EXAMINATION OF THE LAW AND PRACTICE OF MICROFINANCE BANKS IN PROMOTING CREDIT SECURITIES FOR THE GROWTH OF RURAL AREAS IN NIGERIA

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ABSTRACT

Given the importance of the microfinance sector to the socio-economic and political development of our polity, this study examined the law and practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. It sought to fill the gap of the rare research into the influence of the availability of codified extant laws guiding the practice of microfinance institutions in Nigeria. Four research questions and objectives guided the study, and findings revealed the ineffectiveness of the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, 2012 (rrsgmfbn). The research, therefore, recommends the promulgation of extant laws to specifically guide the practice of microfinance banks, as such laws and regulations would promote credit securities for the growth of rural areas in Nigeria. Also recommended are that high interest rates charged on loans should be reduced in the interest of the clients; that appropriate and stringent measures should be put in place to ensure prompt and timely repayment of loans by creditors and clients; and that a rich capital base should be made available to microfinance institutions by governments to enable them to service and respond to the needs of entrepreneurs, clients, and investors.

KEYWORDS: Law and Practice, Microfinance Banks, Credit Securities, Growth, Rural Areas, and Nigeria

Introduction

Microfinance implies the provision of financial services to low-income and very poor self-employed people.[1] Microfinance, also called "women's finance" or "poor men's finance," can be defined as the supply of small-scale financial intermediation services such as credit, deposits/savings accounts, and insurance to the poor and low-income people.[2] The primary role of Microfinance Institutions (MFIs), or banks for the poor, is to support the strong but often untapped entrepreneurial spirit that exists in poor concerns around the world through the building of financial systems.[3] Microfinance institutions are, therefore, organisations and agents that engage in small financial transactions, using specialised character-based

[1] M. Otero, 'Bringing Development Bank into Microfinance' (1999) 1.
[2] R.A.Onuoha, 'The Law and Practice of Microfinance Banks and Securitization in Nigeria' (2013) Seminar paper presented to Department of Private Law, University of Uyo, Uyo, Nigeria.
[3] N.E.B. Hans, 'The Microfinance Collaterized Debt Obligator? A Modern Robinhood? (2008) 1, www.sciencedirect.com>article>pol, accessed 29 October 2021

methodologies to secure low-income households, small families, and artisans who lack access to banking systems.[4]

Four attributes distinguish microfinance from other financial products. These are:

i. The smallness of loans advanced and savings collected,
ii. The absence of asset-based collateral,
iii. The simplicity of registration and operations, and
iv. The philosophy as non-profit maximization and social institutions.

Microfinance institutions have become the main source of funding microenterprises in Africa and other developing regions of the world.[5] Microfinance institutions are therefore integral parts of the fiscal policies of developing economies like Nigeria's, which when properly harnessed would serve as a platform for promoting entrepreneurial development, stimulating economic growth and reducing poverty.

Economic growth in developing economies like Nigeria in Africa, Asia, Latin America and other parts of the world is anchored on policies of governments aimed at *entrepreneurial growth, proper education, and a decline in the standard of living within the low income bracket. Concerned about the high level of poverty in developing countries in Latin America, Africa, and parts of Asia, a microcredit summit was held in 1997 in Washington D.C*. The summit launched a global movement to reach 100 million of the world's poorest families with credit for self-employment and other financial and business services by 2005. However, not much has been achieved since the 1997 summit in integrating microfinance into the mainstream of financial intermediation because of the failure of conventional financial institutions to recognise the full potential of microfinance[6]. This is evident in Time Wells' 2005 report on the progress of the international year on microfinance, which estimated that traditional banking services are largely unavailable for 2.5 billion people in low-income countries and many of the world's 2.7 billion people in middle-income countries.[7]

Thus, the solution to the problem of the financial exclusion of the world's largest population of 2.5 billion low-income and 2.7 billion middle-income people[8] is the promotion of microfinance institutions to serve as a bridge between the funding needs of the rural and poor people in need of funding, who are critical to the growth of the global economy and improving their standard of living. Nigeria, which has the third largest number of poor people in the world, most of whom are dependent on micro and small-scale farm and off-farm enterprises for their

[4] E Aryeetey 'From Informal Finance to Formal Finance in Sub-Sahara Africa: Lessons from Linkages Efforts' (2008) 13. Being Paper delivered at the African Finance for the 21st Centruy High-Level Seminar, organized by the IMF Institute in collaboration with the Joint African Institute, Tunis Tunisia, http://www.mfw4a.org>document>file, accessed 29 October 2021

[5] C.M. Anyanwu, 'Microfinance Institutions in Nigeria: Policy, Practice and Potentials' (2004). Being a Paper Presented at the G24 Workshop on the Constraints to Growth in Sub-Saharam Africa, Pretoria, South Africa, (2) Journal of Financial and Accounting Research, http://g24.org>upload>2016/01, accessed 29 October 2021

[6] S. Ahmed 'Micro Credit in Bangladesh: Achievements and Challenges' (2004) 2http://www.microfinanacegateway.org/sited/deault/files/mgf-en-casestudy microdredit-in-Bangladesh-achievement-and-challenges-2004 pdf accessed 29 October 2021

[7] Timewell, S. 'Microfinance Gains Momentum in the Banker' (2005) *International Monthly Magazine* 82 www.Banker.com/Banking-Risk/Retail-Banking/Microfinance, accessed 29 October 2021

[8] *Ibid*

livelihood,[9] is in dire need of microfinance to reduce poverty and stimulate economic growth. Several efforts have been made by the federal government of Nigeria, including the present effort in developing a regulatory framework for microfinance banks in 2005 and 2012[10], and in initiating different policies aimed at re-engineering the micro sector. These efforts have, however, yielded little results as poverty still looms high in the country.

By way of stating the problem of this study, the absence of a specific legal and institutional framework for the operation and practice of microfinance institutions is identified as the major challenge necessitating this research. The ineffectiveness of the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, 2012 (rrsgmfbn), herein after referred to as "The Guidelines," further buttresses the need for a study in this direction. The current situation breeds the problem of the inability of microfinance banks to properly address poverty eradication and entrepreneurial development in Nigeria since their establishment in 2005, thus further justifying the choice of this topic.

The formal financial system in Nigeria provides services to about 35 percent of the economically active poor, while the remaining 65 percent are served by the informal financial sector, which consists of non-governmental organisations (NGOs), microfinance institutions (MFIs), money lenders, friends, relatives, and credit unions.[11] Anyanwu corroborated this by saying that commercial banks in Nigeria traditionally lend to medium and large enterprises, which are judged to be creditworthy, but avoid doing business with the poor and their microenterprises because of the associated risk are considered relatively high.[12]

For Nigeria to attain any meaningful economic and social growth, the economically active poor should be engaged in the mainstream of the economy. This is more so as the study acknowledges the successes attained by microfinance institutions like Grameen Bank. Bangladesh Rural Advancement Committee (BRAC) and the Association for Social Development (ASA) in Bangladesh, and Bharat Financial Inclusion [formerly] *Swayan Krushi Sangham (SKS)* and the Industrial Credit and Investment Corporation (ICIC) Bank in India in alleviating poverty, creating wealth, developing entrepreneurial skills, and driving their economies through micro-loans to the poor. Bangladesh and India presently have the highest levels of success financing globally.[13]

It is in the light of the foregoing problems that this paper seeks to examine the law and practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.

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[9] R. N. Mejeha and I. N. Nwachukwu 'Microfinance Institutions in Nigeria' (2008) 2-3, https://mpra.ub.uni-muenchen.de>MPK, accessed 30/3/2021; UNDP Development of Sustainable Programme, P- Poor Financial Sectors, Phase Micro Start, Nigeria (2007), www.uyedf.org, accessed 29 October 2021.

[10] Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, 2005 and 2012 (RRSGMFBN)

[11] J Olakanami & Co. (Note 5) 270. According to a Central Bank of Nigeria (CBN) Journal of Applied Statistcs (2005) (6) (1) (a),the active poor in Nigeria is between ages 15-64 as of the 4th quarter of 2014 is 101, 769, 731, https://trodingeconomics.com.nigeria,accessed 29 October 2021

[12] C.M. Anyanwu (Note 6) p. 4

[13] P. Singh 'Understanding the Structure of Microfinance Institutions in India and Suggesting a Regulatory Framework' Faculty (Finance and Accounting Area), *Indian Institute of Management Lucknow*, 115, www.iibf.org.in/documents/research-report-24pdf, accessed 02 November 2021

Questions guiding this research are fundamental. A principal question is whether there are extant relevant laws guiding the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. Another concern is whether high interest rates charged on loans constitute a problem to the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. Also important is the question regarding the extent to which refusal to repay loans by customers bedevil the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. The fourth and last research question is whether weak capital base affects the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.

The aim of the study is to examine the law and practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria and suggest a specific legal and institutional framework that would address the gaps in The Guidelines which significantly affect successful practice and achievement of the goals of the microfinance institution.

One of the objectives of this study is to examine extant laws guiding the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. Another objective is to research into how high interest rates charged on loans constitute a problem to the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. Yet another objective of this work is to study the extent to which refusal to repay loans by customers bedevils the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria. This paper also seeks to examine whether weak capital base affects the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.

This research, therefore, identifies the gaps in 'The Guidelines' and seeks a specific legal and institutional framework for microfinance institutions that would bridge the gaps, enhance their growth and make them more viable.

Practice and Products of Microfinance Institutions in Nigeria

Microfinance institutions in Nigeria, as elsewhere globally, provide various ranges of services to the public, particularly micro-clients. They provide various products and services like savings, credit (loans), insurance, and training to micro-clients.[14] On account of their importance in promoting entrepreneurial growth, creating jobs and engendering economic growth from their activities, microfinance institutions in Nigeria have proved to have huge potential and have had an impact on the Nigerian economy.

Permissible Activities of Microfinance Institutions

Microfinance banks in Nigeria provide services such as savings, credit, insurance, and non-financial services like training, monitoring, advice, and others needed by the poor.[15] The services are contained in the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, 2012, herein referred to as "The Guidelines." Permissible and prohibited activities for microfinance banks are contained in Sections 2.1 and 2.2 of "The Guidelines".

[14] RRSGMFBN 2012, section 121

[15] G.K. Jenko and O. Adebayo. " The Role of Microfinance Banks on the Socio-economic Empowerment of Beneficiaries in Egbor Local Govwenment Area of Edo State, 2014 vol.4. No.2'' .www.ijmsspcs.com 56 accessed on 02 November 2021

Notable among the permissible activities are the provision of credit to their customers; the acceptance of various types of deposits; and professional, managerial, marketing, technical, and administrative services to clients.[16] Informal microfinance institutions offer only financial services, that is, credit and savings.[17]

Provision of Loans

One of the main activities of microfinance institutions in Nigeria is the provision of micro-loans for petty trading, hair dressing, sewing, and low-level agro-allied activities.[18] Funding for petty businesses is, however, higher than real sector activities like agriculture and manufacturing.[19] In 2004, for example, 78.4 percent of total loans granted by ten microfinance institutions were for trading activities. Two of the microfinance institutions, Justice Development and Peace Commission (JDPC) and Nsukka Area Leaders of Thought United Self-Help Organization (NLTNUSHO), exclusively funded trade and commerce, while only 14.1 percent of the total loans funded agriculture, while manufacturing got a paltry 3.5 percent.[20]

Section 124 of 'The Guidelines' provides that the loans granted by microfinance banks are usually unsecured but typically granted on the basis of the application's character and the combined cash flow of the business household. The special prudential standards in 'the Guidelines'[21] defy standard banking practice by excluding the provision of section 20 (2) (a) of the Banks and Other Financial Institutions Act,[22] which prohibits any unsecured advances or loans in excess of N50,000.00 by allowing microfinance banks to issue loans in excess of N50,000.00 with group or third party guarantee or any individual acceptable to the microfinance bank.[23] The collateral for group guarantee is the collective pledge of the group to repay the loan based on community recognition.[24] For the unlicensed (informal) microfinance institutions, group guarantee provides sufficient collateral. The self-help-groups or rotating savings and credit associations, communal age groups, family kindred, and market and farmers unions provide credit and savings to their members. However, money lenders, pawn brokers and even traders' and market unions that lend to outsiders collect valuable items like gold, furniture, earrings and important documents like certificates and even deeds of conveyance as collateral.[25]

The average loan size of microfinance institutions in Nigeria is as small as N8,800.00. Microloans range from N5000.00 to N13,762.00 which has narrowed the funded activities of microfinance institutions to petty trading, micro-hair dressing, sewing, low leveled agriculture,[26] blacksmithing, watch repairing, bicycle repairing, brick laying, barbing, dyeing, food selling, pot

[16] RRSGMFBN 2012, section 2.0
[17] C. M. Anyanwu (Note 6) p. 4-5
[18] *Ibid.*
[19] *Ibid.*
[20] *Ibid.* The 10 microfinance institutions surveyed were FADU, COWAD, COWAN, LPO, JDPC, WDI, DEC, DEC BAUCHIM OF, NLTNUSHO
[21] RRSGMFBN 2012, section 8 2.1
[22] BOFIA, 2004
[23] The Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria, 2005 section 9.2 (a) specifically ousted the provision of BOFIA, 2004 section 20(2) (a).
[24] RRSGMFBN 2005, section 92(a) specifically oust BOFIA, 2004 section 20(2)(a)
[25] C. M. Anyanwu (Note 6)
[26] *Ibid,* 9

making, cloth weaving, leather works and drumming.[27] 'The Guidelines' provide that the tenure of microloans is usually 180 days (6 months) and that tenures longer than 6 months would be treated as special cases.[28] The section further provides that in case of agriculture or projects with longer gestation period, a maximum of 12 months is permissible, while in housing a longer tenure of 24 months is permissible. Repayment for microloans may be on a daily, weekly, bi-monthly, monthly basis or in accordance with the amortization schedule in the loan contract. The section also provides that the maximum principal amount that is loanable is N500,000.00.

The study however, cannot lay hands on the average size of loans and repayment period (tenure) from the informal microfinance institutions because of dearth of statistics. However, Ilome's claim on the quantum of loans granted by microfinance institutions in Nigeria gives an idea of the contributions of informal microfinance institutions to the economy. He claims that microfinance institutions are high providers of loans in the Nigerian economy, and that sources of Micro, Small and Medium Enterprises (MSME) loans average (a) microfinance institutions 20 percent, (b) cooperatives 31 percent, (c) family members 27.6 percent, and (d) friends 21.5 percent.[29]

Interest Rates

There are no fixed interest rates on loans and savings by microfinance institutions in Nigeria. The average lending rates for microfinance institutions in Nigeria are higher than 32.0 percent compared with commercial banks, which is between 19.5 and 48.0 percent.[30] Some microfinance banks however charge interest as high as 100 percent or more on loans.[31] In fact, money lenders in the informal sector in Nigeria charge interest of 100 percent above.[32] Anyanwu outs the average savings deposit rate of microfinance institutions at 7.5 percent compared with 3.5 percent recorded in the banking sector, thus making savings in microfinance institutions more attractive than commercial banks.[33]

Sources of Funds

Microfinance institutions, particularly the non-governmental organization-microfinance institutions in Nigeria are funded from donations and grants from international organizations, equity share holdings, mobilized savings, bank loans, government support/loans and income/internally generated funds. Anyanwu disclosed that donations and grants from international organization accounted for 51.2 percent, mobilized savings 20.9 percent, owners'

[27] G. K. Jenyo. and O. Adebayo (Note 16) p.58
[28] RRSGMFBN 2012, section 124
[29] O. Ilome 'Promoting Microfinance for Sustainable Development' (2013), animfinigera.org/news-d...and-the-rebased-gap/accessed 1/8/2021. Comrade Ossain Ilome was the Media Assistant to Honourable Hamid Giwa Afolabi, the former National President, Association of Non-Banks Microfinance Institutions in Nigeria.
[30] C. M. Anyanwu. (Note 6) p. 9.
[31] N. F. Macfarquhar 'Banks Making Big Profits from Tiny Loans' (2010) 30. The New York Times, http://www.nytimes.com/2010/04/14/world14microfinance.html.pagewanted=all&r=0. accessed 10 November 2021
[32] O. M. Remy and I. M. J. Nwachukwu. 'Microfinance Institutions in Nigeria' (2008), 6 https://mpr.ub.uno-mueuchen.de>MFB, accessed 10 November 2021
[33] C. M. Anyanwu (Note 5) p. 6.

capitals 9.0 percent, unidentified sources and bank loans accounted for 7.0 and 1.9 percent respectively.[34]

Challenges of Microfinance Institutions in Nigeria

Poor infrastructure like roads, electricity and water, coupled with the high cost and risk of doing business with the poor are partly responsible for both commercial banks and microfinance institutions from lending to micro-entrepreneurs.[35]

Similarly, high transaction costs have made it too expensive for microfinance institutions to reach their customers in the rural areas and even in some urban centres. Microfinance institutions, therefore, consider it a business risk locating their offices in rural areas where their profit-before-tax would be wipe away by their operational costs.[36]

Another problem that is bedeviling microfinance institutions is the refusal of customers to repay loans. Suffice it to say that loan default constitutes a major threat to the sustainability of microfinance institutions in Nigeria. It has become a deadly virus that afflicts the operations of microfinance banks.[37] Most Nigerians that secure microfinance bank loans reneged in honouring their loan agreements. Corruption has become a bane in Nigeria and clients often reneged on their promises to repay loans.[38] Legislation with stiff penalties for loan defaulters would improve loan recovery which has become a big problem for microfinance institutions.

In addition, high interest rates charged on loans constitutes a problem facing the microfinance industry. The Central Bank of Nigeria has not fixed interest rates for microfinance institutions neither has 'The Guidelines.' Section 21 (1) of 'The Guidelines' merely allows microfinance banks to receive interests as may be agreed between their clients and according to the existing guidelines. This has made some microfinance banks to charge as high as 100 percent or more as interest rates,[39] while money lenders in the informal sector charge interest of 100 percent or more.[40] The high interests charged by microfinance institutions is partly responsible for some micro-entrepreneurs to repay their loans.

Weak capital base is yet another challenge constituting a major problem for microfinance institutions in Nigeria. The reluctance of commercial banks to give loans to micro-entrepreneurs has put existing microfinance institutions under intense pressure to grant loans. Besides, the liquidity position of most microfinance banks was about 0.96 in 2007 and 0.88 in 2008 against the recommended standard of 2,00 for microfinance institutions.[41]

[34] *Ibid,*
[35] *Ibid*, p. 4.
[36] R. A. Onuoha. (Note 2) p. 19
[37] I. J. Noruwa and Emeka. 'The Role of Sustainability of Microfinance Banks in Reducing Poverty and Development of Entrepreneurship in Urban and Rural Areas in Nigeria,' 36 PDF Citseerx. 1st P. Su.Edu.viewdc>download. accessed 15 November 2021
[38] R. A. Onuoha. The Law of Land and Securities in Nigeria, Reformation and Viable Alternatives (1st ed. ANON Publishers 2006) 41-43
[39] N.F. Macfarquhar 'Banks Making Big Profits from Tiny Loans' (2010) 30. The New York Times, http://www.nytimes.com/2010/04/14/world14microfinance.html.pagewanted=all&r=0. accessed 15 November 2021
[40] O. M. Remy and N. I. Nwachukwu (Note 33) p.4
[41] G. K. Jenko and O. Adebayo. (Note 16) p.55

Despite the huge potentials microfinance institutions have, they are beset with several challenges that have caused serious inhibitions to their growth in Nigeria. The challenges are:

Absence of a Specific Legal and Institutional Framework for Microfinance Institutions

The absence of a separate legal framework for microfinance institutions in Nigeria is a major hindrance to the growth of the micro-sector. 'The Guidelines' do not qualify as a legislation. The main regulatory body, the Central Bank, therefore relies on the stringent provisions in the Banks and other Financial Institutions Act[42] to regulate microfinance banks, which negate their characteristics of simplicity in operations and rendering of social services to the poor. Instances of the harshness in 'the Guidelines' are deposit of the minimum licensing requirements of N20,000,000.00, N100,000,000.00 and N2,000,000,000.00 for the Unit, State and National Microfinance Banks,[43] and the laborious licensing documentation requirements in section 3.3 of 'the Guidelines' where promoters seeking license to float microfinance banks are required to apply to the Governor of Central bank of Nigeria with non-refundable application fees N250,000.00, N500,000.00 and N1,000,000.00 for Unit, State and National Microfinance Banks respectively.[44] Similarly, the penalties for failure of microfinance bank to publish their audited financial statements[45] and the requirement for microfinance banks to maintain not less than 5 percent of their deposit liabilities in treasury bills, against a fine of 1 percent of the amount not invested as penalty for non-compliance,[46] are too harsh for microfinance institutions has discouraged local and foreign investors in microfinance institutions in Nigeria.[47] It has also created loopholes for loan default and fraud in microfinance banks.[48]

Furthermore, 'The Guidelines' do not contain penalties for microloan defaulters, delinquent managers, and staff of microfinance banks who defraud their banks. In some cases microfinance bank managers are either poor in skills and experience or are fraudulent managers expelled from conventional banks[49] This is an anomaly that can be abused by family members who could decide to own a microfinance bank and take the bulk of the loans to family members who may not pay back.[50]

The absence of a specific legal and institutional framework for microfinance institutions in Nigeria has also discouraged local and foreign investors in microfinance institutions in Nigeria.[51] 'The Guidelines' are not legislation and lack the force of law. This perhaps explains why there is only one foreign microfinance bank, AB Microfinance Bank Limited, in Nigeria.[52] Firpo is, therefore, correct in his views that there are generally the absence of consistent sector-

[42] BOFIA 2004, section 63
[43] RRSGMFBN 2012 section 32
[44] *Ibid*, S 3.3 (a)
[45] *Ibid*, s. 71.
[46] *Ibid*, section 8.1.1
[47] Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, op cit 10.
[48] Jenyo G. K. and Adebayo, O. (Note 42) p. 59
[49] R. A. Onuaha (Note 38) p. 44
[50] G. K. Jenyo and O. Adebayo *supra at p.59*
[51] N. F. Macfarqular (Note 40) p. 10
[52] Central Bank of Nigeria: Microfinance Banks, www.cbn.gov.ng>supervision>inst-mf, accessed 02/10/2021

wide operating standards and practices that are sustainable in micro-financing that can stand up to external scrutiny by potential investors without a legal framework.[53]

Outreaching the Poor

Another challenge that microfinance institutions face in Nigeria is the inability to reach a greater number of the poor. A Central Bank survey shows that microfinance institutions client base was about 600,000 in 2001 and that they may not be above 1.5 million than in 2003. The number is considered too small for a country like Nigeria that has over 60 million people that require microfinance services as of 2003.[54] In fact, Remy and Ifeanyi put the population of the unbanked or underserved Nigerians at over 80 million, which was about 65% of Nigerians active population as of 2008.[55] Many rural dwellers and a handful or urban settlers remain unbanked.[56] Soludo said that the microfinance policy, which evolved as a result of the perceived need for the funding of businesses, who have no access to bank funds will benefit only 35% of the nation's populations, particularly micro and small scale entrepreneurs due to uneven spread of microfinance institutions across the states.[57] Soludo further revealed that the dominant microfinance institutions are concentrated in the South and Eastern parts of the country to the detriment of the poor majority in the predominantly Muslim North. That the incidence of poverty in the Northern Region is high compared to the three Southern Regions. That poverty was 71% in North West, 72% in North East and 67% in North Central, against the corresponding figure of 43% in the South West, 23% in South East and 35% in South South as of 2008. Soludo concluded that a very high level of poverty is essentially a Northern phenomenon.[58]

Weak Capital Base

Many microfinance institutions in Nigeria are bedeviled with lack of funds. The bulk of the funds for the non-governmental organization/microfinance institutions and government owned microfinance banks come from grants. A study conducted revealed that generally the liquidity position of microfinance banks is weak. That it was about 0.96 in 2007 and 0.88 in 2008 against the recommended standard of 2.00 for the industry (microfinance institutions).[59] The few depositors are poor with little propensity to save for a long time. Consequently, most microfinance banks could not take the risk of lending without collateral. For instance, only 75 out of over 600 community banks whose financial statements were approved by the Central Bank in 2005 had up to N20 millions of stakeholders funds unimpaired by losses.[60] Similarly, 130 microfinance banks had their licenses withdrawn by the Central Bank in 2007 because they refused to comply with the operational guidelines like sound and safe banking practices

[53] J. Firpo 'Banking the Unbanked: Issues in Designing Technology to Deliver Financial Services to the Poor,' (2009) 195. New Partnership for Innovation in Microfinance, https://link.springer.com.content.pdf, accessed 15 November 2021
[54] C. M. Anyanwu (Note 34) p.12.
[55] R. O. Remy and I. N. Nwachukwu (Note 41) p. 6.
[56] R. A. Onuoha (Note 37) p .3
[57] C. Soludo 'Framework for Public Private Partnership in Micro-Financing in Nigeria' (2008). A Keynote Address by the Governor of the Central Bank of Nigeria of the International Microfinance Conference and Annual Microfinance Entrepreneur Award, Abuja.
[58] *Ibid.*
[59] G. K. Jeny and O. Adebayo (Note 49) p.61
[60] R. O. Mejaha and I. Nwachukwu (Note 10) p.8.

such as maintaining 20 percent of their liquidity ratio.[61] Sustainability is therefore critical to the continuous operations of microfinance banks. There is thus the need to reverse the trend of relying on grants as their major source of funding and to focus more on savings mobilization, source for liberal loan terms from Development Finance Institutions (DFIs) like the Nigeria Industrial Developing Bank (NIDB), the Bank of Industry (BOI) and the Bank of Agriculture (BOA).

Interest Rates

Section 2.1(1) of 'the Guidelines'[62] permits microfinance banks to pay and receive interest as may be agreed upon between the microfinance bank and its clients in accordance with existing guidelines. This provision is nebulous as 'the Guidelines' did not mention what the existing guidelines are or where they could be found. To ensure monetary and price stability, the Central Bank usually issues circulars to commercial banks on the interest rates to charge for loans and deposits from time to time, which puts the interest rates commercial banks charge.[63] Unfortunately, the Central Banks does not regulate the interest rates of microfinance banks, with the result they charge outrageous interest rates on loans. *Section 2.1 (b)* of 'the Guidelines' leaves microfinance clients at the mercy of microfinance banks to determine the interest rates. Besides, the reference to *section 2.1(c)* of 'the Guidelines' did not help matters as there are no provisions on interest rates. Anyanwu said that the average lending rate for microfinance institutions was much higher than 32.0 percent, adding that some microfinance institutions charge rated as high as 48 percent against the maximum lending rates of 19.5 and 21.6 percent by commercial banks as of December 2003[64]. In fact, money lenders at the informal sector charge interest rates of 100 percent[65]. Macfarquhar wrote in the New York Times that:

> Rates may vary across the globe but the ones that draw the most concern tend to occur in countries like Nigeria and Mexico where the demand for small loans from a large population cannot be met. That the global average interest and fee rate is about 37.0 percent and rates can be as high as 70.0 percent in some market drawn by the prospect of a raft of banks and financial institutions which now dominate the field of microfinance institutions with some charging interest rates of 100 percent or more.[66]

Macfarquhar said that microcredit was created to fight loan sharks and not to encourage new loan sharks. It can thus be argued that the excessive profit maximization driven by microfinance institutions is at variance with the intents and purposes for their establishment. The intents and purpose for the establishment of microfinance banks were summarized by Yunus when he said that:

[61] G. K. Jenyo and O. Adebayo (Note 60) p. 60 ; RRSGMFBN, 2012 section 8.1.2.
[62] RRSGMFBN, 2012
[63] BOFIA 2004, section 23(1) and (2) require commercial banks to display in their offices their lending and deposit interest rates. The section also provides a fine to N5000 for every day for a breach of the provision.
[64] Anyanwu, C. M. (Note 55) p. 9
[65] Mejeha, R. O. and Nwachukwu, (Note 61) p. 6
[66] Macfarquhar, (Note 40) p.12. Some microfinance banks in Nigeria charge as much as 100 percent interest rate.

> Microcredit should be seen as an opportunity to help people get out of poverty in a business way, not as opportunity to make money out of poor people.'[67]

Poor Infrastructure/High Cost of Doing Business

The poor state of roads, power, water and security in Nigeria constitutes a serious challenge to microfinance institutions to locate their offices in the rural areas where the bulk of the very poor reside. This is coupled with the high cost and risk of doing business with the poor which scares away commercial banks from lending micro-entrepreneurs.[68] Because the size of loans granted by microfinance institutions is relatively small compared with commercial banks, the time and resources spent in dealing with numerous micro-clients for paltry loans increase the administrative cost of doing business. Technical challenges and high transaction costs make it expensive to reach their customers in the rural areas and some urban centres. Microfinance institutions in Nigeria are therefore reluctant in locating their offices in rural areas where their profit-before-tax would be wiped away by operational cost[69].

Weak Institutional Capacity

The underperformance of many microfinance institutions, including microfinance banks in Nigeria, could be traced to incompetent and corrupt management, weak internal control, poor corporate governance, lack of properly articulated operations and restrictive regulatory/supervisory requirements from the Central Bank of Nigeria[70]. Jenyo and Adebayo attributed poor incompetent and fraudulent management as the most serious factors responsible for the collapse of microfinance banks in a survey conducted with selected microfinance bank in Kwara State, Nigeria.[71] The survey showed that in most cases microfinance bank directors are either poor in skills or expelled from commercial banks. The survey further showed that out of five randomly picked microfinance banks in Kwara State, over 50 percent of their staff do not have university education.[72] The simplicity in office accommodation and furniture associated with Grameen Bank is lacking in Nigeria's microfinance banks where microfinance managers buy exotic cars and elaborately furnish their offices.

Security of Microfinance Loans

In keeping with the microfinance policy framework in Nigeria and adopting the models of Grameen Bank[73] section 1.2.4 and 8.2.1 of 'the Guidelines' provide that microfinance loans do not require asset-based collateral. The combined effects of section 1.2.4 and 8.2.1 of 'the Guidelines' require the applicant's character and the combined cash flow of the business and household, and group guarantee or third party guarantee of an individual acceptable to the

[67] *Ibid*, Mohammed Yunus is the founder of Grameen Bank, the locus classics for microfinance institutions.
[68] C. M. Anyanwu (Note 65) p. 4
[69] R. A. Onuoha (Note 57) p. 19
[70] R. O. Mejaha and N. I. Nwachukwu (Note 66) p. 8
[71] G. K. Jenyo and O. Adebayo (Note 62) p. 59; The survey was conducted in 2014.
[72] *Ibid*.
[73] J. Olakanmi & Co. (Note 12) p. 270; Absence of asset-based collateral is a cardinal feature of microfinance policy framework in Nigeria.

microfinance bank as collateral. The provisions defy the provision of the Banks and Other Financial Institutions Act, 2004 which does not permit unsecured advances, loans and credit facility exceeding N50,000.00. The provision also defy the concept of secured credit which requires the debtor to discharge an obligation (assets) to the creditor to ensure repayment of loan gotten by him., or where a debtor possesses a right in relation to a property which can be transferred to the creditor to be transferred upon redemption or payment of the debts.[74] Good as the intentions of the framers of 'the Guidelines' are, the days when integrity, honesty and decency were the sign posts that defined Nigerians are a gone. Corruption has become a bane in Nigeria and people often renege on their promises to repay loans.[75] Although the point has been made that the percentage of microloan defaulters is lower than loan defaulters in commercial banks,[76] the fact still remains that default in repaying loans has wrecked many microfinance institutions in Nigeria. The study therefore strongly recommended groups, or top government functionaries, or traditional rulers or Trade Union executives as guarantors for micro-loans to individuals.

Lack of Patronage

Most microfinance banks that are located in the rural areas lack patronage from the communities with the result that they incur high overhead expenses that erode the profit and share capital of microfinance bank. By the same taken, microfinance banks located in urban centres face stiff competition from commercial banks.[77]

Fragmentation within the Micro-Sector and Lack of Strong Relationship with other Organisations: Section 3.0 of 'the Guidelines' allows commercial banks to operate microfinance banks by setting up subsidiaries. Many microfinance banks have not established linkages with commercial banks and the Development Financial Institutions (DFIs) to strengthen their capital base. The study recommends more commercial banks to form linkages with microfinance institutions or establish subsidiaries of microfinance intuitions.

Potentials, Impacts and Prospects of Microfinance Institutions in Nigeria

(a) Potentials of Microfinance Institutions in Nigeria

Microfinance institutions provide a lot of promises in alleviating poverty, creating jobs and wealth, developing entrepreneurial spirit, creating skills and generally engendering economic development and prosperity. The formal financial system in Nigeria provides services to about 35 percent of the economically active population, while the remaining 65% percent do not have access to formal financial services. The 65 percent are often served by the informal sector through non-governmental organization/microfinance institutions, money lenders, friends, relatives and credit unions.[78] Nigeria's population presently stands at over 193 million people[79] and over 130 million people are in need of various goods and services, including financial

[74] See section 20(3)(a) of BOFIA
[75] R. A. Onuoha (Note 39) pp. 41-43.
[76] C. M. Anyanwu (Note 69) pp. 8 & 9
[77] G. K. Jenyo and O. Adebayo (Note 72) p. 61
[78] J. Olakanmi & Co, (Note 74) p. 270
[79] 2017 National Population Commission, gov.ng, accessed 05 December 2021

services.[80] The bulk of Nigerians are therefore served by microfinance institutions. The increasing access of the poor to credit and the ability to repay loans has turned microfinance into a viable business in Nigeria[81] Microfinance institutions thus have the following potentials in Nigeria:

i. Alleviating poverty by providing loans to the low-income rural and urban dwellers to start business;
ii. Creating jobs and wealth by giving financial products and expert services to clients;
iii. Developing the entrepreneurial spirit in micro-entrepreneurs
iv. Boosting agriculture and manufacturing
v. Serving the robust market of micro-entrepreneurs who do not have easy access to credit from conventional banks.
vi. Increasing saving opportunities of low income group to enable them climb the social and economic ladder.
vii. Attracting local and foreign investors.
viii. Accelerating economic growth in Nigeria.

(b) Impacts of Microfinance Institutions in Nigeria

The activities of microfinance institutions in Nigeria have expanded significantly in terms of size, asset base, staffing, branches volume and value of credit savings. The rise in the volume of transactions carried out by microfinance institutions and their role in financial intermediation cannot be ignored. The number of microfinance institution branches rose from 316 to 1, 193, while their employees rose over 705 between 1993 and 2003. Similarly, the total asset base of the ten (10) microfinance institutions supra rose from N54 million in 1993 to over N348 million in 2003.[82]

Nigeria's population presently stands at over 193 million.[83] It largely consists of people at the bottom of the social pyramid in need microfinance services so badly. Even though a Central Bank of Nigeria survey showed that the client base of microfinance institutions in 2003 may not be above 1.5m for a country that has over 60 million people that require microfinance services,[84] the fact remains that financial inclusion of the unbanked active population by microfinance institutions has empowered the poor, created wealth, and stimulate economic growth and increase the Gross Domestic Product. The deliverables of microfinance institutions on the Nigerian economy are significant and far reaching. These are:

Financial Inclusion of Micro-Entrepreneurs. Financial inclusion remains one of the important roles in micro financing as loans granted to micro-entrepreneurs to expand existing businesses and start new ones. The Central Bank of Nigeria in 2010 reported that microfinance loans granted to clients increased from 2007 to 2010 and most of it (microfinance institutions) in rural areas.[85] The formal financial system in Nigerians provides services to about 35% of the

[80] C. M. Anyanwu (Note 77) p. 7
[81] *Ibid,* 10.
[82] *Ibid.* (Note 81) p. 8
[83] National Population Commission, available of population gov, ng, accessed the National Population Commission put Nigerians population at 193 million as of 2017. Accessed on 05 December 2032
[84] C. M. Anyanwu (Note 83) p. 12
[85] G. K. Jenyo and O. Adebayo (Note 78) p. 58

economically active population of 101, 769, 737, while the remaining 65% are serviced from the informal sector.[86] Ketu said that microfinance banks have granted loans worth more than N800 million to over 13,000 farmers across Nigeria.[87] Increase funding of farmers improved the output of farm produce and triggers growth in the agricultural sector.

(c) Entrepreneurial Development

Micro-credit engenders the growth of small scale enterprises and agriculture. Microenterprises in Nigeria mainly involve peasant farming, fishing, artisanship, hairdressing and other small scale trades. About 60 percent of poor people in Nigeria live in the rural areas. Out of the number 80 percent are farmers.[88] Microfinance institutions have been the major source of funding for this group. The federal and state governments can go into partnership with microfinance institutions to raise bulk loans for micro-entrepreneurs to improve their purchasing power and upward movement in the social economic ladder.

(d) Job Creation

Microfinance institutions have generated employment for Nigeria's teeming active poor population. A Central Bank of Nigeria report in 2008 stated that the promotion of employment in rural areas by microfinance banks cover blacksmithing, watch repairing, bicycle repairing, basket weaving, dyeing, catering, brick-laying, soap making, leather works and sewing.[89] The financial inclusion of these groups of people by microfinance by microfinance institutions has contributed significantly to \the national economy.

(e) Skill Acquisition

The Central Bank of Nigeria provides training and technical assistance to microfinance banks employees. Two departments, namely, the Development Finance Department (DFD) and the Other Financial Institutions Department (OFID) in the Central Bank are directly involved in rural microfinance. The Central Bank of Nigeria has been collaborating with the United Nations Development Programme (UNDP) and United States Agency for International Development (USAID) on different capacity building programmes for microfinance operations.[90] Similarly, section 2.1 (i) and (ii) of 'the Guidelines' mandate microfinance banks to provide professional advice such as managerial, marketing, technical and administrative, as well as mobilize and provide financial assistance and training to their customers. Microfinance banks and non-governmental organization/microfinance institutions have assisted on the improvement of skills acquisition especially, for rural women and adult literacy. They (microfinance banks) have achieved this by building capacities for wealth creation and promoting sustainable development through the introduction of simple cost benefits in doing business and

[86] J. Olakanmi & Co. (note 79) p. 270
[87] K. K. Ketu 'Microfinance Banks in Nigeria: An Engine for Rural Transformation' (2008) West African Institute for Financial and Economic Management, Lagos.
[88] 2005 National Bureau of Statistics, www.nigerianstat.gov.ng, accessed 05 December 2021
[89] G. K. Jenyo and O. Adebayo (Note 86) p. 58
[90] P. O. Mejaha. and I. Nwachukwu (Note 71) pp. 11-12

encouraging their customers to explore the benefits of banking.[91] The skills acquired will add to the production value and propensity of micro-entrepreneurs.

(f) Poverty Alleviation

Microfinance institutions have assisted in Governments' initiatives of alleviating poverty by providing loans to micro-entrepreneurs in Nigeria. The Federal Government's National Poverty Eradication Programme (NAPEP) and the National Economic Empowerment and Development Strategy (NEEDS), which aimed to achieve the Millennium Development Goals (MGDs) of eradicating poverty have retained the partnership of microfinance institutions in rendering services.[92]

Microfinance institutions that have provided loans to a fraction of the 65 percent of active poor Nigerians who redirect their agencies to productive ventures like farming, trading, information communication technology (ICT), tailoring, hair dressing, catering, weaving and furniture making in place of criminality and other social vices such as drug addition, kidnapping, armed robbery and insurgency. The number of borrowers from ten (10) selected microfinance institutions in Nigeria rose from 6,013 in 1993 to 405, 915 in 2003. Correspondingly, the average value of outstanding credit for four (4) microfinance institutions rose from N16, 24 million in 1993 to N591.1 million in 2004.[93]

(g) Social Benefits

Microfinance institutions have provided employment and created wealth to enable micro-entrepreneurs enhance their socio-economic status by moving from the lower to the middle class in Nigeria.

Promotion of Agriculture and Manufacturing

Agriculture and manufacturing are the parameters of sustainable growth and development. As of 2004 only about 14.1 and 3.5 percent of total microfinance institutions' funding went to agriculture and manufacturing respectively, while 78.4 percent funded commerce. Microfinance institutions can utilize the banks' Small and Medium Industries Enterprises Investment Scheme (SMIEIS) fund, for which 10 percent was secured for micro-enterprise to finance the real sector and widen the financial system in Nigeria.[94]

Prospects advanced for Microfinance Institutions in Nigeria

i.) Enactment of a Specific Legal and Institutional Framework for Microfinance Institutions

The study makes a case for the enactment of a specific legal and institutional framework for microfinance institutions to enhance their viability; reduce the cost and laborious process of obtaining operational licenses; water down the stringent regulatory and supervisory standards applied on microfinance banks by the Central Bank of Nigeria; attract local and foreign investors to the micro-sector; streamline the process of loan grant and recover; regulate

[91] G. K. Jenyo and O. Adebayo (Note 900) p. 58
[92] *Ibid*, p. 58
[93] C. M. Anyanwu (Note 85) p. 12
[94] *Ibid*.

interests on loans; and improve the weak financial base of most microfinance institutions through linkages with commercial banks, securitizations and enlarging their permissible activities in 'the Guidelines.' The study suggests a legal and institutional framework for microfinance institutions with the title 'Microfinance Institutions Act of Nigeria' and the Microfinance Institutions Regulatory Authority' to regulate microfinance institutions in Nigeria and bridge the gaps in 'the Guidelines'. Some of the gaps the suggested legislation intends to bridge are:

Microfinance Regulatory Authority: The Central Bank of Nigeria is presently overwhelmed with the supervising and regulating commercial banks and regulating the monetary policy of the country. The study has therefore recommended a separate regulatory body and legislation for microfinance institutions to reduce the harsh regulations the apex bank applies on microfinance banks. Other objectives like child education, rural transformation, adult literacy, reproductive health care, skills acquisition and the promotion of linkages between universal development bank, specialized institutions and microfinance banks set out as targets in the 2005 policy framework for microfinance institutions have also not made significant progress because of the challenges microfinance institution face in Nigeria.

The study has therefore makes far reaching recommendations for the microfinance industry to achieve its target of poverty alleviation, entrepreneurial development, job creation, wealth creation, financial inclusion of the unbaked, enhancing the socio-economic conditions of women, child education, productive health care service and generally improving the economy.

(i) **Micro Clients:** Preference should be given to the most vulnerable groups[95] like women, the physically challenged and children (child education) in the granting of microloans. Women and the physically challenged should be granted 70 percent of all microloans.
(ii) **Loan Type and Size:** Agriculture and manufacturing should attract 60 percent while commerce, weaving, tailoring, hair dressing and other micro-activities should attract 40 percent of micro loans.[96] Furthermore, the loan size should increase from N500,000.00 in 'the Guidelines'[97] to N10,000,000.00 and the repayment period from a minimum of two (2) years[98] to a maximum of (5) years, depending on the terms of contract. This would engender economic growth in Nigeria.
(iii) **Guarantors:** The proposed legislation recommends group guarantee or trade union officials or a high ranking public servant as guarantors to microfinance loans in place of the applicant's character and the combined cash flow of the business or household[99] to reduce the frequency of loan default in Nigeria.
(iv) **Permissible Activities:** The proposed legal and institutional framework suggests that microfinance institutions in Nigeria should accept public sector deposits from ministries, departments and agencies; deal on foreign exchange transactions; international commercial papers; international corporate finances deals; international electronic funds transfer, clearing house activities; collection of third party cheques on

[95] RRSGMFBN 2012, section 1.2.2.
[96] *Ibid*, section 1.2.3.
[97] *Ibid*, section 1.2.4.
[98] *Ibid*.
[99] *Ibid*, section 1.2.4.

the prohibited activities in 'the Guidelines' on the permissible list.[100] The study also recommends securitization as a permissible activity for microfinance institutions to boost their weak capital base and reduce the risk of bankruptcy resulting from loan default.

(v) **Liberalization of Licensing Requirements:** The study recommends the reduction of the minimum paid-up capital, registration fees, expansion of the categories of microfinance institutions and suggests an institutional framework, 'Microfinance Institutions Regulatory Authority' to issue licenses, regulate the operations of microfinance institutions, and ensure the ease of doing business in the microfinance industry in Nigeria.

(vi) **Transformation Process:** The study recommends a simple transformation process for non-governmental organization/microfinance institutions.[101] Same applies to microfinance institutions that desire to transform from a lower to a higher category.

(vii) **Removal of Stringent Prudential Requirements:** The study recommends the removal of prudential requirements that are inimical to the survival of microfinance institutions in Nigeria. These are the compulsory 5 percent investment in treasury bills,[102] the maintenance of 20 percent liquidity ratio, among others, and replacing them with less stringent requirements.

(viii) **Interest Rates:** The study recommends that the Central Bank of Nigeria should fix the interest rates on savings and loans for microfinance institutions to stop the arbitrary high interest charged by microfinance institutions. The interest rate on loans should be below those charged by commercial banks.

(ix) **Loan Restructuring:** Microfinance entrepreneurs should be allowed to restructure their loans as many times as could be mutually agreed upon by a microfinance institution and the borrower as against the maximum of two times allowed by 'the Guidelines.'[103]

(x) **Penalty for Loan Default:** The study recommends penalties of fine, imprisonment or both fine and imprisonment for microloan defaulters. Furthermore, the study suggested a penalty of forfeiture of property or assets of guarantors to reduce the frequency of loan default in Nigeria.

(xi) **Effective Outreach/Coverage:** In order to achieve the Microfinance Policy target of creating millions of jobs to reduce poverty by 2020, the study recommends:

(a) An increase of the three (3) categories (Unit, State and National) of Microfinance Banks in 'the Guidelines'[104] and the reduction of the minimum paid-up capital and licensing fees[105] to attract more investors to the microfinance industries and increase the number of microfinance institutions in Nigeria.

(b) Ownership of microfinance institutions by each of the 36 states, including the Federal Capital Territory and the 774 Local Government Councils and set aside 0.5 percent of their statutory allocations to fund microfinance institutions.

[100] *Ibid*, section 2.2.
[101] *Ibid*, section 3.0, 18.0.
[102] *Ibid*, section 8.11.
[103] *Ibid*, section 4.3 (a)
[104] *Ibid*, section 3.2.
[105] *Ibid*, sections 3.2, 3.4.

(c) Government should provide adequate infrastructure like roads, electricity, communication, transportation and portable water in the rural communities to attract investors to locate microfinance institutions in rural areas.

(d) Microfinance institutions should collaborate with the Nigeria Postal Service to use post offices and postal agencies as outlets for microfinance services, since post offices are located in virtually every nook and cranny of Nigeria

(xii) **Penalty for Loan Defaulters:** The study also recommends stiff penalties for loan defaulters. The propose legislation suggested forfeiture of the defaulter or guarantor's property or two years imprisonment or both fine and imprisonment. The reason is to reduce the frequency of loan default which has led to the collapse of microfinance banks in Nigeria.

(xiii) **Improved Infrastructure:** Poor infrastructure like lack of good roads, electricity, water and security have greatly hampered the ease of siting microfinance institutions in the rural areas. Similarly, the challenges posed by poor infrastructure have increased the overhead costs of microfinance institutions. Consequently, there should be concerted efforts by all the three tiers of government to improve on infrastructure to attract microfinance institutions to the rural areas.

(xiv) **Boosting the Capital Base of Microfinance Institutions:** Microfinance institutions in Nigeria often face the lack of adequate funds to grant loans. To boost the weak capital base of most microfinance institutions, the study recommends the following:

(a) An enlargement of the permissible activities of microfinance banks in section 2.1 to include some of the prohibited activities in section 2.2. of 'the Guidelines.'

(b) The reduction of some prudential requirements of 5 percent of a microfinance bank equity share in treasury bills.

(c) Microfinance banks to be registered as securitization entities to boost that capital base.

(d) All licensed microfinance institutions should accept deposits from the public

(e) All commercial banks should grant 30 percent of their advances as loans to microfinance institutions.

(xv) **Risk Management Techniques:** Microfinance institutions should devise effective risk management techniques to screen out bad credit risk through group lending methods, client selection and working closely with the communities and the people to know persons (Know-Your-Customer) that are not trustworthy as obtainable in Grammen bank.

(xvi) **Establishing Constant Lines of Communication:** Microfinance institutions should stay in constant communication with their customers through circulars, weekly meetings and visits to their businesses and homes as practiced in Grameen Bank. Such communication lines would not only make for easy monitoring of micro-clients, it would also ginger them to work hard to repay their loans.

(xvii) **Improving the Weak Institutional Capacity of Microfinance Institutions:** To solve the challenge of weak institutional capacity arising from incompetent and unqualified staff, fraudulent staff[106] and the absence of property articulated operations and the harsh regulatory/supervisory requirements from the Central Bank of Nigeria,[107] the study

[106] R. Mejaha and I. N. Nwachukwu (Note 91) 8.
[107] G. K. Jenyo and O. Adebayo (Note 92) p. 59

recommends that the minimum qualifications should be a university degree or diploma, and post qualification experience for senior and management staff of microfinance institutions should be one or two years, depending on the category and grade in the proposed legislation of staff that are employed without the relevant qualifications. Similarly, the proposed legislation contains penalties of fine, or both fine and imprisonment for fraudulent staff of microfinance institutions. Furthermore, the proposed legislation has cushioned the harsh requirements of the Central Bank on microfinance banks by suggesting a different regulatory body, 'Microfinance Regulatory Authority' and the removal of the cumbersome requirements for microfinance institutions to obtain license. Furthermore, there should be deliberate efforts to continuously train staff of microfinance institutions to build capacity in the micro-sector.

(xviii) **Ownership of Microfinance Institutions:** The study recommends a change in the ownership structure of microfinance institutions. One of the ownership structure of microfinance banks in section 3.1 of 'the Guidelines' is for an individual to own a microfinance bank. The study posits that individual ownership of microfinance institution could be abused, and recommends only group of individuals, community development associations, farmers/artisans/traders unions, corporate bodies, and ministries, departments and agencies to own microfinance institutions.

(xix) **Diversification:** Microfinance institutions in Nigeria should be part of the global paradigm shift in microfinance as social service providers to a combination of social and commercial service providers.[108] Big players in the microfinance industry like Grameen Bank, Bangladesh Rural Advancement Committee, Association for Social Advancement in Bangladesh, Industrial Credit Investment Corporation of India, IFMR Capital and *Swayam Krishi Sangan* in India are into securitization and other viable businesses, and are quoted on floor of their capital markets. They have been providing loans to smaller microfinance institutions in their countries. Securitization also reduces the risk of the collapse of microfinance institution from loan default and attract investors because of its (securitization) viability. The study therefore recommends the inclusion of securitization as a permissible activity for microfinance institutions in Nigeria.

(xx) **Linkages:** Microfinance institutions in Nigeria should form strong linkages with commercial banks and other financial institutions to secure loans to disburse to their clients as with the case in Bangladesh and India. The proposed legal framework makes it mandatory for all commercial banks to form linkages with a microfinance institution or establish microfinance institutions as subsidiaries.

(xxi) **Winding-up of Microfinance Institutions**: The study recommends the voluntary mode of winding-up of microfinance in place of the cumbersome process involved in winding-up by the courts.

The present capital requirement of two hundred million naira (₦2,000,000.00) by the Central Bank of Nigeria for microfinance banks too high. The relief provided by the House of Representatives offered the microfinance banks some relief otherwise many of them would have become extinct by now. The CBN should know that microfinance banks are for the poor and rural people hence a new supervisory and regulatory body is needed.

[108] In line with what is obtainable in other jurisdictions like India, Bangladesh, etc

Conclusion and Recommendations

This work has analysed the importance of microfinance banks as well as considered the available policies and regulations that guide the operational system of the bank. Against the backdrop of the Federal Government of Nigeria's microfinance policy to eradicate poverty through the provision of microfinance loans and skill acquisition development for income generation; make financial service available to a large segment of the potentially productive population; promote synergy and mainstreaming of the informal micro-sector; improve the social economic conditions of women through the provision of loans, skills acquisition, reproductive health care service, adult literacy, and child education; contribute to rural transformation; and promote linkages between universal development bank, specialised institutions, and microfinance banks, the study posits that not much has been achieved going by the general economic growth rate, poverty level, school enrolment and the socio-economic conditions of Nigerians, especially women and children, who are the most vulnerable in the society.

For instance, poverty looms high in Nigeria, Agriculture and manufacturing are neglected. Microfinance has not made significant impact on the overall economy of Nigeria. The Gross Domestic Product (GDP) per capital income, in 2018 is only USD 2461.00; Gross Domestic Product by sector are Agriculture 21.6 percent; Industry 18.3 percent and Services 60.1 percent; while Gross Domestic Growth is 2.1 percent as of 2018.[109] Furthermore, the microfinance policy target to increase the share of microcredit of the Nigerian economy from 0.9 percent in 2005 to at least 20 percent in 2020 could only achieved 0.57 percent in 2012.[110] Similarly, women who are the most vulnerable in Nigeria and who by the microfinance policy framework are supposed to be the ultimate beneficiaries of micro-loans are not benefiting as their male counterparts. For example, because of religious and cultural practices, coupled with the high level of illiteracy among the women in Purdah in Northern Nigeria, the percentage of male customers to women in microfinance banks is 65 to 45 percent.[111]

Significantly, a specific legal and institutional framework for microfinance institutions would streamline their activities and sustain growth. It would also attract investors to the micro-sector. Similarly, a specific legislation would eliminate the stringent regulations such as the compulsory investment by microfinance banks in treasury bills; maintenance of 20 percent deposit liabilities in liquid assets;[112] and the high cost of obtaining license[113] that have inhibited the flourishing of microfinance institutions in Nigeria.

In the light of the foregoing, this paper, therefore, recommends thus:

1. That there is a dire need for the promulgation of extant laws to specifically guide the practice of microfinance banks as such laws and regulations would promote credit securities for the growth of rural areas in Nigeria.

[109] Nigeria per Capital Income, google/search?q=n...hl=en-ng&client=safari, accessed/ 30/12/2021
[110] H. Abraham and I. O. Balogun. 'Contribution of Microfinance to the Gross Domestic Product in Nigeria; Is There Any? [2012] (3) (17), International Journal of Business and Social Studies, PDF ijbssenet.com>journals173, accessed 28 December 2021.
[111] *Ibid*, 172.
[112] RRSGMFBN 2012; ss 8. 1.1 and 8. 1.2
[113] *Ibid*, sections 3, 4, 3, 5 and 3.6

2. That the high interest rates charged on loans should be reduced in the interest of the clients. Compliance to the reduction order can be enforced through the machineries of relevant government regulatory agencies. This recommendation is important because high interest rates, obviously, constitute a problem to the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.

3. That appropriate and stringent measures should be put in place to ensure prompt and timely repayment of loan by creditors and clients. As it is, refusal to repay loans by customers bedevil the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.

4. That a buoyant capital base should be made available to microfinance institutions to enable them service and respond to the needs of entrepreneurs, clients and investors. As revealed by this research, weak capital base affects the practice of microfinance banks in promoting credit securities for the growth of rural areas in Nigeria.