

MICROFINANCE BANKING IN NIGERIA HOW WE HAVE FAIRED AND THE CHALLENGES FOR THE FUTURE

This progress assessment and recommendations for ways forward is aimed at possibly giving a leeway to a few who still have faith that micro financing still remains a good tool to salvaging what more is left for the Nigerian poor. I am a strong advocate of this position in spite of all the odds and wish to use this medium to urge well meaning and fair spirited Nigerians who want to see our father land to a better developmental level to take up the challenge to give effective and efficient microfinancing a chance.

THE JOURNEY SO FAR

Every one; the Government, the regulatory authorities, the microfinance practitioners, the poor and small and medium scale entrepreneurs came with so much enthusiasm about microfinance banking in Nigeria when the policy and regulatory framework was launched in 2005. Barely 4 years down the line, there is already great distress in the system and many are wondering why they got hooked up in it. Perhaps the aloof Nigerian elites are after all justified. As always, they don't believe in elevating the poor and see no reasons to put down their moneys to empower the poor. To them, "the poor will always be among us" so why border with all those stories about empowerment or poverty reduction or eradication.

Many Nigerians ran into setting up microfinance banks because they believed it was a business that would enable them amerce more wealth particularly with the government's pronouncements that N50 billion shall be pumped into poverty alleviation in Nigeria.. Others ventured into it because it appeared to be a good employment avenue for the thousands of Nigerians who lost their jobs during the banking consolidation of the Soludo Apex banking era. Only a few went into microfinance banking with a passion to alleviate poverty in Nigeria.

But for whatever reasons one came into it, various degrees of frustrations within the micro and macro economic dispensations in Nigeria as well as recent global events are causing this world acclaimed gap bridging tool between the poor and the rich and economic development phenomenon at grassroots to collapse in Nigeria

REASONS FOR THE POOR PERFORMANCE SO FAR

I warned at the beginning of the microfinance banking in Nigeria when I did various articles for many Nigeria newspapers particularly the Guardian, Business World, This Day and the Punch that we may end up paying lip services to micro financing and poverty alleviation except all stake holders truly embraced it with passion and integrity.

The following, in my humble opinions are the main reasons why we have moved backwards in micro financing in Nigeria rather than move forwards. Going through the library of my previous articles particularly the one titled "Challenges of Microfinance

Banking in Nigeria-1”, anyone who followed my thoughts then would appreciate that my predictions have been confirmed by current realities.

1. **Very Poor buy in by the Nigerian Elites and middle class.;** This has made it impossible for the microfinance institutions to raise the required capital to engage in meaningful microfinance business. The elites and middle class also shun microfinance banks as they would not place funds or transact their businesses through the MFB's. The microfinance banks were therefore terribly starved of funds; equity capital or deposits to continue in the business of micro banking
2. **Government insincerity:** At the inception of the microfinance banking in Nigeria, the Federal government made all believe that they were going to launch a micro fund of N50billion to be passed through microfinance banks in what is referred to internationally as “poverty approach to microfinance banking”. This widely publicized utterance by the government did two basic damages to microfinance banking namely: (i) people who were not sufficiently tooled to micro banking obtained licenses and (ii) the general public perceived the funds obtained from micro banks as government cakes. The three tiers of government have so far not taken any definite stance as to how to effectively empower the poor
3. **Government involvement in Microfinance funds disbursement:** a warning that ran through most of my articles was that Government bodies, agents and parastatal's involvements in disbursement of poverty alleviation funds would spell doom for the project. My suggestion was rather, that they should retain an oversee, police formulation and monitoring role. However, the reality is that at both federal and state government levels, civil servants are involved in poverty alleviation lending characterized by the usual corrupt practices and non accountability
4. **Undue competition from the commercial banks;** My article on challenges of microfinance banks has shown that commercial banks involvement in micro banking has more damaging effects to micro banking in Nigeria than quality results. Commercial banks came into microfinance banking purely to position themselves to corner the promised micro funds at both federal and state levels; to ensure that international microfinance funds that come into Nigeria rest with them and to circumvent the flow-out of the boxed SME funds in their banks. They had no intentions of empowering any poor Nigerians to productive ventures. Today, we know that all the semblance of microfinance banking commercial banks MFBs do is to grab the staff of various corporate organizations and civil servants and grant household and consumption loans to their staff without touching the over 40 million Nigerians living below the poverty line.
5. **Lack of support from the Regulators:** The best presence the CBN shows towards microfinance banking in Nigeria is to license them and occasionally to visit them for routine supervision. Neither the CBN nor the NDIC has shown any good support to take microfinance activities in Nigeria to the heights available in the Asian world. Rather, CBN clearly supports the demarketing and undue competition of commercial banks in areas they have absolutely no passion, will or expertise. In many fora, CBN has made it clear that middle to upper class

Nigerians should not make deposits in microfinance banks, yet it failed to address the funding needs for micro-banking particularly in this its infancy in Nigeria. It is tantamount to sweeping a societal problem under the carpets for anyone to think that at this level of microfinance banking in Nigeria, deposits from the low end of the market would sustain microfinance banking. Are our memories so short-lived to remember that antecedents in Nigerian banking industry make people even afraid of commercial banks least of all, the all new microfinance banks? If various governments instruct that staff salaries of their low end workers cannot go to any microfinance banks, how do you expect the man on the street to make deposit in microfinance banks? CBN is aware of this, but neither it nor the government has felt compelled to address it. CBN also appears incapacitated at ensuring that Government pronouncements regarding poverty alleviation funding is carried through to legislation and does not have any parameters to monitor inflows of international poverty alleviation funds so as to ensure they achieve the purposes for which they are obtained. States are allowed to choose their own directions in poverty alleviation and all these sum up to death of microfinance banking and indeed effective microfinance activities in Nigeria.

6. **Crying dishonesty of typical Nigerian:** Indians and Bangladeshians would weep to see how dishonest even the poor Nigerians are. Internationally, it is well known that poor people have only their pride as collateral for bank lending. High records have been made in other countries of the world on clean lending to the poor. But the past four years practice has shown that we are way, way far from the world standards in this regards. The borrower from inception; whether the poorest of the poor or the small scale entrepreneur has shown that they cannot be trusted. It does not matter whether they borrow clean, collateralized or quasi collateralized. A typical Nigerian borrower would borrow and relocate, a guarantor tells you he cannot pay when the guaranteed fails, post dated cheques bounce, even the courts make it impossible for the hurt lender to realize collateral. Groups that thrive in India and Asia fail in Nigeria as the group members fail to make good the loans of a failed member. People borrow from microfinance banks but take their deposits to commercial banks including their incomes and principal and interests of the borrowed funds; the same commercial banks that fail to give them loans are the ones they take their deposits to. The dishonesty of Nigerian borrowers has left many operators with huge loans even before they are started.
7. **Dearth of collateral security particularly micro-insurances;** The insurance industry in Nigeria has failed to come up with products to make micro financing an easier burden for the lender. They fail to see the greater economic gains accruable to Nigeria as a whole in providing insurance back-ups for micro credits and of course no legislation to compel them to do so
8. **Effects of Negative publications from the media:** Going by the recent publications on microfinance banks, it is a miracle that any still open doors to business. The unfortunate thing is that some of these news are never balanced but rather tilted far more towards pessimism without roots and unfounded. Even when some press men are granted interviews, what you read in the papers sometimes appear horrifying as they seem to pick only those stuff you probably said in passing and magnify them leaving the substance of your discuss because that is

what appeals to their readers. Much as it is important for the media to entertain, I think the main objective is to lead the country and international observers in the right direction by giving a balanced view or information

WHAT NEXT?

I sincerely believe that although the story so far has not been palatable, there is no better financial institution tooled to make impacts in poverty alleviation in Nigeria as microfinance banks. I therefore suggest the following as way forwards to effective microfinance banking in Nigeria;

- Governmental supports through ensuring that only microfinance banks disburse and collect poverty alleviation funds throughout the country. This means absolutely no government agency involvement in poverty funds disbursement and loan management
- CBN ensuring that the microfinance banks are not only licensed but truly stand the test of time. It may be necessary for CBN to, at present stop licensing microfinance banks until it takes real stock of how the licensed banks have fared. There may be need to also extend bailout funds to select MFB's as is being currently done to commercial banks and cause some very weak ones to merge with other strategic and focused ones.
- The CBN must find ways to checkmate micro funds activities of various state governments particularly those who use their governments to obtain international funds. This is because any misappropriation of such funds is a negative image for the country which is capable of stemming future and further grants and investments in Nigerian poverty alleviation programs by the international communities.
- I call on CBN to stop licensing commercial banks for micro financing as there have not been any gains in the ones so far licensed towards economic development at the grassroots.
- Operators must now wake up from slumber on the sharp realization that Nigerians are not yet ripe for the level of trusts within which the Bangladesh and Indian microfinance institutions operate. Lenders must tighten up their lending standards to ensure water tight lending that leads to repayment of the loans.
- It is may be more reasonable for now to empower more the small and medium scale entrepreneurs who directly or indirectly empower the poor by providing meaningful jobs and side contracts. For instance, a small scale industrialist involved in building a house buys block from the poor road side block maker, employs plumbers, brick layers and iron benders as well as engages independent house painters thereby creating employment for poor Nigerians
- Nigerian borrowers must learn to imbibe the probity and accountability. Dependable borrowing groups must begin to emerge in order to take advantage of group borrowing opportunities
- The elites have seen that it is not truly very rosy with the commercial banks and the capital market. If not for economic gains, at least for social and humanity

- gains, maybe its time they invest a portion of their God given wealth towards effective poverty alleviation in Nigeria as part of their crusade towards emancipation of the millions of suffering Nigerians and reduction of poverty instigated social ills currently infesting the country
- Borrowers must determine to be honest. Microfinance banking is to favour the poor and the SME's. If the people for which these projects are undertaken turn around again to be the culprits in its failure, what is the rationale behind its institutionalization. We cannot afford to bite off the fingers that feed us and expect to be fed again in the future by same fingers. We all know in Nigeria that for years, commercial banks take deposits from all but never extend loans to the SME's and definitely not to the poor. In early 2008, every one hailed the introduction of microfinance banks as hundreds of thousands of people and businesses who could never have dreamt of obtaining loans from banks got them from MFB's. How can we then fail these same microfinance banks by not honoring the terms of the credit and leaving them with bad loans.
 - The press should be more positive in their write ups regarding this young industry. This is not to say they should paint black white but their publications should be balanced enough to make the readers understand why certain issues came up and the mitigants for such unpalatable issues particularly when they are temporal and are below the average industry effect
 - Very importantly, in the spirit of the "Re-brand Nigeria" campaign by big sister Dora Akinluyi, the Minister of Information, we must all shun corruption at all levels. It is corruption that makes us divert poverty funds to private already swollen pockets. Same corruption make us incapable of growing gradually, rather we want to run before we learn how to sit. It is corruption that makes us thwart governments' plans to suit our private and family objectives. It is greed and godlessness that make us not to care about meaningful empowerment of the poor. It is wickedness that makes a poor man obtain loan, misuse it and fail to pay back. God would help us to start doing it right if we can only determine individually to love the next person and not cause them harm

**By Ifeoma C Ana(FCIB, ACA, ACIP)
President Women In Banking, Finance and Investments in Nigeria and
MD/CEO ELIM MICROFINANCE BANK LTD.
Documented November 2009 .**