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Emerging Issues in Micro Finance Banks in Nigeria

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Abstract
Microfinance is an economic development strategy intended to provide financial services such as credit, savings, micro insurance micro leasing and payment services to the poor and low income client. This paper shall be dealing with emerging issues in microfinance banks in Nigeria. This paper is divided into eleven sections. Introduction, microfinance concept and needs, characteristics and ownership of microfinance banks microfinance banking in Nigeria will be discussed. The paper also discusses functions and number of licensed MFB's, forms of lending and microfinancing challenges. This paper concludes by recommending measures for improvement of microfinancing services in Nigeria.

Introduction:
After 1970's the number of micro finance institutions around the world proliferated at a fast pace. In view of the dismal performance of the conventional finance sectors, policy makers, practitioners and international organizations advocated micro financing as the tool for poverty reduction. Today there are more than 7000 micro lending organizations providing loans to more than 25 million poor individuals across the world, the vast majority are women. The United Nations capital development fund declared 2005 as the year of micro credit. The success of Grameen Bank Model in Bangladesh which offered loans to poor people through group collateral was emulated in many countries worldwide.

The Nigerian micro finance industry has come a long way. A Central Bank of Nigeria study identified as of 2001. 160 registered micro finance institutions (MFIS). In Nigeria with aggregate saving worth ₦99.4 million and outstanding credit of ₦649.6 million, indicating huge business transactions in the sector (Anyanwu, 2004) Institutional Structures for the provision of micro credit vary and may be any of the following: government, or public sector oriented, NGO supported, traditional or a mixtures of two or more of these.

With a population of above 150 million and Gross Domestic Product/capital of $641 (2006), two thirds of Nigeria's people are poor. Nigeria has the third highest number of poor people in the world. Most of the poor people are dependent on micro small–scale farm and off-term enterprises for farm enterprises for their livelihood. As such their entrepreneurial contributions are strategic to the Nigerian economic development and their growth has great potential to contribute to income generation and poverty alleviation.

Throughout most of the world, poor people have little access to financial services that most of us take for granted. Financial institutions seen as banks, insurance services and others have generally regarded 80% of the world's population as an unprofitable market and have focused their attention in serving the richest 20%. The growth of micro finance over the last 10 years has demonstrated that poor people can make use of financial services.

Micro Finance: Concept and Needs
Micro finance was defined by micro credit summit (2-4 of February, 2007) people for self employment projects that generate income; allowing them to care for themselves and their families (Awa, 2008). Micro finance refers to the provision of financial services to poor or low income clients including consumers and the self employed. The term also refers to the practice of sustainably delivering those service, more broadly it refers to a movement that envisions a world in which as many poor and near poor households as possible have permanent at access to an appropriate range of high quality financial services including not just credit but also savings, insurance and fund transfer (Wikipedia, 2008).

Micro finance was defined by Ana (2008) quoting Gert Van Manner, a micro finance expert as banking the unbankable, bringing credit, savings and other essential financial services within the reach of hundreds or millions of people who are too poor to be served by regular banks in most cases because they are unable to offer sufficient collateral. A micro finance bank can therefore be defined as the bank for the poor. It means investing in the income generating activities of the poor. Micro finance is meant for those who cannot be efficiently served by regular commercial, universal or merchant banks because their activities and volumes are too low to warrant the high cost of services by big institutions.

It is thus meant to lift the poor from their current level of poverty to a level of productivity and self sufficiency. Therefore, it must be used for the income generating and economic activities of a person not for paying school fees, hospital bills, burial or marriage ceremonies. Banking originated purely from deposit taking and later metamorphosed into lending or what is called credit. However, an individual or a group of corporate bodies that has not been licensed as a bank by the Central Bank of Nigeria cannot be called bank no matter to what level such as person or institution carries on banking functions of financial intermediation or disintermediation consequently only microfinance institutions that have obtained the CBN license may use the word Micro-Finance Bank as part of their names. Those institutions known as micro finance institutions but do not have the CBN license are not banks even though they carry on micro credit activities. These include Non Governmental Organizations (NGO) finance houses, cooperatives etc.

Characteristics of Micro Finance Institutions in Nigeria

Before the emergence of formal Micro-finance institutions informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for mutual benefits of their members. These groups provide savings and credit services to their members. The informal micro finance arrangements operate under different names **Esusu** among the Yorubas of Western Nigeria, **Etoto** for the Igbos in the East and **Adashi** in the North for the Hausa.

The key features of these informal schemes are savings and credit components, informality of operations and higher interest rate in relations to the formal banking sector. The informal associations that operate traditional micro-finance in various forms are found in all the rural communities in Nigeria, they also operate in the urban centres. However, the size of activities covered under the scheme has not been determined. The non-traditional formalized micro-finance institutions are operating side by side with the informal services. The financial services provided by the MFIS in Nigeria include savings, credit and insurance facilities, licensing etc.

Ownership of Micro-Finance Banks

To achieve the objectives of an organic growth path micro-finance banks licensed to operate as a unit bank shall be allowed to open new branches in the same state. Subject to meeting the prescribed prudential requirements and availability of minimum free funds of ₦20.0 million for each new branch. It can also attain the states of a state MFB by spreading organically from one location to another until it covers at least two-thirds of the local government areas of that state subject to meeting the prescribed prudential requirements and availability of minimum free funds of ₦20.0 million for each branch to be opened in the new state.

An MFB licensed to operate in a state shall be allowed to open a branch in another state. Subject to opening branches at least two-thirds of local governments of the state it is currently licensed to operate in subject to the provision of ₦20 million free funds and if in the view of the regulatory authorities. It has satisfied all the requirements stipulated in the guidelines (Alegieuno, 2008).

Micro-finance banks can be established by individuals, groups of individuals, community development associations, private corporate entities or foreign investor. Universal banks that intend to set up any of the two categories of MFB as subsidiaries shall be required to deposit the appropriate minimum paid up capital and meet the prescribed prudential requirements (Alegieuno, 2008).

Microfinance Banking in Nigeria

Ana (2008), says microfinance banking in Nigeria is guided by the microfinance regulatory policy and guideline of 2005. No micro banker may, therefore, operate outside the dictates of this policy. In Nigeria, micro finance banks render services to the poor and small and medium scale entrepreneur (SME's) while the poor is defined as a person living with less than two dollars (about, ₦290) a day. However, those living with less than a dollar a day are said to be living below the poverty line. The small medium enterprises (SME's) are defined as persons doing business with less than ₦1.5 billion. Recent studies according to Ana (2008), indicate that poor people in Nigeria number some 126 million or 90% of the population while those living below the poverty line are ₦100,000 (One Hundred Thousand Naira only) as against ₦200,000 (Two Hundred Thousand Naira only)for mega banks.

Statutorily, a micro finance bank is not allowed to lend more than ₦500,000 (Five Hundred Thousand Naira) to a single individual or business, Microfinance banks credit classification is more stringent than the mega banks. For instance while a mega bank may only classify an account as loss if it stays unpaid for interest and capital for up to 365 days, microfinance banks must classify such loans as loss if they remain unpaid for 90 days. Micro bank operators opt for very short term liquid loans.

Micro finance banks do all banking business except that they are not allowed to do foreign exchange business. They serve their forex customers by making use of their correspondence banks. Because a microfinance bank is not allowed in the meantime to access the clearing house operations, its cheque books bear the names of their correspondence banks.

Functions of Microfinance Banks

Micro finance banks in Nigeria undertake all banking and financial services provision that mega banks do but on small scale to small and medium scale entrepreneurs. They basically render services to the poor for poverty alleviation and also deal in business development and improvement of SME's. They therefore use Traditional banking instrument to serve their customers.

The basic instruments used by microfinance banks include, traditional and enhanced savings accounts, current accounts, fixed deposits, investment accounts, credit or lending products such as over drafts, leases, term loans of various terms but mainly start tenured trading loans, salary advance, LPO financing etc. They also render support services including financial advisory services, feasibility reporting particularly for startup SME's financial training, micro insurance services, and money transfers both locally and internationally in conjunction with their correspondence banks. Micro pensions, capacity building etc. Hardly would a good microfinance bank lend without some form of support service being rendered to its client.

Number of Licensed Microfinance Banks

As at February 15, 2008, the CBN had granted 716 licenses for the establishment of MFB's across the country including 600 community banks that converted. The CBN, inaugurated the National microfinance policy consultative committee (NMF-PCC) on April 5th, 2006 to give direction for the implementation of microfinance policy, conduct capacity building on microfinance banking for microfinance banks (MFB's) those with approval in principles (AIP's) provisional Licensees, Community Banks converting to MFB's other MFI's and officers of universal banks in charge of microfinance in collaboration with the German technical Cooperation (GT2) and for selected MFI's in collaboration with UNDP (Alegieuno, 2008). Various support institutions that would conduct the certification process for top management of microfinance banks, microfinance development fund, credit bureau, rating agencies, apex organizations that will provide the needed capacity and enhance funding of microfinance activities in the country are being promoted by the bank. As specified under the roles and responsibilities of stakeholders, government poverty alleviation agencies and donors will support of development of the sector through their activities.

Skewed distribution of the MFB's out of the 716 MFB's spread across geopolitical zones is shown in the table below. The number of MFB's that have been licensed in the northern part of the country is quite low and this is likely to hamper outreach in these areas.

Table 1 Distribution of the Microfinance Banks in Nigeria

Geo-Political Zones	Number of MFB's	Percentage Share
South West	282	39.4%
South East	169	23.6%
South South	106	14.8%
North Central	78	10.9%
North West	48	6.7%
North East	33	4.6%
Total	**716**	**100.00%**

77.8%

22.2%

Source: Alegieuno (2008) Guardian July 16, 20008 p.33

Form of Lending by Microfinance Banks

Microfinance banks lending is different from that of the mega banks in a number of ways (Ana, 2008). Microfinance in addition to individual lending (which is greatly disfavoured), particularly undertake group/cooperative lending.

Group lending ensures that each member of the group acts as a moral encouragement for each other and ensures that a defaulting member is helped by other members of the group for sustainability of the relationship. To ensure a disposed member of the group does not suffer business loss as typically, groups are stratified into various business types such as Okada Riders Association. Keke Riders Association, Butchers Association, Hairdressers Associations etc in various locations.

MFB's also undertake referred or sponsored lending, in sponsored lending, the sponsor would otherwise lend to the poor or SME domiciles the money with an MFB and instructs on the particular persons the loans should go to. The sponsor may also determine the terms and conditions of the loans provided the bank is paid management fees as the loans provided the bank is paid management fees as they are expected to appraise and manage the loans as through they were direct lending.

Collateral is De-Emphasized in Microfinance Banks

Most poor people that borrow from microfinance banks have absolutely no collateral to back their loans. This is why they are not served by mega banks as these banks always insist on collateral for their loans because doing anything to the contrary is a violation of the BOFIA 1991. But microfinance banks have absolutely no collaterals to offer.

As OIKO Credit International would say and as believed and practiced by most microfinance banks in Nigeria, the poor's greatest asset and collateral is their pride and integrity. The poor person is so excited by the possibility of raising loan from a bank that she/he would work extra hard to repay the loans and stay in the good books of the bank.

For successful lending without collateral, however, micro finance banks lend mainly in groups it is a lot easier for group members to be successful with their loan applications than individuals or single businesses. An MFB would almost always require collateral from an individual borrower but would lend to groups.

Microfinance: challenges

Some of the challenges facing micro financing in Nigeria are:

a) Rate of Interest

Anyanwu (2004) observes that the interest rates in the microfinance institutions are much higher than the prevailing rates in the banks. This ranges between 32 – 48%. During this period the banks are charging between 19.5% and 21.6%%. Money lenders at informal sector charge interest rates of 100% or more: some of the clients when interviewed by MFI evaluators bitterly complained about the interest rates being too high. Two reflections could be made.

- First, given the fact that people borrowing at this rate indicate that they are industrious and productive. It is only that they are not given access to financial institutions because they do not have collateral to meet the requirements of formal financial institutions and then they remain poor and liabilities to the economy instead of being assets.
- Second, the objective of microfinance to combat poverty might be defeated since the clients have to repay back double of what they have received at all cost.

b) Inequitable in the Distribution of Wealth and Income

The conventional micro financing in Nigeria aggravates the inequitable distribution of income and wealth in Nigeria. This is due to the fact that while interest rate on both voluntary and mandatory savings for the clients are between 4.5% and 6% per annum. Lending at this rate is taking the rewards of poor and redistributes it to the rich. The poor borrowers must pay the amount through group pressure even if it resort them to another borrowing or selling their properties.

Moreover, the current micro financing in Nigeria gives loan to commerce based activity to the detriment of agriculture based which is the source of income and sustenance for the majority of poor Nigerians. In a study conducted by CBN on the major ten MFI's in Nigeria it was found that the loan disbursement goes to the trade and commerce because of its fast yield and high return. The average loan on this sector was 78.4%. The corresponding figure on agriculture which most poor rely on for their livelihood was only 14.1%. It was only 3.5% on manufacturing and absolutely no funding is given towards housing and consumption (Folake, 2005).

Outreaching the Poor

Central Bank of Nigeria's estimate the unreachable client of microfinance at 40 million (CBN, 2004). Microfinance specific institutions in Nigeria have not been able to adequately address the gap in terms of credit, savings and other financial services required by the micro entrepreneurs. There exists a huge unserved of market over 80 million people (65% of Nigeria's active population). The dominant microfinance institutions are concentrated in the south and eastern part of the country to the detriment of poor majority in the predominantly Muslim North. Out of the 36 states in Nigeria; 19 states are in the Northern part.

(Soludo, 2007) says the incidence of poverty in the three Northern regions is high compared to the three southern regions. It was 71% in the North West, 72% in North East and 67% in North central the corresponding figure in the south is 43% in south west, 23% in south east and 35% in south south. These numbers are what led Soludo to rightly conclude that very high level of poverty is essentially a northern phenomenon.

According to the CBN Governor after introducing new policy on microfinance he stated that the new focus on small and medium scale enterprises was borne out of the realization that the country could not go far in employment generation and poverty alleviation without these enterprises having their pride of place (Soludo, 2008). He added that the microfinance policy which evolved as a result of the perceived need for funding of business which have no access to banks' funds will benefit only 35 percent of the nation's population, particularly micro and small scale entrepreneurs due to uneven spread of the MFB's across the states (Soludo, 2008).

Recommendations

This paper will recommend the following measures for improvement of the operations of the microfinance banks in Nigerian. They are:

1. The Central Bank should encourage the evolution of well funded microfinance banks that will be able to serve Nigerians, if we have banks like Ecobank. UBA, Oceanic Banks etc doing microfinance it will have more impact than 716 microfinance banks.
2. Training and capacity building: There is need to build the capacity of the operators of microfinance banks, NGO-MFIS, universal banks and other the regulators as to meet the challenges in the subsector. An interim capacity enhancement programme to address the identified skills gaps of the operators of the MFB's, re-orientate them to adopt core microfinance service delivery models and also reposition them for the challenges in subsector should be canvassed by the CBN pending the implementation of the certification programme.
3. Promotion of whole sale funding arrangements: Owing to lack of resources for lending arising from the low capital available to the banks, there is need to ensuring that governments set aside one percent of their yearly budget for on lending through MFB's to their residents and that arrangements be also put in place for the MFB's to access the 10% percent of small and medium enterprise equity investment scheme (SMEEIS) fund set aside for microfinance banks with universal banks.
4. Establishment of Relevant Support Institutions: Concerted effort to need be made to ensure that prompt establishment of all relevant institutions prescribed in the microfinance institutions such as the certification programme for the management team of MFB's microfinance development (wholesales) fund, rating agencies, credit bureau, apex associations etc this will provide additional institutional and human capacity to support the development of the banks (Alegieuno, 2008).
5. Transformation of Non Governmental Organization Microfinance Institutions (NGO-MFI's) to microfinance banks: There is need for a systematic plan for mentoring and nurturing NGO-MFIS that have met the minimum capital base for microfinance banks to transform this will lay the foundation for others to tap from their expertise in micro lending.

Conclusion

Microfinance banks can be a powerful tool in initiating a cyclical process of growth and development microfinance activity can improve the access of rural poor to financial services. The microfinance interventions help in inculcating necessary habits for economic independence and self reliance. Nwachukwu (2008) quotes Chukwuma Soludo, governor of Central Bank of Nigeria (CBN). The poor have been observed to be good clients because institutions providing loans to the poor have been having repayment rates exceeding 97 percent. The microfinance market in Nigeria has between 60 and 90 million micro entrepreneurs making her the next microfinance market after China and India.

The total annual requirement of credit in Nigeria by the economically active poor and low income earners would be between \$6 billion and \$9 billion on the basis of \$100.00 per micro entrepreneur while over three billion people requirement micro credit worldwide said Soludo, while poverty could be eradicated through microfinancing investors in the sector have a lot to benefit because Nigeria's large microfinance market is a potential money spinner for prospective investors.

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