RESTRUCTURING OF THE ASSETS OF MICROFINANCE BANKS AFFECTED BY COVID 19 PANDEMIC IN NIGERIA

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Abstract
The study is an empirical survey aimed at examining the restructuring of the assets of Microfinance Banks affected by COVID 19 Pandemic in Nigeria. The area of study, population and sample size are all current status of Microfinance Banks in Nigeria.The research design is centred on the empirical survey of 10 National Microfinance Banks, 135 State MFBs and 766 Unit MFBs in the country. Some of the findings revealed that there is the need for extension of the mandatory restructuring of MFBs as directed by the CBN, that merger and acquisition processes take a long time exercise and may require the engagement of experts and some indices that are critical for the survival and growth of MFBs are not yet put in place by the operators of MFBs in Nigeria and it is recommended that assets revaluation, assets equity swap, new capital injection, private placement of shares and introduction of attractive products by the MFBs to their customers and potential investors are also recommended.

Keywords: Assets Restructuring, Microfinance banks, COVID 19 Pandemic

Introduction
The restructuring of the assets of Microfinance Banks affected by the COVID 19 Pandemic which incapacitated the operations of the MFBs for more than one year and led to the stagnation and economic recession of the Nigerian economy appears to be widely accepted. However, the adverse effect of this phenomenon did not only affect the economic activities of the country but financial operations of all microfinance banks in the country. The assets of the MFBs severely affected are Loans and advances, placements, etc.

The level of non-performing loans in which the Prudential Guideline requires that provisions must be made against such loans which obviously would dilute the capital of such Banks so affected is becoming alarming Nwadighoha (2020). When provisions are made on these nonperforming loans by way of such loans being categorized as either pass or watch, substandard, doubtful or lost, profitability would be adversely affected and obviously impairs the shareholders fund (equity capital) of the microfinance bank which reduces the value placed on the MFB. The adverse consequences are that the (NDIC) will charge premium on each of the non-performing resulting to double tragedy. *(Sir, please reconsider this statement as I think that it may not be true)*

The CBN as the major regulatory body of the MFBs in her wisdom considered the option among others, merger and acquisition, relocation to more viable sites, scaling down from national MFBs to State from State to Unit MFBs as the case may be. The Committee of Microfinance banks in Nigeria (COMBIN) also requested for the last optional outright liquidation where circumstances warrant such occasion (CBN, 2021).

There are other assets of the MFBs that may have been affected by the COVID 19 Pandemic but attention is given to the most liquid and risky assets which are the engine that galvanize the operations of the Banks and all other financial institutions in Nigeria globally. Predicated on these, the researchers evaluated the following specific objectives:

i) Examine of the possibility of reducing the initial capitalization tier 1 MFBs from ₦35million to below ₦20million and the extension of the deadline from 2021 to 2023; ii) Determine the need for realistic merger and acquisition process which should not be adhoc in nature but which could meet the test of time when properly done;

iii) Exploring other options available in the injection through capital increase, giving attention to other option such as assets valuation asset equity swap and private placement;

iv) The possibility of diversifying the product of MFBs, and incorporating best business practices, financial integrity/corporate governance, risk management and other marketing strategies to enhance customers attractions to the MFBs.

Review of Related Literature Microfinance Bank

Microfinance is described as the banking for the less privilege, underserved and unbanked in both rural and urban areas. They are different from commercial banks or Deposit Money Banks (DMBs) because they provide limited banking services tailored towards primarily to designated catchment areas or various groups of active poor persons. Consequently, Micro financing could be said to be provision of financial services to the less privileged or low income households without access to formal financial institutions Conroy (2003).

The major purpose of Micro Finance Banks is to direct attention of purveying credit to small scale Enterprises. In Nigeria, the micro finance Banking concept is an extension of the old community banking system. Lerno (2007) described Microfinance banking as one of the prime strategies for achieving Millennium Development Goals (MDGs), particularly targets that relate to poverty reduction, gender equity and the empowerment of the disadvantaged groups Abubakar (2009).

Theoretical Review Bank Capital Theory

This theory implies that lending behaviour of banks to small and medium Enterprises (SMEs) is heavily dependent on capital adequacy requirement. Anyanwu (2004) showed that a charge in interest rate can influence bank's lending to SMEs through banks' external

The tending is for the microfinance banks to reduce supply of loan if the capital constraint becomes binding. On the other hand, the banks could also become more willing to lend during situations when the interest rate is favourable Adam (2007).

Empirical Review

Irobi (2005) investigated the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy like Nigeria. The study reveals that there is significant difference in the number of entrepreneurs who use microfinance institutions and those who do not use them. It also added that there is significant effect of microfinance institution's activities in predicting entrepreneurial development. The researcher concludes that microfinance institutions globally and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, government and the economy at large through the services they offer and the functions they perform in the economy Henri (2011).

Methodology

The methodology used in this study is presented in this section under the following sub-headings; Research design, area of the study, population of the study, sample size and sampling techniques, data collection, sources of data, statistical instrument used in data collection and analysis of data.

Research Design

This study is an empirical survey which aims at the restructuring of microfinance banks assets affected by COVID 19 Pandemic in Nigeria.

Area of the Study/Population and Sample Size

The study was carried out based on the current status of MFBs as at December 31-2019 considering National Microfinance banks that are 10 in number, State Microfinance banks 135 in Number and Unit Microfinance banks numbering 766 totalling 911 microfinance Banks in Nigeria.

Method of Data Analysis

The main objective was analysed using descriptive statistical such as frequency distribution and percentages using mean per capita cost of the assets affected by COVID 19 (MPCSAA) into severely and moderately (MPCMAA) among the 911 microfinance Banks in Nigeria

Severely < 2/3 MPCSAA

Moderating > 2/3 MPCMAA

Table 1: Empirical Indices of Microfinance banks Assets affected by COVID 19

Types of Assets	**National Microfinance Banks**	**States Microfinance Banks**	**Unit Microfinance Banks**
Cash in vault	Severely Affected	Severely Affected	Severely Affected
CBN cash Reserve	Severely Affected	Severely Affected	Severely Affected
Treasury Bills	Severely Affected	Severely Affected	Severely Affected
Loans and Advances	Severely Affected	Severely Affected	Severely Affected
Other Financial Instruments	Severely Affected	Severely Affected	Severely Affected
Land & Building	Moderately Affected	Moderately Affected	Moderately Affected
Equipment & Furniture	Moderately Affected	Moderately Affected	Moderately Affected
Motor Vehicles	Moderately Affected	Moderately Affected	Moderately Affected

Source: Field Survey 2021

Discussion of Findings

(i) The minimum capital requirement of MFBs stood as reported in the CBN circular dated March 7, 2019 at N35million; this was communicated to the Department of Financial Policy and Regulation (FPRD) of CBN to all MFBs to show faith and strive to meet deadline and the window created for the restructuring of MFBs Assets affected by the COVID 19 Pandemic to enhance their capital to be better positioned for the challenges ahead. In addition, attention must be given to such assets that are perceived to be severely affected and risk mitigation should also be applied to reduce their overall adverse consequences on the equity capital of the MFBs.

(ii) The CBN also advised the MFBs to consider mergers and acquisitions between or among banks of the same categories carrying out their business seamlessly within the period of extension of the boundaries of operations granted by the CBN. This was another window opening for Tier 1 Unit MFBs which are located in the rural area and may be interested for re-categorization either upwards or downwards.

(iii) The MFBs are very slow to embrace the opportunity created by the CBN to cushion the effect of the COVID 19 Pandemic and if the need be to seek for more clarification on the adoption of assets revaluation, asset equity swap and cash payment for purpose of meeting the capital regime is to inject fresh capital.

(iv) It was also found that investors were reluctant to invest in the MFBs because of little or no returns and an appeal has to be made to CBN to enlighten prospective investors on the need to invest in MFBs. The MFBs at this point need to improve their business operations, corporate governance, risk management and marketing strategies to attract investors.

Conclusion

In order to avoid sudden closure of MFBs in Nigeria the CBN advised that MFBs could engage in the revaluation and capitalization of assets affected adversely by the COVID-19 Pandemic

to avoid contagious effect. This will also afford the MFBs the opportunity of orderly exit should the need arise. The Period for the restructuring of the MFBs was to be at the end of December, 2021 but was extended to 2022 to enable some of the FMBs who were not ready to meet up the CBN guidelines and directives.

Recommendations

Consequent upon the findings; the following recommendations are made:

(i) The capital requirement for Tier I Unit Microfinance Bank in Nigeria could be reduced further to ≤N35million and the period given for such assets that are severely affected to be restructured should also be extended by one year from 2022;

(ii) The process of merger and acquisition takes a little longer period, in some complicated situations consultants should be engaged and professional fees must be paid, the period could also be extended to enable MFBs that are financially weak to cope with the situation;

(iii) If the good intention of the CBN is to inject fresh capital into the MFBs in Nigeria, the options of assets valuation, asset equity swap and cash payments may not be enough but private placement and others may also be necessary;

(iv) Microfinance Banks in Nigeria, should be encouraged to diversify their products, according to the need of their customers based on their environment, exploring digitalization in banking to serve customers outside their catchment areas. Whilst some may prefer trading on Treasury Bills, others on loans and advances, some in agriculture, many may also explore payment services just like fintech companies. In addition improvement in MFBs business operations, financial integrity and prudence, corporate governance, risk management and marketing strategies would attract customers, prospective investors and encourage sustainability.

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