Review Article

Creation of Microfinance Banks in Nigeria:-What is their Main Object?

ABSTRACT

This paper recognises the Central Bank of Nigeria's reference to Microfinance Institutions (MFIs) as "Banks" and notes that this appellation connotes a meaning, which is liable to misinterpretation; hence, microfinance practice has been misconstrued and extended by some Nigerian practitioners, as synonymous with conventional banking practice .Therefore, we have examined the operating functions of Microfinance Institutions(MFIs), vis-a-vis conventional banking practice to ascertain the differences. In the main, both are depository financial intermediaries, but their objectives are different. While MFIs create social capital which transforms into wealth, conventional banks create wealth primarily via lending of money and other core banking activities. Additionally, MFI operations are limited to micro credit and micro deposit while target population is the poor; and their relation with clients is guided by social traits of trust, norms and networks. Conventional banks have no banking limitations; and banker-customer relation is guided by legal enactments. These differences have tended to throw serious doubts on the appropriateness of the appellation of "Bank "as a proper nomenclature for an MFI.. Therefore, the conclusion is made, that MFIs are not banks; at best, they can be described as quasi-financial institutions, which are liable to financial regulation. Hence, as social institutions, their main object should be crafted to reflect the objective of creation of social capital.

KEYWORDS , Objects; Microfinance, Bank; Financial Intermediation; Social Capital.

JEL Classifications:-G2; G3; M2.

(1)Introduction

The term, "main object" refers commonly to the ultimate objective or goal towards which all effort and energy is focused; and legal requirements demand an explicit statement of main objects in the Memorandum and Articles of Association of every incorporated entity. As legal entities, Microfinance Banks in Nigeria have main objects clauses; which in the technical parlance of company secretarial practice is described as the "substratum of the company"; and it connotes the foundation on which the company is built; as well as its intents and purposes. Also, it serves as a guide to every policy, step or action taken by or on behalf of the company, because deviations and inconsistencies are usually regarded and adjudged as "*ultra vires*".

(1.1)The Problem of Microfinance in Nigeria

Profit maximization is the dominant objective of Banks, (Oyejide, 1986). Thus, like other business organizations, Banks attempt to maximize their profits over a period of time. This is done by managing their assets and liabilities in such a way that the total sum of interest payments on deposits and the cost of servicing their loans, advances and deposits, fall below the interest income on loans, advances and other investments (Oyejide and Soyode, 1986). However, Soyibo (1994) sees management of banks' portfolios as being concerned with the selection of the best mix of banks' assets and liabilities for the attainment of the objectives of liquidity, solvency and profitability; and these objectives usually conflict.

The operating system of Microfinance Banks (MFBs) in Nigeria is consistent with the operating paradigm of conventional banking. They charge interests on loans and advances, because it is imperative to meet the cost of purchased funds; and this is in addition to other administrative and operating expenses. Also, it is prudent management to have an annual surplus in the form of profit, for institutional sustainability, growth and to reward proprietorship.

According to **MacFaquhar(2010), whose report is very critical on interest rates and other charges by Nigerian Microfinance Institutions (MFIs); "Rates vary widely 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"; and he (MacFaquhar) adds that the global average interest and fee rate is 37%, with rates reaching as high as 70% in some markets. The report states further that "drawn by the prospects of making hefty profits, a raft of banks and financial institutions now dominate the field (of MFIs), with some charging interest rates of 100% or more". Additionally, the report comments that microcredit was created "to fight the loan sharks"- and not to "encourage new loan sharks"." In effect, the argument is very unequivocal, that excessive profit maximization effort of many MFIs, is inconsistent with the averred intents and purposes for which they were established; the intents are summarised in the statement, which is reportedly made by "Mr Yunus" (in a gathering of Finance Officials at the United Nations) that "Microcredit should be seen as an opportunity to help people get out of poverty in a business way, not as an opportunity to make money out of poor people" {see MacFaquhar, 2010).**

(1.2)Regulatory and Supervisory Framework of MFIs in Nigeria.

In Nigeria, the formation and operation of Microfinance, is regulated and supervised by the Central Bank of Nigeria (CBN); whose policy framework is stipulated in CBN (2005). The policy document is specific in its recognition of Microfinance, which it defines as being "about providing financial services to the poor who are traditionally not served by the conventional financial institutions"; and that three features distinguish microfinance from other formal financial products. These are stated in the policy framework as (i) the smallness of loans advanced and or savings collected; (ii) the absence of asset-based collateral, and (iii) simplicity of operations. Also, the framework justified the need for regulation in its statement which avers that in "Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions. The statement adds further, that "the non-regulation of the activities of some of these institutions has serious implications for the CBN's ability to exercise one aspect of its mandate of promoting monetary stability and sound financial system". Thus, the microfinance policy gave recognition to existing informal institutions, with the view to bringing them within the supervisory purview of the CBN, to enhance monetary stability and expand the financial infrastructure of the country and to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). The essence is to create a vibrant microfinance sub-sector, which is adequately integrated into the mainstream of national financial system that provides the stimulus for development and growth. Hence the policy aims at presenting "a National Microfinance Policy Framework for Nigeria that would enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups"; and in particular, to "create a platform for the establishment of Microfinance Banks (MFBs); improve the CBN's regulatory and supervisory performance in ensuring monetary stability and liquidity management; and provide an appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria."

This paper recognises one of the main objects of the CBN's policy framework as creation of a platform for the establishment of MFBs; and this is identified as the crux of the matter with micro finance practice in Nigeria; because, the description of MFIs, with the appellation of "bank", connotes a meaning, which is liable to misinterpretation; hence, microfinance practice has, in most cases, been misconstrued and extended by some practitioners in Nigeria, as synonymous with conventional banking practice. Thus, most MFBs attempt to compete with commercial banks for universal banking businesses (see for instance **Moruf, 2013); which although inconsistent with the intents and purposes for their establishment,** is *intra vires* their main objects, because the objects clauses in their various Memorandum and Articles of Association, have described them as "banks". In other words, to some operators of MFBs, the microfinance licence is tantamount to conventional banking licence; and the effort to project themselves as universal banks, has compelled high operating expenditures; necessitating the high interest and other charges on their facilities. This is a deviation from the original intents and purposes for which MFIs were created, worldwide. Therefore, the question is brought to the fore, on the proper definition and functions of Nigerian Microfinance Banks, as well as the main object for their formation.

It is recognised also, that microfinance is a vital tool for pro-poor economic policy; but it appears that the CBN took a simplistic approach in its effort to promote microfinance to the poor and income earners in urban and rural areas, by lumping micro businesses with SMEs in their supervisory and regulatory guidelines, Therefore, we have made a scholarly effort, at examination of the functions of an MFI, in comparison with those of a conventional bank vis-a-vis objectives for global creation of MFIs, in relation to MFBs in Nigeria. This way, the differences between an MFB and a conventional bank, would be made apparent; and *ipso facto,* provide the CBN with the necessary base for re-examination of their regulatory and supervisory framework. Additionally, the paper contributes to the growing literature on MFIs.

The remainder of the paper is organised as follows: Section two is the review of the relevant literature. Section three states the conceptual framework; while section four discusses the paper. Section five is the conclusion and recommendation.

(2)Review of the Literature

(2.1) *Similarities in Microfinance and Conventional Bamks*

In philosophic terms, Microfinance Institutions and Conventional Banks are similar, because both are depository financial intermediaries that channel funds from savers to those who need the funds for desired activities. In specific terms, Pierre (2001) has stated that a classic example of a financial intermediary is a bank that consolidates deposits and uses the funds and transforms them into loans. Gurley and Shaw(1960) aver that this channelling process, transforms assets, such that both parties of the financial exchange, receive their preferred terms; and the process of transformation has been classified into three distinct categories, viz:

(1) Conversion of short-term (long-term) liabilities to long-term (short-term) assets. Since short-term deposits are unlikely to be withdrawn all at once, banks make longer-term loans, using the funds that are placed in their short-term deposit accounts í.e Maturity Transformation.

(2) Conversion of risky investments into safe investments. Banks have acquired necessary techniques and expertise; and they have designed routine operating procedures that enable effective engagement in a variety of risk management activities; i.e. Risk Transformation.

(3) Matching small (large) deposits with large (small) loans. For example, the mortgage extended by a bank to a borrower is likely to be larger than the typical deposit received by the bank, i.e. Size transformation. In the same vein, MFIs are established to collect small savings and deposits from the poor for on lending in aggregated format, to their clients. .

Other functions that are common to MFIs and conventional banks have been classified as Provision of Liquidity; Transaction Costs; and Delegated Monitoring of borrowers. Firstly, provision of liquidity refers to the major role of banks in money creation by lending deposits. As stated in Bryant (1980), the central role of a bank is to create and enhance liquidity; and banks do so primarily, by financing relatively illiquid assets with more liquid liabilities.(see also Diamond and Dybvig, 1983).

Secondly, Transaction Cost is the same as Contracting Cost; and as explained in Smith & Jerold (1979), it is the reason for existence of financial intermediation, because individual contracting costs between the lender (saver) and the simultaneous user (borrower), can result in enormous amounts when aggregated. The argument is that economies of scale is achieved to reduce average transaction costs; and this is enabled by financial intermediaries who have acquired necessary facilities for large savings mobilisation, in addition to the required lending skills to enable efficient intermediation at reduced average costs between providers and users of capital.

Thirdly, Delegated Monitoring refers to the central role of banks, in monitoring the borrowers, who benefit from their facilities (see Diamond, 1984). Banks and MFIs monitor the use of loans and advances to ensure proper utilisation, non diversion; and that repayment is achieved. In sum, financial intermediation is a necessary attribute for existence of both Microfinance and Conventional banks; hence; it is the basis for their similarity. Gorton and Winton assert that “financial intermediation is a pervasive feature in all of the World’s economies”; and that it “is the root institution in the savings investment process”; and they posit that “the savings-investment process; the workings of capital markets; corporate finance decisions; and consumer portfolio choices, cannot be understood without studying financial intermediaries”(see Gorton & Winton, 2002).

(2.2)Brief Historical Perspective of Microfinance Institutions

The historical perspective of MFIs is inextricably intertwined with their operating models; hence its examination is important for the purpose of a clear appreciation of the intents and purposes or objectives for their creation.

The origin has been traced to the practical visionaries from the Franciscan monks who founded the community-oriented pawnshops of the 15th century, to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen); and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), who tested practices and built institutions, designed to bring the kinds of opportunities and risk-management tools that financial services can provide, to the doorsteps of poor people (see Helms, 2006).

According to Feigenberg, *et.al* (2011) Microfinance is a broad category of services, which includes microcredit; and as defined in Microfinance Gateway (2014), it is "financial services for poor and low-income clients, offered by different types of service providers".

The operating model of the Bangladesh based MFI, in the name of Grameen Bank, which is a Nobel Peace Prize winning microfinance organization and community development bank (see Grameen Bank,2011), is the *Locus Classicus;* and widely regarded as the grand norm of the microfinance industry. Thus, as shown in Grameen Bank (2011), the origin of the Bank can be traced back to 1976 when Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services, targeted at the rural poor; with the objectives of (1) extending banking facilities to poor men and women; (2) eliminating the exploitation of the poor by money lenders; (3) creating opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh; (4) bringing the disadvantaged, mostly women, from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and (5) reversing the age-old vicious circle of "low income, low saving and low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income". It is stated that the sixteen decisions and resolutions of the founding members, were the driving force behind the success of the Bank; and according to Yunus, " the first decision has become extremely relevant. It says: Our lives will be moulded around these four principles – Discipline, Unity, Courage and Hard Work."(Yunus, 2011); The literature identifies two main operating mechanisms, through which the Bank delivers its financial services as: (i) Relationship-based banking for individual entrepreneurs and small businesses; and (ii) Group-based models, where several entrepreneurs come together to apply for loans and other services as a group. **In sum, the social traits of trust, norms and networks, are important attributes in the organization and management of Grameen Bank.**

However, the Bank has been criticized on account of the interest charges on loans extended to their members. In the words of Sharma (2010) "The man who started Grameen Bank, which is a pioneering institution for organised money lending, and is making tonnes of money by exploiting the poor, is now howling. The problem is that bigger 'loan sharks' have taken over and that is worrying Mr Yunus." The implication of the foregoing is that the widely acclaimed achievement of Grameen Bank is being faulted because it is seen in some quarters, as making money "off the poor".

In Nigeria, micro savings and microcredit are as old as the use of money in various rural and semi-urban communities. In the words of CBN (2005); the "practice of microfinance in Nigeria is culturally rooted and dates back several centuries"; and that the traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and cooperative societies. As noted in Nwankwo *et al* (2013), cooperative societies have been closely identified with provision of financial services in the rural areas of Nigeria. They are organised or formed to facilitate the financing needs of productive activities, such as agriculture, general commerce and other monetary demands of the members, CBN (2005) states further that "the informal financial institutions generally have limited outreach due primarily to paucity of loan able funds." SHGs refer to activities of communities who organize themselves into social groups, for the purpose of contributing funds to a pool, from where members are able to obtain loans to finance execution of personal projects and/or investments, and this is complemented by existence of money lenders. In the same vein, ROSCAS (a.k.a. osusu or isusu) is a process of capital accumulation, which involves the coming together of a group of friends who embark on mandatory savings for a period, usually one year. The process is described in Dukor (2014) in the following words "if there are ten people in the team, (say) "A" through "J", they would raise, say, ngn 50,000 each to make a pool of ngn 500,000, which is disbursed to the first person "A" in the first month, say, January and by October, while in the tenth month, the last person "J" would collect his own ngn500, 000 and the rotation continues." **At the end of the collection period, the total capital of each member is returned with commensurate share of interest.**

Iganiga &Asemota (2008), have stated that these activities are classified into Informal Rural Financial Institutions (IFRI) and Formal Rural Financial Institutions (FRFIs). The IFRIs have been explained in Soyibo (1994,), as covering all financial transactions that take place outside the functional scope of banking and other financial sector regulations in the country; however, their activities, are often "unrecorded and unregulated" but legal; hence, reference is made to them as unorganized financial institutions. This classification include activities of professional money collectors, money lenders, part-time money leaders such as estate owners, traders, smallholder farmers, relations and friends: esusu or isusu collectors; credit unions and cooperative societies, etc. Some of them are community or group based, while others are organised around individuals (see for instance, Aryeety *et al,* 1994, Soyibo 1994, Bagachwa & Naho 1994, Akanji 1998, Iganiga & Asemota 2008). In all of these activities, compliance with repayment terms for borrowed money is achieved voluntarily; through peer pressure; or as is common with professional money lenders, through realisation of pledged security items.

Early efforts of the Nigerian government, to promote urban and rural credit, included implementation of various schemes to stimulate rural employment and productivity. Institutions were established, to implement top-bottom finance-led development strategy, through processes that channelled government-supplied funds to urban and rural entrepreneurs (see Yaron, 1992; Iganiga & Asemota 2008). The channelling was done through Development Finance Institutions (DFIs) which included the Nigerian Agricultural and Cooperative Bank; Nigerian Bank for Commerce and Industry; and Peoples Bank of Nigeria; all of which operated mainly in the urban areas. The rural areas had the CBN's rural banking scheme and community banks to cater for normal banking needs of rural dwellers; while the CBN's Agricultural Credit Guarantee Scheme Fund facilitated credit to rural farmers. Others were the Family Economic Advancement Programme (FEAP) and the National Agricultural Land Development Authority. These institutions, except the Community Banks, operated as government parastatals; and the efforts did not alleviate the difficulty of rural dwellers' access to credit. In general terms, they were not designed to function as proper financial intermediaries and they did not operate under financial viability constraints, nor were they driven by commercial performance criteria. Hence, as stated in Yaron (1992), several factors, including chronic dependency on government funds, the absence of competition, limited accountability and bureaucratic obstacles, led to bad loans, inefficient operations, loan recovery problems, political patronage; and the result was unsustainable credit facilities and eventual collapse.(see also Eboh 2000; Iganiga & Asemota 2008) . In the final analysis, the effort of the CBN to incorporate the IFRIs into the FRFIs is what is considered here as "Simplistic Approach" by mere conversion of the community banks, (which were formed with initial objective of profit maximisation) into Microfinance Banks; and this is captured in their regulatory and supervisory framework (see 1.2 above).

2-3 Operating Model of Microfinance Institutions

The operating system in Grameen Bank is regarded largely as highly successful; hence it is always cited as the paradigm for microfinance operations. The philosophy is predicated on the concept that the poor have skills that are under-utilized and that, with incentive, they can earn more money. The bank accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies.

The credit policy is designed to support under-served populations; thus women have been attracted as the overwhelming majority (96%) of borrowers. The bank's exclusive focus is on "the poorest of the poor"; and as stated in Grameen (2011), exclusivity is ensured by (1) establishing clear eligibility criteria for selection of targeted clientele, using screening-out measures. (2) Priority, in credit delivery is assigned to women; and (3) a delivery system that is designed to meet the diverse socio-economic needs of the poor. Borrowers are assigned into small homogenous groups; and this is a characteristic that facilitates group solidarity, as well as participatory interaction. Each group is made up of five members; and the groups are clustered into "Federating Centres" which are functionally linked to the Bank, who sends field workers to attend weekly meetings of each centre. Loans are granted, under terms which are designed to be suitable for the poor; and they are specified as (i) very small loans, given without any collateral. (ii) Loans are repayable in weekly instalments, spread over a year. (iii) Eligibility for subsequent loan depends on repayment of first loan. (iv) Self chosen income generating activities, which employ the skills, possessed by the borrower. (v) Close supervision of borrower by the group, as well as Bank staff. (vi) Emphasis on credit discipline and collective borrower responsibility.(vii) Special safeguards through compulsory and voluntary savings. (viii) Transparency in all bank transactions, most of which take place at Centre meetings.

The foregoing defines the organisational format at Grameen Bank; and one of the case studies in Feigenberg, *et.al* (2011), which reported experiments at a typical Grameen Bank-style MFI, in the name of Village Welfare Society at the Indian State of West Bengal, has given further insights into the inner workings of the operating model. The report states that after "clients are screened and groups approved by loan officers, members choose a group leader in whose home, the loan officer will conduct weekly repayment meetings for the duration of the loan cycle. The first two meetings are for group nurturing and training; and loan repayment starts in the third week. During each meeting, clients take an oath, promising to make regular repayment, after which the loan officer collects payment from each member individually and marks passbooks. Loan cycles last for forty four weeks and all clients must attend meetings for at least twenty weeks, after which point, they may repay the remaining balance in a single instalment."

(2.4) Some Findings of Empirical Studies

Realizing that the financial system in Nigeria is fractured into formal and informal markets, Iganiga and Asemota (2008) conducted an empirical investigation into operations of the various institutions; and the extent of financial intermediation in different social settings. The results indicated that traditional savings and credit associations, which are patronised by traders, unskilled and semi-skilled workers, are prevalent in semi-urban and rural areas, while Daily Saving Enterprises (DSEs) and Professional Money Lending Schemes (PMLS) are patronised by artisans, traders and skilled workers. in semi-urban and urban centres. The performance analysis of the unorganized financial market, pointed to a strong savings habit in the populace; and existence of robust lending activity. This indicate that most rural financial intermediation programmes of government have failed. Therefore, they recommended an extension of financial development activity, to rural economies of Nigeria.

Oji (2008) conducted a study, to determine the effects of Microfinance institutions' policies on the technological capabilities of micro-borrowers in Nigeria. Nine (9) Microfinance institutions and 250 of their clients were surveyed in 2005 and 2006. The findings showed that between 2001 and 2005, there were significant growth in the clientele, as well as savings, and loans made by the MFIs; and that this is a reflection of increasing demand for microfinance services. The regression results showed that the technological capability of micro-borrowers were affected by the number of employees/workers, duration of their loans, age of major machinery/ equipment utilised by the respective enterprise, and the appropriateness of the machinery/ equipment to skills possessed by the workers; as well as available infrastructure. The operators' length of experience, and interest rate on MFI loans negatively influenced technological capability. He recommended that for the purpose of giving to technology accumulation through micro-financing, MFIs should increase the moratorium and duration of loans granted to their clients. This entails spreading repayment over a longer period. A further recommendation of the study is that the rate of interest on loans granted for acquisition of technology should be low.

Feigenberg, *et.al* (2011), realised that a number of development assistance programs, promote community interaction as a means of building social capital. Yet, despite strong theoretical underpinnings, the role of repeat interactions in sustaining cooperation has proven difficult to identify empirically. Thus, they conducted the first experiment, to ascertain the economic returns to social interaction in the context of microfinance. The result provided overwhelming evidence, that random variation in the frequency of mandatory meetings across first-time borrower groups generate exogenous and persistent changes in clients' social ties. The results showed further that the resulting increases in social interaction among clients, more than a year later, are associated with improvements in informal risk-sharing and reductions in default.
A second field experiment gave results which indicated that group lending, without collateral, is successful in achieving low rates of default, not only because it harnesses existing social capital, but also because it builds new social capital among participants.

(3)Conceptual Framework

The operating mechanism of an MFI, as exemplified in the Grameen model, provides a perfect fit, into the concept of social institution, which, Harre (1979, P. 98) defines as an interlocking double-structure of persons as role holders or office bearers and the like; and of social practices involving both expressive and practical aims and outcomes. Also, Turner (1997), states that a social institution is "a complex of positions, roles, norms and values lodged in particular types of social structures and organising relatively

stable patterns of human activity, with respect to fundamental problems in producing life-sustaining resources,---, and in sustaining viable societal structures within a given environment"; and according to Giddens (1984), social institutions are "the more enduring features of social life". Further explanation of what constitutes a social institution is given in Scott (2001) who asserts that "Social institutions are often organisations"; and that many institutions are systems of organisations. Stanford (2011), has provided additional clarification, that "the term "institution" connotes a certain gravity, not connoted by the term "organisation"; so arguably, those institutions that are organisations are organisations that have a central and important role to play in or for a society. Being central and important to a society, such roles are usually long lasting ones; hence institutions are typically trans-generational".
In effect, the distinguishing characteristic of an MFI, as a distinct financial intermediary, from a conventional bank is that, while the former is a social institution within a social organisation, with profit maximisation as a secondary objective; the latter is established with primary orientation and organisation structure that emphasises profit maximisation as the dominant objective, *ab initio.*

Secondly, economic theory suggests that repeated interactions among individuals can help build and maintain social capital (see, for instance, Kreps *et al.,* 1982) and encouraging interaction can be an effective tool for development. Thus we **recognise the definition of social capital in Putnam (1993) as "features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions". Social capital catalyses collective and economic benefits, derived from the preferential treatment and cooperation among individual and group membership on one hand, and the MFI on the other (see for instance** Feigenberg, *et.al,* 2011),**. Ultimately, the social norms and values, to which the entire membership has subscribed, enable a transformation of the economic benefit, into wealth; and in cumulative terms, it enhances economic growth. Therefore, we posit that an MFI is a social institution that promotes the attributes of social capital; and organized as a movement in the context of the definition of Microfinance i.e. "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers"(see Robert et al, 2004).**

(4)Discussion of the Paper

It can be argued that as a depository financial intermediary, a microfinance institution qualifies to be described as a bank; however, some characteristics of MFIs, that are inextricably linked to them, as a direct consequence of intents and purposes for their creation, have tended to throw serious doubts on the appropriateness of that appellation.
The first is limitations in scope of MFI operations, which include the following:-
(i) They are created to accept micro-deposits and to grant micro-credits only.
(ii)Their target audience is the poor and low income earners.
(iii) They do not perform the function of clearing. The cheques deposited with an MFI, are usually sent to the Clearing House through a conventional bank that has clearing capabilities.
(iv)Local and foreign transfers of money by MFIs, are made through conventional banks.
(v) MFIs have their accounts with conventional banks; not with the Central Bank; thus, they cannot borrow directly from the Central Bank.
(vi)The law imposes certain obligations on conventional banks e.g. secrecy etc, which are not applicable to MFIs; for example, most businesses of their clients' are openly transacted during group meetings.
The second is the question of Banker-Customer relationship. While the Banker-Customer relations in a conventional banks is guided by a compartment of legal enactments, and pronouncements of Court judgements; that of MFI is guided by social traits of trust, norms, networks, honesty, hard work etc, all of which are enforced by personal conviction of the individual client; and peer pressure. These are important attributes for building social capital; and they define the organising mechanism, which is patterned after that of a "Movement". A movement is characterised by common and unified mind-set about defined objectives that must be achieved by individuals and the organisation. In other words, in conventional banking, the objectives of the customer may be different from that of the bank; but MFIs have common objectives with their clients/members; and both parties direct their energies towards their achievement.

The policy and supervisory framework of the CBN, is very unambiguous in its recognition of Microfinance, which it defines as being "about providing financial services to the poor who are traditionally not served by the conventional financial institutions"; and that three features distinguish microfinance from other formal financial products; which the Framework identifies as (i) the smallness of loans advanced and or savings collected; (ii) the absence of asset-based collateral, and (iii) simplicity of operations. However, the **inclusion of Small and Medium Scale Enterprises (SMEs), within the financing purview of MFBs in Nigeria, is a paradox, which destroys the very essence for creation of MFIs because, SME finance and banking requirement involves some element of wholesale operations; their loans are not small; and in most cases, their facilities require collateral, all of which are outside the purview of MFIs. Thus, coupled with the fact that converted community banks were formed with the main objective of profit maximisation, this paradox is believed to be responsible for the assumption by some MFB operators, that their microfinance licence is enough to cover universal banking operations. Additionally, MFIs are created to serve the poor; but proprietors of SMEs do not fall within the targeted poor population bracket.**

The CBN has acknowledged the fact that the "practice of microfinance in Nigeria is culturally rooted and dates back several centuries"; and that the traditional microfinance institutions provide access to credit for the rural and urban, low-income earners (see CBN, 2005). In effect, micro-savings and micro-credit; enabled by social traits of trust, norms and networks, which are catalysed by deep-rooted moral precepts of the three dominant religions (Christianity, Islam and African Traditional Religion), have always been ingrained in the traditional life-style and socio-cultural configuration of the various tribes in Nigeria (see for instance, Egboro, 2014); Dukor, 2014). Hence, we posit that the Grameen Bank-style model of microfinance, as applied by the Indian MFI (see Feigenberg *et al;* 2011), is the appropriate operating paradigm, for the IFRIs that were converted to FRFIs in Nigeria. In other words, the simplistic approach of the CBN, in merely converting Community Banks into Microfinance Banks, did not solve the intended problem of the need to promote grass-root financing of the poor and low income earners in Nigerian rural and urban areas. The implication is that the governments' desire to stimulate rural employment and productivity, is yet to materialise

Our argument is predicated on our conceptual framework (see 3 above), which recognises the operating mechanism in Grameen Bank with further clarification in Feigenberg, *et.al, (*2011). Thus **having regard to microfinance limitations, as well as the accepted type of client-MFI relationship that is not consistent with legal stipulations of conventional Banker-Customer relationship, we posit that an MFI is not a bank in the strict functional requirement of conventional banking. An MFI can, at best be described as a quasi-financial institution because of its financial intermediation function; and *ipso facto*, it falls within the ambit of financial regulation.**

(5)Conclusion and Recommendation

(5.1) Conclusion

This paper has shown that MFIs are not "Banks "hence, an MFI nomenclature that bears that appellation can be deceptive as to its intentions because, the name of an incorporated entity, is an indication of its purpose and occupation; and this is usually reflected in the main objects clause of the Memorandum and Articles of Association.

Though the first MFI (Grameen Bank) bears the appellation of "Bank" because of its financial intermediating activities, its operating model is inconsistent with normal conventional banking paradigm. Also its purposes, and the organisation structure that applies the group approach in provision of services, do not conform with imposed legal demands on conventional banks for secrecy, Hence we posit further that an MFI is a social institution, created to promote the attributes of social capital; and organized as a movement for the purpose of microfinance, which is defined as "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers" (see Robert *et al* , 2004) The implication is that the profit motive of an MFI, should be secondary; and regarded as a necessity for institutional sustenance and growth; in other words, being a social institution, profit maximisation should not be pursued as a primary objective, in MFIs.

The adoption of the appellation "Microfinance Bank" in the Regulatory and Supervisory Framework of the CBN, to describe financial intermediaries that are characterised by (1) the smallness of loans advanced and or savings collected; (ii) the absence of asset-based collateral, and (iii) simplicity of operations; has succeeded only, in creating a paradox that did not address the intended problem of Microfinance activities of

IFRIs in Nigeria; hence as noted in Iganiga & Asemota (2008), the unorganized financial activities are still thriving in rural areas because of the "failure of financial intermediation programmes of government".

Therefore, we posit also, that the main object of an MFI, being a social institution, should be crafted properly to reflect the intents and purposes for its formation i.e to create social capital that ultimately transforms into wealth for the organization and its clients. However, MFBs in Nigeria have been named as banks whose main object is profit maximisation; and this removes them from the ambit of social institutions.

(5.2)Recommendations

Following from the conclusions, the following recommendations are inevitable: (i) A clear distinction should be made between the two financial intermediaries. While an MFI should be seen as a social institution that is organised as a movement of the poor and low income earners for the purpose of building social capital; an MFB which should be seen as a profit making bank that transacts normal banking business for the lower stratum of the population, including SMEs.
(ii)The CBN should take steps to formulate appropriate regulatory and supervisory framework that will serve as a reference point to guide MFI operations as a social institution. (iii) Deliberate policies are required to encourage MFIs, that are organised in the style of Grameen Bank with large clientele, drawn from rural and urban areas; and having a national spread.

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