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Microfinance Institutions In Nigeria: Challenges And Ways Forward

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ABSTRACT

The microfinance sub-sector in Nigeria is faced with many challenges. Due to the large number of MFBs, it has been a challenge for regulators to provide strict and close supervision of their activities. However all hands must be on deck to ensure that the institutions are efficiently run by surmounting the challenges and exploit the prospects, because microfinance provides a credible platform for the eradication of the poverty and economic development of the nation.

Keywords: Microfinance, CBN, Economy NDIC and Banks

1. INTRODUCTION

Microfinance is all about providing financial services to the active poor who have been excluded from such services by conventional financial institutions, for reasons of inadequate collateral, unstructured businesses and small sizes of transactions. The major services offered by microfinance banks include savings, microcredit, money transfers, leases, and insurance. In Nigeria, statistics reveal that only 35% of the economically active population has access to formal financial services. Pauline Nsa (2010)

Fabanwo A.O.(2010) notes that very often, the target groups gain access to financial Services for the very first time through micro finance. Making financial services widely available in rural areas and low –income urban areas help the poor to create wealth, improve their financial security, empower women, generate Employment and promotes sustainable development.

In realization of the above inequality, the CBN introduced the Microfinance Policy, Regulatory and supervisory framework on December 15, 2005. The specific objective of the policy is to make financial services accessible to a large segment of the productive Nigerian population.

According to Lemo (2006),the lunching of the new policy is to ensure that financial services reach the over 80million Nigerians not served by formal financial institutions, especially the economically active poor and low income households who could not have access to services of the formal financial institutions. Hence , the micro-finance policy is to complement the banking sector reforms (Ojo,2007 and Anyanwu,2007). Thus , micro-finance is expected to the gap in the financial system to assist the financial requirements of some neglected group who would be unable to obtain finance from the formal financial system.

Since then, hundreds of microfinance institutions have been licensed by the CBN to provide these services to the target market. However, a significant number of these banks have performed below expectation due to dearth of skills, capital inadequacy, poor quality risk assets and inadequate supervision.

According to Attah J.A.A(2010), despite the interest created, interventions initiated and patronage engendered, a large percentage of Nigerians are still excluded from financial services. The 2010 EFInA STUDY revealed a marginal increase of those served by formal financial market from 35.0 per cent in 2005 to 36.3 per cent in 2010, five (5) years after the launching of the microfinance policy. When those that had financial services from the informal sector such as savings clubs/pools, Esusu, Ajo, money lenders are included, the total access percentage for 2010 was 53.7 per cent or which means that 46.3 per cent or 39.2 million adult population were financially excluded in Nigeria.

The table below further gives a breakdown of the access statistics:

Adult population	100	84.7
Financially served	53.7	45.5
Financially excluded	46.3	39.2
Formally served (included)	36.3	30.7
Informally (included)	17.4	17.7
Banked	30.0	25.4
Other formal institution	6.3	5.3

Source: The Nigeria Microfinance Newsletter (2010)

A further analysis of the EFInA survey (2010) results showed that within some selected countries in Africa, Nigeria was lagging behind in terms of people that are financially excluded. For instance, South Africa, Kenya, Botswana had 26 per cent, 32.7 per cent and 33 per cent, respectively, of their population excluded from financial services compared with the 46.3 per cent for Nigeria.

The access gap is further revealed by the savings pattern of Nigerians. In 2010, out of 52.8 million (62.3 per cent) adults who saved, only 22.0 million (58.3 per cent) were banked. Ironically, the number and percentage of those who took loans was very minimal compared with savings. For instance, only 8.2 million adult Nigerians (9.7 per cent) were having a loan as at 2010. Out of this number, a whooping 5.8 million or 71.0 per cent were taking their loans from family or friends, 2.0 million from informal societies, savings clubs and cooperatives and only 1.5 million from formal institutions. This means that adult Nigerians are not fully taking advantage of facilities available in the formal financial institutions and reveals a gap between the supply and demand for financial services.

Adult Nigerians who save, do so for reasons revolving around security, consumption smoothening, school fess and for festivities rather than for investment in productive activities. Of the reasons for saving, 40.5million saved for emergencies and 20.9 million savers in Nigeria, only 6.5 million saved to start a business which means that from growth and development perspective, more still needs to be done to increase effective and productive access to financial services.

2. CHALLENGES FACING MICROFINANCE BANKS IN NIGERIA

The microfinance sub-sector in Nigeria is faced with many challenges. Prominent among these are:

Poor Repayment Culture: An average borrower has a tendency to regard loans from microfinance institutions as his share of "the national cake" and thus renege on repayment. Also, insider dealing whereby Directors and shareholders extend credit facilities to themselves and their conies can pose a challenge and affect loan repayment.

Absence of adequate Infrastructure: Inadequate power and other basic infrastructure increase operating costs.

Inadequate Capital: Due to huge costs of providing infrastructure, several microfinance banks have had to invest large portions of their capital in fixed assets and prepayments, thus leaving little resource for financial intermediation.

Anxiety for Growth and Income: The pressure to meet up with shareholders' expectation on return on investment within a short time creates anxiety for managers of microfinance banks, and this has made some of them to compromise on appropriate credit principles.

Inadequate Supervision by Regulatory Authorities: Due to the very large number of MFBs, it has been a challenge for regulators to provide strict and close supervision of their activities.

Attah J.A.A(2010),observes that several factors have accounted for the sub-optimal performance of the microfinance sub-sector, among which are:

Uneven Distribution of Microfinance Banks and Institutions: In order to ensure even spread and impact, the microfinance policy prescribed an organic growth path for licensed institutions. By this token, each licensed bank in a Local Government or State was to spread its branches in a systematic manner, covering 2/3 of the Local Government or State of original set up before crossing to contiguous Local Government or State. A cursory took at the distribution of the microfinance banks in Nigeria reveals a great deal of lopsidedness, as many of them are concentrated in the southern parts of the country. As at December, 2010 for instance 72.6 percent of the banks, representing 628 of the total number of 866 banks were located in the south, which means that the North had only 27. 7 percent. In terms of density, there were 37 MFBs per state in the north. Most of the rural areas are yet to be covered as investors perceive very low business volume and profitability in those areas. A recent study by the German Technical Cooperation in Niger State revealed that Microfinance Banks located in the rural areas of the state were performing less than those in the urban areas.

Carry Over of Inept Culture in Converted Community Banks: Out of the total of 866 banks recorded in December 2010, a total of 530, representing 61.2 percent were community banks that converted. Many of the banks did not plan or adopt appropriate culture change programmes and hence ended up as old wine in new wine bottles. This meant that the inefficiencies and challenges that bedeviled them while the community banking programme lasted were imported wholesale by some of them to the microfinance banking era. Thus, their focus in terms of business model remained the same and incidences of LPO financing, big ticket deposit as against small savings mobilization have been rife.

Lack of Knowledge and Skills in Practical Micofinance Banking: The microfinance policy realized the dearth of capacity in practical microfinance banking in Nigeria and provided for the institutionalization of a microfinance programme for the operators. This was to ensure that Executive Directors of the banks acquire basic knowledge on governance, product development, marketing, management and administration, savings mobilization, credit delivery, loan monitoring and recovery as they relate to microfinancing. The certification programme however, did not commence until the first quarter of 2010 and hence the envisaged capacity building did not occur. Thus the operators did their business as they either perceived it from their community or commercial banking background or from knowledge obtained from books.

Poor Corporate Governance: Even though there were specific requirement and qualification/experience prescribed for the Board of Directors and top management of microfinance banks, the general dearth of microfinance knowledge and skills affected the performance and delivery of their Boards and management staff. In most cases, Board Chairmen and members were found to have usurped the roles of Managing Director and top management of microfinance banks, the general dearth of microfinance knowledge and skills affected the performance and delivery of their boards and management staff. In most cases, Board Chairmen and members were found to have usurped the roles of Managing Directors, and owners of the banks were exercising undue influence and control on the operational decisions of the management staff. Incidences of loans to Board Chairmen and members, without due process were common along with insider abuses in the critical business areas of the banks.

Lack of Funds for Intermediation: Despite their increased capital base, the banks did not possess adequate funds for effective intermediation. The savings mobilization drive was not adequate to generate sufficient resources for intermediation. Also, the banks did not take advantage of commercial capital from the market either due to lack of knowledge and attractive financial indices or absence of appropriate collateral. The Microfinance Development Fund that is supposed to provide the banks with refinancing facilities, guarantees, wholesales funds and technical assistance programmes is yet to be set up and this worsens the fund shortage problem of the banks.

Harsh and Costly Business Environment: The business environment in Nigeria is generally harsh in terms of costs. The lack of power, good roads, water and other basic infrastructures means that the institutions would need to invest in these aspects and this adds to their cost of operation. These costs are often passed to customers in the form of high interest rates.

Weak Internal Control System: Right from the days of community banking, the issue of weak internal control have always manifested. In some banks, such control systems are inexistent, thereby giving the Board and management staff a free day to operate at will. Accounts are opened with incomplete documentation, loans disbursed when conditions precedent to drawdown are not met, expenses incurred without approval, Directors obtain loans indiscriminately and use the Banks' properties as security.

3. ADDRESSING THE CHALLENGES IN THE MICROFINANCE

The impact of microfinance in Nigeria gives room for cheers. If appropriate strategies are employed, the emerging challenges could be considerably addressed. For this purposes, the following steps are suggested:

Effective Regulatory Oversight: There is need for general awareness on the part of the institutions on essential aspects of the regulatory guidelines and enforcement modalities. This will guide staff of the banks to conduct their activities in proper manners and accept the verdict and recommendations of the regulators in their monitoring reports and recommendations.

Proper Staffing: The MFI employees must be efficient and disciplined in the performance of their duties in order to generate enough business volumes and earn enough income to pay for the administrative and operational costs of the institutions. In particular, loan officers must be able to carry appropriate case loads that pay for the cost of transaction in their business units. A microfinance bank that intends to guarantee timely break-even point should have an appropriate staff mix and provide the necessary incentives for exceptional performance.

Proper and Appropriate Businesses Models: Business models in microfinance should differ from those of conventional banking because the size and number of assets are small in nature. The promoters of microfinance banks and managers must appreciate the reality of inherent high costs involved in dealing with large number of widely dispersed small customers. There should be deliberate efforts to keep cost low at inception by hiring low cost and appropriate houses, equipment and staff. Expenses on board and management should particularly keep within affordable limits of the institution. The business plan and model adopted by the institution should regularly and continuously shared with the board, management, staff and other relevant stakeholders in order to create room for target sharing, monitoring and timely corrective measures.

Capacity Building Programme: Microfinance across the globe present dynamic capacity and skills challenges. There is need for constant up-scaling and up-dating of the knowledge and skills of all managers of the institutions to enable them adopt effective and appropriate products, employ efficient marking, liquidity and risk management strategies. Most institutions use generalized approach to training but as they grow, there would be need to identify week capacity points and arrange training programmes to address them.

Continuous Awareness Creation: The relative newness of microfinance best practice in Nigeria requires continuous sensitization. The programmes should capture the "why" "what" and "how" of micro financing and market them in such a way as to attract the attention and patronage of investors, managers, promoters and clients. The Central Bank of Nigeria as a lead stakeholder in microfinance would need to continue to invest in necessary campaigns at national levels. Development partners could also support such programmes with their resources and technical know-how. In addition, each institution should endeavor to inform its clients of its existence and product offerings.

On Lending Facilities: Microfinance institutions in Nigeria require wholesale funding support for the on-lending activities. The requirement is amply recognized in the microfinance policy which recommends the establishment of a Microfinance Development Fund. However, the non establishment of this Fund calls for appropriate alternatives in form of lending from deposit money banks and similar credit lines.

Financial Inclusion Strategies: The failure of financial markets across the globe has resulted in recent efforts to entrench comprehensive financial inclusion programmes. This is attracting the attention of governments, operators, policymakers and researchers. Financial inclusion is aimed at creating the environment and support systems for existing institutions to function and effectively providing financial services at affordable rates. Specific areas being propagated include: Agent banking ; Mobile banking; Institutional reforms;

Financial literacy and consumer protection; Non-Interest Banking; Collaboration with international development partners. As financial inclusion agenda is becoming a global pursuit, Nigeria would need to explore strategies that are working in other countries and adopt them in a concerted manner.

4. OTHER SUCCESS IMPERATIVES FOR MFB IN NIGERIA

In order to ensure that microfinance banks operate efficiently, the following steps are suggested(Pauline, 2010)

Training: Given the dearth of requisite skills in the microfinance sub-sector, microfinance banks must embark on capacity building of their staff especially in areas of product development, micro credit and loan monitoring. The training and certification programme of CBN is laudable and necessary particularly as it includes directors who are expected to provide effective corporate governance.

Credit Bureaus: The licensing of credit bureau by CBN is timely, given that these institutions would keep and provide information on borrowers, thus checkmating 'professional' borrowers in the sector. It would also help to reduce delinquent loans as an individual borrower cannot access funds from different banks using the same information.

Provision/Improvement of Basic Infrastructure: There is need for government to step up the provision of basic infrastructure, in order to reduce the cost of operation of microfinance banks.

Effective Credit Policies by MFBs: Microfinance operators must put in place, effective credit policy procedures/ manuals and ensures that they are strictly adhered to.

Close Supervision by Regulatory Bodies: CBN and other regulatory bodies must ensure close and effective supervision of MFBs to avoid unhealthy practices and increase confidence in the microfinance sector.

Need to increase the Capital Base of MFBs: Given the high cost of operations associated with MFBs, there is need to raise their capital based, especially for unit MFBs operating in cosmopolitan environments. Such an increase would also make the required fixed asset to capital ratio more realistic.

5. THE CBN (2010) ADOPT A FOUR-PROLONGED APPROACH TO STABILIZE MICROFINANCES

The concept was well received in Nigeria since its inception In 2005.culminating in the conversion of 606 erstwhile community banks to micro finance banks (MFBs) at the end of December 2007 and licensing of 363 de novo MFBs as at 31st August, 2010.coming at the heels of reported Underperformance of some of the micro finance banks and the Outcome of a joint central Bank of Nigeria/Nigeria Deposit Insurance Corporation (CBN/NDIC) Target Examination on the MFBs, the CBN Embarked on some measures to sanitize the sub-sector in September 2010. Coming at the heels of reported underperformance of some of the microfinance banks and the outcome of a joint Central Bank of Nigeria/Nigeria Deposit Insurance Corporation (CBN/NDIC) Target Examination on all MFBs, the CBN embarked on some measures to sanitize the sub-sector in September, 2010. The intervention resulted in the revocation of the operating licenses of 224 MFBs and to pave way for reforms in the banks. The reform agenda, which aimed at ensuring soundness and stability in the microfinance space, has four components, viz: Sanitization; Capacity building; Restructuring and Restoring confidence.

Actions initiated under each component of the reform were:

5.1 SANITIZATION

- The revocation of the operating licences of 224 MFBs based on the outcome of the joint CBN/NDIC Target Examination of all MFBs, as highlighted earlier, remove the 'rotten apples' from the bunch.
- Subsequent regulatory action based on Zero tolerance for infractions, ensuring market discipline and strict compliance with the rules and regulations by all MFBs.

- Introduction and enforcement of stiffer sanctions and penalty regime for various infractions, as a deterrent and entrenching them in the Regulatory/Supervisory Guidelines.
- Intense surveillance to identify, apprehend and close down unlicensed/illegal operators that deceive and extort from members of the public.
- Identifying directors and management staff that have mismanaged, perpetrated fraudulent activities or criminally abused their MFBs, removing and handing them over to the law enforcement agencies for prosecution and subsequently blacklisting them, on an on-going basis.

5.2 RE-STRUCTURING

- Comprehensive review of the Microfinance policy Framework and the Regulatory/Supervisory Guidelines, with a view to addressing the issues of inadequate capital base, liquidity, branch expansion and others that inhabit the growth and development of the MFBs.
- Introduction and enforcement of an operational template for MFBs and benchmarking them on it to promote the practice of microfinance, as against 'micro commercial banking.
- Enhanced supervision by increasing the frequency of on site routine examination to at least once a year, or twice a year for MFBs with perceived high risk profile, or total assets of N200 million and above.
- Monitoring and enforcement of Examiners' comments and recommendations by the MFBs.
- Introduction of risk-based supervision as a supervisory tool.
- Effective off-site surveillance through two SAID assisted solutions, namely, FIAPS and FINA. The first is for automated processing of off-site requests and workflow automation, while the letter is for financial data analysis to facilitate prompt response to early warning signals.
- Implementation of a Contingency Planning Framework for MFBs for distress resolution, hinged on early warning signals.
- Promotion of the use of credit bureau, mobile transactions/ mobile banking, financial inclusion/literacy, consumer protection regulations and Microfinance Development Fund as growth stimulants for the microfinance sub-sector.
- Promotion of shared services, particularly uniform IT platform, to facilitate returns rendition and linkage to the payment system, reduced operational cost and promote income-earning opportunities from payments and money transfer transactions.
- Nurturing and support for the National Association of Microfinance Banks (NAMBs), as a self-regulatory organization, to complement the existing supervisory arrangement.
- Enhanced supervisory capacity and effectiveness through increased numerical strength and capacity building for other Financial institution Supervision Department (OFISD) supervisor; visibility/presence of supervisor in Enugu and Ibadan, zones where MFBs are clustered;

- Encouragement/promotion of mergers and acquisition amongst Mfbs to evolved stronger, better capitalized and stable MFBs.

5.3 CAPACITY BUILDING

- Implementation of Microfinance Certification Programme (MCP) for the operators and directors of MFBs with sustained vigour, to build a critical mass of knowledgeable and skilled manpower to drive the microfinance sub-sector, to encouragement of complementary capacity building programmes. So far, a total of 1,960 operators were trained in 2010 and 1718 of them took the October 2010 diet of the Chartered Institute of Bankers of Nigeria (CIBN) Microfinance Certification Level 1 training, while 997 received the Level II training. The trainees have taken the April 2011 diet of the CIBN Examinations in Level I and II. It is hoped that the outcome of the Level II Examinations will lead to the award of the Certificate in Microfinance Banking. It is envisaged that the Certificate in Microfinance Banking will be a pre-requisite for holding a management position in any MFB from 2013. The training for directors of MFBs will also commence in 2011.

5.4 RESTORING CONFIDENCE

- Settlement of depositors of the MFBs whose licences were revoked. Available records show that 98 per cent of the number of depositors of the MFBs whose licence were revoked had been settled by the NDIC. The remaining depositors that are yet to be settled are for MFBs where the financial records have not been made available by the directors or managers. Moreover, the insured deposit benchmark has been raised to N200, 000.
- Effective and sustained communication, awareness campaign, sensitization and road shows.

The consistent implementation of all the above stated measures, coupled with zero tolerance stance for market indiscipline and any form of malpractices will has guaranteed soundness and stability in the system, with the surviving banks now in a position to deliver more efficient services for the populace.

Detailed Statistics of the Distribution of Microfinance Bank in Nigeria

	CBs Converted to MFBs				New Investors				
State	Final license	Provisional approval	Provisional licenses	Sub-Total	Final License	AIP	Provisional Licenses	Sub - Total	Total
Abuja FCT	6	1	0	7	39	5	4	48	55
Abia	9	0	5	14	4	7	0	11	25
Adamawa	7	0	0	7	0	0	0	0	7
AkwaIbom	5	0	1	6	6	2	0	8	14
Anambra	58	0	10	68	5	2	0	7	75
Bauchi	7	1	1	9	2	1	0	3	12
Bayelsa	0	0	0	0	2	1	1	4	4
Benue	6	0	1	7	2	1	1	4	11
Borno	1	1	0	2	1	0	0	1	3
Cross River	13	0	1	14	1	0	0	1	15

Delta	13	0	8	21	13	1	1	15	36
Ebonyi	4	1	0	5	1	2	0	3	8
Edo	12	1	6	19	2	1	0	3	22
Ekiti	11	0	1	12	0	0	0	0	12
Enugu	15	0	4	19	3	1	0	4	23
Gombe	3	0	0	3	1	0	0	1	4
Imo	22	4	7	33	3	3	0	4	37
Jigawa	2	0	1	3	6	0	0	6	9
Kaduna	11	0	5	16	4	1	0	7	23
Kano	4	0	0	4	2	1	0	2	6
Katsina	3	0	0	3	1	1	0	2	5
Kebbi	3	1	0	4	0	1	0	1	5
Ko2i	13	1	6	20	1	17	0	2	22
Kwara	17	0	0	17	4	1	0	5	22
Lagos	27	7	10	44	102	5	19	138	182
Nasarawa	2	1	0	3	2	2	0	3	6
Niger	9	0	0	9	6	1	1	12	21
Ogun	35	2	7	44	5	1	0	7	51
Ondo	10	2	3	15	1	0	0	2	17
Osun	19	3	5	27	5	1	0	6	33
Oyo	34	2	3	39	10	0	1	11	50
Plateau	9	0	0	9	2	0	0	3	12
Rivers	9	0	4	13	7	1	4	11	24
Sokoto	4	0	0	4	0	0	0	0	4
Taraba	3	0	0	3	0	0	0	1	4
Yobe	1	0	0	1	0	0	0	0	1
Zamfara	5	1	0	6	0	0	0	0	6
TOTAL	412	29	89	530	243	61	32	336	866

Source: The Nigeria Microfinance Newsletter (2011)

6. THE CBN NEW GUIDELINE FOR MFBS , JUNE,2011

Sanusi(2011) noted that some issues had emerged , after 5 years after the lunch of Microfinance Policy Guideline in 2005, in the course of its implementation that necessitate a review of the policy framework by the CBN as empowered by the BOFIA.

Under the new guideline ,MFBs would now operate under 3 categories: unit, state and national MBFs.

Unit MBF is authorized to operate in one location without branches/cash centres , and it is required to have minimum paid up capital of N20million.

State MBF is authorized to operate in one state or the FCT. It is required to have minimum paid up capital of N100million and it is allowed to open branches within the same state or the FCT subject to the prior approval by the CBN for each new branch.

National MBF is authorized to operate in more than one state including the FCT. It is required to have minimum paid up capital of N2billion and it is allowed to open branches in all states of the federation and the FCT subject to written approval by the CBN.

The new requirement include: monthly operational reports (electronically) to the CBN; policy and regulatory framework to deepen the sector operations and ensure robust regulatory environment. (Sanusi,2011)

The NDIC shall pay N9.8billion ($63m) to 731,000 depositors of 91 MBFs whose licenses were revoked in 2010. All these, among others will promote the operational efficiency and confidence in the MFBs.

7. CONCLUSION

In conclusion, microfinance provides a credible platform for the eradication of poverty and economic development of the nation. However all hands must be on deck to ensure that the institutions are efficiently run by surmounting the challenges and exploit the prospects.

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