

## RISK MANAGEMENT AND FINANCIAL SUSTAINABILITY OF MICRO FINANCE BANKS IN NORTH CENTRAL NIGERIA

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### ABSTRACT

This study investigates Risk Management and financial sustainability of MFBs in North Central Nigeria. Specifically, it examines the effects of credit and liquidity risks on financial stability. Using a descriptive survey research design, the study targeted directors and management staff across various categories of MFBs, employing structured questionnaires and stratified random sampling. Data analysis was conducted using SPSS and Pearson correlation techniques. The findings reveal a statistically significant negative relationship between credit risk and the capital base ( $r = -0.812, p < 0.000$ ), as well as between liquidity risk and the capital base ( $r = -0.082, p < 0.000$ ). These results underscore the critical need for robust ERM frameworks to mitigate these risks. In conclusion, credit and liquidity risks significantly undermine the capital base of MFBs in North Central Nigeria. The study recommends prioritizing the implementation of comprehensive ERM systems, aligning risk management strategies with international best practices, and strengthening regulatory oversight by the Central Bank of Nigeria (CBN). Future research should explore the effects of operational and market risks on the financial stability of MFBs to provide a more holistic understanding of risk dynamics in this sector.

**Keywords:** Capital Base, Credit Risk, Financial Stability, Economic Development, Enterprise Risk Management, Financial Inclusion, Liquidity Risk

### 1. INTRODUCTION

Microfinance banks (MFBs) play a crucial role in providing financial services to underserved populations, fostering economic development, and promoting financial inclusion (Akinyemi & Oladejo, 2020). However, the persistent failure and liquidation of MFBs have posed significant challenges to the sector over the past decade. Nationally, the number of operational MFBs decreased from 1,008 in 2017 to 880 in 2022, while in North Central Nigeria, the number declined from 184 in 2017 to 148 in 2022 (Central Bank of Nigeria [CBN], 2022). This decline underscores the challenges faced by MFBs, including exposure to credit risk, liquidity risk, and inadequate capital bases. The regulatory framework for MFBs, introduced in 2005, was designed to stabilize and strengthen their operational capacities. This framework incorporated Enterprise Risk Management (ERM) practices, such as credit and liquidity risk management, aimed at promoting sustainability and reducing systemic vulnerabilities (CBN, 2020). Despite these measures, the increasing volume of non-performing loans (NPLs) indicates that credit risk remains a critical challenge. Furthermore, liquidity risks often lead to cash flow crises, undermining the ability of MFBs to meet their financial obligations (Ojo et al., 2021).

Corporate governance is another crucial factor influencing the sustainability of MFBs. Weak governance structures often exacerbate operational inefficiencies, leading to systemic risks and financial instability (Ogunleye, 2019). As a result, addressing these challenges requires a robust risk management framework that includes credit risk, liquidity risk, and governance mechanisms to strengthen the financial sustainability of MFBs. Despite the introduction of regulatory frameworks and ERM practices, MFBs in North Central Nigeria continue to face significant challenges. These challenges include: Continuous increases in ERM variables, such as credit and liquidity risks, Persistent failure and liquidation of MFBs, Inability of MFBs to meet operational overheads, Loss of deposits by clients due to bank closures and Rising unemployment as a result of the collapse of MFBs.

These issues highlight gaps in the effective management of credit and liquidity risks, which are critical for maintaining a robust capital base. Without addressing these gaps, the financial sustainability of MFBs remains uncertain, further threatening their role in fostering economic development and financial inclusion (Adebayo & Abiodun, 2021).

### 2. RESEARCH QUESTIONS

- To what extent does credit risk affect the capital base of MFBs in North Central Nigeria?
- How does liquidity risk affect the capital base of MFBs in North Central Nigeria?

This study has both practical and theoretical significance. Practically, it offers insights for policymakers, regulators, and MFB operators to: Reduce the frequency of failures and liquidations of MFBs, Minimize non-performing loans

and improve financial sustainability, Enhance the application of ERM practices, including legal and reputational risk management and Guide MFBs in North Central Nigeria on adopting relevant ERM strategies for sustainability. Theoretically, this study fills the gap in existing literature by focusing on ERM and MFBs within the context of North Central Nigeria. It also utilizes primary data to provide fresh perspectives, which differ from the reliance on secondary data in prior research. Finally, it serves as a reference for students and scholars in banking and finance, expanding the discourse on risk management and financial sustainability.

The study focuses on the following: Geographical Scope: North Central Nigeria, covering Abuja, Kwara, Nasarawa, Benue, Plateau, Niger, and Kogi states. Time Frame: 2012 to 2022. Variables: Credit risk and liquidity risk as independent variables, and capital base as the dependent variable. Target Respondents: Directors and management staff of selected MFBs in North Central Nigeria.

### 3. LITERATURE REVIEW

Enterprise Risk Management (ERM) is a systematic and consistent methodology organizations use to identify, assess, control, exploit, finance, and monitor risks from diverse sources. Its ultimate objective is to maximize stakeholder value in both the short and long term (Manab et al., 2010; Adepoju & Akinwunmi, 2023). Unlike traditional risk management, which tackles risks in isolated silos, ERM employs a holistic approach that recognizes the interconnected nature of risks. This approach integrates risk management with corporate strategies, aligning it with organizational goals to enhance adaptability and resilience in dynamic environments. ERM is built on core components that ensure a comprehensive and effective risk management process. These include risk identification, where potential risks from internal and external sources are recognized; risk assessment, which involves evaluating the likelihood and potential impact of identified risks; risk response, where strategies are formulated to mitigate, transfer, accept, or exploit risks; and monitoring and reporting, which focuses on tracking risk indicators and updating risk profiles to maintain relevance. By embedding ERM into strategic planning, organizations not only minimize potential losses but also leverage opportunities. This integration leads to better decision-making, optimized resource allocation, and stronger corporate governance (Ekechukwu & Ojo, 2022).

#### ERM in Microfinance Banks (MFBs)

For Microfinance Banks (MFBs), ERM is vital given their unique challenges in serving underserved populations. These institutions encounter multiple risk dimensions, each requiring tailored management strategies to ensure operational and financial stability. Credit Risk: Credit risk, one of the most significant challenges for MFBs, arises from borrowers' inability to meet their financial obligations. High default rates can jeopardize the financial health of these institutions. Effective credit risk management involves rigorous borrower assessments using the five Cs of credit—Capital, Condition, Character, Capacity, and Collateral (Onwuegbuchi, 2022). Additionally, adopting innovative credit-scoring models and diversifying loan portfolios are effective strategies for minimizing exposure to defaults.

Liquidity Risk: Liquidity risk poses another critical threat to MFBs, often stemming from a limited deposit base and overreliance on short-term funding. Addressing this risk requires diversification of revenue streams, the establishment of contingency funding mechanisms, and the maintenance of optimal cash reserves. Leveraging financial technologies to enhance cash flow management can also bolster liquidity stability (Agada, 2023). Operational Risk: Operational risks in MFBs can result from human errors, fraud, ineffective processes, or technological failures. Given their community-focused operations, maintaining operational efficiency is essential. This can be achieved through adherence to Know-Your-Customer (KYC) protocols, the implementation of robust internal controls, and regular training for employees on policies and technological systems (Idowu et al., 2023).

Legal and Regulatory Risk: Compliance with legal and regulatory frameworks is crucial for the sustainability and reputation of MFBs. Non-compliance can result in financial penalties, sanctions, or even license revocation. Staying aligned with evolving regulations through proactive engagement with regulatory bodies ensures operational continuity and credibility (Adeola et al., 2023). Reputational Risk: Operating in close-knit communities makes MFBs particularly susceptible to reputational risks. Unethical practices or negative customer experiences can quickly erode trust and loyalty. Transparency, proactive resolution of customer grievances, and maintaining ethical standards are essential to safeguard reputation and foster community trust (Okonkwo & Nwachukwu, 2022). However, the study focuses on credit risk and liquidity risk

#### Microfinance Banks (MFBs)

MFBs in Nigeria originated from the transformation of community banks in 2005, following regulatory frameworks introduced by the Central Bank of Nigeria (CBN). Their primary mission is to promote financial inclusion and alleviate poverty by providing financial services to individuals and businesses excluded from traditional banking

systems (Okojie et al., 2022). The core offerings of MFBs include micro-lending, which supports entrepreneurial activities with small loans; micro-savings, which encourage savings among low-income earners; and microinsurance, which provides tailored risk mitigation solutions for underserved populations. However, MFBs face structural challenges, including restricted access to foreign exchange services and international funding. These limitations underscore the need for innovative strategies and sound risk management practices to remain competitive and fulfill their social mandate (Adetola et al., 2023).

### **Sustainability of MFBs**

The sustainability of MFBs extends beyond financial viability and encompasses a holistic framework addressing financial, human resource, mission, and program sustainability. Financial sustainability ensures that MFBs generate sufficient revenue to cover operational costs and reinvest in growth. This requires effective cost management, innovative product development, and efficient operational practices to maintain financial health (Adebiyi, 2022). Human Resource Sustainability is the ability to attract, develop, and retain a skilled and motivated workforce is critical for MFBs. Regular professional development, employee engagement, and the creation of a supportive work environment contribute to HR sustainability, reducing turnover rates and enhancing service quality.

Mission Sustainability means staying true to the core mission of poverty alleviation and financial inclusion is essential for maintaining relevance and stakeholder trust. Any deviation from this mission risks eroding the institution's credibility and impact and Programme Sustainability tailored financial products and services that address the needs of underserved communities are vital for ensuring long-term program impact. Continuous adaptation to changing socio-economic conditions and customer needs enables MFBs to remain effective and relevant (Oladokun & Oluwafemi, 2023). Through a well-implemented ERM framework and a commitment to sustainability, MFBs can navigate the complexities of their operating environments, manage risks effectively, and achieve their dual objectives of financial stability and social impact. However, this study focuses on financial sustainability

### **Empirical Review**

Several studies have explored the application of Enterprise Risk Management (ERM) to enhance the sustainability of Microfinance Banks (MFBs). For instance, Ekechukwu and Ojo (2022) investigated ERM practices in Nigerian MFBs, revealing that many institutions adopt fragmented risk management approaches rather than comprehensive frameworks. The lack of integration, attributed to insufficient awareness, inadequate resources, and lack of management commitment, undermines organizational resilience and adaptability. While this study highlights important barriers to effective ERM implementation, it leaves gaps in addressing how ERM frameworks can be tailored to incorporate legal and reputational risks specific to MFB operations. Moreover, the reliance on qualitative methods without triangulating findings with quantitative data limits the depth of empirical insights. Similarly, Agada (2023) examined liquidity risk management in MFBs in North-Central Nigeria and found that effective practices like diversified revenue streams and contingency planning positively influence operational sustainability. However, the study did not explicitly link these practices to a broader ERM framework, leaving a gap in understanding how liquidity management integrates with other risk categories, such as reputational or regulatory risks. Furthermore, while the study employed quantitative methods, its narrow focus on liquidity risk omits the multidimensional nature of sustainability, particularly HR and program sustainability, which are critical for MFB longevity.

Adeola et al. (2023) explored the relationship between regulatory compliance and customer trust in MFBs in Lagos and Abuja, finding that adherence to regulations significantly enhances customer retention and institutional performance. Although the study underscores the importance of regulatory compliance, it does not delve into its interaction with broader ERM practices, nor does it address sustainability comprehensively. The use of a mixed-method approach adds value but could have been expanded to incorporate sustainability dimensions beyond customer trust.

Okonkwo and Nwachukwu (2022) highlighted the impact of reputational risks on customer loyalty in Southeastern Nigerian MFBs. Their findings emphasize the critical role of ethical practices and effective communication in mitigating reputational damage. However, their focus on reputational risks in isolation neglects the interplay between these risks and other components of ERM. Moreover, the study's convenience sampling and limited sample size of 20 institutions constrain the generalizability of its conclusions, highlighting the need for broader, more representative studies. While these studies collectively contribute to understanding ERM in MFBs, several gaps remain: Existing research largely overlooks how ERM frameworks can be customized to address the unique operational, legal, and reputational challenges faced by MFBs. Sustainability is rarely explored as a multidimensional construct, with insufficient attention to HR, mission, and program sustainability. Many studies rely heavily on secondary data or qualitative approaches without triangulating findings with primary quantitative data. These critical risk categories are

often excluded from ERM frameworks in MFB research and many studies examine fewer than 15 institutions, limiting the robustness and generalizability of findings.

This study addresses these gaps by incorporating legal and reputational risks to create a holistic approach tailored to MFBs. Studying 32 MFBs in North-Central Nigeria to enhance the generalizability of findings. Employing empirical methods to provide robust evidence for ERM practices and their outcomes and Examining sustainability through HR, mission, and program dimensions to present a multidimensional perspective on MFB resilience

### Theoretical Framework

This study is anchored on Stakeholder theory, initially introduced by Freeman (1984), which asserts that organizations must consider the interests of all parties affected by their operations, not just those of shareholders. These stakeholders ranging from employees and customers to regulators and the broader community each hold a vested interest in the organization's success. Freeman (1984) emphasized that an organization's long-term viability is heavily dependent on maintaining positive relationships with all its stakeholders, as each group plays an essential role in ensuring the organization's operational stability and growth. More recently, Jones et al. (2023) expanded on this theory by arguing that organizations must be accountable to multiple stakeholder groups simultaneously and avoid disproportionately benefiting one group at the expense of others.

Stakeholder theory suggests that by addressing the needs and concerns of these diverse groups, an organization can create value for all involved. This value creation, in turn, helps the organization achieve its business objectives while promoting ethical practices and social responsibility. A careful balance of stakeholder interests can also drive sustainability and encourage organizational behaviors that align with broader societal values such as environmental stewardship, ethical labor practices, and equitable financial outcomes. In the context of Microfinance Banks (MFBs), stakeholder theory is particularly relevant. MFBs operate in a unique space where their success is directly tied to their ability to meet the needs of a wide range of stakeholders. These institutions are designed to promote financial inclusion by providing access to financial services for underserved populations, and their success is deeply interconnected with the financial well-being of clients, the security of investors, the welfare of employees, and the regulatory frameworks within which they operate. Enterprise Risk Management (ERM) plays a critical role in aligning the interests of MFB stakeholders. ERM helps mitigate risks such as credit risk (loan defaults), liquidity risk (inability to meet financial obligations), operational risk (business disruptions due to internal failures), legal risk (non-compliance with regulations), and reputational risk (damage to the bank's reputation). By integrating ERM into MFB operations, these institutions can manage risks effectively, thereby protecting both the bank and its stakeholders (Smith & Wesson, 2022).

A key element of ERM in MFBs is enhancing transparency, which is vital for building trust with stakeholders. Investors and regulators rely on transparent, accurate reporting to assess the bank's financial health and compliance with regulations. Customers, particularly those in vulnerable populations, benefit from clear communication about loan terms, fees, and the bank's commitment to ethical lending practices. Transparency helps to ensure that stakeholders are well-informed, fostering greater trust and collaboration (Johnson & Lee, 2023). Furthermore, ERM contributes to strengthening governance within MFBs by ensuring that decision-making processes are fair, ethical, and aligned with the long-term goals of the institution. With effective governance, including regular risk assessments and stakeholder engagement, MFBs can better meet their social responsibility mandates and improve operational efficiency (Martin & Thompson, 2022). ERM also plays a crucial role in promoting sustainability within MFBs. Beyond financial profitability; sustainability for MFBs involves managing environmental, social, and governance (ESG) risks. By ensuring their business models are resilient to external shocks, such as economic downturns or regulatory changes, MFBs can continue to fulfill their mission of financial inclusion. Effective ERM allows MFBs to mitigate risks that might undermine their long-term viability, ensuring they remain able to provide critical financial services to marginalized communities (Davis & Hill, 2023). Aligning ERM with strategic objectives enables MFBs to create long-term value for all stakeholders. Shareholders benefit from stable returns, employees enjoy job security and career development, and customers gain access to affordable financial products, and the community experiences economic development and poverty alleviation through financial inclusion.

At the heart of stakeholder theory is the idea that organizations must foster mutual trust and collaboration among stakeholders. For MFBs, this means balancing profitability with the social and financial well-being of customers, ensuring regulatory compliance, and supporting employee development. By adopting ERM practices, MFBs show a commitment to managing risks that could affect these stakeholders, building trust, and creating a collaborative environment where all parties work towards common goals, such as financial inclusion and poverty reduction (Nguyen & Hall, 2024). Embedding ERM into the strategic framework of MFBs increases their resilience and ensures



their long-term sustainability. This alignment with stakeholder interests—especially regarding risk management, transparency, governance, and sustainability helps MFBs create lasting value while achieving their mission and driving financial performance. In other words, stakeholder theory offers a comprehensive lens for understanding the role of ERM in MFBs. By effectively managing risks and fostering transparent, ethical, and sustainable practices, MFBs can align their objectives with the interests of all stakeholders, creating long-term value and furthering their mission of financial inclusion. The integration of ERM into stakeholder theory enables MFBs to navigate the complexities of their operational environment, safeguard stakeholder interests, and build a foundation for sustainable growth and development (Thomas et al., 2024).

#### 4. METHODOLOGY

This study adopts a descriptive survey research design to investigate the relationship between the financial capital base of Microfinance Banks (MFBs) and the implementation of Enterprise Risk Management (ERM) practices in Nigeria's North Central region. This approach is ideal for examining and describing existing characteristics and relationships between variables without manipulating them. It facilitates the collection of detailed, quantifiable data from directors and management staff of MFBs, enabling an evaluation of how different risk management practices influence the financial stability of these institutions. The study employs descriptive statistics and correlation analysis to analyze the relationship between the independent variables capital risk and liquidity risk and the dependent variable, the capital base. Data processing is carried out using the Statistical Package for the Social Sciences (SPSS), which ensures efficient and accurate data cleaning, coding, and advanced statistical analysis. Microsoft Excel complements SPSS by assisting with data entry, management, and preliminary statistical computations. Frequency analysis is utilized to summarize demographic and categorical data, such as the type of bank and respondents' roles (directors and management staff). Descriptive statistics provide measures such as mean, standard deviation, and variance to identify trends and patterns in the data. Pearson correlation analysis is employed to determine the strength and direction of the relationship between each independent variable (capital risk and liquidity risk) and the dependent variable (capital base). Primary data is collected through a structured questionnaire designed to capture the perspectives of directors and management staff on risk management practices and their perceived impact on the capital base of MFBs. The questionnaire incorporates a five-point Likert scale to measure respondents' attitudes and perceptions systematically. A stratified random sampling method is employed to ensure representative sampling across different categories of microfinance banks, based on their capital base classifications (National, State, and Unit levels). This sampling method ensures that the sample represents the various classes of MFBs operating in the North Central region.

The population for the study includes directors and management staff of microfinance banks categorized by their capital base, as outlined in the CBN Circular FPR/DIR/CIR/GEN/07/017 (2018). The population and sample distribution are as follows: National Category – 12 directors and 10 management staff; State Category – 162 directors and 126 management staff; and Unit Category – 903 directors and 645 management staff. The sample size is determined based on the capital strength of the institutions, ensuring that the selected MFBs represent a substantial portion of the total capital base. The chosen sample accounts for ₦23.65 billion out of a total capital base of ₦29.45 billion, ensuring comprehensive representation across financial categories. The descriptive research design is particularly appropriate for this study as it provides an in-depth understanding of the current state of risk management practices in MFBs without altering any variables. Its primary objective is to describe the relationships between risk factors and the capital base, aligning well with the study's aims. The stratified random sampling approach ensures that the sample reflects the diversity of microfinance banks, enabling valid comparisons across institutions of different sizes and financial capacities. This enhances the generalizability of the findings. The use of a five-point Likert scale allows for a structured and consistent capture of respondents' attitudes and perceptions, which is well-suited for measuring opinions and providing a comprehensive analysis of how risk management practices are viewed by decision-makers. Statistical tools such as Pearson correlation and descriptive statistics are standard in financial research and offer reliable insights into the relationships between variables. These methods are particularly effective in quantifying how risk management practices impact the financial stability of microfinance banks, thereby supporting the study's objectives.

#### 5. MODELING AND ANALYSIS

A total of 500 questionnaires were distributed, and 396 responses were received, representing a response rate of 79.2%. However, 44 responses were invalid, leaving 352 valid responses, which represent 70% of the total sample. This high response rate enhances the reliability of the data collected. The demographic characteristics of the respondents are summarized in Table 1. The data indicates the distribution of respondents across various organizational roles.

**Table 1:** Demographic Characteristics of Respondents

Category	Frequency	Percentage (%)
Directors	181	51.4
Management Staff	171	48.6
Total	352	100.0

Source: SPSS Output, 2024

### Test of Hypotheses

#### Hypothesis One

The first hypothesis states: H1: There is a significant negative relationship between credit risk and capital base in microfinance banks in North-Central Nigeria. The results of the regression analysis are presented in Table 2.

**Table 2:** Regression Results for Hypothesis One

Variable	Coefficient (B)	Std. Error	t-value	Sig. Level
Credit Risk	-0.812	0.290	-2.802	0.000

Source: SPSS Output, 2024

The 't' value of -2.802 is significant at 0.000. This indicates a statistically significant negative relationship between credit risk and the capital base. For every one-unit increase in credit risk, the capital base decreases by 0.812 units.

#### Hypothesis Two

The second hypothesis states: H2: There is a significant negative relationship between liquidity risk and capital base in microfinance banks in North-Central Nigeria. The results of the regression analysis are presented in Table 3.

**Table 3:** Regression Results for Hypothesis Two

Variable	Coefficient (B)	Std. Error	t-value	Sig. Level
Liquidity Risk	-0.082	0.083	-0.988	0.000

Source: SPSS Output, 2024

The 't' value of -0.988 is significant at 0.000, showing a statistically significant negative relationship between liquidity risk and the capital base. For every one-unit increase in liquidity risk, the capital base decreases by 0.082 units.

### Major Findings

The major findings of the study revealed that there is a high degree of correlation between enterprise risk management (ERM) and capital base (CB) with a correlation coefficient (r) of 0.927, it findings includes:

- Credit risk has a negative and significant relationship with capital base in microfinance banks in North-Central Nigeria.
- Liquidity risk has a negative and significant relationship with capital base in microfinance banks in North-Central Nigeria.

## 6. RESULTS AND DISCUSSION

The response rate of 79.2% and the validity rate of 70% highlight the robustness of the data collection process. The balance between directors (51.4%) and management staff (48.6%) indicates diverse perspectives, enhancing the study's validity and representativeness. These demographics provide a clear picture of the respondents' profiles, ensuring that the insights are reflective of key organizational stakeholders.

The findings indicate a statistically significant negative relationship between credit risk and the capital base of microfinance banks. The coefficient of -0.812 implies that a one-unit increase in credit risk results in a substantial decline of 0.812 units in the capital base.

This aligns with previous studies, such as Soyemi (2014), who identified credit risk as a critical factor negatively impacting financial stability in microfinance institutions. The significant 't' value reinforces the importance of managing credit exposures to safeguard the financial health of these banks.

Similarly, liquidity risk demonstrated a significant negative relationship with the capital base, albeit with a smaller coefficient of -0.082. This suggests that while liquidity risk poses a threat to financial stability, its impact is less

pronounced compared to credit risk. This finding corroborates the work of Nasamu et al. (2021), emphasizing the need for effective liquidity management strategies to sustain the capital adequacy of microfinance institutions. The statistical significance at a 0.000 level underscores the critical nature of this risk.

The results highlight the necessity for microfinance banks to adopt robust enterprise risk management frameworks. Addressing credit and liquidity risks should be prioritized to ensure capital base stability. Proactive risk mitigation strategies, including rigorous credit evaluation and dynamic liquidity planning, are essential to maintain financial resilience.

While the findings align with studies by Soyemi (2014) and Nasamu et al. (2021), they diverge from Illangakoon (2021), who reported a positive impact of operational risk on the capital base. This discrepancy underscores the contextual differences in risk dynamics across regions and financial systems. The findings from this study contribute to the growing body of evidence on the critical role of risk management in financial stability.

## 7. CONCLUSION

This study investigates the Risk Management (ERM) financial sustainability of MFBs in North Central Nigeria. Specifically, it evaluates the effect of credit risk on the capital base of MFBs in North Central Nigeria and determines the effect of liquidity risk on the capital base of MFBs in North Central Nigeria. The findings of the study reveal that both credit and liquidity risks have a significant and negative impact on the capital base of microfinance banks operating in North-Central Nigeria. These findings emphasize the critical role of enterprise risk management in reducing financial vulnerabilities that can destabilize these institutions. The results suggest that microfinance banks must invest in and prioritize the development of robust risk management frameworks to safeguard their capital bases, achieve long-term financial sustainability, and maintain stability within the sector.

## 8. RECOMMENDATIONS

Based on the findings, the following recommendations are proposed to enhance the performance and resilience of microfinance banks:

Microfinance banks in North-Central Nigeria should give top priority to implementing enterprise risk management systems to proactively address credit and liquidity risks. This approach will reduce their exposure to financial instability.

These banks should develop and adopt comprehensive and effective risk management strategies that align with international best practices. Such strategies will mitigate the adverse effects of credit and liquidity risks on their capital base, enabling greater financial stability.

Regulatory authorities, such as the Central Bank of Nigeria (CBN), should strengthen their oversight and supervision mechanisms to ensure that microfinance banks comply with sound risk management practices. Enhanced regulatory support will ensure that these institutions remain financially resilient.

Future investigations should explore how other forms of risks, including operational and market risks, influence the capital base of microfinance banks. Such studies will broaden the understanding of risk dynamics in this sector and guide more holistic policy interventions.

### Implications of the Study

The findings of this study have important implications for microfinance institutions, regulatory authorities, and researchers.

For microfinance banks, the results highlight the need to adopt enterprise risk management frameworks to enhance operational stability and financial sustainability. Regulatory authorities are encouraged to bolster their supervisory roles to enforce adherence to risk management standards. Additionally, this study serves as a foundation for researchers to explore the interplay between various risk types and capital base stability in microfinance banks across diverse contexts.

### Contributions of the Study

This study contributes significantly to the literature on risk management and financial stability in microfinance institutions. By providing empirical evidence of the negative relationship between credit and liquidity risks and the capital base in microfinance banks within North-Central Nigeria, it bridges a gap in the existing research. Furthermore, the study offers a practical framework for microfinance institutions to design and implement effective strategies to manage these risks.

This contribution is particularly relevant for policymakers and practitioners aiming to enhance the resilience of the microfinance sector.

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