ReviewArticle

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

ABSTRACT **This paper recognises the Central Bank of Nigeria's (CBN) 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 operationsare limited to micro credit and micro deposit while target population is the poor; andtheir relation with clients isguided by social traits of trust, norms and networks. Conventional banks have no banking limitations; and banker-customer relation is guided by conventional banking ethics. Thesedifferences 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.The paper recommends thatexisting and up-coming Nigerian MFIs should be compelled by the CBN to adopt the Grameen Bank-style of management.**

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;which in practice, is usually madeas the firststatement, among other Objects Clauses, to define the company's powers in the Memorandum and Articles of Association of every incorporated entity(see BOFIA 1991; Part 1 section 2(1) and section 38(1)).,As defined in CBN (2012), a Microfinance Bank (MFB) "shall be construed to mean any company licensed by the CBN to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non financial services to microfinance clients". Thus, being an incorporated entity,each MFB in Nigeria has a main objects clauses(see CAMA 1990, section27(c&d));has a mainobjectsclauses; 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. Objects Clauses define the powers of the company and serve as 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*"(i.e beyond the powers of the company).

(1.1)The Problem of MicrofinancePractice in Nigeria

Profit maximization is the dominant objective of bBanks, (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

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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 othercharges 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 thatglobal average interest and fee rate is about 37%, and rates can be 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 bythe founder of Grameen Bankin the nameof "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)and revised by CBN (2012). The 2005policy 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 addsfurther, 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 policygave 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 andgrowth. 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."

(1.3)Objectives of the Study

This study, recognizes "Microfinance" as an important tool for poverty reduction and socioeconomic development in many developing countries; and it is important because it highlights the new trend of many MFIs that have shifted and compromised their social mission of reaching the poorest of the poor; for the profit maximization craze,

In the main, the paper notes one of the main objects of the CBN's policy framework as creation of a platform for the establishment of MFBs; andit identifies this as the crux of the matter with micro financepractice 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

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misconstrued and extended by somepractitioners in Nigeria, as synonymous with conventional banking practice. Thus, manyMFBs 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(i.e. within the powers of the company),, 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; andthe effort to project themselves as universal banks, may have 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 pertinent to note that there is no consensus on an acceptable definition of the term Bank. As explained in Adekanye (1986; P.226), “Several attempts have been made to offer a comprehensive and acceptable definition, starting from the time of J.W.Gilbbart who defined a banker as ‘a dealer in capital, or, more properly , a dealer in money. He is an intermediate party between the borrower and the lender. He borrows from one party and lends to another’. Apparently, this definition has placed emphasis on the two traditional functions of banks (i.e. the mobilization of deposits and the granting of loans and advances); hence MFIs and Conventional Banks qualify to be called Banks in this context. This paper believes in the existence of the need to make a distinction between a conventional Bank and an MFI, to remove the obvious loophole, being exploited by some MFB operators.

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*(i.e. by that fact),, provide the CBN with the necessary base forfurther re-examination of their regulatory and supervisory framework. Thus, the purpose of the paper is to draw the attention of the CBN, to the need for a review of the current regulatory and supervisory framework for Microfinance practice in Nigeria; and to urge them to formulate new regulations, which give encouragement and recognition to organisations that emerge with Grameen Bank-style of operating model to tap the vast microfinancing potential of the poorest of the poor and low income earners; and indeed, to compel existing MFIs to adopt the Grameen Bank-style of operating model, in line with intents and purposes for global creation of Microfinance practice.Additionally, the paper contributes to the growing literature on MFIs.

(*1.4)Methodology*This paper believes in the need to make a distinction between a conventional Bank; and an MFI and to highlight the loophole, currently being exploited by some MFB operators in Nigeria. The methodology is qualitative; and it applies comparative reasoning via examination of the main objective of conventional banking; in comparison with the main objective for global creation of MFIs; in relation to operation of MFBs in Nigeria. It abstracts from existing literature on financial intermediation, as well as the concept of social capital in relation to MFI objectives.~~;~~ The relevant empirical studies have created the base for drawing conclusions; and to make appropriate recommendations.

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)RevisedRegulatory and Supervisory Framework fore MFBs in Nigeria.

In an apparent effort to correct observed pitfalls in the 2005 framework, a revision to the supervisory and regulatory framework was made in CBN (2012).The revised framework is revolutionary and more specific in its definitions of MFB target client, Micro-enterprise and Microfinance loan. Additionally, it specifies permissible and prohibited activities in an MFB; and other details such as ownership and licensing requirement. Other matters that are addressed include the Board and Management of MFBs; funding, accounting and related matters etc. The important provisions are summarized viz:

(a)The definition of an MFB is rephrased in section 1.2.1 as “any company, licensedby the CBN to carry

onthe business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients.”

(b)Section 1.2.2 defines an MFB client to include “the economically active low-income earners, low income households, the un-banked and under-served people, in particular, vulnerable groups such as women, physically challenged, youths, micro-entrepreneurs, informal sector operators, subsistence farmers in urban and rural areas.”

(c)A microenterprise is defined in section 1.2.3 as “ a business that operates with very small start-up capital. The management is often built around the sole owner or micro-entrepreneur. It provides employment for few people mainly the immediate family members and does not often require formal registration to start. “

(d) Section 1.2.4 states that “A microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant’s character and the combined cash flow of the business and household.”Additionally, a tenure limitation of 180 days (6 months) is imposed on an MFB loan; while tenures longer than six months are to be treated as special cases. “In the case of agriculture or projects with longer gestation period, however, a maximum tenure of twelve (12) months is permissible and in housing microfinance, a longer tenure of twenty-four (24) months is permissible. “ This section specifies the maximum MFB loan and limits it to NGN500,000; “or one (1) per cent of the shareholders fund unimpaired by losses and/or as may be reviewed from time to time by the CBN.” Also specified is the requirement for joint and several guarantees for one or more MFB loan beneficiaries; and that “repayment may be on a daily, weekly, bi-monthly, monthly basis or in accordance with amortization schedule in the loan contract.”

(e) Section 2 specifies the” Permissible and Prohibited Activities” of MFBs.
The permissible activities , which are defined in section 2.1(a-w) include acceptance of various types of deposits; provision of credit to its customers; promotion and monitoring of loan usage; issuance of redeemable debentures; collection of money or proceeds of banking instruments on behalf of its customers; acting as agents for provision of mobile banking and micro insurance services; payment services such as salary, gratuity, pension for employees of various tiers of government; loan disbursement services; ancillary banking services such as domestic remittance and safe custody; “Maintenance and operation of various types of account with other banks in Nigeria.”; investment of its surplus funds in suitable instruments; “Pay and receive interest as may be agreed upon between the MFB and its clients in accordance with existing guidelines”; “Operation of micro leasing facilities, microfinance related hire purchase and arrangement of consortium lending as well as supervision of credit schemes to ensure access of microfinance customers to inputs for their economic activities;” receiving of refinancing or other funds from CBN and other sources; provision of microfinance related guarantees; “Buying , selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to low-income persons on credit and to act as agent to any association for the sale of such goods or livestock”; investment in shares or equity of a body corporate; investment in cottage industries; provision of services and facilities to hedge various risks relating to micro finance activities; professional advice to low-income persons, regarding investment in small businesses; mobilization and provision of financial and technical assistance and training to microenterprises; provision of loans for home improvement, housing and consumer credits; and performance of non banking functions relating to microfinance.

The “Prohibited Activities” are specified in Section 2.2(a-l); and it states specifically that “no MFB shall engage in the provision of” financial services which are listed viz:
Acceptance of public sector deposits; “Foreign Exchange transactions; International commercial papers; International corporate finance; international electronic funds transfers; Clearing house activities; collection of third party cheques and other instruments for the purpose of clearing through correspondent banks; Dealing in land for speculative purposes; Dealing in real estate except for its use as office accommodation; Provision of any facility for speculative purposes; . Leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries own five per cent (5%) or more of the equity of the MFB, without the prior approval in writing of the CBN; and Financing of any illegal/prohibited activities such as gambling, drug-trafficking, and firearms.”

(2.2)*Similarities inMicrofinance and ConventionalBan~~m~~ks*

In philosophic terms, MicrofinanceInstitutions and ConventionalBanks 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 oftransformation 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 accountsí.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.Sizetransformation. 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 asContracting Cost; and asexplained in Smith& Jerold (1979), it is the reason for existence of financial intermediation, because individual contracting costs between the lender (saver) and the simultaneoususer (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 atreduced 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).

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(2.3)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 purposesor objectives for theircreation.

The literature traces the origin to the practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century, to the 19th century founders of the Europeancredit union movement; identified as F W. Raiffeisen; as well as Mohammed Yunus and Al Whittaker who are credited with formation of the microcredit movement in the 1970s. The latter tested practices and built institutions 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 micro-credit"; 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,that won a Nobel Peace Prize (see Grameen Bank,2011), is the *Locus Classicus*(i.e. authoritative example)*;* and widely regarded as the grand norm of the microfinance industry. Thus, as shown in Grameen Bank (2011), the Bank was created in 1976 by Professor Muhammad Yunus, who was Head of the Rural Economics Program at the University of Chittagong He "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" (Grameen Bank, 2011). 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 extendedto 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 areclassified into Informal Rural Financial Institutions (IFRI) and Formal Rural Financial Institutions (FRFIs).The IFRIs have been explained in Soyibo (1994,), as covering all financialtransactions that take place outsidethe 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 unionsand 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. Ingeneral 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 andbureaucratic 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).

(2-4) 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 atGrameen 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 Societyat 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."

(2.5) Some Findings ofEmpirical Studies

Olukotun (2008) studied a Nigerian rural community in an effort to capture the social life-style and behaviour of rural communities in Nigeria; and in particular, their response and attitude to community based projects. He avers that there was "a para-scientific response of a community, lacking all relevant trappings of modern technology, capital and management resources to the media and exigencies of development". He defined para-scientific, as" attempt by the communities to use approaches and methods that are not exclusively rural or scientific but a blend of rurality and science"; as an apt description of the level of cooperation that characterises the social life-style of typical Nigerian rural dwellers. In the words of the paper's abstract, "Rural communities (in Nigeria) have over the years lived together and do things in common. They eat and sleep together; they go to their farms together, help the weak on the farm, during marriage and in home construction. In fact, the way their houses are built gives room for the sharing of ideas and for consultation. They have, for their common benefits, constructed roads, schools, health centres and also made bridges through manual labour and personal contributions. Having lived a life of togetherness and of sharing of ideas over a long period of time, it sounds strange, if not

unacceptable to some of them that they will find projects in their communities without the slightest idea about it either in conception or in implementation". The paper drew inspiration from (Okafor, 2005) who believes that the participation of a community in their own project can lead to (i) community empowerment and improvement in efficiency; (ii) better projects and better outcomes from local participation; (iii) enhancement of service delivery with greater transparency and accountability (iv) emergence of local private contractors and service providers as a consequence of community participation; and (v) encouragement of donor harmonization. The paper concludes, amongst others that the "participatory approach creates prosperity and sustainability by empowering communities".

In Article Base (2011) the recent conversion of Nigerian community banks in~~,~~ to microfinance banks is recognised; and the author avers that microfinance services help families to start and build micro-enterprises, which it describes as "the very small businesses that are important sources of employment, income, and economic vitality in developing countries worldwide". It opines that, "salaried or wage-paying jobs are scarce in many developing countries" hence most citizens make their living through self-employment by creating and operating their own tiny enterprises; and that this can be vitiated, when financial services are not there to fuel productivity- a situation which prevents the businesses of the poor from growing into businesses that help them escape poverty. As stated in the article, the "microfinance movement was born to ease the suffering caused by poverty, and to awaken the global economy's sleeping giant: the under-capitalized productivity of the world's working poor"; and that efforts by successive Nigerian government "to solve the problem, through several rural finance and development programmes, have met with unsatisfactory results. This was due to the lack of a mechanism, which would encourage the mobilization of savings among people at the grassroots level and at the same time simplify the disbursement of funds through loans and advances". Hence the author proposes the concept of "Village Banking" which is described in the following words "By providing very poor families with small loans to invest in their micro enterprises, Village Banking empowers them to create their own jobs, raise their incomes, build assets, and increase their families' well-being. Here's how it works. Neighbours come together in financial support groups called "Village Banks." Individuals borrow working capital for their micro enterprises, and because they have little to offer for collateral, the group guarantees those loans. As businesses grow, families earn more, purchase more nutritious foods, and parents are better able to send their children to school. After a year or more, many Village Bankers make significant improvements to their businesses, their homes, and their lives. Because neighbours support each other while growing their businesses, Village Banking helps invigorate entire communities. Village Banking is designed to reach the poorest of the working poor".

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 robustlending activity. This indicate that most rural financial intermediation programmesof 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), had a conjecture that social capital "can be particularly valuable in low income countrieswhere formal insurance is largely unavailable and institutions for contract enforcement are

Comment [L7]: The topicof this studydoes not appeardirectlylinkedto the subjectin thepaper, namely, microfinance in Nigeria.For this reason, I believe that should not be partof thissection onfindings inempirical studies.
If theauthorwishes to mentionthe importance ofthe characteristics of theway of lifeof rural communitiesinNigeriafor the developmentof financial intermediation, based on collective action, this should be mentioneddirectlybelow whereotherreferencelistedsocial capital andthe developmentof microfinance.

weak. Theyrealised that “a number of development assistance programs, promote community interaction as a means of building social capital”; and notes that “despite strong theoretical underpinnings, the role of repeat interactions in sustaining cooperation has proven difficult to identify empirically”. They noted the submission in Manski (1993; 2000) that “While a large body of research finds a positive correlationbetween social interaction and cooperative outcomes, rigorous empirical evidence on this subject remains limited, largely due to the difficulty of accounting for endogenous social ties”. 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 experiment suggested “significant benefits to MFIs from building Social Capital. However, these benefits do not come free given non-trivial transactions costs of meeting four times as often”. These transaction costs are off-set by improved repayment achievement from more frequent meetings of Group members. In other words, repayment defaults were found to be lesser when frequency of Group meetings was increased from bi-weekly, to weekly. 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 bankis 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 thatemphasises profit maximisation as the dominant objective, *ab initio.*

Secondly, economic theory suggests that” repeated interactions among individuals can help build and maintain social capital” (Kreps *et al.,* 1982)andencouraging interaction can be an effective tool for development. Thuswe **recognise the definition of socialcapital 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 Microfinancein Robert *et al*, (2004) 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”**

(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;and this is reinforced by the absence of a consensus on the properandprecise definition of what is; and what is not 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.The revised framework in CBN(2012) is very specific in limiting permissible MFB loans to a maximum of NGN500,000. (ii)Their target audience is the poorand"economically active low income earners.low income households, the un-banked and under-served people, in particular, vulnerable groups such as women, physically challenged, youths, micro-entrepreneurs, informal sector operators, subsistence farmers in urban and rural areas". (CBN, (2012) .(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.This is confirmed in sections 2.1(e) and 2,2(f) in the revised CBN(2012) regulatory and supervisory guidelines.(iv)Local and foreign transfers of money byMFIs, aremade 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)Banking ethicsimposes certain obligations on conventional bankse.g. secrecy etc, which are not applicable to MFIs; for example, most businesses of their clients' are openly transacted during group meetings. In fact, most businesses of MFI clients' are openly transacted during group meetings; and MFIs rely on this openness as a mechanism for building social capital, peer pressure and to whip-up/motivate performance of clients who are identified or perceived as laggards.

Further limitations have been defined in specific terms by "Prohibited Activities" in section 2.2(a-i) of CBN(2012); and it is pertinent to note that these prohibitions draw a clear line of demarcation between MFIs and conventional banks- who do not suffer the same kind of prohibitionor limitation.

The second is the question of Banker-Customer relationship. While the Banker-Customer relations in a conventional banks is guided by conventional banking ethics, 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;, cultural underpinnings 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 jointly and severally i.e. collectively by the organisation and individuals in 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"CBN~~,~~(2005)~~;~~; 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,by the 2005 framework;is a paradox, whichnegates 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; hence it is very appropriate that the CBN has cured the paradox via the 2012 revised guidelines, which has removed SMEs and MSMEs from the financing purview of MFIs.

However, this removal of SMEs and MSMEs from the financing purview of MFIs, is not without implications. They are now placed in a limbo; and to compete with the big companies and conglomerates who, traditionally, are the Blue Chips of conventional banks. SMEs and MSMEs, constitute the engine room of the real sector of the economy. They produce goods and services and generate employment for a vast majority of the populace, thus they deserve the special attention of the financial system

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). This acknowledgement is consistent with empirical findings in Olukotun (2008) and the submission in Article Base (2011),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.

It is noted that successive Nigerian governments had appropriately recognised the need for provision of grassroots finance to the various self help efforts of the economically active low-income earners, low income households, the un-banked and under-served people as well as rural dwellers in general; and efforts were made to solve the problem through several rural finance and development programmes, but the government efforts were met with unsatisfactory results. This failure of government efforts can be explained in the context of empirical findings in Olukotun (2008) whose submission, indicate existence of high level of cooperation (describable as esprit *de corps* i.e. a sense of unity and of common interests and responsibilities, as developed among a group of persons closely associated in a task, cause, enterprise etc),as a characteristic of the social life-style of typical Nigerian rural dwellers. Olukotun posits that it will be "strange, if not unacceptable to some of them (i.e the rural communities) that they will find projects in their communities without the slightest idea about it, either in conception or in implementation". The implication of the foregoing is that the establishment of an institution (e.g. an MFI) in a rural community, without active participation of the dwellers, during conception/or implementation, is doomed for failure in the sense that the MFI objective may remain largely unachieved; because the initial objective at formation is inconsistent with the MFI objective of building social capital. In other words, the converted community banks are likely to remain as mere deposit takers, as opposed to the social mission of grassroots business financebecause their original objective of profit maximisation, is inconsistent with the social mission of MFIs.

Evidently, the scenario in Olukotun (2008), is consistent with the scenario that existed in rural Bangladesh when Grameen Bank was formed; hence one of the objectives was crafted to reflect and promote inclusiveness of the rural populacei.e" bringing the disadvantaged, mostly women, from the poorest households, within the fold of an organizational format which they can understand and manage by themselves". Even at retirement, Professor Yunus was careful in choosing his words during his written communication with the MFI members. As stated in Yunus (2011) "Our lives will be moulded around these four principles ". In the statement of Objectives, and the communication from Professor Yunus, terminology usage, reveals application of esprit *de corps*, which is a bonding principle for inclusiveness. Esprit *de corps* is an essential ingredient in a Movement and an MFI, which lacks this bonding among its membership, may not be successful in its social mission.The same bonding is indicated in the Village Banker concept, proposed in Article Base (2011) ; and it is indicated also in the operating mechanism of the Village Welfare Society at the Indian State of West Bengal.

It is noted also **that the desired quality of *esprit de corps*, which is required to transform the group into a "Movement", cannot be attained overnight, because the behavioural traits of individuals will need to be harmonised in an evolutionary process that develops group norms and trust; and this requires time. Hence, it is appropriate that an MFI should evolve from a cooperative society that has a build-up of social capital elements.**

The implication of the foregoing is that the simplistic approach, adopted by the CBN **in a fiat conversion of Community Banks into MFBs, did not automatically transfo**rm them **into MFIs. They are MFBs in name, but it is doubtful if they operate as true MFIs, since they did not undergo the evolutionary process that transforms them into a movement in the manner of Grameen Bank; and especially, as their motive for starting the business is profit maximisation, through the instrumentality of bank lending and other core banking business as Community banks.**

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,we posit that an MFI is not a bank in the strict functional requirement of conventional banking. This position is necessary because, it seems that the MFI appellation as Banks is**

creating an imaginary high pedestal for the operators; which alienate them from their social mission of grassroots financial intermediation; and as important economic institutions for poverty reduction, as well as catalysts for socioeconomic development. Also, it seems to shift the focal point of their primary objective, from the intents and purposes for their formation, to conventional banking objective of profit maximization. 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*

The argument, in this this paper, has~~,~~statedreasons why MFIs should not be called“Banks”. 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 the ethics of conventional banks , 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, as defined in Robert *et al* (2004) is“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” .
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,they should not be allowed to behave like conventional banks i.e. 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 to properlyreflect the intents and purposes for its formation i.e to create social capital that ultimately transforms into wealth for the organization and its clients.

*(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 should be classified as a commercial bank that transacts conventional banking business.
(ii) MFBs should be allowed to operate as second tier commercial banks for the purpose of meeting the financial intermediation needs of SMEs, MSMEsand other businesses /clientele in that category, with appropriate capitalisation requirement that befits their status as second tier Commercial Banks. This means that a set“Limitations” that is commensurate with level of capitalization is to be imposed by the CBN on this second tier commercial bank which will be allowed to offer services in all commercial banking products; and they will require a separate regulatory and supervisory framework.
(iii)The 2005 and 2012 supervisory and regulatory framework for MFBS should be reviewed and streamlined to target MFIs (not MFBs). The streamlined document will serve as the reference regulation to guide MFI operations as social institutions; and it should contain appropriate provisions, which compels existing and up-coming Nigerian MFIs to adopt the Grameen Bank-style of management.
(iv) Deliberate policies are required to encourage MFIs, that are organised in the style of Grameen Bank, in rural and urban areas.

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