FUNCTIONS CONSTRAINTS AND PROSPECTS OF MICROFINANCE BANKS IN NIGERIA

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ABSTRACT
This study examines the functions, constraints and prospects of microfinance banks in Nigeria. Its aim is to discover the challenges that face microfinance banks in Nigeria in the 21st century. This paper acknowledges that there are enormous challenges facing microfinance banks and posits that different challenges call for different solutions, and since there are two major categories of microfinance banks located in both urban and rural communities in Nigeria, multidimensional methods of solving problems should be adopted.

KEYWORDS: Functions, Constraints, Prospects, Microfinance, Banks

INTRODUCTION
Microfinance banks emerged in December 2007 due to the Central Bank of Nigeria (CBN) directives that community banks should in 2 years, from the approval date of microfinance policy, convert to microfinance banks. Like every new thing, there are bound to be challenges posing threats to these community banks that metamorphosed into microfinance banks and some others that obtained a license from Central Bank of Nigeria to operate as microfinance banks. It is this background that necessitates this paper. The major aim is to find out the challenges faced by these microfinance banks in order to suggest some policy measures to combat these challenges.

THEORETICAL FRAMEWORK
The Meaning of Microfinance
Ehigiamuse (2008:17) writes that "Microfinance" is usually conceived of as the provision of small units of financial services to low income clients who are usually excluded from mainstream financial systems. He adds that it is a form of financial intermediation, which primarily focuses on alleviating poverty through provision of financial services to the poor or owners of micro-enterprises. Service users include artisans, small holder farmers, food processors, petty traders, micro-enterprises.

Hence, microfinance refers to four conceptual issues:
• The provision of small loans to low-income persons or households with little or no collaterals. These loans are repayable within short periods
• The financial services or products that are targeted towards helping the poor who are not able to secure loans from universal or conventional banks
• Financial services that include micro-credit provision, micro-savings, micro-insurance, micro-leasing, and micro-money transfers and payments.
• Credits extension plus self-development and skills acquisition services to the poor.

The Meaning of Microfinance Banks
Microfinance banks are private-sector-driven banks licensed to provide credits based on the cash flow and character of clients. They are private-driven in the sense that they are privately-owned banks. The credits granted to customers are based on the movements of cash in and out of the client's business. The credit extension is mainly based on the way the customer makes his or her money.

Origin of Microfinance Banks in Nigeria
Microfinance policy was launched on 15th December, 2005. The purpose of the policy was to attend to the deposit and other needs of those who were previously not served by the conventional banks. In 2005, Central Bank of Nigeria required community banks to convert to microfinance banks within 24 months from December 2005. So, today in Nigeria, what we call microfinance banks came into existence in 2007. For example, Umuchinermere Procredit Microfinance Bank Nigeria Limited which began its journey in 1995 as a community took the first step towards conversion from a Community Bank to a microfinance bank in the year 2007. As at February 2009, a total of 850 microfinance banks have been licensed (Ahimie 2009.29).

Opening a Microfinance Bank
A group of people can decide to come together and pool their resources together and float a microfinance company with Corporate Affairs Commission (CAC) for shares allotment certificates. Having met the standard of CAC they will apply to CBN for license and approval.
CBN will issue Approval In Principle (AIP) and will send a monetary team to evaluate the bank’s facilities, such as the availability and efficiency of the strong room to ensure that the depositors' funds are safe. If they are satisfied with their evaluation they will return to their office to grant the final license. The license can be granted within six months. A microfinance
A bank can be located in many States in Nigeria as is the case of the Integrated Microfinance Bank that has branches in different places; for example, it has a branch in Kenyatha (Enugu) and another branch in Lagos.

One important thing to note is that you must seek CBN’s approval if you want to open another branch or cash centre, but for a customer meeting point you do not need to notify CBN. In opening a customer meeting point, you do not need to have equipment. For example, the Greenbank Microfinance bank has two customers meeting points at New Market and Main Market.

**Categories of Microfinance Banks**

There are two categories of Microfinance Banks (MFBs) namely

- Microfinance banks licensed to operate as a unit and
- Microfinance Banks licensed to operate in a state.

**Microfinance Banks Licensed to Operate as a Unit**

Microfinance banks licensed to operate as a unit bank affects community banks. They should be community based. If these banks have free funds for opening branches or cash centers, they can do so, subject to their meeting up with the prudential requirements. The minimum capital base for this kind of microfinance bank is N20 million for each branch.

**Microfinance Banks Licensed to Operate in the State**

Microfinance Banks authorized to operate in a state are those licensed to operate within the state. These banks are permitted to open their branches in a state subject to (heir meeting the prudential requirements and availability of free funds to open branches.

**Functions of Microfinance Banks**

Microfinance banks in Nigeria perform the following major functions:

- **Deposit mobilization**
- **Credit extension**
- **Monetary transmission**

*Deposit Mobilization:* Microfinance banks accept deposits from her customers. These accepted deposits are for safe keeps.

*Credit Extension:* Microfinance banks grant in the cash flow and character of clients.

*Monetary Transmission:* Microfinance banks can transfer money from one place in another. If you go to OHA Microfinance bank and you want to transfer money from Enugu to Elele, it is possible; or if you want to transfer money from Elele to Okija, it is possible.
Other Functions and Activities of Microfinance Banks

These include consultancy services (financial) and hire purchase. Below are some of the activities of microfinance banks as outlined by Central Bank of Nigeria?

1. Accept various types of deposits, except public sector deposit (meaning deposits from governments).
2. Approve credit facilities to its customer’s either through group lending
3. Encourage and monitor loan usage among its customers by providing ancillary capacity building in such areas as record keeping and small business management.
4. Issuance of redeemable debenture to interested parties to raise funds from members of the public, with the approval of the CBN.
5. Collection of money or proceeds of banking instruments on behalf of its customers through correspondents banks.
6. Provision of payment services, such as salaries, gratuities, and pensions for the various tiers of government.
7. Provision of loan disbursement services for the delivery of the credit programmes of governments, agencies, groups and individuals for poverty alleviation on non-recourse basis;
8. Provision of ancillary banking services to their customers, such as domestic remittance of funds and safe custody;
9. Maintenance and operation of various types of account with other banks in Nigeria;
10. Investment of surplus funds of the MFB in suitable instruments, including placing such funds with correspondent banks and in Treasury Bills;
11. Payment and receipt of interest as may be agreed between the MFBs and their clients, in accordance with existing guidelines;
12. Operation of micro leasing facilities, micro finance hire-purchase and arrangement of consortium lending and supervision of credit schemes to ensure access of microfinance customers to inputs for their economic activities:
13. Receiving of re-financing or other funds from the CBN and other sources, private or public, or terms mutually acceptable to both (he provider of the funds and the recipient MFBs;
14. Provision of microfinance related guarantees for MFB customers to enable them have greater access to credit and other resources;
15. Buying, selling and supplying industrial and agricultural inputs, livestock. Machinery and industrial raw materials to poor persons on credit and acting as agents for any association for the sale of such goods or livestock;

16. Investment in shares or equity of anybody corporate, the objective of which is to provide microfinance services to poor persons;

17. Encouragement of investment in college industries and income-generating projects for poor persons as may be prescribed by the CBN:

18. Provision of services and facilities to customers to hedge various risks relating to microfinance activities.

19. Provision of professional advise to poor persons regarding investments in small scale businesses; rendering managerial, marketing, technical and administrative advise to customers and assisting them in obtaining services in such fields.

20. Mobilizing and providing financial and technical assistance and training to microenterprises

21. Provision of loans to microfinance clients for home improvement and consumer credits; and

22. Performance of non-banking functions that relate to microfinance business development services, such as cooperatives and group formation activities, rural industrialization and other support services needed by micro enterprises. (Source: CBN)

UNLAWFUL ACTIVITIES

Licensed MFBs are not allowed to engage in the provision of the following services:

1. Acceptance of public sector government deposits except for the payment of salaries, gratuities, and pensions for the various tiers of government and where an MFBs services is contracted to disburse loans 'for the delivery of the credit programmes of government, agencies, groups, groups and individuals for poverty alleviation on a non-recourse basis.

2. Foreign exchange transactions;

3. International commercial papers;

4. International corporate finance;

5. International electronic funds transfer;

6. Cheque clearing activities;

7. Dealing in land for speculative purposes;

8. Real estate, except for its use as office accommodation;
9. Allowing any facility for speculative purposes: and
10. Entering into leasing, renting, and sale/purchase of any kind with directors, officers, employees or persons who either individually or in concert with then-family members and beneficiaries, owns five percent (5%) or more of the equity of the VIFB, without the prior approval in writing of the Central Bank of Nigeria. (Source: CBN)

**Control of Microfinance Banks in Nigeria**

Microfinance banks in Nigeria are controlled by Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Cooperation (NDIC). These regulatory authorities use Banks and Other Financial Institutions Act (BOFI ACT) 1991 as amended in 1999. Central Bank of Nigeria, monetary, credit, foreign trade and exchange policy guidelines, CBN Circulars, Microfinance Policy and Nigeria Deposit Insurance. Act to control microfinance banks. The control authorities use these instruments to ensure that microfinance banks conform to standards set by the monetary authorities. Where, they fail to conform, the monetary authorities ensure that defaulters are penalized. They also write reports on microfinance banks since microfinance banks take deposits, NDIC on its own part, supervises the microfinance banks so as to protect depositor's funds and ensure monetary stability.

**Performance Analysis of Microfinance Banks (MFBs)**

The analysis of the Microfinance banks in 2007 showed that the total assets/liabilities of all CBs (80 percent of which converted to MFBs) rose by 37.0 percent to (75.6 billion). The paid-up capital increased by 35.0 per cent to 1 1.2 billion while the shareholder’s funds increased by 70.0 percent to 21.8 billion. Investible funds available to the subsector totaled 20.8 billion in 2007. The funds were sourced mainly from, an increase in paid-up capital of 2.9 billion, reserves of N2. 1 billion, deposits of N7.2 billion and other liabilities totaling N4. 1 billion, among others and were used mainly increasing other assets (N4.5 billion.), loans and advances (N6.4 billion), placements with other banks N5.0 billion among others (CBN Annual Report and Statement of Accounts, 2007:46).

**Constraints to Microfinance Operations in Nigeria**

Below are some of 'the constraints faced by microfinance banks in Nigeria

a. High cost of doing business,

b. Incessant attacks on lives and property of microfinance banks by hoodlums,

c. Increased minimum paid-up capital requirement of Central Bank of Nigeria.

d. Absence of efficient infrastructures.
e. Tough regulatory stance of Central Bank of Nigeria,

f. Lack of integrity on part of some members of staff,

g. Technological challenges like ICT.

h. Fraud by bad customers, and

i. Low level of deposit mobilization.

**High Cost of Doing Businesses:** The absence of essential infrastructures the presence of high inflation rate, the lack or epileptic electricity power supply, and the constant use of generators in microfinance banks drive up their cost of doing business.

**Incessant Attacks on Lives and Property of Micro finance Banks by Hoodlums:** Poor security system in communities where these microfinance banks are located leads to incessant attacks on the personnel/staff and property of these banks. Loss is loss and it does not add to profit.

**Lack of Integrity on the Part of Some Members of Staff:** Some microfinance staff are corrupt. They abuse their office in order to meet up with their own personal needs. Some microfinance banks staff engage themselves in outright theft of money.

**Increased Minimum Paid-up Capital:** Central Bank of Nigeria, from time to time, increased the minimum paid-up capital of microfinance banks in its effort to make the bank strong. But this incessant change and increase in capital is a big constraint because if any microfinance bank fails to meet up with any new minimum paid-up capital, section 9(3) of BOFI ACT will be applied to the bank. Section 9(3) provides that any bank (Microfinance banks inclusive) that fails to meet up with minimum capital requirement by Central Bank of Nigeria within 12 months from the date that the minimum paid-up share capital was determined will have its license revoked.

**Tough Regulatory Stance of Central Bank of Nigeria:** Microfinance banks are faced with regulatory handicaps. They are not allowed to go into forex banking (Foreign Currency). Microfinance bank cheques do not go to Clearing House directly, but through any selected corresponding universal bank, e.g. Oceanic Bank.

**Technological Challenges:** Microfinance banks face technological challenges, like information and Communication Technology (ICT) requirements, in order to meet up with modern day banking. They are faced with the challenge of buying and using computers. As at today, most microfinance banks are not on-line. This is militating against their deposit mobilization.
Fraud by Bed Customers: Some microfinance bank customers can present a forged cheque or engage in other fraudulent practices to defraud the bank.

Low Level of Deposit Mobilization: There is this challenge of low deposit mobilization due to low customers or some people's lack of confidence in microfinance banks.

Prospects of Microfinance Banks

With the increase in the minimum capital base of microfinance banks, they are better repositioned, and re-strengthened to compete with similar microfinance banks in any other place. With information technology, they are technically sound to meet up with the marketing of banking services in the 21st century. The employment of men and women of integrity will increase the banks' role of efficient financial intermediation.

Conclusion

From the above, microfinance banks came into existence in Nigeria in 2007. They were licensed to meet up with the financial needs of those who were previously not served by the conventional banks. They have constraints like high cost of doing business. Incessant attacks on lives and properly by hoodlums, fraud, low level of deposit mobilization, etc. Microfinance banks should struggle to live above these constraints and lo do so, they should identify peculiar constraints in their environments and handle each constraint on its peculiarity, expeditiously, timely and squarely. Central Bank of Nigeria on its own part, should create more awareness on microfinance banks so that people will have confidence in them and deposit funds with them. Besides, the Central Bank of Nigeria. In collaboration with the government of the day, when giving out funds to the poor, should allocate a certain percentage of the funds to microfinance banks to support/increase their credit extension to the poor.

These will enhance the prospects of microfinance banks and as they continue in business, they will provide more employment opportunities to the unemployment youths, facilitate capital formation, and, through the tax they pay, generate revenue to Government.
REFERENCES


