

BANKS DO NOT FAIL, THEY ARE KILLED

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ABSTRACT

This paper is an outcome of the author's research in Organizational Resilience in micro-finance banks (MFBs) at the Doctoral College of University of Hertfordshire, United Kingdom from 2014 to 2020 (Emokpae, 2020); as well as research into resilience in Small and Medium Scale Enterprises (SMEs) in School of Management, Cranfield University, United Kingdom, from 2012-2014, (Emokpae, 2014). The research at Hertfordshire, in particular, set out to explore why some microfinance Banks fail while others prospered, particularly in Lagos Nigeria whose economy was bigger than that of some 42 African countries combined, during the study. The research also addressed the central question of how and why 69% of MFBs in Lagos, Nigeria survived over the research chosen period of 9 years (2010–18), whilst 31% did not. The governing philosophy to address the study was pragmatic realism, and consequent abductive research approach. This resulted in mixed methods research design, based on a non-probability sampling technique that integrated purposeful sampling with snowballing. To triangulate the data sources and tentatively validate the findings, the samples of interviewees and participants (54) for all the stages of the primary study were summed up and those with relationship to MFBs' organisational resilience (or failure) were identified. The numbers and percentages of those which highlighted one variable or the other, as contributor (s) to MFB death, were computed. The researcher also brought valuable insider knowledge and insights to the research from the author's chairing the board of the largest Microfinance Institution in Nigeria for over 20 years.

The research findings suggest that at the heart of the failure among MFBs is the behaviour of human elements; initiated through setting up banks intentionally to fail, through stealing of depositors funds, deliberate falsification of and lie about credit and deposit information by the managers and leaders.

Deliberate poor corporate governance practice, as well as the diversion of company funds and corruption among directors and managers of MFBs, all contributed to the failings. There was evidence that microfinance banks were deliberately rendered irrelevant to the aim of their formation primarily by those who set them up and secondarily by their agents and some customers. The author having led the Board of the most successful micro finance Institution in Nigeria for over twenty years, was troubled by the state of failure in the industry over the years. Since the poor and SMEs that micro finance banks claimed to have a mandate to 'save' became the ones bearing the brunt of the bank failures, it became urgent to suggest measures to stem the failures. This is because poor people and SMEs were mostly the ones that kept deposits and savings in such banks. The banks became the problem rather than the solution to financial inclusiveness. The poor and micro enterprises rather than being saved were exploited, trapped, and made poorer by these banks. This was very worrying to the author, and many other people of good will, and consequently became the major Motivation for the study.

In conclusion, this paper suggests micro-equity, along with a deepening of thorough and rigorous regime of back ground checks on Promoters and Directors of MFBs; as well as close monitoring of their private finances. It also suggests an intensive and regular supervision of the banks themselves by the Central Bank and NDIC. Robust Institutionalization, proactively building of purposeful organizational resilience and governance levels far beyond the CBN Prudential guidelines, be enforced in each MFB; with infringement receiving weighty sanctions on the promoters, Directors and managers of Micro-Finance Banks (MFBs).

Key Words: Resilience, Microfinance Banks, Failure, Portfolio at Risk, Operational Self Sufficiency, Financial Self Sufficiency, Adaptability, Overcome



1. INTRODUCTION

“Micro-finance” is often defined as the provision of financial products and services to the underserved segment of the society (Emokpae,2021). It includes but not limited to micro-credit, savings accounts and micro-insurance. These are supplied mainly to poor people as well as micro-enterprises (Ledgerwood, 1999 in Ehigiamusoe, 2011, Emokpae, 2021). Many microfinance institutions are mono-product organisations, providing mainly micro-credit.

Micro-credit is defined “as extending small loans to the active poor for self-employment projects that generate income for themselves and their families” (Agusto & Co., 2015:10).

“Micro-finance institutions” (MFIs) are organisations that engage in the business of microfinance. This they do through the provision of one or more of the following products: microcredit, savings, fund transfers, micro insurance and business advisory services. Acknowledged is that Microfinance institutions create access to banking opportunities for the poor and micro-enterprises. They give the customers a sense of financial inclusion. In the case of multiproduct MFIs, micro-credit is often the starting point for providing financial services to the poor (Emokpae,2021). The provision of access helps the poor to take advantage of business opportunities and to engage in productive ventures to improve their lives. It also helps poor individuals with cash-flow (CBN, 2013; Rutherford, 2000). It helps them to pay school fees for children and enables children to receive medical care.

MFBs are a segment of MFIs that are licensed and regulated by the Central Bank of Nigeria (CBN). They are required to operate within prudential guidelines such as maximum Portfolio at Risk (PAR of 5%) and single obligor credit thresholds. The latter must not be more than 5% of equity. This is the percentage of the funds the bank can lend to one person. The guidelines also specify the maximum percentage of equity permitted to acquire fixed assets.

In Nigeria, MFBs had three categories, at the time of conducting this study, namely unit, state and national. The most common was the unit MFB, whose operation was confined to one local government. With a \$66,000 minimum capital base (a decrease from \$130,000 in 2005 due to currency devaluation of the Naira) and less than 20 staff per business, unit MFBs were not well positioned to either assist poor individuals or provide financial advisory services. Hence recently their capital base was raised significantly along with the other two tiers of microfinance banks. Although their purpose is to meet the financial needs of micro-enterprises as well as SMEs, as government direct intervention is extremely limited and barely scratches the surface, their interventions cannot sustainably meet the financial needs of the poor and their associated micro-enterprises. This is because they are constrained by limited capital base. Furthermore, in pursuit of their mandate in a sustainable manner, they must possess financial self-sufficiency.

“Financial self-sufficiency” is a key issue in microfinance practice. It is the practice of providing financial services at a level that covers all the costs of delivering services to the beneficiaries whilst generating some profit for the organisation. Central here are issues of viability and the sustainability of the enterprise in the absence of subsidies from government or donor agencies (Brau et al, 2004; Ehigiamusoe, 2011). “Of the 10,000 or so MFIs worldwide, it is variously estimated that only 3-5% have achieved full financial sustainability”, while “fewer than 100 claim Self-Sufficiency” (Allen, in Dichter and Harper, 2007: 49).

Over the past 25 years, several micro-finance institutions had collapsed in Nigeria.. *This draws a parallel directly about the experience of microfinance crises in the world (Mendelson and Rozas, 2024) at large. .Stuart Rutherford in his presentation on the role of savings in microfinance (Rutherford, 2024) in at least 20 countries, attempted an explanation of some of the key challenges facing microfinance banks for many years.*

During the same period, LAPO Micro-finance Institution and several others evolved from tiny obscure enterprises to become major players in the MFB industry. They did not only survive, but thriving, having overcome life-threatening challenges along the way.

1. MICRO-FINANCE BANK FAILURE

The first MFB to be granted licence in Nigeria in 2006 went into liquidation in 2010. Integrated MFB (IMFB) was not only the first to get a licence, it was also the biggest in Lagos, Nigeria. Bad loans and capital inadequacy led to its inability to continue as an on-going concern. These conditions were identified as the immediate precipitants of its liquidation in 2010. Certainly, these precipitants were symptoms of a more fundamental cause of the failure. After the collapse in 2010, the Nigeria Deposit Insurance Corporation (NDIC) arraigned the managing Director of Integrated MFB, Mr Akinteye Simon Ademola in the Lagos High Court over the alleged misappropriation of N618 million (\$1.7 Million). He and other board members were alleged to have fraudulently enriched themselves by granting themselves and their private organisations unauthorised loans and large sums without collateral, contrary to section 516 of the criminal code and section 23(4) of the Failed Banks (Recovery Debts) and Financial Malpractices Act. This was in breach of the single obligor threshold of 5% equity (Agwuegbo, 2010). Compounding this situation was a frenzy of in-fighting between bank directors and a subsequent run on the bank by customers. As it was collapsing, an organisation called ACPC injected N6 billion (\$20 million) into the bank, putting two directors on the board. The bank nonetheless collapsed (Agwuegbo, 2010). Further capital injection could not help either. The wound was already too deep to heal.

In the Vanguard of 30th November 2018, it was reported that Moody’s Investors Service had warned that “bad loans remain high in Nigerian banks”, in both commercial banks and MFBs.



Reports of the liquidation of many MFBs and one commercial bank (Skye Bank, later renamed Polaris) were not therefore surprising. The acquisition of Diamond Bank by Access bank in December 2018 due to the capital inadequacy of the former is also unsurprising (Ebulu, 2018).

Consequently, the above development led to the research question in this piece of work, which directly comes from the research topic: “How and why some MFBs in Lagos Nigeria overcome adversity and why others do not”. If more money and more directors could not save the biggest MFB in Lagos, what exactly saved the others, particularly the smaller units which went through a series of adversities and survived?

On Friday, July 1st 2017 in a seminar in Lagos, the CBN Director of OFISD (Other Financial Institutions Supervision Directorate), Mrs. Tokunbo Martins, pointed out that total industry loans and advances to customers and assets of MFBs in Nigeria stood at N214.32 billion (\$709.7 million) and N365.51 billion (\$1.21 billion) respectively, as at 31st December 2016. This was considered grossly inadequate given Nigeria’s population of 180 million in 2015. The population was largely composed of people at the bottom of the socio-economic pyramid who constitute the biggest percentage of the target market for MFBs. The top ten of the existing 991 MFBs however accounted for 40%, 37% and 39% of the total industry loans, deposits and assets respectively as at 31st March 2017. Mrs Martins also stated that the industry was plagued “by a high spate of distress and failures with many institutions, particularly unit MFBs, technically insolvent or inactive resulting in business closure”. Here different types of adversities were complicit in the failures (Martins, 2017). At that time People who live in severe poverty in Nigeria amounted to 86.9 million with 80% living in rural; and these were supposed potential clients of micro finance institutions (Eze & Alugbuo, 2021)

3. ADVERSITY

Surviving or succumbing to adversity is central to this piece of work. “Adversity” means life-threatening circumstances (Alshebami and Khandare, 2014). A life-threatening circumstance could result from a change in the law that requires MFBs to shore up their capital base by over 100% within a short period of time. This reflects the situation that was announced by the CBN on October 2018 when they increased the capital base by between 150% and 900%, depending on the size of the MFB (Adegbesan, 2018). Adversity could also mean the death of a CEO, and/or major financier of the enterprise. Another possible meaning is the inability to recover a substantial part of a MFB’s loan that could threaten its ability to meet obligations in relation to savings and deposit portfolios and/or repayments to significant creditors when they fall due. This has become particularly important due to accelerating depreciation in the value of the Naira, the local Nigerian currency. Some MFBs borrowed from international creditors when the Naira to US \$ conversion rate was 120:1. This depreciated to about 350:1 and now (2025) to 1550:1. Repaying foreign loans can wipe out a MFB. LAPO experienced aspects of this problem through default in remitting loan repayments as they fell due in 2017.



(This was more of the commercial bank problem that that could not raise the dollars needed for paying the loan). LAPO had proactively dealt with this challenge through foreign (loan) exchange hedging (LAPO, 2018). This means that when a foreign loan is approved for LAPO, it deposits the foreign currency in a local bank and retrieves the Naira equivalent. So when the time of repayment comes the local bank returns the foreign currency to the creditor. What LAPO adds is the interest. In this way, LAPO mitigates the effect of risks associated with foreign loans.

“Adversity” could also be extended to describe ecological disasters like earthquakes and floods; insurgent attacks, like Boko Haram in Nigeria or the Arab Spring in Yemen (Alshebami and Khandare, 2014). It also describes epidemics/pandemics that can severely affect the operations of MFBs, like COVID-19 pandemic. Such disasters/occurrences could, in fact, threaten the survival of the enterprise. The word “survival” is used here to mean that the MFB continues to exist as a “going concern” either as an independent enterprise or as a part of another organisation while still retaining a distinct identity.

Whilst there was evidence that MFIs and MFBs could thrive by meeting the financial needs of the poor and micro-enterprises, several MFBs were failing or ceasing to trade. In Zambia, the reasons for this situation are documented in a paper by Siwale and Ritchie (2011:1). The paper identified that poorly practised governance and accountability challenges coupled with “unstable relationships between international donors and the Board, the Board and CEO and with middle management ...” were central to the failure. Furthermore a “lack of transparency and disregard for moral obligations, poses serious questions about how... finances were managed and accounted for” were cited as problematic. Fraudulent practices among key stakeholders appear to be central to the entire problem. Nigeria has a similar story (CBN, 2014). By 2010, 224 MFBs ceased doing business in Nigeria, and this approximated a 27% mortality rate. Some 154 unit MFBs failed in 2018 because of problems linked to governance, internal conflicts and management fraudulence. Furthermore, the suggestion of outright embezzlement and non-adherence to regulatory prudential guidelines compounded the problems of the MFBs. The MFBs that survived adversity are considered to be organisationally resilient.

1. RESILIENCE

Recently published article on organisational resilience by Rachel Dickson (2025), Supports my earlier work in the area, however focusing generally on business rather than the specific areas of Microfinance and SMEs in Nigeria (Dickson, 2025). Resilience captures the ability of a system and/or organisation to absorb the impact of the failure of one or more of its components or one of its institutions. It also extends to responses to significant disturbances in the business environment to the degree that the business can still function and provide acceptable service (Francis & Bekera, 2014; Berkes & Ross, 2013; Emokpae, 2014). In his work on organisational

resilience, Denyer (2017:3) defined organisational resilience as the way in which an organisation continues to exist and thrive after "incremental change and sudden disruptions". As a result of his analysis of resilience, he was able to identify two "core drivers". The first is a defending technique to combat negatives, while the second relates to positive progress. There were also two differing approaches, one characterised by consistency and the other grounded in flexibility. Denyer was able to derive four aspects relating to the resilience of an organisation using the concepts of: "preventative control (defensive consistency), mindful action (defensive flexibility), performance optimisation (progressive consistency) and adaptive innovation (progressive flexibility)" (Denyer, 2017:3). It is his view that leaders need to use their analytical skills to achieve a suitable blend and balance in respect of these four aspects of organisational resilience. He advised that they should check their suitability to the mission of the enterprise, and its sector, in order to manage tensions and maintain a constant standpoint. Furthermore, Denyer asserts that this issue does not involve simple choices or alternatives. Tensions need to be managed on a continuum between adopting a defensive approach and making progress.

The issues of consistency and flexibility are also paramount. In his analysis, Denyer underlines the absolute need for constant, regular maintenance of awareness of the four aspects. If this is not achieved, organisations can "sleepwalk into disaster" (Denyer, 2017:3). Furthermore, Erol et al (2010) and Stephenson (2010) identified various key components of resilience capabilities as agility, adaptability, connectivity and planning. They also discussed how these are managed. Yunus" (2003 in Emokpae,2025) work on MFIs together with contributions from Sullivan-Taylor et al (2011) and Weick-Sutcliffe (2010) in relation to resilience provided useful literature on this subject area. Ayadi et al (2005) and Freeman"s (2004) ideas on stakeholder theory provided foundational issues upon which resilience can be discussed.

Of particular interest, however, was the WEF Global Risk Report (Riskviews, 2013) that identified five dimensions of resilience as Robustness, Redundancy, Resourcefulness, Responses and Recovery. The first three of these primarily comprise the components of resilience. In the report, organisations were advised that "these components should be designed into a system, and as such, will enable assessments of an organisation's inherent resilience capabilities" (Riskviews, 2013:1 in Emokpae,2025).

That said, this author decided to adopt WEF's dimensions of resilience (Riskviews, 2013) primarily as the frame work to establish that people kill banks. A supporting frame is the stakeholder theory (implicating shareholdership paradigm), particularly as it relates to fraudulence among Organisational stakeholders. He is on purpose taking this approach because it resonates with his experience in the industry as an insider researcher. For instance, the five key stakeholders in MFBs (shareholders, customers, regulatory authority, depositors/donors and staff) are expected to share a common desire for banks to remain alive and to be able to meet the needs of their customers and depositors, on an on-going basis.

Regrettably, it is from these same stakeholders that most challenges confronting MFBs arose, implicating fraudulent tendencies and practices (Emokpae,2025).

Of the 820 MFBs in Nigeria, examined by the NDIC and CBN in 2010, 224 (27%) were distressed. In a similar exercise conducted in Lagos between 2010 and 2014 examining 225 MFBs, some 65 (29%) closed down (CBN, 2014). In September 2018, some 154 MFBs had closed shop (CBN, 2018) and of these, 31 were domiciled in Lagos. Adding the failed MFBs in Lagos together from 2006 to 2018 and from 2010 to 2018, they came to 40% and 31% MFBs respectively. High levels of non-performing loans (NPLs), gross under- capitalisation, incompetent boards and incompetent management with skills deficits in problem-solving, decision-making and teamwork, as well as poor credit administration were identified, either individually or in combination with each other, as immediate precipitants. These were further been accentuated by the the withdrawal of licenses of 224 microfinance banks, by the Central Bank of Nigeria between 2023 and 2024; with NDIC reimbursing customers of 179 of them in 2024 (CBN in Vanguard,2024). The precipitants of the death of these banks could have been symptoms of deeper problems relating to fraudulence, integrity and faulty regulation. One of the questions facing researchers in this respect is:”are there underlying factors that promote fraudulent tendencies or integrity deficits among the leaders and other key stakeholders in the MFB industry in the first instance?” Are they cultural, values and motivations of key stakeholders, and resultant dysfunctional corporate governance practices, and are there any other factors? Is fraudulence context-dependent or an inherited human attribute transmittable to the organisational operation of MFBs?

1. MOTIVES OF MICRO-FINANCE INSTITUTIONS

There have been debates over the years about the motives and impact of Micro- finance institutions (MFIs) and more recently of Micro-finance Banks (MFB). MFIs are organisations dedicated to providing financial services to those who ordinarily do not have access to the services of commercial banks. They are institutions that focus primarily on the poor and the financially excluded. One school argues that MFIs give the poor access to financial services which they are typically denied by conventional banks, thereby providing such poor people with a sense of financial inclusion (Braun and Woller, 2004; Wamukota, 2016 in Emokpae,2025). Others suggest that despite the claims to their social usefulness, the prices at which services are delivered are exploitative and so MFIs do not really benefit poor households (Hulme and Mosley, 1996 in Chowdhury, 2009; Ghosh, 2013). Dichter and Harper (2007) share a similar view with Mosley (1996, cited in Chowdhury, 2009) that “access” to financial services does not generally benefit the poor as much as it is often believed. Copestake et al (2005b:703), however, argue that in many impact studies conducted, the data indicated “that the majority of clients do generally benefit from using the services of MFIs”.

They further stated that there is however significant evidence that the poorer clients “are the less likely” to benefit (Copestake et al, 2005b:703), a position echoed by Dichter and Harper (2007) two years later.

Yunus (2003), commenting on the most emphasized component of micro-finance, i.e. micro-credit, acknowledged that micro-finance is limited when it comes to dealing with poverty. Micro-credit is the provision of small loans to self-employed poor people and micro- enterprises. The intention is to financially assist micro-entrepreneurs and their enterprises to generate income (North, 2005). Micro-credits also help ease cash flows and consumption purposes. Furthermore, Yunus (2003:171) argued that “Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. However, it can end poverty for many and reduce severity for others. Combined with other programmes that unleash people’s potential, micro-credit is an essential tool in our search for a poverty-free world”.

1. FINDINGS

Yunus (2003) and others have come to the conclusion that micro-finance may not be the solution to poverty and even where it is expected to help in reducing poverty, it must be complemented by entrepreneurial skills and development initiatives (Hulme et al, 1996; Mahajan, 2005 in Chowdhury, 2009; Quinones and Remenyi, 2014) and most importantly, integrity of the Founders, Directors and Managers of the MFB (Emokpae,2025).

Alignment of Findings, Literature and Research Contribution

	<u>FINDINGS</u>	<u>LITERATURE</u>	<u>CONTRIBUTION</u>
1.	Fraudulent behaviour of human elements, directors, staff and customers result in capital attrition which underpin capital inadequacy and MFB failure	Ghate (2007) fraudulence in Andhra Pradesh. Sougata and Sushanta (2014), Srinivasan (2010), Prandkilling Decker (2015), Nigerian banks (Oyemomi, 2003; Acha, 2012). Fraudulence in banking in Nigeria (Okpara, 2009), Insider abuse (Opeseitan,2015)	Whenever the motivation to set up MFB is intentionally for it to fail through fraudulent behaviour, Governance hardly exists; And directors take loans with no intention to repay, Which results in ballooned NPL, bad debts and very high PAR; with banks unable to meet obligations to depositors and consequent collapse of the MFB. Integrated and Ojokoro MFBs exemplify this occurrence. This is a contribution to knowledge (Okpara,2009)



2.	NPLS and PAR beyond regulatory standards led to crisis of not being able to pay depositors and repay loans from banks and multilateral organisations. This leads to license revocation.	Karmakar (2008) NPL in Manipur, Tamil Nadu and Orisa (Ulrike et al, (2011), CGAP (2010) (Alegiuno, (2008)	When banks lend beyond the regulatory single obligor threshold of 5% of equity, which was done, mostly through insider trading and often patronized by men, repayment defaults arise in many cases, so when deposit customers come for their money, the banks were unable to repay; leading to a run on MfBs, ultimately leading to bank failures.
3.	Manipulations of financial figures and misappropriation led to liquidity drain, weakening capital base and failure of MfBs.	Wright and Sharma (2010); Intelicap (2012); Fatoki (2000). Insider abuse; Corruption and financial manipulations (Okpara 2009).	Banks whose records were clean and not manipulated as well as where funds were not misappropriated but directed at the core customers tended to be more organizational resilient. Reverse was the case with corrupt officers.
4.	Deliberate non observance of prudential thresholds, breaching single obligor regulation; skewed debt in favour of directors that did not repay.	DNA India (2010 in CGAP 2019 foot note) Irobi (2008), Odunsi (2015) CBN (2017)	The fraudulent behavior of principal stakeholders, directors, staffs and customers militate against the interest of shareholders by pilfering customers' deposits diverting shareholders equity to their personal pockets which resulted in weakening capital base of the MFB leading to its failure. This position is supported by literature (Odunsi, 2015 and CBN, 2017).
5.	Financial recklessness, ostentatious living of directors leading to buying exotic cars, living in expensive highbrow homes from MFB lead to impaired capital and inability to pay depositors when they come for their money.	Oyemomi, 2003; Acha, 2012, Fatoki 2000, Augusto, 2015, Dike, 2004; Ribadu 2006; Aburime, 2009, Duggar 2013; Kvalnes 2014; On integrity and ostentatious living.	Liquidity deficit below the regulatory threshold of 20% resulting in inability to honour depositors demand leading to a run on the MFB, and ultimate collapse. This is supported by the literature (Oyemomi, 2003, Aburime, 2009 and Acha, 2012).
6.	Those banks that used business model targeted at women, with group credit administration tended to be resilient, primarily being able to recover credit and be able to pay depositor as and when due.	Sanusi (2010); Eruke (2010) Augusto & Co (2015). Research suggests that the "single most powerful predictor of human resilience	The adoption of a business model that focuses on women with minimization of credit in groups build social equity and interpersonal support, leading to organizational resilience.



6.	Those banks that used business model targeted at women, with group credit administration tended to be resilient, primarily being able to recover credit and be able to pay depositor as and when due.	Sanusi (2010); Eruke (2010) Agosto & Co (2015). Research suggests that the “single most powerful predictor of human resilience is interpersonal support” (George, 2011:2).	The adoption of a business model that focuses on women with minimization of credit in groups build social equity and interpersonal support, leading to organizational resilience. This is a contribution to theory which George (2012) reinforces.
7.	High interest rates appeared to lead to loan delinquency, low interest rate assisted loan recovery.	Stiglitz et al (1981) Exorbitant interest rate, CGAP (2010, foot note), UNDP (2003) High interest 30-100%; monthly 4.5-6%. Anyanwu, 2004; Sinclair, 2012 and Armitstead, 2012.	The MFBs that charged interest rate and fees in excess of 200% APR and 6% per month tended to lead to default in loan repayments increased NPL, PAR and failure. The literature supports this (Stiglitz et al, 1981), While those with monthly interest of 2-3% and APR 200% tended to overcome adversity. This is a contribution to theory.
8.	Loan minimization tended to minimize defaulting in loan repayment. Most loan minimisation operated within groups, loan maximisation which occurred mainly through ILS. ILS Credits usually turned bad.	No explicit literature	Loan maximisation particularly with ILS model tended to lead to unrecoverable credit and hence MFB failure. This is a contribution to practice.
9.	The banks that hedged their foreign loans against foreign exchange	No explicit Literature	The MFBs that domiciled foreign loan in a commercial banks of choice and took out the naira equivalent at
	volatility and insured credits were able to overcome shock and adversity		the time of executing the loan were better able to repay such foreign loans and were better able to withstand adversity, this maybe because the foreign institutions that gave the loan monitored performance of that loan on an on-going basis, as such banks were compelled as a condition for accessing such loan to operationalise good corporate governance. The outcome is that such MFBs survived and overcame adversity. This is a contribution to practice.



10.	The banks that delayed harvesting by shareholders, not taking dividends and staff, not collecting bonus for several years (say up to 20 years) had redundant cash liquidity to draw upon during difficult challenges, which assisted them to overcome adversity.	No explicit Literature	Some banks that did not pay dividends to shareholders for so 30 years and not paid staff bonuses for 27 years tended to be more resilient than those who did. This may have been because such funds provided back up cash for robust posturing to confront adversity. This is a contribution to practice.
11.	MfB with large branch networks were largely resilient partly due to access of pools of funds from savings mobilized across those branches; with very low interest paid on savings, the cash provided good backup in times of panic withdrawal that led to integrated MfB, Pekko and Ojokoro MfBs to fail in 2010.	Ehigiamusoe,2011, Adedipe, 2013; Agosto,2015	The national and state MfBs were able to withstand adversity than unit ones this may have resulted from the extensive branch networks where many customers in some branches were only doing savings which were liquidity buffers for MfBs confronting adversity. This is a contribution to theory
12.	Most of the MfBs that liquidated had FSS less than 1 two years before liquidation	Agusto 2015	Banks with high NPLS often operated FSS lower than 1which constrained the MfBs lending and income generating capacity, which when continued for over two years contributed to failure. This was particularly so during mass panic withdrawal. This is a contribution to knowledge
13.	On multilateral loans with exception of two MfBs, all the MfBs that took multilateral loans were able to overcome adversity .this might be because of due diligence conducted by multilateral loan providers and strict monitoring of the performance of such banks. This suggests that if CBN can use the monitoring model of multilateral financial institutions MfB failures could be minimized.	Risk review, 2013 ; Mcann and Selsky,2012; Sullivan -Taylor and Branicki, 2011; Selsky, 2012 – Robust, redundant capabilities.	Most MBBs that accessed IFC and multilateral loans tended to be more resilient than those which did not. And good utilisation of such loans attracted more and more of multilateral loans. This „good fortune“ led to increasing robustness and financial solidity of the MfBs, and their capacity to withstand any adversity. This is a contribution to practice. This capacity may have been due to better governance practice and managerial effectiveness due to close monitoring by the multilaterals of how loaned funds were utilised.



<p>14.</p>	<p>MFBs that operated good corporate governance tended to be resilient. They had a board with diversity in gender and professional calling. Their selection was professionally done. They built internal institutions on credit administration with clarity in lending process, audit, risk management, finance, legal and promotion/remuneration. They also maintained transparency and accountability with none of the directors and senior managers allowed to borrow from the bank. All business interests of leaders were made explicit and their performance evaluated by independent appraisers every year. Randle International was used by LAPO to appraise the performance of its directors at the end of each financial year.</p>	<p>Milliken, 1999. MFB Policy, practice and challenges in the thesis. Abraham and Balogun, 2012; Oladejo, 2011; CBN, 2005. Corporate governance policy requirement.</p> <p>CBN, 2010; Agwuegbo, 2012. Poor oversight and governance function-p61-62.</p> <p>Fuji and Morimoto, 2012</p> <p>Governing Requirement p51 CBN (2010). Agwuegbo 2010.</p> <p>Poor oversight functions P16-62.</p>	<p>MFBs that operated good corporate governance and vibrant internal institutions, particularly in areas of credit risk management, audit, whistle blowing, lending processes appeared to be more resilient. This is a contribution to theory.</p>
<p>15.</p>	<p>MFBs with staff whose experience was honed in commercial and merchant banks tended to populate failed MFBs. And consequently did not have the skills to manage through adversity.</p>	<p>Ikeanyi, (2009); Acha, (2012); (poor managerial skill and low staff morale).</p>	<p>MFBs with staff with experience from MFBs demonstrated greater expertise in loan minimization that created enabling environment for organizational resilience. This is a contribution to practice.</p>
<p>16.</p>	<p>The MFBs with mercenary culture tended to fail during adversity; whereas those with communal culture tended to succeed in all situations. But the full impact organisational resilience was felt when communal culture was combined with group lending business model. And those MFBs with communal culture tended to embrace group model and attracted mostly female customers. On the other hand MFBs with mercenary culture tended to implement individual credit model which attracted mostly men.</p>	<p>Weick and Sutcliffe, 2001; Weick and Putnam, 2006, Erol et al, 2010.</p>	<p>MFBs that worked in groups, with a culture that is strong in solidarity and strong socially worked in teams and accessed group driven loans, these observed communal cultures that tended to create "we are in this together feeling" energising an enabling environment for organizational resilience. This is a contribution to knowledge.</p>



<p>17.</p>	<p>Critical incidents like panic withdrawal, death of founder, CEO and massive regulatory changes (e.g.) shoring up of capital base led to some failure in unit MFBs.</p> <p>The national and state MFBs were more able to survive in such circumstances. The national MFBs that failed – Integrated MFB and Ojokoro was due to underlying problem of fraudulent behavior of key human elements and large NPLS. This occurrence demonstrates that size can help MfBs to survive critical incidents when there are no underlying negative conditions. The above was at the organizational level, at the individual level it was found path-dependence impacted directors to do what they did like the faith they proclaim, the parents and the environments they grew up in; making that to affect the values in use in MFBs.</p>	<p>McAteer et al, 2010, Stephenson, 2013. Erol et al, 2010; Mallak, 1998;</p> <p>Vargo and Seville, 2011</p>	<p>Leaders tends to bring their values and life experiences to bear on their organisations, so those who had challenging upbringings and overcame them were more able to deal with panic withdrawal, death of colleagues and other critical incidences and overcame organisational adversity. This is a contribution to theory.</p> <p>Furthermore, MfBs with solid internal institutions and complied with regulatory and prudential guidelines tended to be more resilient than those that did not. LAPO represents observance; Ojokoro and Akute represent those who were not.</p>
<p>18.</p>	<p>So is leadership that is purpose driven and visionary.</p>	<p>Hearnshaw and Wilson, 2013; Rasford et al, 2013; Denyer, 2017.</p>	<p>LAPO and Grooming leadership demonstrated purposefulness by focusing exclusively on lending minimisation to women and the vulnerable and were able to adapt their offerings in difficult circumstances, a contribution to theory.</p>



<p>19.</p>	<p>LAPO business model anchored on group model ,low interest rate ,loaning 99% to women delayed harvesting till 30years, insuring credit ,debtor to many multilateral organisations operating SAR, Cretches for children of females employees ,having customers councils activated when group methodology was encountering shocks on NPLS; With stakeholders and shareholders interests managed successfully ,with board of directors implementing diversity in gender, experience and occupation, and with a board that operated good corporate governance in accountability at all levels , transparency in declaring interest in contracting arrangement with bank directors performance appraised by Randle international every year. When the outcome of such performance appraisals suggested areas of training required, directors were sent to such trainings. Furthermore it had internal institutions on credit, finance, auditing risk management, promotion and remuneration and risk management; legal and general, whistle blowing on fraud, sexual harassment and abuse of office. Strict observance of prudential guidelines particularly in capital expenditure, liquidity ratio, single obligor and PAR guidelines. It always watched over reconciling shareholdership with stakeholdership interests – in areas of fiduciary responsibility and accountability.</p>	<p>Adedipe,2012, Agosto and Co, 2015 Forbes and Milliken, 1999, Abraham and Ballogun, 2012; Oladejo, 2011, p. 51 of dissertation. Erunke,2014, Agwuegbo,2010</p> <p>Argyris and Schon, 1974; Pettigrew, 1992</p> <p>Kesner and Johnson, 1990; Monks and Minow, 1995, Howell and Nwanji (2007).</p>	<p>LAPO exemplified organizational resilience having survived several adversities since its inception in 1987 .Its inclusive staff welfare programme, SAR and DAR programmes, community councils and other internal and external institutions plus banning directors and managers from borrowing from the bank made its NPL to be the lowest in the industry and consequently enhanced its organizational resilience. This is a model for the industry to emulate and therefore a solid contribution to practice.</p> <p>LAPO and Grooming MFBs with strong internal institutions and complied with regulatory and prudential guidelines tended to be more resilient than those who did not. Ojokoro and Akute MfBs represent organisations that did not have good corporate governance and strong internal institutions.</p> <p>Banks with high level of accountability and transparency in conducting its business and reporting same to the board and regulatory authorities like CBN, NDIC and EFCC tended to be more resilient than those which did not, a contribution to practice.</p>
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7. BEHAVIOUR OF HUMAN ELEMENTS

Prior research focused primarily on the impact of Micro-finance on poverty reduction, and in some cases observed a drift from the core mandate of financial inclusiveness to protect the poor. There was little or no attention given to the ability of MFBs to adapt to, cope with and/or overcome adversity in Lagos Nigeria. Also missing in related literature were clear insights into how and why some MFBs are organisationally resilient, and others are not, particularly in Lagos, Nigeria. This section presents some of the primary findings of the study, which interestingly are related to Human factors particularly hidden intentions and fraudulent activities of Directors, and behavioural tendencies of managers, customers and other key stakeholders in the MFB industry . Fraudulence and related dysfunctional behaviour of leaders and key stakeholders were identified as key contributors to MFBs' deaths.

Although the conclusions from this exercise can be contested based on a lack of statistical significance, its exploratory value however gives pointers and outcomes that can aid decision making, while making contribution to knowledge and practice at the same time.

8. DIMENSIONS OF FRAUDULENCE

80% of the respondents in my study identified issues that can be categorised as stakeholder fraudulence, which defines the behaviour of stakeholders as key contributor to MFB failure. Some of them include, system gaming and deliberate refusal to repay loans by customers, the manipulation of financial figures by banking officials, deliberate falsification by both banking officials and MFB customers of loan and credit records, and unethical practices of banking officials. These were aggregated into a descriptive coding of fraudulence.

9. LOAN REPAYMENT CHALLENGES

All of the respondents identified ineffective or non-performing loans (NPLs) as responsible for MFB failures, often related to dishonest behaviour of key players in the MFB industry. Take the following narration for an example:



“When a bank fails, management issue is the problem. The way managers and CEOs manage people’s fund is very important. You cannot say because you are the owner of a microfinance bank and because money is coming in, you withdraw and spend it anyhow on things that do not yield income to the bank. The effect might not show immediately but one day it will show. For instance, at Integrated microfinance bank (IMFB) where I worked before, what I observed was that it was the leading microfinance bank in Nigeria but it has closed mainly because of management issues. Directors and managers of the bank took loans in fictitious names that were not repaid” (Former Integrated MFB Manager).

NPLs were identified, in part, as a consequence of deliberate actions of many Nigerian MFB customers who took MFB loans with no intention to repay them.

Additionally, some customers and their guarantors relocated from where they were living soon after taking out a loan. This occurred particularly where there was no proper documentation or collateralisation. The intention was to defraud.

Such fraudulent acts and practices led to the closure of many Nigerian MFBs. An example was given of a period during which the Lagos State government gave grants to some MFBs in Lagos to the tune of fifty million Naira (₦50,000,000.00) each.

Some interviewees believe that absconding with bank funds is the main reason why some MFBs introduced a grouping system in fund disbursement. There was a preponderance of views that grouping occurred where customers lived close to each other, and selected a leader from among themselves, who stood as a guarantor in cases where bank credit was applied for. In LAPO, for instance, group lending strategy was implemented to emulate Grameen Bank’s credit model in Bangladesh. This explains why, in the early life of the bank, the CEO of LAPO went for induction at Grameen Bank. Over time, staff and customers at LAPO came to understand the philosophy underlying the group methodology, which was then not only embraced but also embedded in the culture and business model of the company. Grooming MFI came to copy LAPO in time and began to implement the group lending model (GLM). Many other MFBs followed suite in GLM adoption.

Another prevalent cause of MFB failure was identified by a respondent (from CBN) as:

“Some managers / loan officers created fictitious loans in the name of some MFB’s customers and converted the amount involved for their personal use. They succeeded in covering up this fraud through the creation of additional ghost or fictitious loans while at the same time falsifying repayment records of the previous created ghost loans”.

The findings further indicated that some MFB loan officers persuaded customers to access loans that were shared between such customers and loan officers. Although credit files were created, they were only created in the name of the customers who ultimately paid their own



part of the loan, while the proportion of the loan to the MFB officer was not repaid. Furthermore, the research suggests that some staff negotiated with and assisted customers in obtaining loans from MFBs with the aim of diverting repayments to their private accounts without entering details into the banks' financial records. Some statements by some MFB stakeholders attest to poor integrity among bank officials.

10. FINANCIAL FIGURES MANIPULATION / FALSIFICATION AND MISAPPROPRIATION

Some 72% of respondents/participants associated bank failures with financial mismanagement. The research findings also indicated that some MFB managers / officers, after collecting cash from customers for loan repayments, falsified the records presented to the bank. They often entered the correct amount in the original receipt given to customers and intentionally understated the amount on the duplicate copy for the bank records. This created a cash difference between the actual amount received and the amount recorded. On return to the MFB office, the bank's credit officer only handed over the cash recorded in the duplicate receipt.

The findings also indicate that some customers, and in some cases, MFB officials not only misappropriated funds but as well diverted funds meant for business to non-profit ventures such as burials, political activities and naming ceremonies. First, this is dishonesty, when the reason for the loan is not adhered to. Second, it is diversion to non-income earning venture. Although these should not necessarily lead to default in repayment, default is in fact what happened in most cases.

Consumption lending was perceived in Lagos as detrimental to micro-finance banking, as the rate of default in repayment was perceived to be high; particularly as such loans were fraudulently accessed without declaring the true purpose of the loan to MFBs.

11. UNETHICAL PRACTICES AND REGULATORY ISSUES

46% of respondents identified the intentional breaking of regulatory and prudential guidelines, as a contributor to MFBs' failures. This was evidenced by the example of when MFB credit-officers granted loans far beyond regulatory limits, collecting bribes/kick-backs in the process. This was corroborated by a CEO of one MFB in the in-depth interview as shown below in his statement:

*"If the CBN regulations are duly followed, microfinance banks will not fail. But because we are not following them diligently, that is why there are problems in the industry. The CBN will tell you: don't give a loan of more than a certain percentage to a **single person**. You go ahead and give a loan of two million or five million to a single individual. So if you have a shareholders' fund of twenty million, and you now go ahead and give five million naira loan to a single*



13. BUSINESS MODEL MANIPULATION

The ability to survive, adapt products to incremental changes in business environment, overcome adversity and prosper has been found to contribute to MFB organisational resilience. Business model adopted by MFB is key. When microfinance bank officers deliberately avoid a proper background check of its customers' businesses to ascertain their ability to pay back loans, before giving them such loans, there is the possibility that the loan would turn bad.

Whatever business model a MFB chooses to achieve its purpose, it is expected to check, among other things (1) the financial capacity and the disposition of the person requesting for a loan, (2) his/her ability to repay, and (3) the business they are into and conditions prevailing in that business. This is to assess how risky a loan might be.

But the findings suggest that some Nigerian microfinance banks did not do the necessary background checks nor follow the procedure identified above. This sometimes was because of bank officials being in a hurry to either increase their customer base or in most cases meet a set official target as well as to aid repayment default (that would benefit them). Such a situation compromises best practice in loan disbursement; making it easy for bank debtors to disappear with bank funds.

The study also indicated that lack of commitment to monitor and implement proper risk mitigation measures, after loan disbursement, played a role in some bank failures. This, according to the findings, is because too much of such unrecovered loans shrink the liquidity of MFBs, thereby raising their portfolio at risk (PAR). PAR in many cases exceeded 20% against the regulatory threshold of 5%. It was just a matter of time for the bank to die.

LOAN REPAYMENT DEFICIT

A recent article in this field pointed bank failures to loan defaults by customers (Indarte and Kanz, 2024) and its implication for the banks themselves. This is in alignment with my earlier finding that non-repayment of loan increases portfolio at risk and ultimately to delinquency. In this situation there are clients who borrow with no intention to repay, and when we have a significant percentage of this in one micro finance bank, that bank sleeps walk into death. To minimise this outcome some form of collateralisation or guarantees may be necessary; and some micro institutions are already threading that path

CONCLUSION

In conclusion, I argue that MFBs flourish or fail due primarily to the activities and behaviour of the human elements, often expressed, in the case of failure, through purposeful design to kill the bank. Fraudulence, intentional dysfunctional business models, non-observance of



individual, is it not too risky? And if that loan was not repaid, the bank would feel its impact. But we are all guilty of it”.

The findings also indicated that such loans were usually not repaid, ballooning NPLs and consequently leading to the failure of many unit MFBs. Small unit MFBs could not cope with unpaid loans (NPLs) due to their weak capital base compared with the robustness of those of their state and national counterparts.

The study also indicated that some moribund MFBs collapsed due to the deception of banks promising loan holidays that did not exist. Such unethical practice included deliberately practicing complex interest/fees regime. This led to difficulty in understanding interest rates and fees on loans; in addition to outright theft by the managers. As a consequence of absence of, or poor internal control measures, including poor due diligence, some (48%) managerial incompetence, (63%) fund diversion and other unethical practices (72%) and theft cases were not discovered sufficiently early. By the time they were discovered, the bank was already failing. The end result is that this weakened the financial capacity of the bank, particularly in times of distress.

The study shows that some Nigerian microfinance banks failed as a result of a combination of factors one of which is their director’s ostentatious living. Such directors were perceived as giving themselves fat salaries, well above what the MFB could sustain. So also were issues around posh company cars and so called “Cost of Living Allowances” (COLA). All of this drained the resources of such banks, with the result that when they encountered any adversity, they were very weak to cope.

12. SUMMARY OF FRAUDULENT BEHAVIOUR

Overall, the research indicates that fraudulent behaviour and practices, mostly among MFB stakeholders, precipitated the death of MFBs. Failure was linked to NPL (100%), unethical practices (46%) and financial manipulation (72%). Many of the managers and leaders falsified records, and diverted company funds for private use, while many customers took loans for one purpose, and diverted them to others with the deliberate intention of not repaying. They were also lending beyond regulatory thresholds, without collateral in single lending. Regulatory officials turned a blind eye when they discovered infractions during inspection visits to MFBs. The fraudulent practices of key human stakeholders and pilferage precipitated capital attrition, thereby weakening the capital base and ability to respond to challenging situations that often require funds. The implication is that a very strong prudential regulatory and policy monitoring and enforcement regimes are critical to having a healthy MFB that can withstand and overcome any adversity.



prudential/regulatory guidelines and institutions designed to be weak are the paths to death. The implication is that a strong and well-articulated monitoring, regulatory and governance regime needs to be enforced by the Central Bank and NDIC to stem MFB's failures and spare the poor from further misery. So also is the need to institutionalize tough penalties on the Directors, managers and key promoters of the failed banks; as well as the breach of Prudential guidelines. This recommendation is complemented by invoking microequity (Meki and Quinn, 2024). Microequity should be attractive and beneficial for many microfinance clients, because of the way that it bundles implicit insurance with the lending contractual arrangement.

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