PRESS CONFERENCE BY THE DEPUTY GOVERNOR, FINANCIAL SYSTEM STABILITY (FSS), CENTRAL BANK OF NIGERIA, DR. KINGSLEY CHIEDU MOGHALU ON THE STATUS OF MICROFINANCE BANKS IN NIGERIA

1. Background

The microfinance industry in Nigeria had been confronted with numerous challenges since the launch of the Microfinance Policy Framework in December, 2005. A significant number of the microfinance banks (MFBs), were deficient in their understanding of the microfinance concept and the methodology for delivery of microfinance services to the target groups. Many of them lost focus and began to compete with deposit money banks for customers and deposits, leaving their target market unattended, in spite of efforts of the regulatory authorities to put them back on track.

Unfortunately, the impact of the global financial crisis on MFBs had been more severe than anticipated. Credit lines dried up, competition became more intense and credit risk increased, as many customers of MFBs were unable to pay back their credit facilities owing to the hostile economic environment. The combination of these factors had significantly weakened the microfinance sub-sector and its ability to achieve the policy objective of economic empowerment at the lower end of the market.

Given this scenario and following market reports about the failure of some MFBs to meet their matured obligations as well as several petitions received from aggrieved depositors, the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) embarked on a Target Examination of all MFBs in Nigeria, to identify the problem and ascertain the scope as well as the extent of damage done to the affected institutions. The exercise started in February 2010 and was concluded in June 2010.

2. Outcome of the Target Examination

The Target Examination was conducted on 820 MFBs across the country. A total of 224 (27%) MFBs were found to be ‘Terminally Distressed’ and ‘Technically Insolvent’ and/or had closed shop for at least six months.

The factors that contributed to the unsoundness of the MFBs were attributable to some or all of the following:

i) High level of non-performing loans, resulting in high portfolio at risk (PAR), which had impaired their capital;
ii) Gross undercapitalization in relation to the level of operations;
iii) Poor corporate governance and incompetent boards;
iv) High level of non-performing insider-related credits, and other forms of insider abuse;

v) Heavy investments in the capital market, with the resultant diminution in the value of the investment after the meltdown;

vi) Poor asset-liability management owing to portfolio mismatch;

vii) Heavy investments in fixed assets beyond the maximum limit prescribed;

viii) Operating losses sustained as a result of high expenditure on staff and other overheads;

ix) Weak management evidenced by poor asset quality, poor credit administration, inadequate controls, high rate of fraud and labour turnover;

x) Failure to meet matured obligations to customers.

3. Regulatory Action Taken

i) The operating licences of the 224 MFBs that were found to be 'Terminally Distressed' and 'Technically Insolvent' have been revoked pursuant to S.12 of BOFIA 1991 (as amended). The list of the affected MFBs is attached.

ii) As insured institutions, NDIC in line with its statutory responsibility shall pay up to the maximum insurance coverage of N100,000 per depositor.

iii) The bank directors and management of the closed banks that have abused their positions would be handed over to the Law Enforcement Agencies for investigation and prosecution, and those found culpable would be blacklisted accordingly.

4. Concluding Remarks

Ladies and Gentlemen, the Regulatory Authorities hereby assure the public that they would not allow the activities of few individuals that ran their institutions aground to derail the noble objectives of the microfinance policy. All necessary steps have been taken to protect depositors of the affected banks.

Thank you for your attention.