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Journal Name:	<b><u>British Journal of Economics, Management &amp; Trade</u></b>
Manuscript Number:	<b>2014_BJEMT_15107</b>
Title of the Manuscript:	<b>Creation of Microfinance Banks in Nigeria:-What is their Main Object?</b>
Type of the Article	<b>Review Article</b>

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**PART 1: Review Comments**

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
<b>Compulsory</b> REVISION comments	<p>Your definition regarding the differences between MFIs and 'conventional' banks in lines 11-13 is debatable. Do you mean that 'conventional' banks do not create social capital? Regarding the statement in line 13, note that MFIs are not limited to micro credit; they also are involved in community organizing services that aid their intermediations activities; they also build capacities through credit plus approach. Note also that customer relations (line 16) in the MFIs are guided by statutory stipulations. What is social capital; what is a bank? By the way, what research problem has this study set out to solve? With did that reference in line 89 say? You should be clear about what you are focussing on: are you insinuating that the regulatory authorities overseeing the activities of the MFIs are not up to their responsibilities or that because of the appellation bank, MFIs are exceeding their bounds? You should be ready with examples of the MFIs that have flouted what rules? Lines 97-99 make no meaning! They are either out of place or need revising. If lines 99-101 build on 97-99, and I think they do, they suffer same fate as 97-99. Let me ask you again: are you out to compare the functions of MFIs and those of conventional banks? Are you suggesting that MFIs should not be called banks? Is your argument that the CBN is lax on its supervisory</p>	<p>Most economic principles and postulations are debatable ; and the debates are responsible for further advancement in knowledge; hence our paper cannot be an exception. Creation of Social Capital by commercial banks, if any, occur if they feel impelled to do so for the purpose of promoting their image and to advertise their banking products. Their primary objective, which they do not compromise, is to make money via profit maximization; and all their efforts are usually geared to this singular objective. Community organizing services by MFIs is part of the Social Capital creation process. Our reference to statutory stipulations has been amended and replaced with banking ethics. We shall be pleased to have the benefit of learning from the Reviewer.</p> <p>The Research Problem is now stated explicitly in Section (1.3) of our revised manuscript. Putnam's definition of Social Capital is already in the paper. The definition of Bank has been incorporated. Line 89 is unambiguous to the effect that MFBs attempt to compete with commercial banks for Universal Banking Business; and the regulatory authorities have realised this; hence the 2012 revision of their guidelines with later amendments Our revised manuscript has appropriately made references to this CBN revision of their guidelines. Statements in Lines 97-99 were made when we had not seen the 2012 revision of CBN guidelines which with later amendments have given credence to our position. Our comparison of MFI functions with those of conventional banks is incidental to what we have set out to achieve and we insist that MFIs should not be called banks; and the reason is to</p>



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	<p><b>role of MFIs? Let us know. In line 210, you allude that the financial institutions are ‘unorganized’. This is not the whole truth. The informal sources exhibit a massive degree of organized behaviour in spite of the fact that they are not regulated by the authorities. In line 207 where you first made reference to FRFIs, you did not define the term; in lines 236-239, you stated that the CBN incorporated the IFRIs into FRFIs resulting in microfinance banks. I say no. If the R in both acronyms refers to rural, remember that microfinance banks operate in both rural and urban settings. So the simplistic approach term may not hold. In line 285, the financial market may be unregulated but not unorganized.</b></p> <p><b>In line 332 you attempt to distinguish between MFIs and conventional banks. However, you do not sound convincing. Whether the profit maximization motive is primary or secondary for either of them, the fact remains that it is an objective. Remember that if they do not operate at a profit, then they will not exist a day longer. You are yet to bring out the differences between MFIs and conventional banks. Starting from line 338, you defined social capital. Note that MFIs leverages on social capital in marketing their financial goods and services. Conventional banks do same and additionally use tangible collateral. We should therefore understand social capital as a means to an end and not an end in itself in the context of financial intermediation by banks and MFIs. Both MFIs and banks are social institutions to the extent that their goods and services are targeted for human beings in the society. You are yet to bring out the differences between MFIs and conventional banks . In lines 352-353 you go again on appellation. And I ask: what is a bank? Lines 377-378 clearly</b></p>	<p>obviate the corrupting influence which the term seem to have on some operators. There is nothing in our submission to suggest laxity on the part of CBN. We made a study and gave recommendations as required of an academic.</p> <p>The “unorganized “ in line 210 is not in reference to their individual behaviour, rather it alludes to the absence of a structured organization such as now exist in the Nigerian Financial System.</p> <p>The term FRFIs is defined there in Line 207.</p> <p>Even the CBN recognises existence of the informal financial sector in their statement that “This 65% are often served by the informal financial sector, through Non Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions”(CBN,2005).</p> <p>The Author is sorry to state that you got it wrong in your statement that MFBs operated in rural and urban areas. The truth is that Community Banks (not microfinance banks) operated in Rural Areas in addition to Conventional Banks. The latter were forced to open branches in rural areas.</p> <p>The simplistic Approach form holds and CBN has taken steps to correct themselves via the 2012 revision and later amendments to their regulatory guidelines. Our recommendation should further assist CBN.</p> <p>A secondary profit maximization objective is not synonymous with zero profit. Our position is that MFBs which should be called MFIs and, should not be allowed to behave like Commercial banks in their craze for excess profits.</p> <p>We do not agree with you that we have not brought out the differences between MFIs and Conventional Banks. However, we shall be pleased to learn from your superior knowledge.</p>
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	<p><b>distinguished MFIs from conventional banks. However, here you tend to distinguish ‘microfinance and formal financial products’ Your argument in lines 378-382 is not clear. If SMEs are included in the financing mandate of MFIs, does that effectively exclude them from obtaining services from conventional banks? In lines 384-385 you stated that some MFIs assume that their licence enables them for universal banking operations. I ask, name the MFIs; to what extent does that assumption translate to reality? Lines 385-386 refer: do you mean that ‘the poor’ cannot grow their enterprises through the instrumentality of the services of the MFIs and then graduate to a larger enterprise. In lines 403-404, you stated that MFIs are not conventional banks; that has been said before. And that is correct. However, Microfinance banks are banks; conventional banks are banks. They have their distinguishing characteristics. You have not shown anything as claimed in line 409. You have not answered the question: What is a bank? How does microfinance bank fail the stipulations?</b></p> <p><b>The article is based on a superficial understanding of the MFIs vis-à-vis conventional banks. The arguments hold no water.</b></p>	<p>There is difference between Leveraging and Building. Our position is that MFIs build social capital. Conventional banks may leverage on social capital for their selfish profit maximization objective which they try to achieve at all costs, They do not build social capital.</p> <p>Yes MFIs and Conventional Banks are social institutions. While the target audience of MFIs is limited to the poor, Conventional Banks do not have such limitation.</p> <p>The issue of definition of a bank has been addressed in our revised manuscript (see section 1.3; paragraph 2).</p> <p>No. The inclusion of SMEs in financing mandate of MFIs does not exclude them from the services of conventional banks. Our argument is that it was wrong to include SMEs in the mandate of MFIs. CBN has corrected their error with CBN (2012) It is not ethical to name MFBs that compete for Universal Banking operations.</p> <p>When the poor grow their enterprises beyond the competence of MFIs, they should naturally gravitate to conventional banks. That is the MFI objective MFIs are Banks in the strict sense of their financial intermediation role. However, our position is that the name Bank, is liable to misinterpretation and it seem to have a corrupting influence on MFB operators who, apparently are carried away by the high pedestal,, connoted by the word Bank</p> <p>Once again, see section 1.3 paragraphs two of our revised paper, for the definition of Bank.</p> <p>Your statement that our article is based on superficial understanding of MFIs, is unfair to the effort on this paper. Perhaps, it may interest you to know that the author trained and worked in a first</p>
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		generation Nigerian Bank for 26 years prior to his full-time engagement as Lecturer/Researcher; and that this vantage position enables him to recognise banking issues that are not discernible, by untrained minds. We strongly believe that you will change your opinion.
<b><u>Minor</u></b> REVISION comments	Your punctuations are in need of some revision. Your references also need revision. Do not ask your readers to see a particular reference, rather state what the reference says.	We do not claim perfection. We shall continue to improve and learn from others.
<b><u>Optional/General</u></b> comments	The title of the manuscript is non-directional and uninspiring. I do not have to suggest an alternative so the whole work makes little meaning to me.	Thanks for your opinion. Your criticisms and comments have been helpful in guiding our review of the paper; and we believe that the need for the title and its direction will now be appreciated by all readers.