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THE IMPACT OF THE COVID-19 PANDEMIC ON MICROFINANCE BANKS CUSTOMERS IN NIGERIA

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ABSTRACT

This study investigated the impact of the Covid-19 pandemic on small businesses, poor individuals and vulnerable households who constitute the majority of customers of microfinance banks (MFBs) in Nigeria. A client survey was conducted by telephone and face to face with a representative sample of clients of MFBs in South West Nigeria for the period from 2019 to 2021. A structured questionnaire, interviews, focus group discussions and participant observation were used to generate the data, while the descriptive statistical analytical method was used to analyze and present the findings. The study reveals that the Covid-19 pandemic and the government-mandated lockdown to curtail the spread have dealt a heavy blow to the incomes of businesses and households of MFB clients in Nigeria. The findings provide practical insights for the Nigerian government and suggests a review of the microfinance scheme to improve its effectiveness.

Contribution/Originality: This study contributes to the literature by investigating the impact of the Covid-19 pandemic on the lives and means of livelihood of small businesses, poor individuals and vulnerable households who constitute the bulk of customers of microfinance banks (MFBs) in Nigeria.

1. INTRODUCTION

Toward the end of 2019, news broke out that a novel coronavirus had hit the city of Wuhan, China. The virus later spread to other parts of the world from early February, 2020, and by early April, 2020, over 123 countries had been affected by Covid-19 (World Health Organization, 2020). As expected, the Covid-19 pandemic has had a profound impact on the lives and livelihoods of people around the world, especially people in low-income countries and developing economies (International Monetary Fund, 2020; World Bank, 2020).

Rapid studies on the impact of Covid-19 on the livelihood of people in low-income countries show that the pandemic and the government-mandated lockdowns have had an unprecedented impact (Abi-Habib & Yasir, 2020; Afridi, Dhillon, & Roy, 2020; Hadid, 2020). Perhaps, what has not been sufficiently illuminated is just how critical the situation has become for those groups most at risk from this pandemic. Specifically, lower-income groups and vulnerable households in developing countries and emerging economies not only face the prospect of abject poverty in many cases but also the likelihood that their financial systems may not be sufficiently robust to help them through these trying times (Simon, 2020). Among the most crucial components of the financial system needed at this time of the pandemic is the microfinance sector (Ogden & Bull, 2020; Simon, 2020). The microfinance sector is typically engaged in providing small loans (personal and business), savings accounts and non-financial support to help boost financial inclusion and entrepreneurship within the lower-income communities. According to the Consultative Group to Assist the Poor (CGAP) (2020), the microfinance banks/institutions have over the last two decades received global acclaim for reaching out to communities that have been largely neglected by the traditional financial system as well as by focusing on financially empowering low-income people, especially women.

Microfinance banks have the capacity to offer immediate support to small businesses and vulnerable people impacted by the Covid-19 lockdowns and the resultant economic disruptions while also helping to provide badly needed financial support to their customers, especially in communities that often do not have access to mainstream financial services. The Covid-19 pandemic had expectedly produced both health and economic shocks around the world. At the onset of the pandemic, the International Monetary Fund (2020) and the World Bank (2020) had, in their separate reports, predicted that Covid-19 will produce severe economic shocks that could negatively impact the means of livelihood of poor people and vulnerable households in low-come countries and emerging economies. Baldwin and Mauro (2020) also warned that, depending on how governments in these regions respond and how effective the interventions are, households' income will be severely affected and consumption may be disrupted. Studies (e.g., (Afridi et al., 2020; Hadid, 2020)) show that households will need greater access to credit to smoothen consumption and enable them to pay their increased medical bills. This is where the microfinance banks and institutions are crucial. According to Simon (2020), microfinance institutions have a proven track record of reaching the poor and historically excluded populations, providing critical last-mile microfinance interventions, distribution and services to communities that often do not have access to mainstream financial services.

With the Covid-19 pandemic, microfinance institutions are now more than ever crucial to keeping people connected to essential financial services, maintaining financial stability and sustaining incomes. For instance, most people in developing countries depend on informal businesses to provide for themselves and their families. Informal businesses are usually resilient in a crisis because they cater for the basic needs of communities. However, the Covid-19 pandemic is undermining the very foundation of informal businesses, disrupting supply chains, transportation and the flow of customers.

There are no completed studies yet to ascertain the segments of microfinance banks customers in Nigeria that are mostly affected by the pandemic. There is also the question of how microfinance banks' clients in Nigeria are coping with the situation and what survival measures they have adopted in the face of the crisis. More importantly, there is a need to ascertain how microfinance banks could offer their clients financial solutions that could better support their clients' businesses and wellbeing. The results of this study could provide the government, policy makers and development partners a more comprehensive understanding of the impact of the Covid-19 pandemic on vulnerable groups and households who form the majority of clients and customers of MFBs in Nigeria and elicit the appropriate policies and measures to support the microfinance banking sector and their clients.

Following this introduction, the rest of the paper is organized as follows: Section two is a review of literature on the Covid-19 pandemic and its impacts on income and consumption of poor and vulnerable households; the methodology of the study is provided in section three; Section four presents the data and the analysis thereof; and section five comprises the conclusion and recommendations.

2. LITERATURE REVIEW AND CONCEPTUALIZATION OF COVID-19 PANDEMIC

To conceptualize the shocks from the Covid-19 pandemic, the study adopted the circular economy framework proposed by Baldwin and Mauro (2020). The circular approach mimics the interrelated nature of a modern economy, which is characterized by an intricate web of various economic agents – employees, firms, suppliers, consumers, banks and financial intermediaries. Each economic agent depends on other economic agents to function efficiently and effectively. For instance, everyone is someone else's employee, customer, lender, etc. It is a sort of circulatory artery and if one of the buyer–seller links is ruptured, the outcome will be a cascading chain of disruptions. To employ this circular framework and conceptualize the shocks from the Covid-19 pandemic, emphasis is placed on the transmission channel of the pandemic within the macroeconomy. More importantly, the Covid-19 pandemic has negatively affected various economic agents and disrupted the local and global value chain with serious implications for households and firms. For instance, as firm productivity declines due to closures and lockdowns occasioned by the pandemic, it trickles down directly into the income and poverty level of households, who are the suppliers of capital and labor and the consumers of goods and services produced by firms. As firms shut down due to the pandemic, they will not be able to generate income for households who supply the labor. Moreover, there will be short supply of goods and services which households need to maintain their standard of living. This will affect both consumption and standard of living and increase the level of poverty for households, especially for those who are unable to access credit from formal or informal sources. The circular economy approach shows that the Covid-19 pandemic can transmit not just health shocks but economic shocks through the disruption of economic activities and breakdown of the circular flow of income to and from economic agents.

In two separate but complementary reports, the International Monetary Fund (2020) and the World Bank (2020) showed that Covid-19 will affect households' income and consumption and could worsen the poverty situation in developing countries. However, rapid studies on the Covid-19 pandemic in many jurisdictions around the world showed that access to finance (credit) could mitigate the impact of the pandemic on households' income and consumption. Microfinance is a global recognized poverty alleviation strategy. It is widely recognized that access to microfinance. especially in developing countries, empowers the poor (especially women) while supporting income-generating activities, encouraging entrepreneurial spirit, and reducing vulnerability. For instance, Khandker (2005), in a study using panel data from Bangladesh, found that access to microfinance helped to alleviate poverty in rural communities in Bangladesh.

Similar studies by Lashley (2004) in the Caribbean; Akanji (2001) in Nigeria; Imai, Arun, and Annim (2010) in India; Nawaz (2010) in Bangladesh; Montgomery and Weiss (2011) in Pakistan and Okibo and Makanga (2014) in Kenya all came to the conclusion that microfinance is a veritable tool to alleviate poverty by empowering the poor and supporting income-generating activities of households, especially those in rural areas.

Also, the results were consistent in selected cross-country studies, namely Mwenda and Muuka (2004); Westover (2008); Dumani, Timinipre, Nelson, and Okoyan (2017); and Banerjee and Jackson (2017). These studies unequivocally showed that access to microfinance had salutary effects on poverty reduction in the selected countries and communities. More recently, a study by Stephen (2020) found that access to microfinance has helped to mitigate the impact of Covid-19 on the income and income-generating activities of households in low-income countries in Asia. Abi-Habib and Yasir (2020) in their study on India found that rural farmers who had access to microfinance during the Covid-19 lockdown were better off in terms of stability in consumption than those who had no access to microfinance. Also, Abi-Habib and Yasir (2020) and Afridi et al. (2020) conducted a phone survey in India and found that the urban poor in India who had no access to microcredit were affected disproportionately than those who had access to microcredit during the Covid-19 government-mandated lockdown.

Hadid (2020) in his study on Pakistan found that the government's plan to keep millions of citizens from going hungry during the Covid-19 lockdown had salutary effects on the wellbeing of households who had access to microcredit than those who had no such access. According to his study, the government in Pakistan made elaborate plans to ensure that the poor households and vulnerable groups had liberal access to microfinance and other necessities during the lockdown to prevent the masses from going hungry.

Similar studies, by Nathan and Lise (2020) in Paraguay and Bernard (2020) in selected poor and rural communities in Sri Lanka, unarguably show that there is a broad consensus that access to microfinance could mitigate the economic shocks caused by the Covid-19 pandemic on households' income and means of livelihood. From these studies, we can hypothesize that access to microfinance credit and other microfinance services could help to mitigate the impact of the Covid-19 pandemic on households' income and means of livelihood. Several studies have also been conducted in Nigeria on the impact of the Covid-19 pandemic on various sectors of the economy. For instance, Adekoya and Aibangbee (2020) carried out a study on the impact of the pandemic on debts and recovery actions for corporate entities in Nigeria. They found that the pandemic has negatively affected the corporate debts of firms in Nigeria, and the recovery mechanism put in place by most of these firms have not yielded any appreciable gains. Adenomon, Maijamaa, and John (2022) conducted a study on the effects of the pandemic on the performance of stocks on the Nigerian Stock Exchange. Using data from the stock performance of manufacturing firms, the study found that the pandemic has negatively affected stock returns in Nigeria over the period, and the market capitalization of equity stocks in Nigeria have shed weight over the same period. Akpoveta, Joy, and Joy (2020) focused their study on the impact of the Covid-19 pandemic on the Nigerian economy and the disruptions to businesses occasioned by the pandemic-induced lockdown. They found that economic growth in Nigeria measured by gross domestic product have had three successive negative growths since the outbreak of the Covid-19 pandemic. Aref-Adib and Martin (2020) examined the impact of the pandemic on the economy and policy response by the government. The study found that the Covid-19 pandemic has affected businesses generally in Nigeria and the government-mandated lockdown have had a harmful effect on businesses in Nigeria within the period. Moreover, the government fiscal and monetary policy response to the pandemic have made marginal impact on economic recovery. Similarly, Ekeruche (2020); Lenon (2020); Nseobot et al. (2020) and Ataguba (2020) conducted studies on the impact of the Covid-19 pandemic on the Nigerian and African economies, respectively. All these studies were similar in their findings, that Covid-19 has had negative impact on economic growth evidenced by the negative growth recorded in three successive quarters since the outbreak of the pandemic.

From the results of these studies, we can hypothesize that *the Covid-19 pandemic and the resultant government lockdown has had a negative and significant impact on the operational parameters of microfinance banks in Nigeria over the last two years.*

However, it was noted that none of these studies examined the state of the poor and vulnerable households who usually patronize microfinance banks and institutions. In other words, there is no study in Nigeria yet to show whether microfinance bank customers actually accessed microcredit and other financial services that are critical in mitigating the effects of the pandemic.

3. RESEARCH METHODOLOGY

The study was conducted in selected areas in South West Nigeria, which has six states – Ekiti[1], Lagos[2], Ogun[3], Ondo[4], Osun[5] and Oyo.[6] The South West region is primarily a Yoruba speaking area, though there are different dialects within the same state (Mabogunje, 1962).

[1] Ekiti State was created out of the Old Ondo State in 1996. The state has 16 Local Government Areas, with its capital in Ado-Ekiti. Ekiti State is divided into four areas: Ekiti Central, Ekiti North, Ekiti South and Ekiti West (Ekiti State Government, 2020).

[2] Lagos (meaning "lakes") state was created in May 27th, 1967, and consists of four islands: Lagos Island, Victoria Island, Ikoyi and Iddo. Lagos state has 57 local government areas and was the capital of Nigeria until 1976. Lagos state is popularly known as the center of excellence and the commercial nerve center of Nigeria, with more than half of the industrial investments in Nigeria (Lagos State Government, 2020).

[3] Ogun State was created in 1976 with Abeokuta as the capital. Abeokuta means "under the stone". The state is popularly known as the "gateway state" because of its strategic position and links by road, rail, air and sea to the rest of the country. Its important towns, Sagamu, Ijebu-Ode and Ilaro, served as markets during the lucrative days of the mining industry in Nigeria. Ogun State has 20 local government areas (Ogun State Government, 2020).

[4] Ondo State was created on February 3, 1976, from the former Western State of Nigeria. The state is popularly known as the "sunshine state". It has 19 local government areas and originally included what is now Ekiti State (Ekiti State Government, 2020).

[5] Osun State was created in 1991 from Oyo State. Osun is an inland state with Osogbo as its capital city. The state is said to have got its name from the River Osun, a natural spring that is said to be the manifestation of the Yoruba goddess Osun. The state is popularly known as the "state of living spring". Osun State has 30 local government areas with over 200 towns and is divided into three federal senatorial districts (Ogun State Government, 2020).

A cross-sectional survey design was adopted for the study, which builds insights from a series of interconnected surveys and interviews with selected customers of microfinance banks (MFBs) and management and staff of selected MFBs in the six states of South West Nigeria. The immediate consequences of the government-mandated lockdown on clients and customers of MFBs were documented, drawing on structured questionnaires and interviews. The select interviews were conducted over the telephone for in-depth information that could not be captured by the structured questionnaire deployed online during the lockdown.

There were 1008 microfinance banks licensed in Nigeria as of December 31, 2019, out of which 348 are in the six states of South West Nigeria. In other words, the South West region is home to approximately 35% of all licensed microfinance banks in Nigeria. Lagos state has 178 microfinance banks or approximately 51% of all licensed microfinance banks in the region, making it the state with the highest number of microfinance banks in the zone and also in Nigeria.

More importantly, Lagos state is home to 6 out of the 8 large national microfinance banks with a combined market share of 44 percent of the sector's assets and 38% of deposits. The average assets and deposits of these eight National MFBs far outweigh those of the State and Unit MFBs. And of the credit provided by the MFBs, 52% was intermediated by the 8 National MFBs, 21% by the 109 State MFBs, while the 867 Unit MFBs only provided 28 percent (World Bank, 2018). Therefore, the sample size is large enough to be representative of microfinance banks in Nigeria.

The multi-stage and purposive sampling technique was adopted. The first stage was to create two strata of MFBs – those in urban areas and those in semi-urban/rural settlements. The second stage involves the creation of additional two strata – national banks and others (i.e., state and unit banks). The final stage involves the random sampling of clients and customers of MFBs within each strata to give all the MFBs/customers an equal opportunity of being selected. From this approach, 305 microfinance banks and 6,100 customers (20 customers per bank) were selected for the study. Out of this number, 105 out of 2,100 MFBs/customers were in urban areas, and 200 out of 4,000 MFBs/customers were in semi-urban/rural areas, in line with the World Bank (2020) classification of urban and rural areas.[7]

The questionnaires for the rural banks were administered directly (face-to-face) with the help of research assistants[8] who are familiar with the areas and the local languages. The purpose of the study and items in the questionnaire were explained to the respondents. For the urban banks, the questionnaires were administered online through SurveyMonkey. The MFBs' customer demographic databases were used to generate email addresses for the survey.

The first phase of the study took place between April and May 2020 during the lockdown, and the second phase of the study took place between May and June 2021, which was purposive to give enough time for recovery and comparison of performance parameters after the relaxation of lockdown restrictions in August 2020.

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[6] Oyo State was among the three states carved out of the former Western State of Nigeria in 1976. The state has 33 local government areas and is known as the "pace-setter state" with Ibadan as the capital city. Ibadan is the third largest metropolitan area by population in Nigeria after Lagos and Kano States (Oyo State Government, 2020).

[7] The study used the World Bank's classification of semi-urban and rural areas to designate local councils that are semi-urban and those that are rural. According to the World Bank (2020b), semi-urban and rural areas have a population of at least 5,000 inhabitants in contiguous grid cells with a density of at least 300 inhabitants per km^2, and rural areas that consist mostly of low-density grid cells.

[8] These assistants were postgraduate students who were on break due to the closure of schools because of the coronavirus pandemic in the first phase of the study. They were all resident in the university community and were mobilized for the study. The research assistants were given face masks and hand sanitizers and were assigned to communities that were contiguous to minimize long distance travel because of the lockdown in Nigeria during the first phase of the study.

4. DATA PRESENTATION AND ANALYSIS

4.1. Characteristics of Sampled Customers of Microfinance Banks (MFBs)

Table 1 shows that approximately 66% of the MFBs sampled are located in semi-urban/rural areas. This is in line with the original idea of the government for establishing the banks. The idea of MFBs is that these banks should be established in semi-urban and rural areas where conventional banks do not usually have presence. To this end, the unit MFBs are dominant in terms of scale of operation. For instance, approximately 84% of the MFBs sampled were unit banks.[9] Approximately 15% are state banks[10] and only about 2% are national banks.[11]

Table 1. Characteristics of selected customers of microfinance banks.

Characteristics	Number	Percentage
Area of Operation:		
Urban	105	34.43
Semi-urban/rural	200	65.57
Total	305	100
Scale of Operation:		
National	05	1.64
State	45	14.75
Unit	255	83.61
Total	305	100
Location of Respondents:		
Urban	2,100	34.43
Semi-urban/rural	4,000	65.57
Total	6,100	100

Source: Field Survey, 2020/21.
Impact of the Covid-19 pandemic on customers of microfinance banks.[12]

Moreover, the distribution of customers sampled for the study follows the same trend. Approximately 66% of the customers sampled are located in semi-urban/rural areas, while 34% are located in urban areas.

The data in Table 2 shows the impact of the Covid-19 lockdown on sales of clients of MFBs. The sales level was tracked from the week after the lockdown to the lifting of the lockdown and one year thereafter. To explore the impact on sales, we created a dummy variable for the pre-Covid-19 sales level at 100% and regressed this on the sales of MFBs' customers during and after the lockdown. Overall, there was a decline in the weekly sales of approximately 68% from the pre-Covid-19 level. Customers of MFBs in urban areas reported a greater decline in the weekly sales of approximately 56% against the 35% drop in sales for customers of MFBs in semi-urban and rural areas. There has been a greater recovery of weekly sales post-lockdown for customers of MFBs in urban areas than for those in the semi-urban and rural areas. However, none of these categories of customers has recovered to the weekly pre-Covid-19 sales level.

[9] These microfinance banks are not allowed to have branches outside their approved single location (Central Bank of Nigeria, 2005).

[10] These microfinance banks are allowed to have branches but within a particular state (Central Bank of Nigeria, 2005).

[11] These microfinance banks are permitted to have branches in all the states in Nigeria, including the Federal Capital Territory, Abuja (Central Bank of Nigeria, 2005).

[12] By customers, we mean those who received loans from microfinance banks before and during the Covid-19 lockdown. The sample is predominantly male (65%), females make up 35%, the mean age is 42 years, 12 years of business experience, seven years of schooling and a 45% literacy rate. The most popular business sectors are agriculture (for semi-urban and rural-based customers) and professional services (photographers, schools, laundry, sewing and tailoring) and general retail shops, kiosks, hawkers and small-sized manufacturing and construction firms (for customers in urban areas).

Table 2. Business performance – sales.

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post-Lockdown Recovery (%)
All Microfinance Banks	100	31.8	42.6
National	100	44.3	57.8
State/Unit	100	34.8	46.8

Source: Field Survey, 2020/21.

Table 3 shows the impact of the Covid-19-induced lockdown on the total revenue streams for MFB customers during and after the lockdown. The results largely mirror the impact on the sales level. Overall, there was a decrease of approximately 76% from the pre-Covid-19 level for all MFB customers sampled. However, customers in semi-urban and rural areas reported a greater decline in revenue of approximately 68% from the pre-Covid-19 level against approximately 53% for customers in urban areas. Since the lifting of the lockdown, there has been some recovery in revenue level but none of these categories of MFB customers have attained the pre-Covid-19 revenue level.

Table 3. Business performance – revenue.

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post-Lockdown Recovery (%)
All Microfinance Banks	100	23.8	57.8
National	100	47.5	68.5
State/Unit	100	32.3	51.5

Source: Field Survey, 2020/21.

Table 4 shows the impact of the lockdown on the ability of MFB customers to meet their required loan repayment obligations. It also shows that there was an overall decline of approximately a 66% repayment rate for all categories of MFB customers. There was approximately a 50% decline in repayment rates for national MFB customers as a result of the lockdown. The situation was worse for state and unit MFBs, as there was approximately a 76% drop in the loan repayment rate as a result of the lockdown. Even after the lifting of the restrictions and one year later, loan repayment rates for national MFBs have recovered to approximately 68% but is still a long way off the pre-Covid-19 level. For state and unit MFBs, loan repayment rates had only recovered to approximately 43% – a whopping 57% from the pre-Covid-19 level.

Table 4. Impact on loan repayments.[13]

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post Lockdown Recovery (%)
All Microfinance Banks	100	34.4	52.8
National	100	50.4	67.6
State/Unit	100	24.4	42.8

Source: Field Survey, 2020/21.

Table 5 shows that the Covid-19 pandemic and government-mandated lockdown had an impact on the ability of MFB customers to pay staff salaries and emoluments during the lockdown. Overall, approximately 67% of the MFBs' customers reported that they could their employees during the lockdown, and one year after the lockdown, only about 70% of employees were retained. In other words, about 30% of the workforce could not be re-absorbed after the lifting of the lockdown.

[13] Only 95% of the customers sampled had outstanding loan repayments. The outstanding loans range from N50,000 (US$121 @ US$1:NGN411) to N300,000 (US$730 @ US$1:NGN411) per customer as of the week prior to lockdown.

Table 5. Impact on employees' salaries and emoluments.[14]

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post-Lockdown Recovery (%)
All Microfinance Banks	100	32.8	67.9
National	100	45.5	78.9
State/Unit	100	21.4	52.7

Source: Field Survey, 2020/21.

For national MFB customers, approximately 55% of their workers were not paid salaries and emoluments during the lockdown, and one year after the lifting of the lockdown, approximately 80% of their workers have resumed work. For state and unit MFB customers, approximately 79% of their workers did not receive any form of payment during the lockdown, and only about 52% of these workers were retained one year after the lifting of the lockdown. According to the survey, most of the MFBs' customers sent their workers on unpaid leave, while few of them, especially those in urban areas and who have internet access, were able to work from home.

Table 6. Impact of business continuity.

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post-Lockdown Recovery (%)
All Microfinance Banks	100	23.6	52.3
Urban	100	40.2	65.8
Semi-urban/rural	100	68.5	75.3

Source: Field Survey, 2020/21.

Table 6 shows the perception of MFB customers on the impact of the Covid-19 pandemic and government-mandated lockdown on their business continuity and future outlook. Overall, approximately 24% of MFB customers expect that when the restriction is lifted their businesses will return to the situation from before the pandemic. For customers of MFBs in urban areas, approximately 40% believed that their businesses would return to normal if the lockdown is lifted, while for customers in the semi-urban and rural areas, approximately 69% were of the view that their businesses would return to the situation from before the pandemic and lockdown.

However, one year after the lifting of restrictions, approximately 66% of customers in urban areas reported that their businesses had returned to normal compared to 75% in semi-urban and rural areas. It is obvious that customers of MFBs in urban areas were more affected by the pandemic and the government-mandated lockdown than customers in semi-urban and rural areas.

Table 7. Impact on household income

Characteristics	Pre-Covid-19 (%)	During Lockdown (%)	Post-Lockdown Recovery (%)
All Microfinance Banks	100	33.6	42.8
Urban	100	43.8	66.8
Semi-urban/rural	100	61.0	72.8

Source: Field Survey, 2020/21.

Table 7 shows the impact of the Covid-19 pandemic and government-mandated lockdown on the household income of MFB customers. The impact on household income mimics the decline in sales and business revenue. This means that there was no income from other sources, such as wages, casual labor, transfers, government palliatives or subsidies, to offset the loss in sales and revenue for these customers. Table 7 also shows that there was a decline of approximately 66% in the household income of MFB customers generally. Even one year after the lifting of the

[14] A typical client of an MFB in Nigeria does not have paid employees beyond the owner, and the few who have employees typically employ family members who are, strictly speaking, not paid employees.

restrictions, the household income of MFB customers had only recovered to approximately 43% of its pre-pandemic level – a loss of approximately 57%.

However, the situation was less severe for MFB customers in semi-urban and rural areas. There was a loss of 39% in household income during the lockdown with a recovery of approximately 73% one year after the lifting of the lockdown. This could be because customers in these areas have more offsetting incomes from other sources aside from the revenue from sales and businesses. For instance, government palliatives were concentrated more in households in semi-urban and rural areas than in urban areas in Nigeria.

Table 8. Recommended assistance.

Characteristics	Cash Donation (%)	Food Donation (%)	Debt Rescheduling (%)	Debt Forgiveness (%)	New Loan (%)
National	19	22	20	27	50
State	41	34	35	32	28
Unit	40	44	45	41	22
Total	100	100	100	100	100

Table 8 reveals the nature of assistance recommended by customers of MFBs to help them cushion the impact of the pandemic and the government-mandated lockdown. For instance, 19% of customers of national MFBs recommended cash donation against 41% and 40% of state and unit MFB customers, respectively.

Also, 22% of national MFB customers recommended food donation to cushion the effect of the Covid-19 pandemic against similar requests of 34% and 44% of customers of state and unit MFBs, respectively. In terms of debt rescheduling, 20% of customers of national MFBs requested the same to enable them to cope with the harsh realities of the Covid-19 pandemic against 35% and 45% of customers of state and unit MFBs, respectively.

Moreover, 27% of customers of national MFBs recommended debt forgiveness to cushion the effect of the pandemic, whereas 32% and 41% of state and unit MFB customers, respectively, made similar recommendations. Finally, 50% of national MFB customers recommended new loans to mitigate the impact of the pandemic on their businesses, whereas 28% and 22% of customers of state and unit MFBs, respectively, were in agreement with this request.

Table 9. Assistance received.

Characteristics	Cash Donation (%)	Food Donation (%)	Debt Rescheduling (%)	Debt Forgiveness (%)	New Loan (%)
National	0	0.2	28	0	28
State	0	0	14	0	12
Unit	0	0	8	0	07

Source: Field Survey, 2020/21.

Table 9 reveals the level of assistance received by customers of MFBs vis-à-vis the recommended assistance. From the table, it can be seen that none of the customers of MFBs received any cash donation or food donation from the banks to cushion the impact of the pandemic. Only about 0.2% of customers of national MFBs reported receiving some food donation from the banks.

Moreover, only about 28% of customers of national MFBs received debt rescheduling as a result of the pandemic and the associated lockdown. This is against 14% and 8% for state and unit MFBs, respectively. Again, there was no debt forgiveness from any of the three-tiers of MFBs – national, state or unit.

In terms of new loans, 28% of customers of national MFBs received new loans to assist their businesses against 12% for state MFBs and 7% for unit MFBs. Overall, the MFBs did little to assist their customers when assistance was badly needed. Although the national government, through the Central Bank of Nigeria, encouraged the banks to reschedule loan repayments for their customers, less than 30% of eligible customers received such favors.

5. CONCLUSION

In this study, the impact of the Covid-19 pandemic on the lives and means of livelihood of clients and customers of microfinance banks (MFBs) in Nigeria was investigated. The key questions the study sought to answer are: To what extent has the coronavirus pandemic impacted the activities of customers of microfinance banks (MFBs) in Nigeria, and to what extent have the MFBs assisted their customers to cushion the impact of the pandemic?

The study reveals that the majority of MFB customers reported huge declines in weekly sales. On average, weekly sales fell by approximately 60% for all the customers of MFBs sampled. Most of these customers, especially those in urban areas, experienced more than a 75% decrease in sales because of the complete shutdown of their businesses during the lockdown. Even after the lockdown, many are yet to return to the level they were at before the lockdown. The implication is that the Covid-19 pandemic and government-mandated lockdown may have affected their suppliers, their client bases and their business operations to such a degree that they are unable to return to their normal pre-pandemic levels.

Moreover, the decline in sales also affected the ability of the majority of customers who have outstanding loan repayments with MFBs to repay them. From the survey, less than 20% of the respondents were able to pay back the full monthly repayment due on their outstanding loans. The high level of non-repayment of outstanding loans will likely lead to an increase in the portfolio at risk (PAR) for MFBs. As a result, the MFBs might be forced into involuntary loan rescheduling and greater provisioning for loan losses with severe implications regarding their liquidity, asset quality, profitability and their ability to create more loans.

The study also showed that the pandemic and the lockdown affected the total household income of MFB customers. Of greater worry is that there was no offsetting of the impact on sales with income from other sources such as wages, labor, transfers, government palliatives or subsidies. The implication is that for most customers of MFBs, their household income mirrors their business sales. For instance, there was approximately an 85% average decrease in the household income of MFB customers in the survey, which largely mirrors the impact on business sales. This, of course, would have a severe impact on their household's economic situation and on their ability to meet household expenditures, especially feeding and medical needs.

The study also revealed that the Covid-19 pandemic created unemployment challenges for employees of MFB customers. Although most of the MFBs' customers do not have paid employees beyond the owners and family, the few who have had sent them home. The survey showed that most of the MFBs' customers who have employees had sent them away and very few sent their employees away on paid leave or organized for them to work from home. For a country already battling a huge unemployment problem, the Covid-19 pandemic has further complicated the situation in Nigeria. Furthermore, the study revealed that most of the MFBs' customers expressed optimism that when the lockdown is lifted their businesses would return to normal. But this is not happening. One year after the lifting of restrictions, their businesses are yet to return to the level before the pandemic. The economy of Nigeria is yet to stabilize, and the much-expected support from the government during the transition period has not materialized. Our finding showed that less than 1% of all the MFBs' customers surveyed received any form of support from the government or the MFBs. Overall, less than 30% received debt rescheduling or flexibility in their loan repayment obligation from the MFBs. Furthermore, despite their large numbers, the MFBs achieved little in terms of expanding credit and other financial services to their customers at a time when these services were much needed. In summary, the study provides empirical evidence that the Covid-19 pandemic and the government-mandated lockdown to curtail the spread of the virus have dealt a heavy blow to the incomes of businesses and households of most of the MFBs' customers in Nigeria. The hope that their businesses would return to normal after the lifting of the restrictions have so far not materialized. The general economy of Nigeria has not stabilized as expected and the MFBs and government have done very little to assist these customers who are most in need of support at this time. The implication of the findings is threefold, namely regulatory, operational and supervisory. Taking them seriatim:

First, there is an urgent need for regulatory assistance for the MFBs' customers. This could come by way of provision of funding for MFBs for on-lending to their customers. The loans should be structured at concessionary rates and with longer moratorium to enable customers to re-capitalize and inject fresh liquidity into their businesses. This should be done as a matter of urgency as most of the MFBs' customers are from vulnerable households and microenterprises who are working hard to move forward in the face of the pandemic.

Second, there is a need for the creation of a special social fund for MFBs for on-lending to customers. This special fund should be funded by the government from the Covid-19 Palliative Fund already appropriated by the National Assembly. MFBs should be eligible for access to this fund and will be required to on-lend the same to their customers at concessionary rates, and participating MFBs should be encouraged to show empathy to their customers. For instance, while the MFBs work towards limiting their loan losses, they should also show empathy to struggling customers by restructuring their loan obligations through longer moratorium, interest waivers and debt cancellation where possible. The special social fund could be helpful in this direction to reduce further misery for struggling customers who need all the financial assistance they can get at this critical time.

Third, there is an urgent need to encourage MFBs, especially the unit MFBs that are primarily found in semi-urban and rural areas, to leverage information and communication technology (ICT) in their operations. This will enable them to serve their customers remotely through electronic channels and reduce the need for physical contact. To this end, there is a need for the Central Bank of Nigeria to galvanize the National Association of Microfinance Banks (NAMFBs) to speed up the implementation of the National Association of Microfinance Banks unified IT platform (NAMBUIT), which has remained in the pipeline for too long. This unified information technology platform will enable the MFBs, especially those in rural areas, to automate their operations, enhance statutory reporting and implement an electronic payment system to achieve economics of scale through bulk purchases and the provision of a broad array of microfinance products covering payments, savings and credit services. Finally, going forward, there will be a need for the regulatory authorities, especially the Central Bank of Nigeria, to undertake a comprehensive assessment of the MFBs, especially the state and unit MFBs, to determine their going concern status. The proposed assessment should also involve a thorough review of the regulatory framework and prudential requirements as applied to MFBs, with a view to adjusting these requirements where necessary. In particular, there is a need to enforce new capital regulations in view of the deterioration of the asset quality of these banks. The study shows that the capital adequacy of most of the MFBs, especially the unit MFBs, has been seriously eroded, and shareholders' funds have been impaired by huge loan losses. There is, therefore, a need for the Central Bank of Nigeria to enforce a new regulatory capital requirement that will involve a fresh injection of funds from the shareholders and consolidations through mergers and acquisitions. Everything must be done to ensure the existing MFBs are standing on a sure financial footing to put an end to future regulatory forbearance. There are limitations to this study. First, the sample size and timeframe. The study was conducted in six states that make up the western region in Nigeria. Although, this region is home to 35% of MFBs, it may not be representative enough of all MFBs in Nigeria. Nationwide coverage would have been desirable for a comparison and a better picture of the situation of MFBs' clients and customers in Nigeria. Also, the timeframe was from 2019 to 2021, just one year prior to the outbreak of the Covid-19 pandemic and government-mandated lockdown to curtail the spread and one year after the lifting of restrictions. The timeframe may be too short to make any meaningful deductions on the impact of the pandemic on the lives and means of livelihood of clients and customers of MFBs or even to assess the effect of the coping mechanisms and policies put in place by the microfinance banks, the government and the clients themselves. As a rapid study, our aim was to obtain a "feel" about how the pandemic is impacting businesses and the livelihoods of small businesses, households and vulnerable groups who constitute the bulk of clients and customers of MFBs.

A second area of limitation is the nature of the data analysis and discussions. We acknowledge that there is limited discussion on the findings. More importantly, the statistical analysis was merely descriptive in nature. Even though the nature of our data does not readily lend itself to robust econometric analysis, we acknowledge the deficit in the descriptive analysis as opposed to more robust econometric techniques that may have yielded better results. However, we draw on the methodology of several rapid studies on the impact of the Covid-19 pandemic on the lives and means of livelihood of small businesses, households and vulnerable groups, notably Aref-Adib and Martin (2020); Ekeruche (2020); Lenon (2020); Nseobot et al. (2020) and Ataguba (2020), and we found some consistency in our results. Given the major limitations of this study highlighted above, it is recommended that future research should include all the microfinance banks in Nigeria and their customers, perhaps arranged in clusters and regions. A country-wide study will draw a balance and provide a basis to identify similarities and differences of the challenges faced by microfinance banks and their clients/customers from the different geo-political zones in the country. This approach will undoubtedly inform policymakers regarding microfinancing in Nigeria.

There is also a need for future studies to adopt a more robust econometric approach. Our biggest challenge was that the timeframe was too short to generate the type of quantitative data that would be readily amenable to robust econometric modeling. We therefore recommend that future research should be based on quantitative data which can be sourced from the financial records of selected clients and customers of MFBs in Nigeria. It is envisaged that a robust econometric approach may offer more insights on the challenges faced by clients/customers of MFBs in Nigeria as result of the Covid-19 pandemic.

Furthermore, there may be a need to extend the study on the impact of the Covid-19 pandemic on the lives and means of livelihood of small businesses, poor communities and vulnerable households to the entire African continent. Although the study by Foundation Grameen Credit Agricole (2020) included four African countries, there is a need to identify the challenges imposed by the Covid-19 pandemic on small business and vulnerable households in the continent. A continent-wide study could be carried out on a cluster basis incorporating selected pockets, such as Central Africa (Gabon, Rwanda); Anglophone West Africa (Nigeria, Ghana, Gambia and Sierra Leone); Francophone West Africa (Togo, Benin, Cote d'Ivoire and Senegal); Southern Africa (South Africa, Botswana, and Malawi) and East Africa (Uganda, Kenya and Tanzania).

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