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PROBLEM AND PROSPECTS OF MICROFINANCE BANKS IN ADAMAWA STATE

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Abstract

The Nigerian government inaugurated the Microfinance banking scheme in 2005 to provide Finance to economically active poor excluded from financing by conventional banks, provide employment, Engender rural development and reduce poverty. This research theoretically examines the challenges these banks have had to grapple with from their inception. Furthermore, it scans the business environment to assess the prospects of microfinance banks in Adamawa State. The research shows that microfinance banking in Adamawa State faces enormous challenges in infrastructural inadequacies, social misconception, poor legal and regulatory framework, unbridled competition from other financial institutions, and abandonment of core microfinance function and paucity of qualified manpower. Despite this plethora of challenges, the study identified several areas where opportunities exist for these banks. The growing entrepreneurial awareness, increasing government interest, large unbanked rural area and high population of poor people were identified as some of these opportunities. The researcher argues that with proper regulatory [redacted] *interventions and commitment of other stakeholders to the core mission of microfinance banking, its challenges can be addressed and its prospects enhanced. This study therefore concludes that the future of microfinance banking in Adamawa State and in Nigeria as a whole is bright.*

KEYWORDS:
Prospect, Banking, Sector, Microfinance, Interest, Economic.

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INTRODUCTION

Microfinance banks are financial institution that provides services to the poor, low income earners and those who are engaged in small and medium scale enterprises who have no other means of gaining financial services from the conventional banks. These banks however are faced with some challenges that serve as hindrances in achieving its corporate objectives. Nigeria as a country is blessed with natural and human resources with a population of over 150 million people who are solely engaged in farming and small scale business. The sector is primarily dominated by micro, small and medium enterprises (MSMES) and peasant farmers who require financial assistance to improve their livelihood.

A micro finance bank is a bank that provides services to unemployed or low income earners or groups who have no other means of gaining financial services (Investopedia). Microfinance is the most useful and popular financial system in the world. To aid financial crises of poor people, it gives loans to poor and middle class whom the government or any commercial bank will not give loan facilities to. In both the rich and poor countries of the world, microfinance tries to improve access to loans and savings services for low-income, low-wealth people which is the fastest growing and best-known tool to combat (Islam, Molajan and Datta, 2012). The federal government adopted policies that will enhance the participation of both rural and urban communities in the economic development strategies. These include the directorate of food road and rural infrastructure (DFRRI), Better Life for Rural Women Program and Family Economic Advancement Program, Peoples Bank Scheme Community banking program which was conceived as microfinance bank in December, 2007. It plays some significant roles especially at the rural areas which include: the granting of loans, poverty alleviation, creation of employment opportunities, increasing small and medium enterprises (SMES) and promoting agricultural production (Omeh, 2015). However, microfinance banks in Adamawa have not been able to achieve 40% of its corporate objectives due to the following threats which includes:- Political factors, marketing, economic factors and technological factors.

This research is therefore carried out in order to examine the performance, problem and prospects of microfinance banks with the view to identifying its contribution to the economic development of its community through the mobilization of savings and granting of loans to those practicing agriculture, small and medium scale industries.

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The lack of banking culture in the rural areas and among the urban poor is probably a factor militating against the progress of microfinance banks. Traditionally, these people borrow from friends and relatives and repay the same amount of money borrowed no matter the tenure of such loans. They therefore, find it difficult to understand the payment of interest on bank loans. The rate of interest charged by micro finance leaves a lot to be desired. According to a study carried out by UNDP (2003), micro finance banks charge between 30%-100% interest on loans while 4.5%-6% is paid on savings. It is however confirmed that microfinance bank rates are way too high and may not argue well for the smooth development of this sector. Corruption is a cankerworm that has wrecked-havoc in many sectors of the Nigerian economy. The micro finance sub sector is not left out of the ravages of corruption. This manifest in ways such as corporate governance, frauds and forgeries, theft and refusal by customers to repay loans.

Another important factor identified to militate against the performance of microfinance banks in Nigeria as identified by CBN, (2005) and Irobi (2008) is limited support for human and institutional capacity building. The paucity of human capacity in the micro finance sub-sector in Nigeria has been an issue from the day of community banking. This paper is aim to identify the challenges facing the microfinance scheme and examine the prospects of the scheme and suggests ways it can adopt in order to avoid the pitfalls of its predecessors and overcome current challenges. The specific objectives include:

i. To identify the problems encountered by microfinance banks in Adamawa State.
ii. To ascertain the extent to which microfinance banks has been assisting in providing credit facilities to rural and urban poor areas.
iii. To evaluate various measures introduced to boost entrepreneurship and its financing and how this has affected realization of the set goals.
iv. To suggest recommendations based on the research findings.

Origin of Banking in Nigeria

The first commercial bank in Nigeria was established in 1892 by the African Banking Corporation of England later renamed British West Africa bank and later changed to Bank of West of Africa in 1894 than the Standard Banking Nigeria plc. Other banks on board were Angolo Union Bank, the United Bank for Africa. In 1959 indigenous banks such as Nation Bank Plc. was established to reduce the monopoly of the foreign banks all to be under the supervision of the Central Bank of Nigeria (CBN). This was to facilitate and develop the nation's economy and a sound financial system. The Central Bank of Nigeria

(CBN) is charged with the responsibilities of issuance of currency and has the powers of supervision of commercial bank activities and other related financial institutions. The functions of the central bank (CBN) include the following:-

a. **Banker to the Government:** Government needs to hold their funds accounts in which they can deposit and withdraw money from the central bank. It also serves as agent of government to receive the proceeds of taxes which are paid directly to the account of government at the central bank and make payment on behalf of government.
b. **Bankers Bank:** The Central Bank serves as banker to commercial banks. They borrow money from central bank when they are liquidity problems.
c. The central bank serves as the lender of last resort to the commercial bank as they often need liquid cash to meet the demand of the commercial banks.
d. They often need liquid cash to meet the demand of the commercial banks of central bank receive all monies release as a result of the export of crude oil and deposit it in the government account for easy disbursement when the need arise.

The need of Microfinance Banks

The emphasis for community development has become a necessity at this stage of economic development in Nigeria because there is need to effect development in the country right from the grass root level. The rural dwellers normally find it difficult to get access to laudable funds. In adorning these problems, attempts have been made by various administrations to extend banking schemes to the rural areas. This idea was initiated by the introduction of people's bank of Nigeria by the President Ibrahim Babangida's administration in order to bridge the gap between the conventional banking system and the people bank, also the idea for microfinance was conceived in 1991. Among the objectives of the bank are:

i. To facilitate development at the grass root level
ii. To create awareness on the people about rural community banking habit
iii. To provide credit facilities and savings culture of the rural and low income people, also discourage them from depending on local money lenders which are the practice of rural dwellers.
iv. To promote rural activities such as agriculture, commerce, art and craft, small scale investors etc.

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v. To harmonize on effective financial system that respond to the need of the national economy to grant sound second orientation to rural dwellers

The Impacts of Microfinance in Socio-economic Development

Microfinance banks help to promote the socio-economic development of a given society, state and the nation as a whole. It also expands the operations of businesses by increasing inventory(s), sales, wages and business survival. As these increases the standard of living. However, the following include the impacts of micro finance banks in Adamawa State;

Poverty alleviation: Microfinance plays an important role in the poverty alleviation of a particular country. This is because the primary objective of government seeking to alleviate poverty is to provide as many job opportunities as possible, as well as creating a means of generating income for businesses. Microfinance banks are key players in this aspect because they specialize in the provision of credit facilities to individuals as well as businesses. For example, the Lift Above Poverty Level (LAPO) is an NGO that runs a microfinance bank in Nigeria. LAPO is a pro-poor financial institution committed to the empowerment of low income earners and petty traders. It was established in 1987 and has been committed to improving the quality of life of poor people by giving them access to credit facilities without collateral. They grant loans on the basis of small installment payments, making repayment of the loans less stressful. LAPO has helped a lot of small scale business people in financing their businesses Omeh, (2015).

Creation of employment opportunities: The individuals, groups and businesses that microfinance banks provide with credit facilities will in turn engage the services of other people in their businesses thereby providing employment opportunities for those other people. Small scale businesses usually create job opportunities for people. Secretaries, receptionists, sales officers, and cleaners and so on; these are some of the positions for which people are employed in small enterprises Omeh, (2015).

Increasing small and micro enterprises (SMEs); Microfinance banks provide a platform for people with business ideas to bring their dreams to reality. Gone are the days when people think business is only for the rich and influential. Now anyone can start a small business and walk into any microfinance bank for a loan to start the business. Take for instance, FBN microfinance bank, a subsidiary of First Bank in Nigeria. This microfinance bank has credit products that are meant for small scale businesses, artisans, petty traders and individuals to meet the day-to-day running of their businesses. They have varieties of credit products for different categories of people.

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Some of the products are, "Level Don Change"; a short term facility for long term customers with satisfactory track record meant for acquisition of business assets to improve income generation "Kia-Kia Loan"; a credit facility created to assist existing customers with satisfactory record for urgent needs, "Easy Loan"; a short term loan for salary earners, to enable them purchase household items, and so many other credit products Omeh, (2015).

Promoting agricultural production: Most poor people living in rural areas have the opportunity to practice agriculture. Microfinance banks also provide credit facilities to farmers. They can get loans for buying modern day farming equipment's such as: tractors, ploughs, e.tc. Microfinance banks enable farmers to not just farm for their bellies alone, but to commercialize their farming by providing loans for the farmers Omeh, (2015).

The SMEs are very important to the economy in that, large percentage of their production inputs are sourced locally thus, reducing the pressure on the limited foreign exchange earnings, helping to eliminate some of the deficit in the balance of payment Jimah, (2011). Ikherehon, (2002) enumerates the roles of SMEs as summarized below:

- SMEs constitute the very basis of the national economy.
- Develop local technology.
- Provide an effective means of stipulating indigenous entrepreneurship.
- Mobilize and utilize domestic savings.
- Ensure the supply of high quality parts and components and intermediate products thereby strengthening the international competitiveness of manufacturers' goods.
- Stimulate technological development and innovations; produce specialized items in small quantity to meet current and diverse demands.
- Capacity to expand export possibility and substitute import effectively.

Who needs microfinance?

Robust economic growth cannot be achieved without putting in place well focused programs that increase access of poor and low income earners to factors of production, especially credit. Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions (Okpara, 1990). In Nigeria, a large percentage of the population is still excluded from financial services. The 2010 Enhancing Financial Innovation and Access (EFInA) study revealed a marginal

increase of those served by formal financial markets from 35.0% in 2005 to 36.3 % in 2010, five years after the launching of the micro finance policy. When those that had financial services from the informal sector such as savings clubs/pools, Asusu, Ajo and money lenders were included; the total access percentage for 2010 was 53.7% which means 46.3% or 39.2 million adults' population were financially excluded in Nigeria (EFInA, 2010).
The result of the EFInA access to financial services in Nigeria 2012 survey showed that 34.9 million adults representing 39.7% for the adult population were financially excluded. Only 28.6millions adults were banked representing 32.5% of the adult population (EFInA, 2012). Furthermore, access to financial services in Nigeria, 2014 survey revealed that 36.9 million adults representing 39.5% of adults' populations are financially excluded. Only 33.9 million adults have access to financial services, representing 36.3% of adult population. However, rates of financial exclusion remains high, 36.9 million (39.5% of the adult population) have no access to financial services. The survey also contains information about Nigerian adult understanding and perception of financial services, current financial behaviors (such as saving, borrowing, sending remittances, etc), income sources and levels, and usage of a range of financial services, including mobile money, insurance, microfinance and informal financial services (EFInA, 2014).

The challenges of microfinance banks in Adamawa State
The micro financing scheme was predicated on the challenges they faced. Many of these challenges are still bedeviling microfinance banking. This section however discusses some of these challenges;

i. **Lack of basic infrastructure:** One the most fundamental difficulties microfinance banks in Nigeria have, is the near absence of basic infrastructure. This lack of basic infrastructure compounds the operational difficulties of these banks, which ordinarily are faced by high operational cost because of their nature of the business.
ii. **Lack of banking culture in the rural and urban poor areas:** The lack of banking culture in the rural areas and among the urban poor is a factor militating against microfinance banks. Traditionally, these people borrow money from friends and relatives and repay the same amount of money borrowed no matter the tenure of such loans. They therefore find it difficult to understand the payment of interest on bank loans.
iii. **Failure and withdrawal of community and microfinance banks in 2010:** The failure of many community banks and the withdrawal of the license of 224 microfinance banks in 2010 have badly damaged the public

confidence in these banks. Many microfinance banks established in communities were failed community banks existed are faced with an uphill task of convincing these communities that they will not go through the unfortunate experience of losing money in a bank failure. The sudden withdrawal of license of 224 of microfinance banks has fueled the lack of public confidence which the community banks bequeathed them.

iv. **Limited support for human and institutional capacity building:** Another important factor identified to militate against the performance of microfinance banks in Adamawa, is limited support for human and institutional capacity building. The paucity of human capacity in the microfinance sub-sector in Adamawa has been an issue from the days of community banking. According to Ikeanyibe (2009), one of the major problems of microfinance sub-sector is recruitment of effective and appropriate man power. This he ascribed to the inability of the sector to adequately remunerate staff. Other human resource problems faced by microfinance banks include: lack of training opportunities and poor conditions of service. The qualities of man power in these banks are reflected in the poor performance of many of them; insufficiency and high levels of frauds and forgeries. The banks also suffer from high labor turn over and further indication of low staff motivation and poor personnel practices.

v. **Corruption among microfinance sub-sector and customers:** Corruption is a cankerworm that wrecked-havoc in many sector of Nigerian economy. The microfinance sub-sector is not left out of ravages of corruption. This manifest in many ways, such as, corporate governance failures, frauds and forgeries, theft and refusal by customers to repay loans.

Prospects of microfinance banking in Adamawa State

i. Government renewed interest and improved regulatory environment in the microfinance sub-sector also enhance the prospects for development and success of microfinance banks. One indication of this is the implementation of training program for regulators, promoters and practitioners by CBN.

ii. Another sign of regulatory will to ensure vibrancy in the micro financing and banking sub-sector is the inclusion of microfinance banks deposits in the deposit insurance scheme. This has improved public confidence in the sub-sector. Furthermore, the review of the deposit insurance limit from one hundred thousand naira as stipulated by NDIC Act of 2006 to two hundred thousand naira is a further sign of regulatory intention to build confidence in these banks.

iii. That a lot of opportunities exist in the microfinance sub-sector in Nigeria is unarguable. Scholars are unanimous in their agreement that there exist in large untapped market from microfinance banks. Olaitan (2006) and Oluyombo (2006), buttresses this by pointing out that about 70% of Nigerian population is engaged in the informal sector or agricultural production. Going by the country population of over 150 million people we can deduce that about 105 million are in this sector.

Conclusion

Nigeria is a country with enormous resources, unfortunately despite this great number of Nigerians, the country still live in poverty. It is in the bid to address this that the government formulated the microfinance policy guidelines in 2005. This guideline among other things provided for the licensing of microfinance banks. The microfinance banking sub-sector in Nigeria is therefore relatively young having taken-off in 2007. Like many new ideas, it is undergoing a challenging and trying period. Some of the challenges microfinance banks faces in Nigeria are; regular changes in government policies, infrastructural inadequacies and socio cultural misconceptions.

In addition to this, the banks are further inhibited by corruption, frauds and forgeries and poor corporate governance. To address these issues, concerted efforts on the part of the regulators, promoters, and practitioners and other stake holders in the microfinance banking sector is required. This is to ensure that they do not drag the sub-sector under as was the case of previous microfinance schemes of government. It is expedient that these banks succeed and grow considering their poverty amelioration potentials. The extend of poverty being experienced in the country, the large informal finance sector, the huge rural community and the involvement of over 70% of the population in agriculture and small medium scale enterprise are clear indication that a vast untapped market exist for these banks. If this huge market challenges identified are addressed, the prospects of microfinance banking in Nigeria as a whole is very bright.

Recommendation

To enable microfinance banks in Nigeria take advantage of the enormous market potentials, the following suggestions to mitigate the challenges they face are advanced;

i. The capacity building for the practitioners which the CBN and NDIC are undertaking is a welcome development and should be extended to the Board of Directors of these banks. This will ensure that the Directors who craft the policies for these banks are on the same page with their management staff. They should be made to understand the operational limits, modalities and objectives of microfinance banks. Particularly, they should be made to realize that these banks are not mini commercial banks and that microfinance banks pursue social motives in addition to financial sustainability.

ii. The government should make good promises of improving social infrastructure in the country. Special attention should be paid to power supply as this constitutes a major cost to microfinance banks.

iii. Since poor banking culture is one of the fundamental problem plaguing microfinance banking in Nigeria, it becomes expedient that these banks should train their clients in financial literacy before disbursing loans to them. The clients should be made to understand the intricacies of such facilities, including repayment mode, interest charges and benefits of keeping to the terms of the credit contract.

iv. There is need for microfinance banks especially those operating in the Northern part of the country to be proactive in product development. Since the religious precepts of many people in that part make them abhor interest on loans, the banks should provide them with interest free loans. Better still the regulators should encourage interest free microfinance banking by producing guidelines to ensure its Success as they have done for the conventional banks.

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