visiting a local police station to assess the security of a locality being considered for siting a bank shows how risk perceptions are informed by human judgements. Similarly, the narratives on the political undercurrents in the CBN (section 7.3) reflect how regulatory bodies function in line with the interest of those at the helm of affairs at a particular time.

The risk management policies and guidelines set for the MFIs are rigid and focused on fixed targets (e.g. capital reserve ratios, qualifications for managers) and tend to be subject to social contests and debates due to conflicts of interests. Whatever risk management framework is prescribed by management or regulatory bodies is adhered to by practitioners either because it is perceived as expert knowledge and the right path to follow in order to avoid the consequences of non-compliance. Ericson, Ericson, and Haggerty (1997) note that risk is defined in tune

with the communication approach of the institutions responsible for managing it. Hence, risks are defined in relation to the will of governing authorities (Foucault & Lemke, 1999).

Risks are perceived in the mitigation strategies which are presumably borrowed from other contexts and applied without considering their applicability in the immediate context. This relates to Beck's notion of risk being subject to expert knowledge and Giddens' notion of risk on the effect of globalization. The quotes by Gregory (Marketer MFB), Section 7.3 and Peter (Loan Officer NMFI), Section 6.1 about how risk management strategies tend to be ineffective because of poor implementation of policies borrowed from other contexts shows how globalization induces risks for MFIs.

8.2.2: Governmentality

The art of risk management to safeguard the investment of directors or shareholders' and depositors' funds is reflected in the theory of governmentality where power, authority and governance are exercised to influence the comportment of the subjects towards achieving desired goals (Foucault & Lemke, 1999; Ney, 2011a; J. O. Zinn, 2008). This can be related to the roles of authorities in microfinance –researchers, regulators, policy makers who influence developments in the discipline. Their views are upheld as what constitute knowledge about the field. Boholm (2015) notes that level of legitimacy and responsibility bestowed on private and public authorities depends on their capacities to identify, assess, manage and communicate risk issues. Variations in perceptions manifest in the way risks are managed.

Major Findings and Evidences from this study indicate how Governmentality is applicable in microfinance. The influence of regulators and regulatory agencies show how MFIs are made to adhere rules and regulations. The perspective that a lot of MFIs do not see risk management as a key element that is required for the success of an institution, where risk managers are hired because it is a regulatory requirement. The behaviour of MFIs in paying more attention to marketing, operations and limiting the powers of risk officers in carrying out their responsibilities show the tension and risks emanating from risk management strategies of the MFIs (see quote by Patrick (Risk Manager MFB) Section 7.3).

Secondly, the way regulatory agencies try to ensure that the MFIs work within the regulations of the CBN in order to ensure their sustainability show the dynamics of power and authority used by those conferred with legitimacy to regulate the sector (see quote by Lucky -Regulator- MFB & NMFI in Section 7.3). The quotes explaining the use of gatekeepers and guarantors to serve

as intermediaries and control the behaviour of clients also validate the theory of governmentality.

8.2.3: Systems Theory

Luhman (2000) in his systems theory asserts that risks do not exist on their own but emanate from decision making, choices and expectations which are based on knowledge, experiences of the past. This theory also shows how stakeholders' engagement with MFIs are related with each category of stakeholders playing their defined roles as investors, board members, managers, staff, community leaders and clients while contributing to the delivery of microfinance. In this case, the different categories of stakeholders have their unique identities, interests, perceptions and behaviours from which similarities can be identified. Luhman argues that risks are created by internal calculations and external conditions and are consequences of decision making which can be related to risk management options available to MFIs with varied unknown implications. Decisions are subjective because human beings make rational choices and take calculated risks based on their own judgement. These decisions can be complicated because one person's 'wise decision' may be perceived as unwise by another. It is thus all about an individual's scale of preference. In the case of MFIs lending to clients, once the loans are disbursed, it is the how a client chooses to utilize it that determines the success rate of repayment. Many participants attributed risks of loan default to misuse of credit by borrowers by making unwise choices such as situations where loans meant for investments are used to buy Christmas clothes (Section 6.1, Page 129). While the loan providers may be keen on clients investing loans in income generating business, clients may prioritize other needs (e.g. self-esteem, self-satisfaction/fulfilment, sense of belonging) above being enterprising. Similarly, findings show that the selection of prospective clients in the NMFI is subject to the decisions and judgements of gatekeepers (section 7.2, page 162). Risks are generated when wrong decisions are taken implying that the viability of an MFI is dependent on the decisions and approach of governance its administrators adopt. Thus, Luhman connects risks to decisions and choices.

The major findings and evidences from this study indicate that stakeholders have their distinct identities, interests, perceptions and behaviours in microfinance risk management which distinguishes them from other stakeholders within the system. These shape how they conceptualise and manage risks as distinct entities which affect the sector as a whole. While Loan and Credit Officers tend to worry about credit risks (see quotes by John, Dele and Amina

in Section 6.1), marketers conceptualise risks from customer relationship management issues - see quotes by Gyang (Section 6.3), and Gregory (Sections 6.2, 7.2 and 7.3), investors and board members tend to perceive more of fraud and integrity, strategic -politics, competition (see quotes by Audu (Section 6.2), Buba and Boniface (Section 6.1) and regulators worry about compliance risk

MFIs face risks from their choices, decisions and behaviours. Their strategies for selecting and screening clients. The way MFIs collaborate with gate keepers to decide on which clients can be reliable and trusted reflect how risks are perceived. The quotes by participants in Section 7.2 show how risks are generated from the choices and decisions of gatekeepers who decide on which clients will be reliable and trustworthy if granted a loan because it is assumed that they know the capabilities of prospective clients.

8.2.4: Edgework Theory

Other factors which can influence risk perceptions are interests which motivate and attract people to take risk as reflected in the edgework theory. The edgework theory relates to the research findings in how stakeholders voluntarily take risks in microfinance. In the edgework theory, risk is portrayed in a positive light as stakeholders embrace the risks involved in microfinance for different reasons philanthropy, fame, identity etc. The desire to create and maintain the identity of a group reflects in the quest for self-fulfilment/ actualisation, competition, leadership, influence and power struggle. Stakeholders are sometimes not concerned about the returns on investment but derive self –fulfilment and actualization in achieving their personal goals or passion towards empowering people (section 7.1, page 167). In the case study MFIs, there were indications that ethnic/religious sentiments and affiliations have strong influences on how stakeholders perceived risks. Participants reported that investment in microfinance can be driven by sentiments and emotions and sometimes leads to situations where loans are approved based on affiliation to influential stakeholders (e.g. board members, CEOs, managers). There were also perspectives that incompetent people are appointed as managers or staff to give a sense of belonging to certain interest groups without considering their competencies (see pages 158-159). Factors like social exclusion or having a sense of belonging can motivate investment in microfinance. In this context, an ethnic group laying claim to ownership of a financial institution or having relatives and friends in the employment of the bank are perceived to be of greater importance than operating a bank on the principles of merit and professionalism (see section 6.3).

The major findings and evidences from this study show that risk is generally conceptualized in negative light. However, a few perspectives suggest that risks in microfinance can be viewed in positive light as something worth embracing as propounded in this theory. Risk taking relates to emotions and passion to achieve a goal. This is seen in the passion to engage in microfinance despite its many challenges as shown by some participants. The quote by Isaac (Investor/ Board Member –NMFI) in Section 7.1 narrating that even though he worked in financial institutions in the urban centres for 20 years, he chose to embrace ‘village life’ to achieve his goal and aspiration because he felt that rural dwellers are excluded from financial services.

The desire to overcome exclusion and have a sense of belonging was identified as a motivating factor for taking risk to invest in microfinance after the banking consolidation was concluded. The quotes by Pam (Investor –MFB) and Benjamin (Board Member-MFB), Section 6.3 show that risks in microfinance are perceived from the possibility of social exclusion of certain ethnic, religious or interest groups from the ownership or management of financial institutions. The need to have an identity influences how risks may be perceived by investors and board members. The perspectives suggest that interest in microfinance may be motivated by the desire to have an identity and be able to compete with peers. Since the policy of banking consolidation in Nigeria created a vacuum such that no commercial bank owned by people of the middle belt (the north central geo-political region where Plateau State is situated) met the capital requirement to retain its banking licence, this perspective reflects the assumptions of the edgework theory where a risky activity (in this case, investing in microfinance) is undertaken to create an identity or for fame. The investor is not concerned about the returns on his investment but derives self –fulfilment and actualization in knowing that there are banks owned by individuals who are natives of the state. This shows that ethnic sentiments and affiliations have strong influences on how stakeholders interpret risk.

8.2.5: Cultural Theory

The cultural theory dwells on how risks are selected and prioritized based on group identity. It asserts that risk interpretation is embedded in the culture of a society. In the context of this study, risks are conceptualized in relation to the social context- environment, culture, beliefs values etc. Risk perceptions are shaped by what society regards as risky. Risks are therefore identified, assessed and selected for public concern based on the strength and direction of social criticism (Douglas, 1983). What risk is or how severe it is depends what group or organization an individual identifies with (Tulloch, 2009). In the context of this study, majority of participants agreed

that loan repayment is problematic and very risky for MFIs. Their perceptions tend to be influenced by the general assumption in the society that ‘MFIs exist to provide credit’ and ‘people find it difficult to repay loans’. The attitudes of borrowers who see loans as political windfall or grants influence perceptions of risk as loan recovery can be very problematic (pages 130-131). Based on observed attitudes in repaying loans, members of some communities are denied access to credit because of risks and behaviours associated with their cultural background (section 6.1, page 131). This represents the reality of risks in Nigeria but may not be considered a risk in more advanced countries where people can easily access credit and pay back to avoid ruining their credit rating and history. In the Nigerian context, living on credit is not seen as a virtue whereas, in more advanced societies accessing and depending on credit is not unusual and many people use credit cards without any sense of shame.

Another dimension in which culture shape risk perception can be viewed in relation to religious beliefs. These findings reflect the Greek notion of risk (Section 2.3) where risk relates to fate and the will of God which cannot be altered by human intervention. Thus, granting a loan and recovering it from a client is subject to the will of God (section 6.1). Similarly, having staff who work with integrity is perceived as being dependent on God as managers may be constrained in curbing fraudulent tendencies (section 6.2). This reflects that the context is characterised by deep religious belief such that every outcome is accepted as the way God has destined it to be

In relation to this study, its major findings and evidences show that risks are interpreted perceived and selected from cultural attributes- attitudes, orientation and behaviours. It was found that contextual factors e.g. viewing loans as grants or government are sources of risk for MFIs, patriarchy, conflicts, state of infrastructure and security (see quotes by Buba- Board Member NMFII in Section 6.1, Section 7.2)

Findings also suggest that risks are defined by social identity. It was found that similarities could exist in the financial behaviours of stakeholders e.g. the perspective that people in certain geographical areas do not repay loans leading to MFIs’ reluctance to offer credit services to them (see quote by Paul -Staff MFB in Section 6.1). This infers that social factors such as ethnicity, religion and race influence the perception of risks in terms of exposure to financial discrimination and exclusion (Ram, Smallbone, Baldock, & Ekanem, 2001).

In summary, based on the assumptions of the Social Theories of Risk, this thesis upholds that risks are shaped by social processes. The thesis however, does not subscribe to the notion that

risks are socially constructed as upheld by the Theory of Risk Society, as this would imply that risks do not exist real events or threats which are tangible. It recognizes that risks could manifest as absolute reality but are interpreted based on identities, interests, perceptions and behaviours of stakeholders.

8.3: Discourse on the Applicability of the Stakeholder Theory in Relation to the Research Findings

While interacting with participants who represent diverse stakeholder interests, it was found that their conceptualization of risk management is intrinsically connected to their roles and responsibilities, motivations and interests, expectations and targets of their institutions. The status of a stakeholder as an individual who can affect or is affected by the activities of an institution make their roles significant in achieving the goals of an organization. The stakeholder theory focuses on the social relationships a firm maintains with other entities (Ruf et al., 2001). It postulates that the success of an enterprise depends on smooth cooperation with its stakeholders (Tullberg, 2013). The theory posits that stakeholders have a unique social identity which must be upheld (Crane & Ruebottom, 2012), and should be treated with fairness in pursuing organizational goals (Phillips, 2003). However, the research findings seem to suggest that not all key stakeholders are treated fairly or given their rightful privileges in the manner in which the MFIs are run in the context being studied. For instance, the narratives that point to the role of community leaders in recommending, screening and mediating between clients and MFIs does not suggest that clients are treated as important stakeholders. There was no evidence to show that community leaders (traditional rulers, religious leaders, women leaders) have any legal or formal ties (such as being shareholders or being on the board) with the MFIs except for being 'respected in the community', yet, these stakeholders are more powerful than clients who have contractual ties with the MFI. Same can be said about the idea of getting the consent of a prospective client's husband or a male family head before the MFIs can commence a business relationship with a female client (see Section 7.2). Similarly, in relation to risk management roles, the quote by Patrick (Risk Manager MFB) in Section 7.3 suggesting that risk manager roles are undermined by MFIs - where they are employed to simply fulfil regulatory requirement but are not supported or empowered to carry out this role, shows that a risk manager may not be regarded as a key stakeholder in this area. These prove that contrary to this theory, certain actors, who ideally should be treated as non-stakeholders may be more powerful than those who should be regarded as key stakeholders' in some cultural

contexts. It further shows that political power play and patriarchy are factors which determine who the key stakeholders are in this realm of microfinance.

The theory is thus controversial as there are ongoing debates on who are eligible to be considered as stakeholders based on the extent of their interests in an organization. In the business of microfinance, the identity and interests of guarantors, gatekeepers and community leaders are contested issues. The complexities of having these stakeholder groups have been discussed in chapter seven, where their roles are incorporated in the risk management practices of MFIs. Based on findings from perspectives obtained from participants, their roles in microfinance and their conceptualization of risks can be understood in the following discussion.

8.3.1: Investors and Board Members

The perception of risks by investors and board members of the MFIs is shaped by their desire to achieve financial performance and their social mission in varying degrees. Findings from the study show that the NMFI prioritise social performance over financial performance. This is largely because their funds are in form of subsidies received from donors. The board members are appointed trustees and not shareholders as obtainable in the MFB. There is even a feeling of empathy/sympathy towards defaulting customers. The contrast in risk interpretation is glaring in the sense that in the NMFI, the focus is the desire to see improvement in the livelihood and businesses of clients, whereas, in the MFB there is high sensitivity to financial performance. Investors are interested in empowering their clients but there is awareness that a lot of risks involved, therefore, more stringent precautionary measures (e.g. insurance) are adopted to mitigate such risks. They also conceptualize risks in maintaining good reputation of the institutions and fulfilling their social mission.

I highlighted that staff of MFIs are considered as important stakeholders whose conceptualization of risk is influenced by socio-cultural factors in their environment. Due to the prominence of microcredit in MFIs, their perspectives on risk management revolve around risks confronting them and their institutions. It was found that the ownership structure of MFIs impacts on the manner in which staff conceptualize risks. Staff of the MFB were more concerned about the financial performance of the MFI viewing more as a business which should be profitable. Hence, the concerns were more about the pressures faces in screening prospective borrowers, recovering loans from defaulting customers, dealing with competition from commercial banks and managing the high expectations of shareholders for profits. Their

counterparts in the NMFIs on the other hand, were more concerned about social performance and challenges in expanding outreach.

The key findings from this study suggest that Factors that shape the conceptualization of risks by investors and board members are; loan repayment, financial performance, social performance, poor attitude towards loan repayment and empathy/sympathy for defaulting borrowers. Other factors identified are; gender bias (women empowerment, feminism), investment opportunities, self-fulfilment/ actualisation, need for identity, innovations, markets, competition, leadership and power struggle. Evidences can be seen in the quotes by Audu (Section 1.1), Buba (Section 6.1), Gani, Kim, Bitrus, Sylvester and Bernard (Section 6.3), Anne and Grace (Sections 6.1, 7.1, 7.2 and 7.3).

Staff of both MFIs also conceptualize risks in terms of possibility of threats to their job security, job satisfaction, motivations, status, career development and compliance with regulation. The discourse on risks in microfinance can be extended to incorporate the conceptualization of risks faced by staff of MFIs with regard to their mental well-being, self-esteem, career progression and job satisfaction in their loan recovery efforts. Ahmad (2002) identified some challenges faced by fieldworkers while administering microfinance. These include personal problems such as job insecurity, financial hardships, difficulties with accommodation and professional problems which include training, promotion, and transfer. He also argues that staff tend to face problems in their external relationships such as dealing with suspicion, resistance or lack of cooperation from religious leaders and local elites, time and resource constraints, competition for clients, and eagerness of the intended beneficiaries simply to get access to financial or material benefits. The participants who are staff of MFIs shared their experiences on the downside of credit risk which affects their roles.

While interacting with staff, there was a wide consensus that the job security of a staff can be threatened by failure to meet targets in clients' loan repayment. Achieving performance for prospects of growth in the career of staff in marketing and customer relationship management is most often evaluated based on clients' repayment rates among other criteria. Additionally, Credit and Loan officers tend to feel threatened and stressed by the attitude of defaulting clients especially if they introduce or manage the accounts of delinquent customers. A major source of concern for staff of MFIs is the fact that some clients are defiant and not afraid of the consequences of non-repayment even when threatened with confiscation of property, police arrest or court summons. Staff can be subjected to stress and mental torture if they have non-

performing loans. This is a risk factor which impacts directly on the psychological wellbeing of the staff but also affects the MFI's performance due to the staff's low productivity and motivation to work.

Clients could have genuine difficulties in repaying their loans, but their excuses cannot always be tolerated as there would be repercussions on staff who authorized the loans. In most instances, clients tend to default in repayment of loans due to circumstances which are beyond their control while others try to evade their obligations by making false claims or excuses. These narrations relate to the findings from a similar study conducted in Zambia which examined the crisis at the Christian Enterprise Trust of Zambia (CETZAM) on the effects of dealing with defaulters. Dixon, Ritchie, and Siwale (2007, p. 47) found that loan officers faced powerful hierarchical culpability pressures and often pursued inappropriate methods to recover loans. The study found that the MFI's approach to borrower default was stressful for loan officers and potentially detrimental for CETZAM's own short and long-term survival by reducing client loyalty and trust.

A contributory factor to the risks imposed on staff of MFIs stems from the orientation and ignorance of clients who perceive loans as the 'bank's money'. Some borrowers fail to realise that staff are custodians of the bank's funds, and so have a stake in ensuring that it is secured. The erroneous belief that bank loans are free funds make clients to challenge staff based on the assumption that the funds disbursed as loans are not the banker's personal money (Page 131-quote by Paul –staff MFB). In doing so, they (client) are not aware of the implications of their actions on the staff. Thus, wrong perceptions of clients about credit constitute risk to staff.

In their empirical study of 253 management staff and 341 frontline employees in 21 Nigerian banks operating in Lagos State, Nigeria, found that significant relationships exist between customer orientation, internal marketing and job satisfaction. The behaviour of borrowing customers has implications on the well-being of staff. Balogun and Olowodunoye (2012) and Ogechukwu (2013) address the ethical issues relating to job stress confronting staff of Nigerian banks which constitute risk to health and mental well-being.

The subject of gender is always relevant in microfinance studies especially with regard to the drive for investment and engagement in the activities of MFIs. In order to ascertain how gender influences risk perception about participation in microfinance I ran queries to explore participants' responses in relation to microfinance in order to understand how their gender influenced their perspectives. The results generated from the query seemed to suggest that the

female participants experience more difficulty in managing the risks associated with microfinance than their male counterparts given that accessibility to clients in remote areas of the state is challenging. This is quite contrary to submissions in literature which suggest that the microfinance sector is dominated by females. Strøm et al. (2014) and Jayawarna et al. (2012), for instance, have argued that microfinance is a business in the domain of women, in which women are not just the major beneficiaries but are largely more effective managers because of their ability to access the female information network and design products that suit women's needs. I compared the perspectives of male and female practitioners to gauge their perceptions of risk in their roles. I found that the male participants exhibited a greater sense of motivation and resilience in coping with the risks and rigors in reaching out to micro clients (especially those in rural communities) when compared to those of female participants. The quotes by male participants like Isaac (page 167) and Sylvanus (page 154) reflect greater passion for their roles than those of their female counterparts –Justina (Pages 135 and 156), Clara and Hannah (page 145). The perspectives of participants of both genders however, suggest that practitioners are confronted with many risks and difficulties owing to the nature of clients and the contexts in which they operate.

In relation to cultural factors, patriarchy also comes into play in shaping risk perceptions and influencing behaviours of stakeholders in microfinance. Findings show that even though females are the beneficiaries of microfinance, there is instances of male dominance where the consent of a husband or male family head is required before clients are admitted into credit groups (see page 180). In both MFIs studied, it was interesting to note the females were the chief executives of the MFIs -Anne acts as Coordinator of the NMFI (see pages 2, 127 and 130) while Grace is the Managing Director of the MFB (pages 133, 140 and 169). However, there were more males than females among board members and investors interviewed in the course of carrying out this research. There were slightly more males than females among staff interviewed with more males acting as marketers, credit and loan officers, risk manager and internal control officer while more females are in administrative roles- head of operations, accountants. Among clients, there was no single male who turned up for the two focus group discussions held in the NMFI, while there were far more females than males in MFB. Community leaders serve as gatekeepers who influence the selection of prospective clients or act as guarantors. In the Nigerian context, such positions are occupied by males, not females. The two community leaders interviewed were males. From these demographics (see Appendix 14), it can be deduced that roles and positions of influence and control in terms of funding and

decision making (investors, board members, community leaders, credit and risk management) in microfinance are occupied by males even though females dominate as beneficiaries (clients), support staff and chief executives (who execute decisions on behalf on the boards and shareholders). This may suggest that the field of microfinance is male-controlled but female-dominated since females are more in subservient roles. Another dimension is the fact that the rights of inheritance could also imply that females are excluded in obtaining loans if landed property is required as collateral. These are strong indicators that influence risks conceptualization and perception among stakeholder where their roles, interests and identities make it problematic to participate in microfinance. It could also be inferred that the local context has been influenced to act based on global configurations of the microfinance industry (see quote by Peter on page 134), given that it was pioneered by a male (Prof Yunus). It can also be deduced that its major funders are males given the widely known and acclaimed support of Philanthropists- Bill Gates, Pierre Omidyar, and Michael Dell towards the promotion of microfinance. Moreover, many studies have confirmed that males control more income and wealth than women globally (e.g. Ekbrand & Halleröd, 2018; Espinoza-Delgado & Klasen, 2018; Mwiti & Goulding, 2018; Stark, 2018). Thus, patriarchy is a strong determinant of risk perception in microfinance given that is females are more disadvantaged than males, and in this context, microfinance thrives on structures that promote patriarchy and discrimination of women

Ownership structure also shapes the attitudes of stakeholders. In comparing the attitudes and behaviours of the staff of the two MFIs (NMFI and MFB) in relation to their interaction with clients, I also found that staff of the NMFI had more zeal and drive in reaching out and serving micro clients in the remotest areas than the staff of the MFB who appeared to target the ‘upper class’ of the microfinance clientele which largely includes lowly paid state and local government civil servants and the middle tier business people. Staff of the NMFI talked more about their exploits in working with clients in the field while staff of the MFB serve clients who come to access their services in their offices. Based on their narrations, it is obvious that the ethos of the MFB is tailored in line with that of the conventional commercial banks where the client initiates the banking relationship by approaching the bank to open an account (see Mabi’s quote on page 185). The NMFI on the other hand, is more involved with seeking grass root clients by undertaking baseline surveys, client selection in collaboration with gatekeepers (pages 170-171).

In the interactions with board and management members of MFIs, it was observed that the type and ownership structure of MFI also influences the relationship between clients and MFIs. The NMFI appears to be more tolerant and lenient with defaulting customers than the MFB. Clients of the NMFI view it more as a charity than a financial institution owing to their philosophy and mission which is to alleviate poverty by supporting those engaged in income generating activities. The relationship between staff and clients in the MFB appeared less personal and more professional in a manner that clients had formal business contracts with the MFB (see pages 169-170).

In summary, the conceptualization of risks by staff revolved around the following identified factors; non-repayment of loans and loan recovery, default in loan repayment perceived as the will of God, non- repayment of loan perceived as threat to job security and exercising due diligence in loan disbursement. Other factors include; cultural orientation, values on repaying loans, poor remuneration, lack of motivation and low level of knowledge and skills of staff. Participants also identified risks in staff having a sense of inferiority complex due to inability to meet expectations of customer with regard to current trends in the industry, poor state of infrastructure and difficulty in locating customers/lack of permanent addresses. Other risk factors identified were security challenges, low level of financial literacy of clients, perceptions about traditional rulers, language barrier, challenges of a cash-based economy, competition and friction with conventional banks. Due to way microfinance is practiced, staff also identified risks in the challenges of non- automation of processes, Inefficiency due to reliance on conventional banks for some specialized services (e.g. salary processing and BVN), lack of support for MFBs (as indigenous banks) from government, lack of public confidence in MFIs, lack of understanding shown by management and dissatisfaction with CBN's policy on collateral security.

Findings also showed that staff are concerned about problems of liquidity to meet depositors' demand for cash, undue interference by board members in employment of staff and approval of credit, directors or respected members of the community using dishonest strategies and cronies to obtain loan from the MFI, challenges with organisational structures and lack of independence and protection.

8.3.2: Regulators

Regulators are responsible for the stability of the financial system. Risks are identified by regulators based on the degree of compliance of MFIs to regulatory requirements. The Regulators interviewed gave their perspectives on risk management with emphasis that MFIs operate within the confines of the regulatory and supervisory framework of the CBN. They are responsible for granting licenses to MFBs to operate as unit, state or national institutions based on meeting the specified capital requirement. Their stakes lie in ensuring that MFIs adhere to statutory requirements. These requirements range from meeting licencing requirements, meeting targets on asset and capital ratios to hedge against financial risks, ensuring compliance with code of corporate governance, setting prerequisites on certification for practitioners and setting internal control policies. These represent the inclination of policy makers to objective and positivist treatment of risk, sometimes implemented without recourse to the influence of social processes.

Regulators, knowing or unknowing also represent the interests of other social actors who influence the dynamics of the sector- government, politicians, researchers, academics, policy makers, mass media and international interests. This is evident because these social actors are the key stakeholders of the regulatory agencies who make significant contributions in the formulation of policies governing MFIs. For instance, the appointment of the CBN Governor is the responsibility of the President of the Republic of Nigeria (executive arm of government) subject to ratification by the Senate of the National Assembly (upper legislative arm of the government) which potentially implies that there is a mutual collaboration between the two sides. It is the outcome of their collaboration that determines the focus of the industry. MFBs, being under their regulation have no option that to tilt to their approach or philosophy in different aspects of their operation (including their conceptualization of risk and risk management). Similarly, regulators depend on the expert knowledge and skills of researchers and academics to design and enforce policies and practices that must be adhered to by MFIs. They may also follow the bidding of the politicians in promoting policies that maximize the welfare of the population. The mass media is used to amplify risk issues and shape public perceptions. The interests of the global stakeholders (international donors, development agencies, friendly nations and allies) also drive how the industry operates. The current push for digitization and commercialization of microfinance being advocated by regulators are signals that global influences are at work shaping how the industry evolves. This demonstrates that social processes and actors are involved in shaping the identity and interests of stakeholders in

risk management even where objective targets and performance indicators exist. This reflects subjectivity in the art of risk management as the social theories of risks suggest.

Regulators' conceptualization of risks was shaped by; compliance of MFIs to regulatory provisions, low level of knowledge and skills by staff of MFIs, MFIs being established and operated based on religious or ethnic sentiments and MFIs not focusing on micro-clients such as market women but contending with commercial banks over wealthier macro clients. Regulators also identify risk in MFIs over-relying on public sector funds and salary accounts even as the risk of government not paying salaries is high. The quotes by Clara, Patrick, Augustine, Reuben and Lucky in Sections 6.2, 6.3 and 7.1 attest to these findings.

8.3.3: Clients

My interactions with clients occurred during the focus group discussions. Clients generally expressed concern on the economic recession in Nigeria which has increased the cost and risks of doing business and increased their level of poverty. The high rate of poverty in the state caused by unemployment and lack of opportunities makes them incapable of paying back loans. Default rates are also high because monies collected for investment are diverted into other uses. Perceptions on dealing with money differ but most clients admitted that dealing with money is risky. Some clients are eager to obtain loan with high hope of utilizing the funds to gain some benefits without assessing the risks involved.

Some clients expressed satisfaction with the services of MFIs while others complained about high interest rates, discomfort with group lending arrangements because of joint liability, loss of privacy and reputation in the event of default) and the psychological stress of indebtedness. Clients also experience challenges in understanding the terms and condition of loans. Some clients expressed their displeasure with delays in approval of their loans while other acknowledged that MFIs provide them with easy access to credit to meet their consumption and investment needs (loans, overdraft, salary advance, hire purchase etc.) and are platforms for encouraging savings, micro insurance and a variety of financial and non-financial services at micro level. They confirmed that it is faster and easier to obtain small loans from MFIs than commercial banks.

Factors that shape risks confronting clients include: poor access to financial literacy, dissatisfaction with services of MFIs, poor service delivery by MFIs, failure of MFIs to target the right beneficiaries, poor timing in service delivery, psychological stress, economic hardship and harsh business conditions. Others include discomfort with Joint liability in group lending

and loss of privacy and dignity due to indebtedness (see quotes by Leah -Section 6.1, Agatha, Clement and Amina-Section 6.3 and Anita, Grace and Patricia -Section 7.2).

8.3.4: Community Leaders

The Community leaders interviewed expressed satisfaction with the presence of MFIs in their communities as members of the community are empowered through investment and employment opportunities. Communities also benefit from non-financial services offered by MFIs. The issues on power relations and culture reflecting governmentality, stakeholder and cultural theories are obvious because community leaders as gate keepers, enjoy the privilege of mediating between MFIs and members of their communities. For the NMFI, community leaders play significant roles. The NMFI reaches its target clients through community leaders. They (community leaders) recommend members of their communities who are to benefit from loans and other special packages. This infers that to get such recommendation, a prospective client must have a good relationship with their community leaders. Their perception of risks reflects in the drive for women empowerment and the opportunities for community development. The views of the community leaders reveal that communities have expectations from MFIs. They expect the MFIs to be socially responsible and transparent in their relationship with members of their communities.

Findings also suggest that risks are perceived from the frictions and tension that could occur when loan contracts are breached, harassment of clients due to non-repayment of loans or there are misunderstandings about the terms and conditions of loans. There were also concerns about the quality of service delivered by MFIs.

In summary, community leaders who serve as gate keepers and guarantors conceptualise risks from the following factors; power and authority, high poverty rates, protecting the rights of community members, need for women empowerment and education for the girl child. Risk are also conceptualized in terms of poor orientation and values in loan repayment by members of the community. These factors can be seen in the perspectives by Clement (Community Leader NMFI) and Samuel (Community Leader MFB) in Sections 6.2, 6.3 and 7.2.

8.4: Establishing Relationship between the Theoretical Framework and Findings

In navigating my field of study, I have established that risks emanate from social processes encompassing people and social contexts. This assumption is embedded in my theoretical framework - the social theories of risk and stakeholder theory. The assumptions in these theories are intertwined with my research findings, analysis and interpretations. Findings from my fieldwork suggest that risks are defined by MFIs as institutions and their stakeholders based on the intricacies, challenges and opportunities of life in Plateau State and perhaps the wider Nigerian society.

The coping strategies of MFIs to ensure their sustainability and outreach through governance and decision making are acts of risk management which underpin the Foucauldian theory of governmentality and systems theory. As rational beings, stakeholders strive to manoeuvre their ways through risks always with the aim of maximising benefits but sometimes resulting in some unintended consequences. My interactions with participants also showed that risks are generated, assessed and perceived based on prevailing circumstances in a particular setting and at a particular time such that the notion about the subjective nature of risk as a phenomenon is established. Findings from the field further indicate that there are a lot of risks that MFIs face which threaten their capacity to be sustainable due to conflicts of interests between stakeholders. Engagements with various stakeholders revealed that conflict of interests tends to manifest in the relationship between stakeholders leading to a sense of detachment which results in the perception of risk. Different stakeholders are faced with their own unique challenges and opportunities which are sources of risks. In addition to these, there is an interaction of abstract forces (e.g. culture, identity, orientation, values, beliefs etc.) which shape the perception of risks. The identities, interests, perceptions and behaviours of stakeholders in relation to their engagement in microfinance risk management have been analysed in chapters six and seven. Furthermore, the distinctiveness of different stakeholder groups is a reflection of the System and Cultural Theories which emphasize the interactions and group identity of the component parts of the system.

The relationship between my research findings and theoretical framework shows that a relationship exists between the identities, interests, perceptions and behaviours of stakeholders who engage with MFIs in economic, social, political and cultural contexts. Society (comprising of stakeholders and contextual factors) generates risks and challenges such as poverty which result in innovations such as microfinance to reduce poverty. The existence of

MFIs generate new risks (e.g. credit risk) which necessitate the adoption of various risk management strategies which have repercussions on the society.

From this relationship, it can be inferred that the notion of risk management in microfinance is complex, given the mismatch between policy and practice which result from the identity, interests, perceptions and behaviours of stakeholders and the contexts in which they frame risks. As society advances, risks mutate due to changing behaviours and interests of stakeholders. This is the reason scholars of microfinance who subscribe to interpretivist reasoning call for a restructuring of the risk management framework of MFIs to improve their sustainability and outreach with the ever-changing trends in the subsector (S. Khan & Ashta, 2013; Torre, 2006). These trends represent dynamism and subjectivity which reflect the influence of social processes in microfinance risk management.

Having examined the relationship between the conceptual and theoretical framework and my findings, I will now discuss the contexts which shape how risks are perceived to further demonstrate the applicability of this framework.

8.4.1: Economic Contexts

In relation to the economic context, microfinance provides financial services to the poor who are most vulnerable to risks. It is therefore, a risky business, because in its traditional form, its beneficiaries need not provide any physical collateral to tap from its benefits. It is different from providing charity because a degree of responsibility and trust is required among stakeholders. In providing charity, benefits are conferred on beneficiaries for free whereas, microfinance assists the poor at a cost. Providers render services at a cost, they risk losing their funds and investments in providing financial services to the poor. On the part of other stakeholders on the demand side (clients, community leaders), there are risks involved as well (risk of failure to fulfil obligations and inability to achieve set goals in business leading to greater poverty). Narratives of participants suggest that risks abound in microfinance as a result of the high poverty, unemployment and income inequality rates prevalent in the state. The economic context is also characterized by limited business opportunities and imperfect markets which make it difficult for MFIs and their clients to thrive. The level of commercial awareness is low among clients such that entrepreneurs hardly imbibe the culture of financial discipline and accountability to be successful in their personal businesses. There is also the absence of an

enabling environment provided by the government to support the growth of MSMEs which in turn affect the viability of MFIs.

Another risk confronting MFIs emanate from competition with commercial banks and struggle for market share. The trend whereby commercial banks are downscaling to provide microfinance services such as retail banking, micro-insurance and micro-savings is perceived as an attempt to edge out MFIs from business. The MFIs in turn are competing to upgrade to become fully regulated financial institutions leading to competition which is perceived as a threat to the MFIs. Competition between MFIs and commercial banks is also caused by the gaps in the remunerations of staff of commercial banks and staff of MFIs as well as the low usage of financial technology by MFIs. These factors make MFIs less attractive to clients constituting great risk to them.

Another factor which reveals how risks are conceptualized by staff is in the stiff competition that exists between MFIs and commercial banks. The absence of a clear demarcation in the provision of microfinance services by service providers causes much friction between staff of MFIs and commercial banks. The competition is unsettling for the staff of MFIs who view the commercial banks as encroaching in their sphere of business. Commercial banks in the state are perceived to have better resources (more skilled manpower, technology, capital, digital payment services etc.) to provide more efficient financial services to all segments of the population including the poor who are the target customers of MFIs. The poor (especially the urban poor) have preference for digital financial services (see quote by Paul on page 156). The desire to meet their self-esteem needs tend to make them patronize commercial banks more than the MFIs. Customers of MFIs also desire and demand products such as debit cards, internet banking, mobile banking, deposit notification which their institutions are unable to provide. These electronic banking products are part of the package for account holders in commercial banks. The commercial banks have further lowered their account opening requirements and initial deposit to accommodate the lower segment of the society. Thus, MFIs have lost their market share of potential customers and are being relegated mainly to rural areas where commercial banks are non-existent. They face the risk of losing relevance if they are unable to catch up with modern trends in banking. Thus, risks are interpreted from the desire to be like others in the society as reflected in the Cultural and Edgework Theories of Risk which connote risks in terms of identity, emotions and passion.

There was also a perception by participants that government policies tend to favour commercial banks, more so as MFIs have expectations of receiving funding support by the government despite being privately owned and managed. The government has made a commitment that 1% of the statutory allocation of states shall be allocated to MFBs to shore up their capital base in order support MSMEs. This has made investment in microfinance attractive to prospective investors. However, this has not been attainable as there are controversies surrounding its implementation (see Section 7.3, Quote by Gregory-Marketer MFB). Findings also indicate that the promoters and shareholders of the MFB are usually highly desirous of earning dividends and this desire often lead to interferences in the affairs of the MFB which exposes the MFB to more risks. This experience was not reported in the NMFI possibly because there are no intrinsic benefits or opportunities for self- aggrandizement for the board members or trustees.

Also, on the economic front, participants were selective of risks emanating from the absence of supporting infrastructures which enhance the efficiency of services and improve accessibility to clients. Being that these structures are inadequate or in dilapidated state, the exposure to risks is high for the MFIs. The state of basic infrastructure- electricity, roads, in Plateau State and Nigeria is generally poor and many studies (e.g. Babajide, 2011; Ihugba et al., 2013) have attributed this to the slow development of businesses in Nigeria. Risks are interpreted from the obstacles that hinder MFIs from achieving their goals. MFIs are adversely affected by the infrastructural decay in their operating environments. Bad roads in the rural areas make accessibility to their customers and loan recovery difficult or sometimes impossible in the rainy season. The poor state of electricity supply makes them resort to manual book keeping and non-automation of their processes. These problems affect both the MFIs and their clients who are engaged in entrepreneurial activities. Furthermore, the logistical support is not adequate to ensure effective service delivery as participants reported their inability to keep appointments for collection of repayments or clients' savings. On the part of the clients, the poor state or inadequate economic infrastructure affects their businesses and livelihood negatively by increasing their operational cost (e.g. high cost of operating personal generators in the absence of stable electricity supply) and diminishing their standard of living. On the whole, these factors increase the exposure and vulnerability of stakeholders to undesirable conditions and shape how they conceptualized risk based on their identity, interests, perceptions and behaviours as social beings.

8.4.2: Social Contexts

The social contexts encompass the social environment and interactions between people who share common identity, history, culture, values, beliefs etc. Factors found to influence the perception of risk among stakeholders in the case study include culture, societal values, trust, literacy level knowledge and skills, religious beliefs and gender. Nigeria, apart from being a developing country, is also multi-ethnic and multi-religious. Findings have shown that social factors such as diverse cultures, kinship, and patriarchy have impact on the behaviours of various stakeholders in microfinance. The various features and models of microfinance may impact of the level of acceptability or resistance exhibited by stakeholders. Religious beliefs such as Islamic religious or belief in God whose will cannot be altered may influence how risks are interpreted in a social context. Participants' narratives show the state of the society influences people to frame risks. For instance, due to the high level of inclination to religious beliefs, people tend to ascribe the possible outcomes of lending to the poor to will of God, since the poor have no collateral to offer as a guarantee for repayment. Participants believe that once a loan is approved and disbursed to clients, it only takes the will of God to recover the funds since a lot of unforeseen circumstances could lead to default in repayment. This reflects the notion of risk in the historical Latin context where risks of non-repayment are perceived as misfortunes and seen as the will of God which cannot be challenged. Also, the cultural orientation whereby people are closely bound by kinship and friendship in business tends to permeate the psyche of people such that loan repayment becomes problematic. It appears acceptable to borrow from the bank and refuse to pay back because it is 'free money', 'government's money' or 'national cake'. The perception that bank loans are government grants which must not be necessarily repaid comes from the awareness that MFIs get funding/subsidies from donors and the government. Staff have concerns about their clients' wrong perceptions about credit and lack of commitment in repaying loans. There is also the exhibition of a nonchalant attitude towards loan repayment which inflicts stress and risks on staff of MFIs. The clients have the perceptions that an MFI would not want to incur an unreasonable cost to recover a meagre sum. Therefore, they fail to repay loans not because they are incapable of paying back. Describing it as a culture indicates that the behaviour is embedded in the psyche of the people (see pages 130-132). Due to the challenges of loan repayment and credit recovery, MFIs transfer the liability to clients through group lending and joint liability. This reflects their own strategy of balancing and negotiating risks to reduce potential losses.

There is preference for this arrangement to reduce the risk of adverse selection and moral hazards.

Participants from both MFIs reported that they are confronted with risk emanating from difficulties in gathering the clients, having access to localities practicing a different religion, challenges in verifying the identity of clients or tracking them in times of default. In both MFIs, the sense of community, consultation and closeness which characterise the build-up of social capital is inadequate and could be a contributory factor to their exposure to risks. The narratives of participants also indicate that mutual distrust exists between categories of stakeholders in relation to risk perceptions. MFIs fear that clients will not honour their obligations and repay their loans. Clients fear that MFIs are exploiting them, not consulting them and meeting their needs in the products designed for them. Investors are not satisfied and confident with the efforts staff are making in generating returns on their investments, while staff do not trust the motives of investors. My findings suggest that this crisis of trust has been generated because of the deviation from principles on which microfinance was established-group dynamics, social collateral, peer monitoring and joint liability which ensured solidarity, cooperation and collaboration among stakeholders.

Societal values also influence how risks are interpreted among stakeholders. Findings suggests that participants prioritized issues that have to do with integrity of stakeholders and the level of moral and financial corruption which are perceived to be high in the Nigerian context. The image of Nigeria often portrayed as a corrupt country in the media and the past experiences of participants contribute to forming their conceptualization of risks. Some countries may be confronted with the same or even greater magnitude of corruption, but this may not be given the same level of attention to shape public perceptions. The value system in Nigeria is also reflected in the way in which issues of integrity are dealt with. Findings indicate that MFIs appear to be tolerant lenient and tolerant when dealing with staff caught stealing from funds entrusted to them, since a staff can be given an opportunity to pay back from his/her salary. This may give an impression to other staff that it is okay to pilfer funds remitted to them, and may also be reason why this problem persists

Another social factor which shapes the perception of risk is the level of knowledge and competence of practitioners. As already discussed, the risk management capability of MFIs is driven by the knowledge and expertise of practitioners who may have varying interests and focus. When there is a clash of interests or absence of consensus on risk policies due to

divergent views of the experts, the sector continues to retrogress or have insignificant impact in the economy. This can be seen in the different approaches adopted by administrators in the regulatory authority-CBN. Findings from this study and several studies on Nigerian microfinance have postulated that the sector is confronted with the challenges of low knowledge and skills to develop the framework for effective risk management. From the various submission, it can be deduced that the low level of knowledge and skills of staff of MFIs makes them unfamiliar with current trends and terminologies in the industry (see quote by Paul-page 156). This creates a sense of inferiority complex due to their inability to meet expectations of customers. Societal influences and customers' desire to meet up with current trends in the industry are contributory factors that shape the perception of risks because there is a possibility of loss of self –esteem and rejection by their potential clients. Findings have also shown the little attention is being given to risk management, rather the interests of investors lie in expanding markets and outreach while ignoring risk management (see quote by Patrick –page 184). This has resulted in the recurring collapse of MFBs and financial instability in the economy.

In their operating environment (mainly rural areas), staff grapple with the challenges of language barrier, security, inability to attract skilled manpower and dealing with illiterate customers (see pages 1, 2 and 146). The endless cycle of ethno-religious violent conflicts prevalent in the state also characterizes the social context in which MFIs operate. This is perceived as detrimental to the sustainability of the sector because of huge losses of human and material resources which exacerbate poverty in state. Due to these occurrences, people are forced to abandon their homes and communities, and, in most cases, the MFIs are unable to operate at full capacity. Victims of these conflicts tend to be the potential clients of MFIs because they can hardly access credit from commercial banks to start life afresh. This has added more pressure on the already lean resources of the MFIs.

The role of gender also influences the social contexts in which risks are interpreted by stakeholders. Based on the behaviour of male and female borrowers in relation to microcredit, gender bias exists as the MFIs focus more on their female than male clients. The claims in many literature that female customers are more credit worthy and reliable than men in repaying loans and that microfinance is a business of women have influenced the modern practice of microfinance. To reduce their risks in lending and enhance their social mission, the MFIs prefer to deal with women. There is a motivation towards women empowerment and feminism in

microfinance which have shaped the perceptions about the character and role of women in the society. The perspectives of participants indicate that gender bias exists in microfinance and show how risks are interpreted based on popular beliefs and perceptions. Investors in MFIs see female clients as the target market for their businesses. This belief is strong that it has altered the cultural configurations in the society such that some husbands rely on the funds their wives obtain from the MFI (see page 182). Traditionally, the responsibility of providing for the family lies with the male gender but microfinance seems to have led to a reversal of roles where females are now involved in entrepreneurship and are able to support their husbands and assume responsibilities such as sending their children to school and expanding their businesses (see pages 127 and 159). This shows that if opportunities exist, women tend to take advantage of them to maximise benefits for themselves and their families regardless of stereotypes. Investors and board members have used their expert knowledge and resources to change societal perceptions about the capabilities of women in entrepreneurship

8.4.3: Political Contexts

In the political contexts, the problems are in relation to interferences and interests of politicians, power government, gatekeepers and power struggles between individuals and groups. Risk management for MFIs thus, involves the complexities in managing the interests of political actors to avoid certain pitfalls. The political structures in Nigeria are firmly rooted and would always interact with MFIs and impact on their sustainability and outreach. MFIs rely on the support of the government in many ways and can hardly do away with the interference of politicians. The onus lies with MFIs to manage these relationships and interactions to mitigate adverse consequences on their activities. Participants highlighted interferences and manipulations of politicians as a major driver of risk for MFIs in Nigeria because of the manner in which politicians mount pressure on MFIs to obtain favours which can be detrimental to their survival. The favours relate to the approval of loan without recourse to due diligence, granting of concessionary interest rates, writing off loans as bad debts, giving employment to family and friends etc. Risks are perceived in this light by practitioners while ignoring the fact that MFIs also receive favours from the political class in many ways indicating that MFIs cannot exist independently of the political class. Findings also suggest that the motive of establishing many MFIs in Nigeria is questionable because many investors do not seem to have the vision of microfinance but rather invest for in it for other ulterior motives- profits, self – esteem, identity creation, religious and ethnic sentiments.

The political context also poses risks to MFIs because of policy inconsistencies and faulty regulation. MFIs tend to be at the receiving end as successive governments implement new policies which can lead to additional and unanticipated costs. Policies such as the introduction of the BVN enrolment has led to loss of patronage for MFIs because many salary accounts owners had to close their accounts and switch to commercial banks who offered them such service. Similarly, the policy to raise the minimum capital base of MFBs to N20Million led to the collapse of many banks which were unable to meet the dateline for compliance. MFIs operate in a context where there is uncertainty about how government policies might impact on their activities. The major challenge is that most policies are not home-grown but imported from other countries and implemented without consideration of factors in the local environment often leading to poor outcomes. This reflects the influence of globalization and expert knowledge based on the Theory of Risk Society where new ideas or policies (innovations) from the Western countries are embraced in the local contexts because they are assumed to be outcomes of superior knowledge.

Lack of support by the government is also factor that creates risk for staff of MFI. Staff of MFIs desire tangible support from the government and favourable policies that promote MFIs and give them an edge in the competitive market. Successive governments in Nigeria make claims about their commitment to develop the microfinance subsector but practitioners hold contrary views. This view shows that government policies have been more favourable to commercial banks by enabling them to maintain public sector accounts. It reflects the disconnection between what is said and what is practiced and has implications on the performance of stakeholders (see pages 160-162). Hence, staff identify risk from the opportunities and benefits their institutions derive from government's support.

The political context is also characterized by power struggles by individuals and groups often manifesting in both violent and non-violent conflicts which adversely affect the progress of MFIs. Risks emanate because of the likely consequences of social interactions between stakeholders. Staff of MFIs contend with the challenge of dealing with un-enlightened board members or traditional rulers who unduly interfere with the business of the MFI. This is most visible in the process of employment of staff and approval of credit facility to favour their preferred candidates. Board members take wrong decisions by making recommendations based on sentiments rather than competencies and capabilities. This is often done without assessing the potential risks the MFI can be exposed to. Unfortunately for the staff of MFIs, the influential

people (e.g. traditional rulers) enjoy special privileges which make them immune from the consequences of their actions (see quote by Mabi –page 10). The consequences are borne by staff who is coerced to authorise the disbursement of the loan or employ a fraudulent staff. Perspectives by staff depicted their perceptions about the special status of traditional ruler which sometimes tend to be abused when they recommend or act as guarantors to bad debtors (see page 179). The revelations show that board member or community leaders exert great influence in the society in manner that they can evade sanctions. Consequently, the staff are dissatisfied as they cannot carry out their responsibilities without intrusions by other stakeholders leading to a sense of alienation and insecurity. This shows that even if staff have the competence to perform duties responsibly, there could be factors that will influence their behaviour to balance their risks by taking actions which may not be in the best interest of the MFI. This implies that challenges with organisational structures, lack of independence and poor interpersonal relationships between managers and staff can expose the MFI to great risks. It also implies the distortion of microfinance through the mingling of modernity and tradition.

8.5: Contribution of the Study and Core New Knowledge: Exploring the Framework for Subjective Risk Management in Microfinance

This research has been undertaken to advance knowledge on the dynamics of risk management in microfinance based on the interpretivist philosophical paradigm. Its contribution and originality lie in drawing perspectives of the social theories of risk and the stakeholder theory to put forward an explanatory framework for Subjective Risk Management in Microfinance depicting the interaction of identity, interests, perceptions and behaviours of stakeholders in the case study MFIs. Its uniqueness also lies in the case study of two models of microfinance—a commercially inclined MFB and a not-for-profit MFI, NMFI based on prevailing realities in Plateau State, Nigeria.

This thesis highlights and analyses the identities, interests, perceptions and behaviours of stakeholders within the context of the study. This thesis attributes the tensions experienced in risk management to the positivist treatment of risks by attempting to represent risks in absolute measures without seeking to understand the influence of social and behavioural factors. There are evidences in literature that indicate that the global financial crisis persisted even while the Basel Accords were vigorously implemented. This thesis therefore recommends that to effectively manage risks in microfinance, the risk management processes, in addition to

financial and accounting principles, should also take into consideration the unique identities, interests, perceptions and behaviours of stakeholders in a defined context. In the course of undertaking this research, it was found that risk management processes -risk identification, assessment, mitigation and evaluation are embedded in the identity, interests, perceptions and behaviours of stakeholders who execute risk management practices. This reflects subjectivity in how risks are framed by stakeholders whose involvement influence the effectiveness of risk management strategies of MFIs.

The framework being proposed as the core new knowledge of this thesis is being depicted diagrammatically in Fig 4 to illustrate subjectivity in microfinance risk management. The framework is derived from the theories which underpin this research- Social Theories of Risk and Stakeholder Theory. The social theories of risk lean on the assumption that risk transcends objective knowledge and is significantly influenced by values, rationality, power and emotions which are embedded in social entities (stakeholders). The stakeholder theory reflects the notion that stakeholders possess unique identities, interests, perceptions and behaviours, and have the capacity to facilitate or obstruct risk management strategies. While this framework has been inspired by the case study of the two MFIs operating in Plateau State, its notion can be transferable to the study of any social phenomenon which relates to the behaviours of human beings.

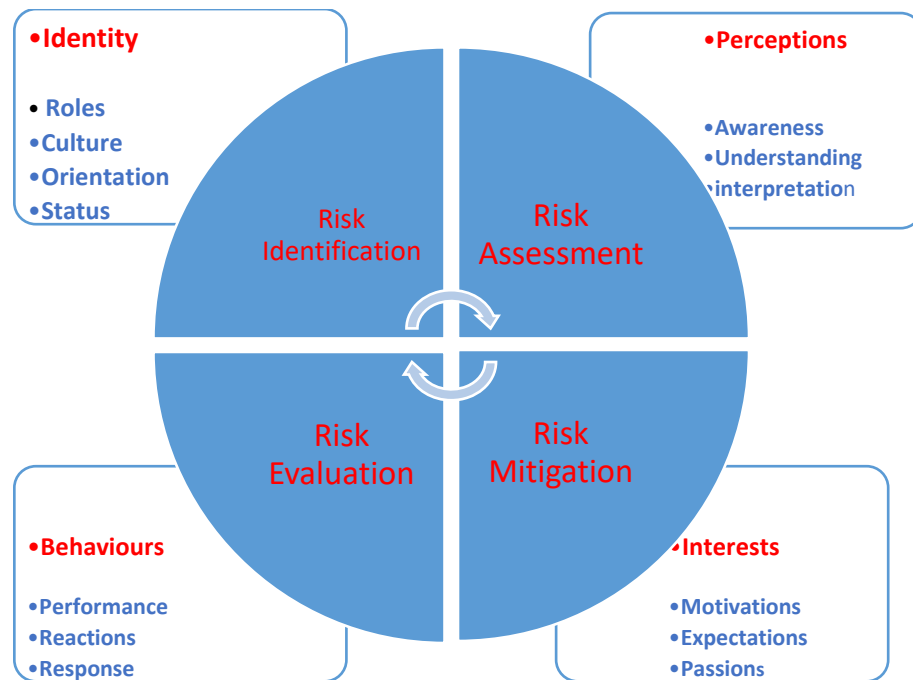


Figure 6 - Framework for Subjective Risk Management in Microfinance

Source: The Researcher

Figure 4 depicts the framework used to explain the core of this thesis. Risks as the main concept and phenomenon being studied are subjective because they are conceptualized and defined in relation to stakeholders' identities, interests, perceptions and behaviours in a defined context. Stakeholders' identity comprises- who they are; their roles (expertise, knowledge, responsibilities), culture (customs, tradition, lifestyle), orientation (attitudes, beliefs) and status (social standing and position). This reflects the ontology (nature of reality) of risk as a subjective phenomenon which is abstract and unquantifiable in absolute measures, meaning different things to different people. This infers that risks in microfinance should not be conceptualized and managed independent of the stakeholders and contexts. Risks should be viewed through the identities, interests, perceptions and behaviours of the stakeholder and the contexts in which they coexist.

The framework depicts the risk management processes anchored on underlying social factors- identities, interests, perceptions and behaviours, which are often excluded in the risk management framework of MFIs because of the preference for business and accounting approaches caused by the increasing commercialization of microfinance in imitation of conventional financial institutions.

Many microfinance risk management literature often categorize risk management into distinct processes of; Risk Identification defining various risks that confront MFIs, risk assessment- through objective measurements and estimation of probability of occurrence and impact of events, mitigation/control- clear-cut strategies for managing risks e.g. capital adequacy, licensing, certifications, and risk evaluation- having checklist for matching policies to compliance levels. This thesis however, demonstrates that these processes are not as objective as portrayed but could be subjective to underlying social factors. In this study, participants were generally asked about risks they and their institutions face. Their responses were different based on their identities, Perception, Interests and behaviours.

In the top left corner of the diagram, identity is closely linked to the risk identification process of risk management. Based on the research findings, the identity of stakeholders was found to be a major determinant of what they recognized as risks. While risk identification appears to be an objective endeavour, in the sense that various risks being encountered by an MFI can be itemised or classified in a risk register, beyond this activity lie a subjective element -the identity of the social actor identifying the risks by selecting some and ignoring others. This is subjective because the identity of this social actor is a combination of his/her personality, role, responsibility, gender etc. which are flexible, dynamic and unmeasurable in absolute terms. Similarly, in the second quadrant and top right corner, risk assessment is closely linked to perception. Risk assessment in objective terms entails prioritizing risks by measuring exposure of the stakeholder/MFI to the identified risks. Findings from the study however, indicate that risk assessment is largely based on perceptions which relate to subjective variables such as beliefs, understanding, interpretations, judgements etc. For instance, the perspectives suggesting that lack of trust was ‘the biggest risk’ by Gregory –Marketer, MFB (Section 6.2) and assessment of non-repayment of loan as ‘high risk’ by Amina-Loan Officer, NMFI (Section 6.1) demonstrate subjectivity in perception of risks. In the third quadrant and bottom right corner, risk mitigation is connected to interests of social actors managing risks. Risk mitigation and control processes may be objective in nature but beneath the objective activity lie subjectivity of the risk manager whose choice of policy, procedure or practice for managing risk is influenced by his/her interests-motivation, passions, expectations, biases etc. In the last fourth quadrant and bottom left corner, risk evaluation relates with the behaviour of a risk manager whose performance, reaction, response or approach in monitoring and reviewing results is dependent on subjective factors (e.g. knowledge and skills).

Thus, findings that emerged from interactions with key stakeholders in the case studies demonstrate that risk management in microfinance is subjective encompassing social processes, actors and contexts. The overarching goal of the study is to contribute to knowledge on advancing risk management towards the sustainability and outreach of MFIs. It will be useful to policy makers, practitioners, researchers and other microfinance stakeholders in broadening the understanding of risk management beyond the business and accounting approaches which focus on positivist and objective analysis of risks in discipline that involves human intervention. Policy makers would find it useful in formulating policies which address contextual problems and aligning new ideas and innovations imported from other climes to suit local circumstances. Practitioners would benefit by enriching their risk culture and practice of risk of risk management beyond superficial execution of policies to fulfil formalities. It will strengthen their power of taking initiatives, making new innovations and use of discretion to identify, assess, mitigate and evaluate emerging risks which may not have been experienced before or are not recognised in the risk management framework. Researchers would also benefit in exploring new strategies for enhancing the sustainability and outreach of MFIs. They can adopt subjective reasoning to challenge existing protocols and practices by providing empirical evidences based on prevailing realities to support their claims. Other stakeholders with genuine interest in microfinance (e.g. funders, donors, social investors, international organizations) can benefit in greater understanding of the peculiar risks confronting different stakeholders and institutions based on their circumstances. They would appreciate that their efforts and support for MFIs yield effective results as they commit huge resources to empower the poor. While the perspectives are drawn from experiences of stakeholders of microfinance in Plateau State Nigeria, its contribution can be transferable or applicable to the wider Nigeria society and other similar contexts.

Chapter Nine: Conclusion

9.0: Introduction

This chapter provides a summary and conclusion for this thesis. The thesis has attempted to explore subjectivity in microfinance risk management based on a case study of two models of microfinance institutions in Plateau State, Nigeria. It was undertaken to explore the effectiveness of risk management based on the prevailing realities confronting MFIs in the state despite various risk management efforts of stakeholders. Specifically, the study was undertaken to address the following questions; What are the risks confronting MFIs? What processes do MFIs adopt to manage risks? How do stakeholders perceive risks based on their lived experiences, identities and interests in the context of the study? How do stakeholders' perceptions of risks influence their decisions, behaviours and interests in their engagement with MFIs? How do these facilitate or obstruct the risk management strategies of MFIs?

The questions have been addressed in this thesis using the qualitative research approach to explore and understand the nature of risks facing MFIs and their stakeholders. I selected the case study research design to undertake an in-depth analysis of how stakeholders, drawn from two of the most common models of MFIs operating in the state (MFB and NMFI) conceptualize and perceive risks in microfinance. The methods of data collection (document reviews, observation, interviews and focus group discussions) and analysis aided me to address the research questions. The queries ran on NVivo generated participants' perspectives on the identities, perceptions, behaviours and interests of stakeholders in their engagement with MFIs. My interactions with participants also helped to address my enquiry on how these factors facilitate or obstruct the risk management strategies of MFIs.

The findings have demonstrated the subjective nature of risks confronting MFIs, and the thesis has been written to present a logical and systematic way the research was executed. It has examined the background, review of literature, methodology, findings and discussion. It is anticipated that it has contributed to knowledge in the field of microfinance risk management by proposing the framework centred subjective risk management in microfinance based on how risks are interpreted by stakeholders. Its overall aim is to advance the sustainability and outreach of MFIs in poverty reduction and financial inclusion of the poor.

This chapter shall present the policy implications and recommendations based on its findings. It shall also present the limitations of the study and recommend area of future research to advance the discipline of microfinance.

9.1: Implications of the Research Findings

This study has generated some major findings focused on what stakeholders perceive as their greatest risks, the drivers of these risks and the remedies for mitigating risks in microfinance. The misconception of risk management in microfinance through the objective view and treatment of risks leads to tensions in the practice of microfinance risk management. Based on the comparative study of the two MFIs studied, it was found that risk management process and practices are influenced by social processes and manifest in the ownership structures, lending methodologies and credit underwriting processes, and internal control processes, supervision and regulation. In these case studies, findings suggest that the perceptions of risk by different stakeholders seemed to be influenced by their unique identities and interests in microfinance. This confirms that risks in microfinance are both objective and subjective in nature. The implication of this is that risk management ought to be contextualized to reflect these unique identities and interests of stakeholders as well as prevailing realities otherwise there will be a mismatch between risk management policies and the actual practice which would be counter-productive. The framework for risk management needs to also focus on social indicators in addition to financial parameters to attain the desired outcome. In reviewing several documents, it is obvious that the policies are robust and comprehensive but what is worrisome is the mismatch between policy and practice-an indication that the role social actors (parties tasked with implementation and enforcement) and the contexts in which they operate need determine the effectiveness of risk management. This is attributable to subjectivity in risk perceptions of different stakeholders which may not correspond with objective targets set in the policies. This is where risk management becomes relevant in identifying, assessing and controlling what can potentially harm the institutions and other stakeholders. This also implies that risk management framework of MFI needs constant re-evaluation and revision to address new challenges as no innovation is immune from failure.

MFIs have been influenced by formal risk management practices of commercial banks and are inclined to quantitative analyses of risk, whereas risk issues are generally subjective and dependent on qualitative variables such as measures. Interactions with participants showed that

they conceptualise risks based on immeasurable variables which need to be taken into consideration in designing an effective risk management framework for MFIs. Perspectives from participants have further confirmed that relying on capital adequacy as prescribed in the risk management framework has not led to significant mitigation of risks in the sector (see quote by Daniel-page 190). The MFIs' risk management processes are ineffective because in some instances, the interests of the social actors do not align with policies and procedures. The implication of this is the situation where disparities exist between what people say they do and what they do to mitigate risks, so risks remain un-addressed or the wrong risk is measured.

The scope of microfinance risk management tends to be largely confined to risks affecting the institution without consideration for the interests and motivations of stakeholders who also contribute to the framing of risks confronting the sector. The interaction between stakeholders in their engagement with MFIs plays a significant part in managing risks. However, the unique identities and interests of stakeholders are hardly recognised and respected as they are sometimes expected to assume identities which do not reflect their identity. For instance, microfinance is targeted at women who are assumed to be marginalised, they conform to the identity of doing petty trading and becoming entrepreneurs if they are to participate in microfinance. It has been tagged as 'women 's business' because they are more dependable in repaying loans, but in reality, it may not be so in every context. Similarly, board members & investors are expected to take on a philanthropic and humanitarian identity and posture even if their interests are on profit-making leading to the risk of mission drift. Different stakeholders are being made to conform to behavioural paths that experts have laid down for them. These are the causes of tensions which bring into conflict the different interests of stakeholders and can lead to the obstruction of the risk management process. These imply that the theoretical framework of this study fits into the nature of enquiry by providing explanations and interpretations that analyse risk management in microfinance within the context of the study.

The implications from the findings in this research indicate that there are limitations in the risk management practices of MFIs because of differences in the way risks are interpreted.

9.2: Limitations of the Study

This study was conducted as an individual effort to contribute to knowledge in the field of microfinance. In fulfilling the aim and objectives of this research, I take full responsibility for its limitations. Based on the research approach and design of the study, it may not take account of so many variables outside its context as it was conducted as a case study. The choice of methods and design was informed by the desire to achieve depth rather breadth through interactions with selected participants. This is a major limitation of case study research design in the sense that generalization can become problematic. However, it remains relevant because its knowledge can be transferable and related to other similar contexts. Its output can be utilised for further research on a larger scale. It also gives an outsider an inkling about the microfinance sector in Plateau State.

The research was constrained by my inability to engage more participants. Interviews and focus group discussion were conducted with only stakeholders who expressed willingness to participate. Based on the research ethics guiding this study, I could only engage stakeholders who gave written consent to participate subject to the principles of anonymity. There was also the constraint of time and resources given that the research was self-funded. It was difficult to obtain the desired volume of relevant materials and documents due to the sensitivity of financial institutions to their records, systems and premises. In some instances, it was obvious that participants were a bit hesitant to divulge certain information especially about the performance indices of their institutions. Most participants gave the initial impression that everything was alright until I probed further, or we became engrossed in the discussions. On the part of the clients, a few could not contribute maximally because of language barrier even though I encouraged participation by speaking the Hausa language from time to time to stimulate active participation. A few clients who were good in English language tended to dominate the conversations while those who lacked confidence at speaking gave passive responses.

Another limitation is that the research was not time-bound in the sense that participants were not asked questions in relation to their experiences during a specified period (e.g. to talk about their experiences between 2010 and 2015). I concentrated on their experiences as at the time of the interviews. This implies that some issues may have been resolved at the time the data is being presented and analysed. If these issues have been resolved, this thesis will enable a reader

to have a grasp of the background of the problem and understand the developments that have shaped the current state of the sector.

9.3: Recommendations

This research has explored the limitations of the current practice of microfinance risk management. This thesis has been written not to discredit efforts that have been made to improve and develop various frameworks for managing risks in microfinance, but to contribute to knowledge and enrich research practice by exploring new paradigms. The framework it has proposed points to the relevance of taking into consideration the identities, interests, perceptions and behaviours of stakeholders as well as the contexts in which they operate in designing risk management policies. Risks should be viewed through the lens of subjective reasoning so that prevailing risks can be identified, assessed and managed effectively. The emphasis on objective targets (such as capital requirements, certifications, and asset base) should go beyond mere quantitative estimates. Risk management should involve a broader spectrum where subjective variables are not taken for granted.

Based on the challenges confronting the Nigerian society, microfinance can be a viable tool that can contribute to poverty reduction, job creation and financial inclusion of the poor if effective risk management is pursued by identifying and mitigating risks while balancing it with stakeholders' expectations. The government is therefore implored to focus more on strengthening and supporting MFIs by recognizing their unique social mission in alleviating poverty. Its welfare schemes should be channelled through MFIs since they have the capacity to penetrate the grassroots. In doing this, special attention should be paid to the values, interests, motivations and expectations of key stakeholders. These should be prioritised to ensure that the human capital needed to implement microfinance policies is well developed.

MFIs themselves should develop robust risk management frameworks that address their peculiar needs and aspirations. Efforts should be intensified to look at the broader picture before adopting policies. They should invest in training and capacity building for all stakeholders to promote a unity of purpose. They should seek to understand what matters most to their stakeholders and review policies through effective feedback mechanisms to meet the expectations of stakeholders. Staff should be motivated by taking the issues of physical and

mental well-being as a serious concern. Risk management should not be all about complying with rules and regulations to fulfil obligations.

The ability of MFIs to effectively manage risk is dependent on smooth cooperation with stakeholders (stakeholder theory). The performance of MFIs is intrinsically linked to the performance of its stakeholders. In relation to the design of their products and services, MFIs should pay attention to the needs and changing tastes of their clients. Channelling scarce resources to develop products that fail to satisfy clients will increase their exposure to risks. Product design should be made with the needs of the consumer at heart. MFIs should make it easy for clients to adopt the products they deploy to the market. Terms and conditions should be simple and easy to comprehend. Lines of communication should be open, transparent and straightforward especially when tensions arise, and disputes need to be resolved.

The practice of microfinance needs to be diversified in tune with its social mission. It should go beyond conventional banking practices. Other sustainable financial and mutually beneficial as well as non-financial services should be explored and incorporated to grow the sector. Innovations should be encouraged and promoted to improve stakeholder experience in microfinance. MFIs should support micro entrepreneurs in the state not only by providing credit but by helping them to identify business opportunities and providing linkages to expand their markets in order to tap from the advantages of economic principles for sustainable growth and development. While microfinance deals with micro clients and micro businesses, the focus should be geared towards promoting specialization, industrialization, value chain creation and economies of scale in the long-run. Microfinance clients should be encouraged and supported to look inwards and engage in businesses that provide solutions to local problems rather than copying trending business models that do not make sense in their immediate environments. Opportunities and infrastructures should be provided to support business and enterprise based on ethical principles. Support should be given to encourage research in the discipline to enhance the sustainability and outreach of MFIs based on the peculiarities of the business environment.

Gender and the influence of patriarchy emerged as significant themes from participants' perspectives. It was found that an imbalance exists in the microfinance practices in the context studied. The perspectives seem to reflect that female clients are dominated within male-controlled arrangements. The processes of client selection, screening and loan underwriting involve practices which tend to undermine the dignity of clients (especially female clients) as

the roles of other third parties (e.g. community heads, group members, husbands, family heads, women leaders, church leaders etc) may interfere with the ethics of privacy and information confidentiality. These factors could lead to impediments in the risk management processes of MFIs with underlying implications on their sustainability and outreach. These practices could be modified to obtain clients' consent before third parties are introduced into the relationship between MFI and clients. Peer monitoring in group lending should be done in a manner that safeguards the right to privacy and dignity of a borrower. MFIs should be more sensitive to the needs of clients by ensuring that their services provide opportunities for genuine empowerment for the poor and vulnerable.

Government should commit resources for the reorientation of stakeholders to enhance the understanding of their roles and responsibilities. Deliberate policies should be made, matched with the commitment to inculcate good values in the citizenry. No meaningful progress can be made with high level of corruption and poor work ethics even if practitioners possess high level of academic competence or qualifications. This can be achieved by recognizing and rewarding good habits and character. MFIs should be governed with a sense of accountability and transparency without sentiments and hidden motives. Efforts should be made to align the interests of stakeholders to the goals of microfinance.

Attention should be given to the risk culture where stakeholders have the awareness of the implications of their decisions and actions on the sustainability of their institutions. Practitioners should be armed with knowledge and skills to manage risks effectively. They should be taught the basics about policies and how these impact on their roles and responsibilities so that procedures and rules are not carried out to only fulfil obligations or to avoid sanctions. They should be made to appreciate why procedures, policies and rules are in place to add value or promote the welfare, not only of the institutions but all stakeholders. There should be effective feedback mechanisms so that new ideas are received and explored based on consensus. Though there could be clash of interests in managing risks, policy makers should ensure fairness in managing risks in order to gain the cooperation of stakeholders whose participation matter in achieving the goals of the policies.

External stakeholders e.g. funders, donors and investors should collaborate more with internal stakeholders who may have better understanding of risks affecting the institution. They should avoid the temptation to be dictatorial in their approach because they control the resources of

the institutions. They should seek to understand the motivations and expectations of other stakeholders so that they can work together as team committed to common goals.

Lastly, risk management policy makers should take into consideration and be sensitive to cultural and environmental differences. The impact of policies should be well thought about before implementation. This should be done with consideration for human needs and biases. Their approach to risk management should be human-centred.

9.4: Reflections on the Research Positionality and Reflexivity

When I began this voyage of exploration into the field of microfinance, I had the idea that it would be great to research risk management because I have witnessed how financial institutions and MFIs in Nigeria grapple for survival in the face of turbulent economic, social and political challenges. The prevalence of poverty, huge income inequalities and high rate of financial exclusion provided the motivation to explore how opportunities can be harnessed for the empowerment of the economically active poor.

Coming from a background of conventional commercial banking and knowing how difficult it is for the poor to access financial services because of their limitations (e.g. lack of collateral, means of identification, proximity to commercial banks), I see MFIs as viable instruments for financial inclusion of the poor and low-income households. While acknowledging their many shortcomings and knowing that experiences differ, MFIs have nonetheless continued to make solid contributions in Nigeria's financial services sector.

Coming to the University of Salford to undertake a PhD was not in my long-term plan but when fate threw the opportunity at me, I quickly made up my mind to grab and make the best out of it. With a lot of literature on microfinance at my disposal and guidance from my supervisors, I was able to develop my research by creating a theoretical framework and adopting a suitable methodology to pursue my research interest. I have a conviction that exploring and seeking to understand the workings of the world around me matters most especially in addressing issues that affect human subjects rather than subjecting human experiences, perceptions and beliefs to quantitative analysis and modelling. I learnt the art of critical thinking and writing as I became engrossed in my research. I connected my theoretical framework and ideas from literature with my findings and my interactions with stakeholders in the field.

In November 2016, I undertook fieldwork in Nigeria as part of my research. Another chapter in my journey was opened because of the opportunity it offered me to understand the workings of MFIs in the Nigerian context. Prior to this time, I had never visited one even though I had seen a few in my locality. From my field experience, I realised there is a wide gap to bridge, in meeting the growing demand for the services of MFIs. They provide access to credit to meet consumption and investment needs (loans, overdraft, salary advance, hire purchase etc.) and are platforms for encouraging savings, micro insurance and a variety of financial and non-financial services at micro level. The sector has high prospects and potentials for growth but is threatened with a lot of challenges and risks. The opinions I gathered from my interactions with the service providers and beneficiaries revealed their identities, perceptions, behaviours and interests in managing risks.

Before embarking on the field work, I developed my research methodology and carefully selected individuals and institutions I would be dealing with. I planned to review documents, carry out observation, conduct interviews and focus group discussions as my data generation strategy. The rigorous process of applying and obtaining ethics approval stipulated by the university before undertaking fieldwork helped to prepare me for the task ahead. An introduction letter endorsed by my supervisor facilitated my gaining of access to the MFIs and acceptance by people I met. I went to the field with an open mind and a flexible disposition to observe, listen, learn and understand from those in the field and they all had brilliant ideas and experiences to share. I was eager to get as much information as possible from all available sources. I received overwhelming cooperation from practitioners and encountered people who are passionate about achieving the mission of microfinance. Though a few were unwilling to be recorded or to sign the consent forms because of anonymity concerns. I respected their feelings and found others who willingly gave written consent to participate.

I carried out my field work successfully. I observed the activities of those I targeted. I was shown some of their records and given some of their publications. I conducted 33 interviews with board members, investors, staff, regulators and community leaders and held 3 focus group discussions with clients as planned. In addition, I had the opportunity to take some photographs with interviewees and video recordings of some clients at their places of business.

In navigating my area of research which is risk management in Microfinance institutions and the role of community relations, I realised that risks largely emanate from the society (i.e. environment, communities, people), an idea which corresponds with my theoretical framework

(Social Theories of Risk and Stakeholder Theory). It is the economic, social, political and cultural contexts that generate risks for MFIs. Their coping strategies as art of risk management are also embedded in social processes. Risks are assessed and perceived differently by stakeholders and each category of stakeholders develops strategies to balance risks. Risks reflect the society and are culturally interpreted based perceptions, beliefs and experiences of people. As rational human actors who manage risks, stakeholders adopt coping strategies which sometimes result in some unintended consequences. It is by engaging them in their natural setting that a researcher can comprehend their different perspectives. My thesis is built on these premises which underpin the subjectivity of risk.

9.5: Areas of Further Research

Research is a continuous process and its aim is to advance knowledge in a defined field. It has been noted that there is dearth of research in the field of microfinance risk management especially with regard to the Nigerian context. This area requires more research because microfinance is a risky endeavour especially in developing countries where poverty rates are high. The field of microfinance has attained a place of prominence in the global economy despite its numerous challenges and controversies. Many scholars have argued that it is not sustainable, result –oriented and effective, yet evidences also abound about its successes in different contexts. This means that even though it is not a perfect innovation, it still possesses some potentials of lifting people out of poverty and empowering them economically. The distinguishing factor between its failures and successes lies in the way it is implemented and its capacity to manage the ever-present risks that threaten its viability. In this sense, more research is required to generate knowledge about ways to enhance its sustainability and outreach in the face of many risks.

Critics have also argued that microfinance runs contrary to economic ideology for economic growth and prosperity often citing examples of countries like Bangladesh and India which have spearheaded the microfinance movement but still grapple with challenges of poverty and underdevelopment. While this may be a valid argument, it is expedient for researchers to explore strategies that will make the microfinance to build the capacity of the poor to leap beyond the subsistence level. In Plateau State like other parts of Nigeria, clients of microfinance do not tend to grow and overcome poverty. Lifecycle changes can easily bring them back into the vicious cycle of poverty. There is thus an urgent need to for the microfinance

sector to create linkages with other sectors which operate on large scale so that its products and services can be more effective. The possibility of this can be achieved through research on ways in which micro entrepreneurs can network with bigger partners to grow their businesses.

Different MFIs have their unique characteristics, strengths and weaknesses. Future research can be focused on specific MFIs or an aspect of their operations so that solutions can be found to address their unique challenges. Research should be more contextualized and focused on a particular group of stakeholders or an area of operation of an MFI. Future research could also focus on managing pressures from the social interactions between stakeholders since microfinance thrives on social networks. Issues relating to social status, mental health and well-being are research opportunities which can be explored in relation to microfinance.

The role of microfinance can also be the focus of research in relation to environmental and cultural problems since these are key determinants of risk. New phenomena and challenges such as the climate change, terrorism and violent conflicts have impacted negatively on the livelihood of the poor and contribute to global poverty. Future research efforts can be focused on these issues to identify how microfinance can be applied to provide solutions.

In furtherance of my future ambition as a researcher, this exercise has opened new opportunities in risk management beyond risks confronting MFIs. Engaging participants to explore their understanding of risks and risk management in microfinance made me to realize the potentials of microfinance based on the feedback obtained. These would provide a guide in exploring several options that could add value to the sector.

Appendices

Appendix 1: Ethics Approval Form for Post-Graduate Researchers

Ethics approval must be obtained by all postgraduate research students (PGR) prior to starting research with human subjects, animals or human tissue.

A PGR is defined as anyone undertaking a Research rather than a Taught masters degree, and includes for example MSc by Research, MRes by Research, MPhil and PhD. The student must discuss the content of the form with their dissertation supervisor who will advise them about revisions. A final copy of the summary will then be agreed and the student and supervisor will 'sign it off'.

The signed Ethics Approval Form and application checklist must be e-mailed to your Research Centre Support team in the Research & Enterprise Division:

School of Arts & Media:

Julie Connett – A&M-ResearchEthics@salford.ac.uk

Salford Business School:

Julie Connett – SBS-ResearchEthics@salford.ac.uk

School of the Built Environment

Nathalie Audren-Howarth – S&T-ResearchEthics@salford.ac.uk

School of Computing, Science & Engineering

Nathalie Audren-Howarth – S&T-ResearchEthics@salford.ac.uk

School of Environment & Life Sciences

Nathalie Audren-Howarth – S&T-ResearchEthics@salford.ac.uk

For staff and PGR ethics applications to the **School of Health Sciences**, please follow the process mentioned at <http://www.salford.ac.uk/research/health-sciences/resources/staff-pgr-students-research-ethics>

For staff and PGR ethics applications to the **School of Nursing, Midwifery, Social Work & Social Sciences**, please follow the process mentioned at <http://www.salford.ac.uk/research/care/resources/staff-and-pgr-students-research-ethics>

or contact Sarah Starkey – Health-ResearchEthics@salford.ac.uk

The forms are processed online therefore without the electronic version, the application cannot progress.

Please ensure that all references to you or anyone else involved in the project must be removed from the documents as the application has to be anonymised before the panel considers it.

Where you have removed your name, you can replace with a suitable marker such as [.....] Or [Xyz], [Yyz] and so on for other names you have removed too.

Please refer to the '**Notes for Guidance**' if there is doubt whether ethics approval is required.

The form can be completed electronically; the sections can be expanded to the size required.

Name of Student:	XXXXXXXXXX
Name of Supervisor:	XXXXXXXXXX
School:	ARTS AND MEDIA
Course of study:	PhD
Name of Research Council or other funding organisation (if applicable):	NOT APPLICABLE

1a. Title of proposed research project

RISK MANAGEMENT IN MICROFINANCE INSTITUTIONS (MFIs) IN PLATEAU STATE, NIGERIA: THE ROLE OF COMMUNITY RELATIONS

1b. Is this Project Purely literature based?

NO

2. Project focus

The project is undertaken with a view to understanding risk construction and management by stakeholders of microfinance in Plateau State, Nigeria and their implications, as well as their roles in community relations in advancing the sustainability and outreach of MFIs in the state. This shall be achieved by reviewing relevant literature and field research. The study aims to establish the role of community relations in microfinance risk management.

3. Project objectives

The study shall be undertaken to achieve the following objectives:

1. Examine the perspectives of risk and microfinance in literature based on the social theories of risk and stakeholder theory
2. Explore how MFIs and their stakeholders construct and manage risks within the context of the study
3. Investigate their conceptualization of risks and explore the role of community relations in risk management on the interactions of MFIs with their stakeholders in Plateau State
4. Analyse and interpret the research findings to advance the debate on sustainability and outreach of MFIs in contribution to knowledge.

4. Research strategy

(For example, outline of research methodology, what information/data collection strategies will you use, where will you recruit participants and what approach you intend to take to the analysis of information / data generated)

Research Methodology: The study shall adopt a qualitative approach in exploring, understanding, analysing and interpreting how risks are conceptualized by various stakeholders of MFIs in Plateau State. It shall draw ideas from the knowledge, perceptions and experiences of risks by stakeholders in Plateau State, Nigeria. This is chosen as the context of the study and the natural environment of the participants in the study. On this basis, the study is grounded in the constructivist epistemology- a perspective which dwells on social construction of reality or how meanings are created by the mind, and in different social realms and organisations (Creswell, 2014; Crotty, 1998; Highfield & Bisman, 2012; Mason, 2002)

Participant Recruitment: To achieve an in-depth research, a case study research approach shall be adopted. Two MFIs (commercial and non-commercial) shall be purposefully selected to explore, compare, interpret and understand risk construction and management in order to contribute to knowledge on sustainability and outreach in microfinance. A case study research

focuses on one or just a few instances of a particular phenomenon being researched to gain deeper understanding (Denscombe, 2010). The MFIs shall be licenced and registered institutions operating in Plateau State which have been in business for at least ten years. By meeting the licensing requirements stipulated by the Central Bank of Nigeria-CBN (for the commercial MFI) and the registration requirements of the Plateau State Ministry of Commerce and Industries - PSMCI (for the non-commercial MFI), the institutions have met the selection criteria for the study, having acceptable governance structures, customer base and balance sheet size. Furthermore, the ten-year period implies that both institutions have gained sufficient experience in risk management and survived the developments in Nigeria's financial industry. The study shall involve key stakeholders drawn from the two MFIs including: board members, investors (e.g. shareholders, funders, and donors), staff of MFIs (e.g. loan officers, relationship managers) and clients (e.g. customers and beneficiaries) as well as community leaders (e.g. traditional rulers).

Data Collection Methods: This shall include

- **Document Reviews** –data from secondary sources such as books, journals, records and other publications which shall be obtained from libraries, databases and archives of MFIs shall be used in undertaking the study.
- **Observation-** The researcher shall visit the MFIs and observe the day-to-day activities of staff who perform risk management functions (e.g. branch managers, loan officers) as a non-participant/complete observer for duration of three months. This shall be undertaken by taking note of how risk management is operationalized by staff of the MFIs with regard to financial (e.g. loan repayments), operational (e.g. frauds, security) and strategic (e.g. reputational risk, political interference) risks. This is aimed at enhancing the researcher's understanding and analysing the risk management processes of the MFIs. Staff to be observed shall give their informed consent in writing.
- **Individual Interviews** –Semi-structured interviews shall be conducted with board members, investors, staff and community leaders who shall give their consent to participate in their work places (offices). Interviewees shall be purposefully selected and contacted personally by the researcher to participate in the study in the course of observing the activities of the MFIs. The researcher shall then follow up with participants' information sheet, invitation letters and consent forms to formalise the recruitment process. The anonymity of interviewees shall be protected by using codes (e.g. CM/Investor 1 for Commercial MFI/ Investor 1). Data from interviews

shall be recorded with a recording device and non-verbal cues shall be noted in writing by the researcher.

- **Focus Group Discussions** –Participants shall include clients of MFIs. Engagement with clients-customers and beneficiaries - as members of communities - would enable the researcher gather their opinions, analyse, interpret and understand their verbal expressions. The discussions shall be held within the frame of a discussion guide prepared by the researcher. The informed consent of all participants shall be sought prior to commencement of the discussion. The discussions shall be recorded with a recording device and non-verbal cues shall be noted by the researcher.

Data Analysis: Upon completion of field work, the data collected shall be analysed and interpreted by the researcher using the NVIVO software (computer-aided qualitative data analysis software) for thematic coding of textual and descriptive data. The knowledge gained from trainings attended on the use of the software obtained from the University of Salford shall be applied in analysing the data.

Data Management: The collected data shall be managed in line with the ethical standards of conducting research guiding anonymity of participants and their institutions. The data shall be stored or uploaded into the soft wares on the researcher’s personal computer which shall be password-protected. It shall be backed up by saving it on the F-drive through the university’s portal for retrieval in the event of loss. Sensitive paper documents shall be scanned and stored in electronic form or be securely kept in a key-locked filing cabinet where it becomes necessary to preserve them in paper form. Utmost care and confidentiality shall be applied on issues relating to gender and sensitive aspects of the study. Paper information to be discarded shall be shredded and disposed in waste bags for recycling and hard drives shall be reformatted and overwritten to avoid unauthorized access.

Project Plan: Time lines for the study are shown in the table below:

Activity	Duration	Period	Remarks
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Ethical Approval	2 months	September 2016- October 2016	
Fieldwork	3 months	November 2016- January 2017	
Data Analysis	6 months	February 2017- June 2017	To be carried out alongside other aspects of the programme e.g. updating literature review, Internal Evaluation

5. What is the rationale which led to this project?

For example, previous work – give references where appropriate. Any seminal works must be cited)

The project is being undertaken to contribute to the growing research on sustainability and outreach in microfinance. Studies have established that there exists a trade-off between sustainability (financial performance) and outreach (social performance) in microfinance (Copestake, 2007; Hermes & Lensink, 2011). However, both are imperative in achieving the objectives of MFIs. The increasing commercialization of MFIs in recent years has led to the advancement of sustainability at the expense of outreach. This development in turn, poses the threat of mission drift whereby the primary objective of MFIs (i.e. provision of financial services to the poor to reduce poverty) is neglected in pursuance of profitability. A recent study by Kablan (2016) re-validates previous arguments and reveals that outreach variables have negative impact on risk management in MFIs implying that risk management is a

challenge in enhancing outreach . This has serious implications for MFIs and has motivated an interest in this project.

Risk management in the microfinance sector of Nigeria tends to be under-researched (Dabari & Saidin, 2014). Among MFIs, the conceptualization and operationalization of risk management insufficiently understood by practitioners (Mago et al., 2013). They have been influenced by the risk management culture of conventional banks thereby losing sight of their social mission (Ball & Watt, 2013). Moreover, MFIs have not addressed pressing economic and social challenges of unemployment and poverty, especially among populations within the large informal sector. While acknowledging the challenges of dealing with a marginalised section of the population, this study seeks to contribute to knowledge by understanding microfinance risk management and the role of community relations in advancing sustainability and outreach of MFIs in Plateau State. Previous studies on risk management in MFIs had adopted approaches which sought to safeguard the interests of the institutions, sometimes, at the expense of other stakeholders. This research addresses risk management in MFIs based on the social realities of Plateau State. Lastly, the researcher's industry experience in retail/commercial banking has served as a motivation for the study.

6. If you are going to work within a particular organisation do they have their own procedures for gaining ethics approval

(For example, within a hospital or health centre?)

NO

If YES – what are these and how will you ensure you meet their requirements?

7. Are you going to approach individuals to be involved in your research?

YES

If YES – please think about key issues – for example, how you will recruit people? How you will deal with issues of confidentiality / anonymity? Then make notes that cover the key issues linked to your study

Participants shall be voluntarily recruited after due consultation and informed consent is obtained. In the course of observing MFIs and reviewing their documents e.g. annual reports and other publications, the researcher shall personally and independently identify, select and contact stakeholders (board members, investors, staff and community leaders) who can contribute meaningfully to the research based on their roles or interest in the activities of the MFI. Furthermore, clients who patronize the MFI regularly on market days (for the commercial MFI)/ meeting days (for the non-commercial MFI) shall be approached and requested to participate in the focus group discussions by the researcher. The researcher's engagement with clients shall be undertaken in the operating environment of the MFI (branch/office). A convenient time and venue will be arranged with those who express willingness to participate in the discussions. All participants shall be assured that their identities shall remain confidential and about their freedom to opt out at any point in the research process without any inhibitions or consequences.

8. More specifically, how will you ensure you gain informed consent from anyone involved in the study?

The necessary documentation as approved by the Ethics Committee shall be adhered to. Participants' information sheet, Invitation letter, participants' consent form (see appendices) containing details of the research in clear and simple language shall be distributed to participants. They shall be informed about all the parties who may have access to the obtained data. Sufficient time shall be given to participants to give their consent freely. Participants shall be assured of transparency in the research process and that their identity shall remain confidential. There shall be no threat to their lives or personality on the basis of their participation in the research.

Aware of the challenges of gatekeeping and the conditions of entry and exit in dealing with financial institutions, the researcher shall negotiate with the participants on the following terms in obtaining their consent:

- **Document Reviews**- All sources of information which are already in public domain shall be duly acknowledged and appropriately cited. Confidential documents which the researcher shall gain access shall be treated with utmost care and anonymity without undermining objectivity in the process.
- **Observation**-The researcher shall gain entry into the MFIs by approaching the MFIs that have met the selection criteria and establish a relationship with the gate keepers (management) by encouraging them to key into the research objectives. The researcher shall be introduced to the staff as a researcher interested in studying their activities to contribute to the development of microfinance. Their informed consent in writing shall be sought by signing the consent form (see attached document).
- **Individual Interviews**- Interviewees shall give their informed consent in writing and shall be assured that their identities shall be anonymised.
- **Focus Group Discussions**- Participants (clients) shall give their informed consent in writing.

9. How are you going to address any Data Protection issues?

See notes for guidance which outline minimum standards for meeting Data Protection issues

- The participants' identities shall remain confidential. Codes (e.g. CM/Client 1 for Commercial MFI/Client 1) would be used to distinguish and identify participants.
- Participants' information and data collected shall be held secure in a password-protected computer (for electronic data) and a key-locked cabinet (for paper documents) to avoid unauthorized access to third parties.
- All hard and software used in collecting and processing data shall be password-protected to avoid undue exposure or re-formatted to completely delete unwanted information.

10. Are there any other ethical issues that need to be considered? For example - research on animals or research involving people under the age of 18.

- **Language Barrier**-There could be language barriers as some participants may not be able to speak and write fluently in English language. In this situation, the researcher's knowledge of Hausa (the local language of the people) may be used to facilitate interactions with participants. The information obtained shall thereafter be translated to English language for analysis and interpretation.

11. (a) Does the project involve the use of ionising or other type of "radiation"

NO

(b) Is the use of radiation in this project over and above what would normally be expected (for example) in diagnostic imaging?

NO

(c) Does the project require the use of hazardous substances?

NO

(d) Does the project carry any risk of injury to the participants?

NO

(e) Does the project require participants to answer questions that may cause disquiet / or upset to them?

NO

If the answer to any of the questions 11(a)-(e) is YES, a risk assessment of the project is required and must be submitted with your application.

12. How many subjects will be recruited/ involved in the study/research? What is the rationale behind this number?

The study is designed to involve between 30 to 40 participants drawn from the 2 MFIs who are key stakeholders on the basis of their experience, knowledge and expertise of microfinance practice in the state. The researcher shall interview between 15 to 20 stakeholders and hold focus group discussions with between 15 to 20 clients drawn from the two MFIs. The number of participants is justified because in adopting a case study design of qualitative research, what is imperative is the depth rather than the breadth of study, gaining insights which may not be possible with large-scale study (Denscombe, 2010, p. 54), study of a specific bounded system (Gray, 2014, p. 164) and the collection of detailed information (Creswell, 2014, p. 14). Furthermore, the researcher shall focus on the holistic view of relationships and processes to enhance understanding of risk conceptualization and management by stakeholders of MFIs with their unique identities and interests.

By enlisting participants from a commercial and a non-commercial MFI in Plateau State, the research shall draw perspectives on risk management and community relations which are relevant to the debates on sustainability and outreach in microfinance. This is because commercial MFIs are inclined to financial performance (sustainability) while non-commercial MFIs focus on social Performance (outreach) (Bateman, 2010; Copestake, 2007; Hermes & Lensink, 2011; Hulme, 2000; Kablan, 2016; Roodman, 2012). The researcher seeks to achieve an objective, ethical and feasible analysis of information obtained from participants within the constraints of time and resources available for the study.

13. Please state which code of ethics has guided your approach (e.g. from Research Council, Professional Body etc).

Please note that in submitting this form you are confirming that you will comply with the requirements of this code. If not applicable please explain why.

British Sociological Association Ethical Guidelines

Remember that informed consent from research participants is crucial; therefore all documentation must use language that is readily understood by the target audience. *Projects that involve NHS patients, patients' records or NHS staff, will require ethics approval by the appropriate NHS Research Ethics Committee. The University Ethics Panel will require written confirmation that such approval has been granted. Where a project forms part of a larger, already approved, project, the approving REC should be informed about, and approve, the use of an additional co-researcher.*

Application Checklist

Ref No: <u>Office Use Only</u>

<u>Name of Applicant:</u>
<u>Title of Project:</u>

The checklist below helps you to ensure that you have all the supporting documentation submitted with your ethics application form. This information is necessary for the Panel to be able to review and approve your application. Please complete the relevant boxes to indicate whether a document is enclosed and where appropriate identifying the date and version number allocated to the specific document (*in the header / footer*), Extra boxes can be added to the list if necessary.

Document	Enclosed? (indicate appropriate response)			Date	Version No
Application Form	<u>Mandatory</u>		If not required please give a reason		
Risk Assessment Form			Not required for this project	Study shall not involve any activity that can cause injury to participants or the researcher. Interactions are not intended to upset or cause disquiet to participants.	
Participant Invitation Letter	Yes				

Participant Information Sheet	Yes					
Participant Consent Form	Yes					
Participant Recruitment Material – e.g. copies of posters, newspaper adverts, website		No				
Organisation Management Consent / Agreement Letter	Yes					
Research Instrument – e.g. questionnaire		No				
Draft Interview Guide	Yes					
National Research Ethics Committee consent			Not required for this project			
<p>Note: If the appropriate documents are not submitted with the application form then the application will be returned directly to the applicant and will need to be resubmitted at a later date thus delaying the approval process</p>						

Appendix 2: Ethical Approval Confirmation Letter



Research, Innovation and Academic
Engagement Ethical Approval Panel

Research Centres Support Team
G0.3 Joule House
University of Salford
M5 4WT

T +44(0)161 295 7012

www.salford.ac.uk/

3 November 2016

Dear Victoria,

**RE: ETHICS APPLICATION AMR1617-02 – RISK MANAGEMENT IN MICROFINANCE
INSTITUTIONS (MFIs) IN PLATEAU STATE, NIGERIA: THE ROLE OF COMMUNITY RELATIONS**

Based on the information you provided, I am pleased to inform you that your application AMR 1617-02 has been approved.

If there are any changes to the project and/ or its methodology, please inform the Panel as soon as possible by contacting A&M-ResearchEthics@salford.ac.uk

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Newbery'.

Dr Samantha Newbery
Chair of the Arts & Media Research Ethics Panel
Lecturer in Contemporary Intelligence Studies
School of Arts and Media
Crescent House, CH210
University of Salford
Salford M5 4WT
t: +44 (0) 161 295 3860
s.l.newbery@salford.ac.uk

Appendix 3: A Gantt chart showing PhD completion timescales

Tasks	3rd Qtr. 2015 Jul- Sept	4th Qtr. 2015 Oct- Dec	1st Qtr. 2016 Jan- Mar	2nd Qtr. 2016 Apr- Jun	3rd Qtr. 2016 Jul- Sept	4th Qtr. 2016 Oct- Dec	1st Qtr. 2017 Jan- Mar	2nd Qtr. 2017 Apr- Jun	3rd Qtr. 2017 Jul- Sept	4th Qtr. 2017 Oct- Dec	1st Qtr. 2018 Jan- Mar	2nd Qtr. 2018 Apr- Jun	3rd Qtr. 2018 Jul- Sept	4th Qtr. 2018 Oct- Dec
Study of Concepts														
Literature Review														
Trainings & Conferences														
Interim Assessment														
Field Work														
Data Analysis														
Internal Evaluation														
Writing-Up														
Viva Voce														
Correction of Thesis														
Submission of Thesis														

Appendix 4: Trainings/Conferences Attended

S/NO.	TITLE	DATE	TIME	VENUE
1.	Induction Programme	03/08/2015	2:00pm	CW Library RM111
2.	Completing a Learning Agreement and the PhD Progression Points	24/08/2015	10:00am	Peel Building RM 106
3.	Research data management	07/10/2015	10:00am	Allerton Building
4.	Arts databases for research	12/10/2015	10:00am	Adelphi Building ,AC 206
5.	Box of Broadcast(BoB)	13/10/2015	10:00am	Adelphi Building ,AC 206
6.	Procrastination	22/10/2015	2:00pm	Faith Room, University House
7.	CVs: academic and non-academic	23/10/2015	2:30pm	Darwent Rm, University House
8.	Referencing your work, APA style(Harvard)	29/10/2015	2:00pm	Peel Building RM 105
9.	Introduction to EndnoteX7	12/11/2015	2:00pm	CW Library 208
10.	Excel: charts training	13/11/2015	10:00am	Allerton Building RM C811
11.	Mixed methodologies workshop	17/11/2015	9:30am	RM MS 175,Mary Seacole Building
12.	Organising and synthesising your work	30/11/ 2015	2:00pm	RM G05,Old Fire Station
13.	Research ethics for Postgraduate researchers	7/12/2015	10:00am	TBC
14.	Introduction to NVIVO using literature review	9/12/2015	9:30am	CW Library 209
15.	SAM-PGR Seminar-Recruiting interviewees-practical, theoretical and methodological considerations	9/12/2015	3:30pm	RM ,Media City,UK
16.	Library basics for researchers	18/01/2016	10:am	CW Library 208
17.	School of Arts & Media Graduate Week programmes	27/01/2016	10:00am	RM ,Media City Uk
18.	PowerPoint : The basics	29/01/2016	10:00am	Allerton RM C811
19.	Excel: Analysing data	29/01/2016	12:00 N	Allerton RM C811
20.	The seven secrets of highly successful research student	05/02/2016	9:30am	The Old Fire Station RM G05
21.	PowerPoint: Enhancing your presentations	08/02/2016	10:00	Newton Rm B04b

22.	Locating and using historical archives for research	10/02/2016	10:30am	CW Library 208
23.	Google Scholar	16/02/2016	10:00am	CW Library 208
24.	Introduction to SPSS	29/02/2016	9:30am	CW Library 208
25.	Geographical information systems-Session 1	08/03/2016	2:00pm	Peel 116
26.	Doing a literature review	16/03/2016	10:00am	CW Library 208
27.	Open research-Open access publishing and research data management	18/04/2016	2:00pm	CW Library 111
28.	Academic conference posters	21/04/2016	10:00am	Newton 238/239
29.	The interview: Its place in social scientific research strategies	28/04/2016	2:00pm	Peel Building, Room G10
30.	Enterprise futures conference	13/05/2016	10:00am	UK Fast, Birley Manchester
31.	Developing your personal brand online using social media	19/05/2016	2:00pm	CW Library 111
32.	How to get published with the IEEE	24/05/2016	10:00am	Peel Room 102
33.	Salford Postgraduate Academic Research Conference (SPARC)	14-15/06/2016	10:00am	Media City, UK
34.	Fraud Prevention Conference and Exhibition	28/09/2016	10.00am	Adelphi House
35.	Advanced training on NVivo software for qualitative research	18/01/2017	9.30	CW Library 208
36.	Electronic Resources for Researchers	25/01/2017	2.00pm	CW Library 208
37.	Personal Branding	06/02/2017	2.00pm	The Old Fire Station RM G02/03
39	Critical Thinking and Writing at Doctoral Level	25/04/2017	2.00pm	Mary Seacole MS 271

Appendix 5: Supervision Meetings

S/N O	DATE	SUPERVISOR (S)
1.	11/08/2015	PROF KARL DAYSON
2.	20/08/2015	PROF KARL DAYSON
3.	02/09/2015	PROF KARL DAYSON & DR PAL VIK
4.	17/09/2015	PROF KARL DAYSON & DR PAL VIK
5.	01/10/2015	PROF KARL DAYSON & DR PAL VIK
6.	15/10/2015	PROF KARL DAYSON & DR PAL VIK
7.	05/11/2015	PROF KARL DAYSON & DR PAL VIK
8.	26/11/2015	PROF KARL DAYSON & DR PAL VIK
9.	17/12/2015	PROF KARL DAYSON & DR PAL VIK
10.	14/01/2016	DR PAL VIK
11.	28/01/2016	PROF KARL DAYSON
12.	11/02/2016	PROF KARL DAYSON & DR PAL VIK
13.	25/02/2016	PROF KARL DAYSON & DR PAL VIK
14.	17/03/2016	PROF KARL DAYSON & DR PAL VIK
15.	31/03/2016	PROF KARL DAYSON & DR PAL VIK
16	14/04/2016	PROF KARL DAYSON & DR PAL VIK
17	28/04/2016	PROF KARL DAYSON & DR PAL VIK
18	12/05/2016	PROF KARL DAYSON & DR PAL VIK
19	26/05/2016	PROF KARL DAYSON & DR PAL VIK
20	09/06/2016	DR PAL VIK
21	23/06/2016	PROF KARL DAYSON & DR PAL VIK
22	05/07/2016	PROF KARL DAYSON & DR PAL VIK
23	28/07/2016	PROF KARL DAYSON & DR PAL VIK
24	11/08/2016	PROF KARL DAYSON & DR PAL VIK
25	25/08/2016	PROF KARL DAYSON & DR PAL VIK

26	08/09/2016	PROF KARL DAYSON & DR PAL VIK
27	29/09/2016	DR PAL VIK
28	24/11/2016	PROF KARL DAYSON & DR PAL VIK
29	08/12/2016	PROF KARL DAYSON & DR PAL VIK
30	11/01/2017	PROF KARL DAYSON & DR PAL VIK
31	07/02/2017	PROF KARL DAYSON & DR PAL VIK
32	21/02/2017	PROF KARL DAYSON & DR PAL VIK
33	14/03/2017	PROF KARL DAYSON & DR PAL VIK
34	30/03/2017	PROF KARL DAYSON & DR PAL VIK
35	19/04/2017	PROF KARL DAYSON & DR PAL VIK
36	03/05/2017	PROF KARL DAYSON
37	17/05/2017	PROF KARL DAYSON & DR PAL VIK

Appendix 6: Narratives of the Case Study MFIs (MFB & NMFI)

MFB

The MFB is incorporated as a Limited Liability Company. It was initially granted license to operate as a Community Bank in the early 1990s and soon commenced operation. Following launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria by the CBN in 2005, the Bank having met the Central Bank of Nigeria's requirements for conversion to Microfinance Bank became licensed to operate as a Microfinance Bank in Plateau State, Nigeria. The Bank has grown in quality of service delivery and overall financial performance in the last one and a half decades.

Its mission is to understand the financial needs of its customers and enhance their wellbeing by always respectful, responsive, and reliable while taking advantage of emerging business opportunities in Nigeria. The MFB operates as a universal bank with unique business focus primarily in Commercial Banking and Micro Credit Scheme. It offers to its customers a broad range of financial products and services which include; savings account, current accounts, term deposit accounts, equipment hire, SME loans, micro loans (to individuals and groups) and overdraft.

NMFI

The NMFI is registered with the Corporate Affairs Commission (CAC) of Nigeria as a Non-Governmental and non-profit organisation. Its focus is the social development of the society in which it operates. It serves all humanity regardless of religious, political or ethnic affiliation. Apart from its engagement in microfinance, it is also involved in different aspects of human development; democracy and good governance, peace building and conflict transformation, dialogue and reconciliation, early warning/emergency preparedness and response, civic education, agriculture, rural water supply, human rights/legal aid and women empowerment.

It collaborates and networks with other Civil Society Organisations that aim towards the achievement of similar set goals and objectives. Its goals and objectives include; encouraging entrepreneurship programmes and improving women economic status by promoting gender sensitivity and protecting the rights of women and children, facilitating a commitment to environmental care, providing relief in times of natural disasters and in times of social, religious or political disturbances.

Appendix 7: Participant Information Sheet



Interview Participant Information Sheet

Research Theme: Risk Management in Microfinance Institutions (MFIs) in Plateau State: The role of Community Relations.

Who I am, my mission

I am a PhD student of the University of Salford, Manchester, United Kingdom. I am conducting qualitative research to contribute to knowledge on risk management in MFIs. I am desirous of understanding how risks are conceptualized and managed by various stakeholders in microfinance and the role of community relations towards enhancing the sustainability and outreach of MFIs.

I would like to interact with you as a stakeholder in microfinance to share with me your perception, knowledge, experiences and practice of risk management in microfinance. I would also be interested in knowing how these affect the performance of your institution and your level of participation.

Will I disclose your identity?

No. I will uphold academic integrity and abide by the ethics of research by using the information for this purpose and keeping it confidential. I will not identify you and your institution by name in any reports using information obtained from my interaction with you. Your confidentiality as a participant in this study will remain secure bearing in mind the sensitivity of financial information.

The information gathered will be protected by preserving in the archives (stored electronically via the University of Salford USIR platform) to prevent unauthorised access. Its use will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Who is organising this research?

It is my research leading to the award of the degree of Doctor of Philosophy (PhD) of the University of Salford, Manchester.

How many individuals are participating?

The research shall involve approximately 30-40 participants drawn from 2 MFIs.

How long will this interactions last?

It will take between 45-60 minutes. I won't engage you again unless situation arising from the exercise (for example, clarification of information) warrants it.

Who will conduct the interview?

I will personally interview you if you kindly accept to participate in it.

What if you choose to withdraw?

You are free to take this decision at any stage of the study without any consequence. It is not mandatory for you to participate.

My contact details: Name: Victoria Danaan; Email v.danaan@edu.salford.ac.uk; Mobile: +447405705674 (United Kingdom) Mobile: +2348035054111 (Nigeria). You may also contact my supervisor for more information: Name: Prof Karl Dayson; Email: k.t.dayson@edu.salford.ac.uk; Mobile: +44(0)1612952827 (United Kingdom)

Focus Group Participant Information Sheet

Research Theme: Risk Management in Microfinance Institutions (MFIs) in Plateau State: The role of Community Relations.

Who I am, my mission

I am a PhD student of the University of Salford, Manchester, United Kingdom. I am conducting qualitative research to contribute to knowledge on risk management in MFIs. I am desirous of understanding how risks are conceptualized and managed by various stakeholders in microfinance and the role of community relations towards enhancing the sustainability and outreach of MFIs.

I would like you to participate in a focus group discussion as a stakeholder in microfinance to share your opinions, knowledge and experiences of risk management in microfinance. I would also be interested in knowing how these affect the performance of your institution and your level of participation.

Will I disclose your identity?

No. I will uphold academic integrity and abide by the ethics of research by using the information for this purpose and keeping it confidential. I will not identify you and your institution by name in any reports using information obtained from my interaction with you. Your confidentiality as a participant in this study will remain secure bearing in mind the sensitivity of financial information.

The information gathered will be protected by preserving in the archives (stored electronically via the University of Salford USIR platform) to prevent unauthorised access. Its use will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Who is organising this research?

It is my research leading to the award of the degree of Doctor of Philosophy (PhD) of the University of Salford, Manchester.

How many individuals are participating?

The discussion shall involve approximately 6-8 participants.

How long will this interactions last?

It will take between 45-60 minutes. I won't engage you again unless situation arising from the exercise (for example, clarification of information) warrants it.

What if you choose to withdraw?

You are free to take this decision at any stage of the study without any consequence. It is not mandatory for you to participate.

My contact details: Name: Victoria Danaan; Email v.danaan@edu.salford.ac.uk; Mobile: +447405705674 (United Kingdom)
Mobile: +2348035054111 (Nigeria)

You may also contact my supervisor for more information: Name: Prof Karl Dayson; Email: k.t.dayson@edu.salford.ac.uk;
Mobile: +44(0)1612952827 (United Kingdom)

Observation Participant Information Sheet

Research Theme: Risk Management in Microfinance Institutions (MFIs) in Plateau State: The role of Community Relations.

Who I am, my mission

I am a PhD student of the University of Salford, Manchester, United Kingdom. I am conducting qualitative research to contribute to knowledge on risk management in MFIs. I am desirous of understanding how risks are conceptualized and managed by various stakeholders in microfinance and the role of community relations towards enhancing the sustainability and outreach of MFIs.

I would like to observe your activities as a stakeholder in microfinance to broaden my knowledge on risk management practices in MFIs. I am interested in observing you because of your involvement in risk management which I am confident would enable me achieve my research goals and objectives.

Will I disclose your identity?

No. I will uphold academic integrity and abide by the ethics of research by using the information for this purpose and keeping it confidential. I will not identify you and your institution by name in any reports using information obtained from my interaction with you. Your confidentiality as a participant in this study will remain secure bearing in mind the sensitivity of financial information.

The information gathered will be protected by preserving in the archives (stored electronically via the University of Salford USIR platform) to prevent unauthorised access. Its use will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Who is organising this research?

It is my research leading to the award of the degree of Doctor of Philosophy (PhD) of the University of Salford, Manchester.

How long will this observation process last?

I will spend between 3-4 weeks observing you and other staff who perform risk management functions.

Will my work be affected?

I will not interfere with your work in any way. My role is that of a non-participant observer who is desirous of advancing knowledge in the field of microfinance

What if you choose to withdraw?

You are free to take this decision at any stage of the study without any consequence. It is not mandatory for you to be observed.

My contact details: Name: Victoria Danaan; Email v.danaan@edu.salford.ac.uk; Mobile: +447405705674 (United Kingdom)
Mobile: +2348035054111 (Nigeria)

You may also contact my supervisor for more information: Name: Prof Karl Dayson; Email: k.t.dayson@edu.salford.ac.uk;
Mobile: +44(0)1612952827 (United Kingdom)

Appendix 8: Interview Participant Invitation Letter



I would like to interview you about your perception, knowledge, experience and role as a stakeholder in risk management in microfinance.

I am a PhD student of the University of Salford, Manchester, conducting this research to contribute to knowledge.

I will uphold academic integrity by using the information for this purpose and keeping it confidential. I will not identify you by name in any reports using information obtained from this interview and your confidentiality as a participant in this study will remain secure. The information obtained from you will be protected to prevent unauthorised access. Its use will be subject to standard data use policies which protect the anonymity of individuals and institutions.

In view of this important exercise, I invite you to voluntarily participate in it.

You may contact me on my mobile: +2348035054111 (Nigeria), +447405705674 (United Kingdom) or email: v.danaan@edu.salford.ac.uk

Yours faithfully,

Victoria Danaan

Appendix 9: Interview Participant Consent Form



Interview Participant Consent Form for Research on Risk Management in Microfinance in Plateau State: The Role of Community Relations.

Victoria Danaan
PhD Student
University of Salford Manchester, United Kingdom.

(Please circle the appropriate answer)

I have read and understood the information about the research as provided in the information sheet dated DD/MM/YYYY **Yes / No**

I have been given the opportunity to ask questions about the project **Yes / No**

I agree to take part in the project. Taking part in the project will entail that I will be interviewed and recorded with an audio device. **Yes/No**

I understand that the recorded interviews will be transcribed. **Yes/No**

I understand that discussion I enter into will remain confidential and my identity anonymised. **Yes /No**

I agree to the use of anonymised quotes in outputs including (1) public report and (2) resultant publications by other authorized persons. **Yes / No**

I agree that anonymised transcripts can be kept in a social research database once the project is completed. **Yes / No**

I understand that my taking part is voluntary; I can withdraw from the study at any time without giving any reasons for why I no longer want to take part. **Yes /No**

I, along with the researcher, agree to sign and date this informed consent form. **Yes / No**

I have been given my copy of this informed consent form. **Yes /No**

Participant

.....

Name of Participant

Signature

Date

Researcher

.....

Name of Researcher

Signature

Date

Appendix 10: Interview Schedule

S/N	Date	Time	Interviewee	Location
1	November 02, 2016	10:00-11:00	Bello (Loan Officer -MFB)	MFI Office
2	November 03, 2016	10:00-11:00	Mabi, (Credit Officer-NMFI).	MFI Office
3	November 03, 2016	12:00-13:00	Sylvester (Investor NMFI)	MFI Office
4	November 03, 2016	14:00-15:00	Anne (Coordinator/Board Member, NMFI)	MFI Office
5	November 04, 2016	10:00-11:00	Audu (Investor, MFB)	MFI Office
6	November 07, 2016	10:00-11:00	Lucky (Regulator MFB & NMFI)	MFI Office
7	November 08, 2016	11:00-12:00	(Christy-Accountant NMFI)	MFI Office
8	November 08, 2016	14:00-15:00	John (Loan officer MFB)	MFI Office
9	November 08, 2016	15:30-16:30	Reuben (Regulator, MFB).	MFI Office
10	November 09, 2016	10:00-11:00	Dele (Credit Officer -NMFI)	MFI Office
11	November 09, 2016	13:00-14:00	Amina (Loan Officer NMFI)	MFI Office
12	November 09, 2016	15:00-16:00	Regina (Loan Officer NMFI)	MFI Office
13	November 10, 2016	10:00-11:00	Samuel (Community Leader MFB)	MFI Office
14	November 10, 2016	11:00-12:00	James (Credit Officer, MFB)	MFI Office
15	November 10, 2016	14:00-15:00	Susan (Staff MFB)	MFI Office
16	November 10, 2016	15:00-16:00	Gyang (Marketer- MFB)	MFI Office
17	November 11, 2016	10:00-11:00	Hannah (Credit Officer/NMFI)	MFI Office
18	November 11, 2016	15:00-16:00	Clement (Community Leader, NMFI)	MFI Office
19	November 14, 2016	10:00-11:00	Justina (Head of Operations, MFB)	MFI Office
20	November 14, 2016	11:00-12:00	Boniface (Investor, MFB)	MFI Office
21	November 15, 2016	10:00-11:00	Buba (Board Member NMFI)	MFI Office
22	November 15, 2016	13:00-14:00	Paul (Staff-MFB)	MFI Office
23	November 15, 2016	14:00-15:00	Bitrus (Board member MFB)	MFI Office
24	November 15, 2016	15:00-16:00	Grace (CEO/Board Member MFB)	MFI Office
25	November 16, 2016	10:00-11:00	Peter (Loan Officer NMFI)	MFI Office
26	November 17, 2016	10:00-11:00	Clara (Internal Control MFB).	MFI Office
27	November 17, 2016	15:00-16:00	Esther- Accountant- NMFI	MFI Office
28	November 18, 2016	10:00-11:00	Kim (Investor NMFI).	MFI Office
29	November 18, 2016	13:00-14:00	Gregory (Marketing staff-MFB)	MFI Office
30	November 18, 2016	15:00-16:00	Benjamin (Board Member, MFB,	MFI Office
31	November 22, 2016	10:00-11:00	Augustine (Regulator- MFB)	MFI Office
32	November 22, 2016	11:00-12:00	Pam (Investor-MFB)	MFI Office
33	November 22, 2016	14:00-15:00	Patrick (Risk Manager-MFB)	MFI Office

* The names of participants used are fictitious and not their real ones to provide for anonymity.

Appendix 11: Focus Group Discussion Participant Consent Form



Focus Group Discussion Participant Consent Form for Research on Risk Management in Microfinance in Plateau State: The Role of Community Relations.

Victoria Danaan
PhD Student
University of Salford Manchester, United Kingdom.

(Please circle the appropriate answer)

I have read and understood the information about the research as provided in the information sheet dated DD/MM/YYYY **Yes / No**

I have been given the opportunity to ask questions about the project **Yes / No**

I agree to take part in the project. Taking part in the project will entail that I will participate in a focus group discussion and be recorded with an audio device. **Yes/No**

I understand that the recorded discussions will be transcribed. **Yes/No**

I understand that discussion I enter into will remain confidential and my identity anonymised. **Yes /No**

I agree to the use of anonymised quotes in outputs including (1) public report and (2) resultant publications by other authorized persons. **Yes / No**

I agree that anonymised transcripts can be kept in a social research database once the project is completed. **Yes / No**

I understand that my taking part is voluntary; I can withdraw from the study at any time without giving any reasons for why I no longer want to take part. **Yes /No**

I, along with the researcher, agree to sign and date this informed consent form. **Yes / No**

I have been given my copy of this informed consent form. **Yes /No**

Participant

.....

Name of Participant

Signature

Date

Researcher

.....

Name of Researcher

Signature

Date

Appendix 12: Observation Participant Consent Form



Observation Participant Consent Form for Research on Risk Management in Microfinance in Plateau State: The Role of Community Relations.

Victoria Danaan
PhD Student
University of Salford Manchester, United Kingdom.

(Please circle the appropriate answer)

I have read and understood the information about the research as provided in the information sheet dated DD/MM/YYYY **Yes / No**

I have been given the opportunity to ask questions about the project **Yes / No**

I agree to take part in the project. Taking part in the project will entail that I will be observed by the researcher. **Yes /No**

I understand that my identity will be anonymised. **Yes /No**

I agree to the use of anonymised quotes in outputs including (1) public report and (2) resultant publications by other authorized persons. **Yes / No**

I understand that my taking part is voluntary; I can withdraw from the study at any time without giving any reasons for why I no longer want to take part. **Yes /No**

I, along with the researcher, agree to sign and date this informed consent form. **Yes / No**

I have been given my copy of this informed consent form. **Yes /No**

Participant

.....

Name of Participant

Signature

Date

Researcher

.....

Name of Researcher

Signature

Date

Appendix 13: Organisation’s Consent Letter



The Manager,

.....

.....

RESEARCH ON RISK MANAGEMENT IN MICROFINANCE INSTITUTIONS IN PLATEAU STATE: THE ROLE OF COMMUNITY RELATIONS

I am researching risk management in microfinance institutions (MFIs) in Plateau State, and would like to interact with your board members, staff and clients to understand how risks are conceptualized and managed by various stakeholders in the microfinance sector of the state. The idea of this interaction with your team, and other selected MFIs, is because of your involvement in microfinance.

I am a PhD student of the University of Salford, Manchester, United Kingdom. My desire is to contribute to knowledge and enhance the sustainability and outreach of MFIs in the state. The interaction shall involve individual interviews and focus group discussions, during which the activities of the participants shall be observed to enhance my understanding of the topic.

I shall uphold academic integrity and abide by the ethics of research in conducting the study. The identity of your institution and all participants in the research shall remain confidential in order to protect their interests, bearing in mind the sensitivity of financial information.

The information obtained will be used subject to standard data use policies which protect the anonymity of individuals and institutions.

You may contact me on my mobile: +2348035054111 (Nigeria), +447405705674 (United Kingdom) or email: v.danaan@edu.salford.ac.uk

Yours faithfully,

Victoria Danaan

Appendix 14: Observation Checklist

1. Operating Environment

- where is the MFI located?
- Is the location conducive and accessible to the target market?
- What factors make it conducive or otherwise?
- Does the environment appear safe for business?
- Are there any potential hazards/ business opportunities around its location e.g. markets?
- Are there other institutions operating within the environment?
- What is the state of the social amenities e.g. roads network, electricity, pipe borne water in the locality?
- Is the building modern and well maintained?
- Is the environment welcoming, clean, dirty, etc.
- What facilities are available for staff, visitors and clients?
- Are the facilities e.g. chairs, tables, computers well maintained?
- Is there adequate security in the environment?

2. STAFF

- How many staff are on ground working?
- Are the staff friendly or unfriendly?
- Are they looking confident and fulfilled?
- Do they have the necessary working tools e.g. stationery, computers?
- How is their appearance?
- Do they have uniforms?
- Do they appear professional in their conduct?

- What is their language of communication?
- How do they handle their working tools?
- How do they keep records and handle sensitive documents?
- How do they relate with one another
- Do they appear knowledgeable and well trained?
- Do they discuss non-official issues while performing their duties?
- Are they polite and friendly to clients and visitors?
- How do they respond to customer enquires?
- How is their corporate culture, telephone etiquette, level of discipline etc.?
- What is their level of compliance in rendering their reports/returns to regulatory bodies?
- How organised are they in terms of holding meetings, having various committees etc.?
- How is their attendance monitored?
- How punctual are they in coming to work?
- What is their turnaround time in attending to clients and visitors?
- Do they eat/drink in their offices while at work?
- Do they welcome/ entertain their friends at work?
- Do they work late?
- Do they require active supervision in carrying out their responsibilities?
- Are they entitled to holidays/paid leave?
- Are they secretive about divulging official information?
- How is their relationship with the researcher?
- Do their customers appear happy and satisfied with their services?
- How secure are their operating systems?

- How do they manage passwords?
- How is their cash management culture e.g. adhering to till limits, vault limits etc.?
- How do they monitor loan repayments?
- How do they manage their exposures in terms of interest rates, exchange rates?
- How robust is their banking software?
- How sensitive is their management to protecting depositors' funds, ensuring maximum returns on investments and achieving financial efficiency?
- How are internal control policies managed and communicated to staff?
- What is their level of involvement in providing non-financial services to clients and fulfilling their corporate social responsibility?

Appendix 15: Interview Guide

Questions for Board Members

Introduction

- What is XYZ (name of MFI) all about?
- How did it come into existence?
- What led to its establishment?
- What is its mission, goals and objectives?
- What does XYZ do, what products and services does it render?
- How does XYZ operate? How does it achieve its goals and objectives?
- To what extent would you say these have been achieved?

Risk Interpretation

- What motivated you to get involved with its activities?
- What role are you expected to perform as a board member?
- How do you go about performing these roles?
- How has your experiences been so far?
- What are some of its successes that motivate you to carry on?
- What are its challenges and constraints?
- How long have you been on the board?
- What is your level of involvement in the risk management process?
- How would you describe the risks your institution faces?
- What are the factors responsible for these risks?
- What do you see as the greatest risk in your role as a board member

Implications

- How is your institution affected by these factors?
- How are you personally affected by these factors?
- How are other stakeholders affected?
- What are the advantages/disadvantages of these factors?
- What are the challenges you face in carrying out your responsibilities?
- Do you consider these challenges as threats or opportunities in carrying out responsibilities?
- How do these challenges affect your involvement with your institution?
- How and why do you strive to overcome these challenges?

Community Relations

- How do you manage the interests of your clients?
- What strategies do you adopt to manage the interests and expectations of the larger community and other stakeholders?
- What are the opportunities you foresee for the MFI to thrive?
- What your expectations and plans for the MFI to surpass its current performance?
- Who do you regard as the main stakeholders and how do you seek to protect/preserve their interests?

Questions for Community Leaders

Introduction

- When did XYZ come into existence in your community?
- How did it begin its operation in your community?

- Why do you think it operates in your community?
- What benefits does it derive from your community?
- How are you involved in its activities?

Risk Interpretation

- What impact and value has it added to your community?
- What do you think are the obstacles it faces in serving your community?
- What are the challenges your community is facing with XYZ?
- Why do you think these obstacles persist?
- What do you consider as risks in the relationship between your community and the MFI?
- What factors are responsible for generating such risks?
- Do you consider these factors as opportunities or threats to your community?

Implications

- How do these factors affect the relationship of your community with XYZ?
- What strategies has your community adopted in managing these factors?

Community Relations

- Are you satisfied with the role XYZ plays in your community, are there developments you are happy about?
- What are the opportunities you foresee for XYZ to thrive and add more value to your community?
- Do you have any recommendations for XYZ to surpass its current performance?
- What role can your community play to enhance the performance of the MFI?
- What is your expectation about the role of other stakeholders in advancing the cause of the MFI?

Questions for Investors

Introduction

- How did you first hear about XYZ?
- When did you start investing in XYZ?
- Why did you get involved by investing in it?

Risk Interpretation

- How has your experience as an investors been so far?
- What motivates you to carry on with investing in XYZ?
- What factors do you consider as risks in XYZ?
- Why do you perceive them as risks?
- How do you manage your investments taking these factors into consideration?
- How is your relationship & interaction with the MFI outside of board meetings?
- What do you perceive to be the greatest risks in microfinance?
- How are you involved in the risk management process?

Implications

- How do these challenges affect your relationship with XYZ?
- What other factors affect the performance of XYZ?
- What strategies have you adopted in coping with the challenges of investing in the MFI?
- Why do you adopt them?

Community Relations

- Are you satisfied with the strategies XYZ adopts in managing the interests of her clients, the larger community and other stakeholders?
- Are there developments in the XYZI you are happy about?
- What opportunities do you foresee for XYZ to thrive and have a harmonious relationship with its community?
- What expectations and plans do you have for XYZ to surpass its current performance?
- What you think about the roles of other stakeholders in helping the MFI to thrive?

Questions for Staff

Introduction

- When and how did you first hear about XYX?
- What motivated you and still motivates you to be a staff of XYZ?

Risk Interpretation

- How has your experience as staff of XYZ been so far?
- To what extent are you happy with your role in XYZ, do you take pride in being its staff?
- What are the challenges you face in carrying out your responsibilities?
- How do you manage?
- Why do you manage them?
- What factors do you consider as risks to you and your institution?
- Why do you perceive them as risks?

Implications

- How do these factors affect your work and other stakeholders?

- What do you think are the key strengths and weaknesses of XYZ, and what are its coping strategies?
- What level of training do you receive to equip you for role?
- How has it help you?

Community Relations

- What level of support, inspiration and motivation do you get from your supervisors in carrying out your responsibilities?
- How would you rate XYZ in terms of reward system, ensuring safety, promoting inclusion and diversity as well as healthy work-life balance?
- Are you satisfied with the products and services XYZ offers to its clients and the larger community?
- Would you recommend XYZ as a good place to work to other people?
- What whistle blowing arrangements are in place in XYZ, if you observe an anomaly by your colleague, would you be confident to report it?
- What opportunities do you foresee for XYZ to thrive and maintain good community relations?

Questions for Regulators

Introduction

- When and how did you get involved with microfinance?
- How would you assess the performance of MFIs?
- What are your expected responsibilities as a regulator?

Risk Interpretation

- How do you perform your role in ensuring that MFIs comply with policies and procedures?
- How has your experience been so far?
- What skills, knowledge and training have you had that prepared and earned you this role?
- When you were assigned this role, what ideas and plans did you have to add value and make a difference?
- What factors do you consider as risks to MFIs?
- What risks do you think MFIs face most?
- How do you identify and assess these risks?

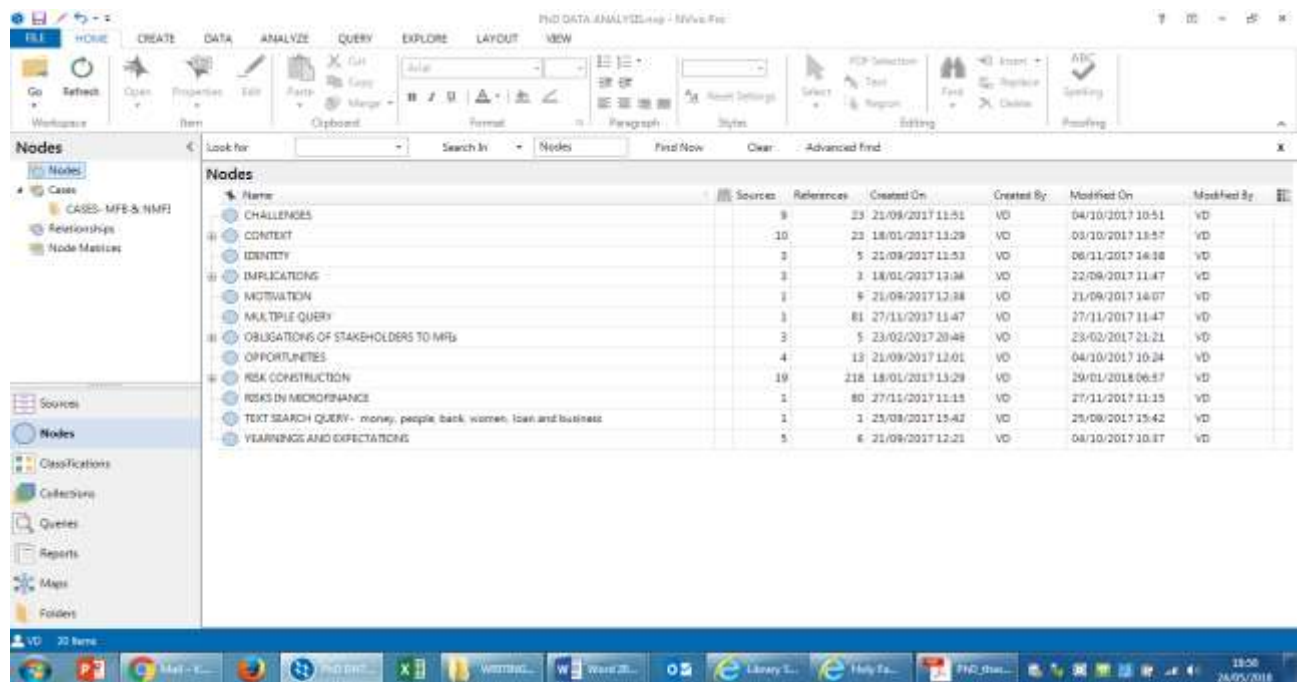
Implication

- How does your role as a regulator help in managing these risks?
- How has your role contributed to the performance of MFIs?

Community Relations

- Whose interest are you concerned with (e.g. depositors, investors) while carrying out your responsibilities?
- What do you think about the interest of other stakeholders?

Appendix 16: Screen Shot Showing the Thematic Coding Framework



The screenshot displays the NVivo software interface with a table of thematic coding nodes. The table has columns for Name, Sources, References, Created On, Created By, Modified On, and Modified By. The nodes listed include CHALLENGES, CONTEXT, IDENTITY, IMPLICATIONS, MOTIVATION, MULTIPLE QUERY, OBLIGATIONS OF STAKEHOLDERS TO MRF, OPPORTUNITIES, RISK CONSTRUCTION, RISKS IN MICROFINANCE, TEXT SEARCH QUERY- money, people bank, women, loan and business, and WARNINGS AND EXPECTATIONS.

Name	Sources	References	Created On	Created By	Modified On	Modified By
CHALLENGES	8	23	21/09/2017 11:51	VD	04/10/2017 10:51	VD
CONTEXT	10	23	18/01/2017 13:29	VD	03/10/2017 13:57	VD
IDENTITY	3	5	21/09/2017 11:53	VD	06/11/2017 16:38	VD
IMPLICATIONS	3	3	18/01/2017 13:36	VD	22/09/2017 11:47	VD
MOTIVATION	3	8	21/09/2017 12:38	VD	21/09/2017 14:07	VD
MULTIPLE QUERY	3	81	27/11/2017 11:47	VD	27/11/2017 11:47	VD
OBLIGATIONS OF STAKEHOLDERS TO MRF	3	5	23/02/2017 20:46	VD	23/02/2017 21:21	VD
OPPORTUNITIES	4	13	21/09/2017 12:01	VD	04/10/2017 10:24	VD
RISK CONSTRUCTION	19	218	18/01/2017 13:29	VD	29/01/2018 06:57	VD
RISKS IN MICROFINANCE	1	80	27/11/2017 11:15	VD	27/11/2017 11:15	VD
TEXT SEARCH QUERY- money, people bank, women, loan and business	1	1	25/08/2017 15:42	VD	25/08/2017 15:42	VD
WARNINGS AND EXPECTATIONS	5	6	21/09/2017 12:21	VD	04/10/2017 10:57	VD

Appendix 17: Focus Group Guide

Introduction

- What is your name? (Use first names, but names shall not be mentioned in research output)
- Where do you live?
- What do you do for a living?
- When and how did you encounter the MFI?
- How has your experience with the MFI been?

Risk Interpretation/Conceptualization

- Could you share your thoughts about your experiences as clients of the MFI?
- What motivates you to patronise the MFI?
- What challenges do you face as clients of the MFI?

- Do members of your community experience similar challenges with the MFI?
- Do you have an experience to share?
- Does anyone think differently these challenges?
- Has the MFI impacted your lives positively?
- In what ways?

Implications of risk conceptualization on participation in microfinance.

- What did you do when you experienced a challenge in patronizing MFI?
- How did this experience affect you?
- What do you think about the policies of the MFI?
- Are these policies favourable or unfavourable to you?
- Do the strategies and policies of the MFI have an impact on your privacy and reputation?
- Do they have an impact on the culture, norms and values of your community?
- Do they affect the relationship between the MFI and your community?
- Is your community able to benefit from the activities of the MFI?
- Do you think there are issues associated with the terms and conditions on products and services provided by the MFIs?
- Is the MFI doing enough to reduce or manage the difficulties you face as its clients?
- How are these difficulties affecting your patronage of the products and services?

The role of community relations in microfinance risk management.

- In what ways do you think the MFI can manage the challenges confronting you and your community as stakeholders in its activities?

- In what ways can the MFI be more involved in the life of your community?
- What benefits can you and your community derive from this involvement?
- What roles can you play as clients to manage your own challenges in order to derive more benefits from your relationship with the MFI?
- How can you ensure better involvement of your community in contributing to the growth and performance of the MFIs?
- What do you expect other stakeholders e.g. government, community leaders, funders etc. to do in helping the MFI to thrive??
- What questions, suggestions and general comments do you have?
- Thank you for your participation

Appendix 18: Screen Shot Showing Case Coding Framework

The screenshot displays the Pro Data Analyze software interface. The main window shows a table of cases with the following columns: Name, Sources, References, Created On, Created By, Modified On, and Modified By. The table lists various roles and their associated dates and users.

Name	Sources	References	Created On	Created By	Modified On	Modified By
ALL INTERVIEWS		1	1 18/09/2017 11:20	VO	22/09/2017 12:07	VO
BOARD MEMBER 1 MFB		1	1 18/09/2017 11:20	VO	03/10/2017 13:57	VO
BOARD MEMBER 1 NMFB		1	1 18/09/2017 11:20	VO	12/10/2017 14:37	VO
BOARD MEMBER 2 MFB		1	1 18/09/2017 11:20	VO	03/10/2017 13:30	VO
BOARD MEMBER 2 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:19	VO
BOARD MEMBER 3 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:20	VO
COMMUNITY LEADER 1 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:15	VO
COMMUNITY LEADER 1 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:15	VO
INVESTOR 1 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:15	VO
INVESTOR 1 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:14	VO
INVESTOR 2 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:13	VO
INVESTOR 2 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:27	VO
INVESTOR 3 MFB		1	1 18/09/2017 11:20	VO	29/01/2018 06:57	VO
STAFF 1 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:28	VO
STAFF 1 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:29	VO
STAFF 2 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:30	VO
STAFF 2 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:30	VO
STAFF 3 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:31	VO
STAFF 3 NMFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:32	VO
STAFF 4 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:33	VO
STAFF 5 MFB		1	1 18/09/2017 11:20	VO	22/09/2017 12:34	VO

Appendix 19: Screen Shot of Classification of Participants

The screenshot displays a software application window titled "PRD DATA ANALYSIS.msp - Kivivo Pro". The interface is organized into several sections:

- Top Menu Bar:** FILE, HOME, CREATE, DATA, ANALYZE, QUERY, EXPLORE, LAYOUT, VIEW.
- Toolbar:** Includes icons for workspace management (Go, Refresh), item operations (Open, Properties, Edit, Paste, Copy, Merge), formatting (Bold, Italic, Underline, Text Color, Background Color), paragraph styles, styles, editing (JDF Selection, Text, Region), and proofing (Insert, Replace, Delete, Spelling, ABC).
- Left Sidebar:**
 - Classifications:** Source Classifications, Case Classifications, Relationship Types.
 - Sources:** Sources, Nodes, **Classifications** (selected), Collections, Queries, Reports, Maps, Folders.
- Main Workspace:**
 - Case Classifications:** A search bar and a list of classification items, with "PARTICIPANT DEMOGRAPHI" selected.
 - Table:** A table titled "PARTICIPANT DEMOGRAPHI" with columns: A: GENDER, B: AGE GROUP, C: CLIENT. The table contains 24 rows of participant data.
- Taskbar:** Shows the user "VD" with 1 item and 1 Unfiltered. Open applications include "PRD DATA...", "WRITING...", "Draft of Th...", "Internet E...", "EndNote X...", and "10.1.1.591...".

ID	Name	A: GENDER	B: AGE GROUP	C: CLIENT
1	ALL INTERV...	Unassigned	Unassigned	Unassigned
2	BOARD MEM.	MALE	41-50 YEARS	BOARD MEMBER
3	BOARD MEM.	MALE	41-50 YEARS	BOARD MEMBER
4	BOARD MEM.	FEMALE	51-60 YEARS	BOARD MEMBER
5	BOARD MEM.	FEMALE	31-40 YEARS	BOARD MEMBER
6	BOARD MEM.	MALE	41-50 YEARS	BOARD MEMBER
7	COMMUNITY...	MALE	51-60 YEARS	COMMUNITY LEADER
8	COMMUNITY...	MALE	41-50 YEARS	COMMUNITY LEADER
9	INVESTOR 1	MALE	41-50 YEARS	INVESTOR
10	INVESTOR	FEMALE	51-60 YEARS	INVESTOR
11	INVESTOR	FEMALE	51-60 YEARS	INVESTOR
12	INVESTOR	MALE	41-50 YEARS	STAFF
13	INVESTOR	MALE	31-40 YEARS	INVESTOR
14	STAFF 1 MFB	MALE	41-50 YEARS	STAFF
15	STAFF 1 N	FEMALE	31-40 YEARS	STAFF
16	STAFF 2 MFB	MALE	41-50 YEARS	STAFF
17	STAFF 2 N	FEMALE	31-40 YEARS	STAFF
18	STAFF 3 MFB	FEMALE	41-50 YEARS	STAFF
19	STAFF 3 N	FEMALE	21-30 YEARS	STAFF
20	STAFF 4 MFB	FEMALE	41-50 YEARS	STAFF
21	STAFF 5 MFB	MALE	31-40 YEARS	STAFF
22	STAFF 6 MFB	MALE	31-40 YEARS	STAFF
23	STAFF 7 MFB	FEMALE	41-50 YEARS	STAFF
24	STAFF 8 MFB	MALE	41-50 YEARS	STAFF

Appendix 20: NVivo Word Frequency Query-Cloud Showing 100 Most Frequently Used Words by Participants



Appendix 21: Screen Shot for NVivo Text Search Query Result for the Words- ‘risk’, ‘challenge’, ‘problem’ or ‘difficult’

The screenshot displays the NVivo software interface with a word tree visualization for a text search query. The search criteria are set to "risk or challenge or problem or difficult". The word tree is centered on the word "risk" and branches out to various text excerpts. The interface includes a menu bar, a search criteria panel, and a list of queries on the left.

Search Criteria:
 Search in: Selected Items
 Search for: risk or challenge or problem or difficult
 Spread to: None

Word Tree Visualization:

- Left Side (Contextual Excerpts):**
 - INTERVIEWER: Are there some specific risks. In lending, there is your money fully at risk. It is a very serious lot of organizations don't see - informed in the area body - a professional body that is another aspects **make** management. Some have excellent that could be a potential
- Right Side (Contextual Excerpts):**
 - for them because if you in terms of advancing loan now minimized where power the low loan repayment ensures one could say the management - His own criteria for strategies but they do a loan because most government not paying salary no loan payment, because portfolio is high. So be independent, he should

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