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Microfinance and Poverty Alleviation Programmes in Nigeria - The Needed Paradigm Shifts

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Abstract

This paper essentially examines the evolution of Nigerian microcredit and poverty alleviation programmes within the framework of building a sound microfinance infrastructure. Most of the Government-controlled microfinance programmes and institutions failed because of low loan recovery rate and high subsidy index. Hence their outreach to the poor, including the financial self-sustainability and welfare impact have been limited. Discarding wrong assumptions about the rural poor, we propose paradigm shifts that accord the public sector an indirect intervention role, but a private sector-led microfinance delivery strategy. A market-oriented rural financial system that emphasizes savings rather than credit and avoids subsidized interest rates is recommended. The recent Central Bank of Nigeria's Microfinance Regulatory Framework should aim further at (1) integrating informal microcredit groups into the formal financial system, and (2) creating appropriate linkages between rural financial institutions and the Nigerian capital market. Developing a favourable policy environment for rural financial intermediation requires macroeconomic stability, elimination of urban-biased policies, and promotion of integrated and resilient financial markets.
Keywords: Microcredit, poverty alleviation, paradigm shift, rural financial system, outreach, subsidy index.

1. Introduction

Microfinance, the provision of a wide range of financial services to the poor on a sustainable basis, has proved to be immensely valuable. Access to financial services has allowed many families throughout the developing world (and, indeed, in poorer parts of the developed world) to make significant progress in their own efforts to escape poverty. The vision of microfinance is simple and compelling. Small loans are extended to low-income households to initiate or strengthen entrepreneurial activities, thus helping them access the means to build wealth and advance out of poverty. Pioneered by the Grameen Bank in Bangladesh and adapted by hundreds of entities in developing countries, this kind of lending has indeed helped millions of people build businesses and create wealth opportunities for employment. This simple, compelling idea becomes complex when a system needs to be in place to raise capital, deliver loans, and manage repayments. The Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and creating a banking system based on mutual trust, accountability, participation and creativity.

The initial success of microfinance programmes in the 1970s led pioneers to think that many essential problems of the poor might be resolved by access to credit alone with ability to acquire assets, to start businesses, to finance emergency needs and to insure against illness and disaster. Part of that vision has certainly been realized. But much remains to be done. Most microfinance. institutions (MFIs) are still small and vulnerable to constraints on their resources and to the risks inherent in single-donor portfolios. Most depend upon donors and governments to remain in operation. There is much waste and duplication, and some mature programmes have declining loan recovery rates, even as competition for borrowers rises from conventional banks and finance companies. The Nigerian experience of microfinance programmes and their sustainability is not different from the experience of other developing economies. There is currently a surge of interest in the issue of whether the formal and informal microcredit institutions in the country are effectively serving the needs of the poor and the rural sector of the economy. It is also questioned whether or not the myriads of poverty alleviation programmes launched and funded by the various tiers of government in Nigeria have a very high microfinance component. There is also a need to evaluate painstakingly the various poverty alleviation programmes in terms of their outreach to the poor, the financial sustainability and their welfare impact. This is what is described as the 'Triangle of Microfinance'.

The Millennium Summit of September 2000 came up with the commitment to reduce the proportion of those in poverty by half by the year 2015. However, the International Fund for Agricultural Development (IFAD) Rural Poverty Report (2001:1-2) documents the enormous challenges as follows:

After reviewing carefully the present trend and distribution of poverty,

> the Report highlighted that three-quarters of the world's 1 billion extreme poor, some nine hundred million people, live in rural areas depending on agriculture and related rural crafts, trade and services for their livelihood. The Poverty Report also highlighted that the rate of poverty reduction declined in the 1990s and that the present rate is far below the rate required to achieve the Millennium Summit poverty goal. In Africa, it is barely one sixth the rate required and in some African countries, social and poverty indicators are actually getting worse.

In launching the Nigerian rural development policy (2001:1) the President of IFAD notes the Nigerian case as follows:

Despite its plentiful resources and oil wealth, poverty is widespread in Nigeria. The situation has worsened since the 1990's, to the extent that the country is now considered one of the 20 poorest countries in the world. Over 70 per cent of the population is classified as poor, with 35 per cent living in absolute poverty. Poverty is especially severe in rural areas, where social services and infrastructure are limited or non-existent. The great majority of those who live in rural areas are poor and depend on agriculture for food and income.

An important finding by the World Bank Group (1996) from analyzing the survey data from the poverty assessment of Nigeria is the concentration of the poor in communities in which most of the other households are also poor, and the tendency of the non-poor households to reside in communities in which the population is non-poor. As a result, the overall income inequality in the country is due largely to income inequality between communities and much less to income inequality between households within communities.

The work of Chowdhurg (2009) finds that while microfinance has developed some innovative management and business strategies, its impact on poverty reduction remains in doubt. Microfinance, however, certainly pays an important role in providing safety-net and consumption smoothening. Okpara (2010) argues that microfinance credit lowers poverty in Nigeria. The analysis reveals that the impact of microfinance on poverty in Nigeria can be explained in two phases. The first phase, take-off stage, sees poverty as increasing, though at a decreasing rate as microfinance credit increases. The second phase, precisely from 2001, shows that the persistent increase in microfinance credit reduces drastically the poverty index in Nigeria. Jegede *et al* (2011), employed the chi-square to test the empirical relationship between microfinance loan disbursement and poverty alleviation. It concludes that the microfinance institution is a potent strategy of poverty reduction and a viable tool for purveying credit to the poor

The main thrust of this paper is to appraise past and present micro-credit and poverty alleviation programmes in Nigeria with a view to determining their outreach, financial sustainability, and welfare impact. This appraisal would also enable us to define a paradigm shift in providing the poor with access to microfinance at affordable interest rates. The next part of this article discusses the national poverty problem. This is followed by a review of poverty alleviation programmes in Nigeria. The paper continues with the role of banks in providing microcredit facilities before presenting the 'Triangle of Microfinance'. The needed paradigm shifts are outlined, followed by a model of the rural financial system. The paper concludes with policy implications.

2. The National Poverty Problem

In the works of Lipton and Ravallion (1995) and Sen (1999), poverty is characterised by deprivation, vulnerability (high risk and low capacity to cope), and powerlessness. Khan (2000) argues that absolute poverty can be alleviated if at least two conditions are met. First, economic growth must occur – or mean income must rise – on a sustainable basis. Second, economic growth must be neutral with respect to income distribution or reduce income inequality. Al-khateeb (2005) defines poverty as a condition in which a person fails to maintain a living standard adequate for his physical and psychological comfort.

The world Bank Group (1999:1) defines poverty as follows:

> Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see the doctor. Poverty is not being able to go to school, not knowing how to read, not being able to speak properly. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom.

The World Bank's Group identified the following as the main causes of poverty (1) inadequate access to employment opportunities, (2) inadequate physical assets, such as land and capital, and minimal access by the poor to credit even on a small scale, (3) inadequate access to means of supporting rural development in regions, (4) inadequate access to markets where the poor can sell goods and services, (5) low endowment of human

capital (6) destruction of natural resources, leading to environmental degradation and reduced productivity, (7) inadequate access to assistance for those living at the margin and those victimized by transitory poverty, and (8) lack of participation, failure to draw the poor into the design of development programmes. Within this context, the Nigerian poverty problem would be analysed before and after 1999, the year in which Nigeria transited from military rule to democracy.

Pre-Democracy Poverty Trap

Prior to democratic rule in May, 1999, the World Bank had rated Nigeria as the 3rd poorest nation in the world down from the 9th position some years back. The World Bank's rating was based on the United Nation's definition of absolute poverty to include countries, especially those with high rate of inflation and a preponderance of citizens whose incomes were no more than US $370 a year. At the exchange rate of N80 to US $1, this figure translated to N29,392 per annum or a monthly average of N2,466.

Moreover, the Federal Office of Statistics (FOS) in its survey of households in 1995 indicated that about 71 per cent of Nigerian households were poor. The sectoral distribution showed that about 77 per cent of the urban households were poor, while 68 per cent of rural households were poor. Table 1 shows a rising trend in the proportion of the Nigerian population in poverty. From 17.7 million people in 1980, the proportion rose to 67.1 million in 1996. The unemployment problem in Nigeria was further aggravated when the Federal Government decided to trim its workforce by about 25 per cent in 1995. Companies decided to scale down production and in some cases put it on hold in view of mounting unsold stocks.

Table 1 Poverty Level in Nigeria Prior to May, 1999 (1980-1996)

Year	Estimated Total Population (Millions)	Population in Poverty (Millions)	Percentage of Population in Poverty
1980	65	17.7	28.1
1985	75	34.7	46.3
1992	91.5	39.2	42.7
1996	102.3	67.1	65.6

Source: *National Consumer Surveys of Federal Office of Statistics (FOS)*

Recent Poverty and Social Indicators (2000-2004)

It is true that we cannot isolate the performance of the economy when discussing the issue of poverty. Table 2 shows Nigerian's economic and social indicators from 2000-2004. Real gross domestic product grew infinitesimally from 5.4 per cent in 2000 to 6.1 per cent in 2004. However, the contribution of the oil sector to this growth continues to decline from 11.3 per cent in 2000 to 3.3 per cent in 2004. The contribution of the non-oil sector increased from 2.9 per cent in 2000 to 7.5 per cent, signaling some diversification of the economy. Manufacturing capacity utilisation increased from 36.1 per cent in 2000 to 45 per cent in 2004. The fact that gross national savings as a percentage of the Gross National Product (GDP) exceeded the gross fixed capital formation as a percentage of GDP for most of the years in the 2000-2004 period explains the kind of rent-seeking activities that characterised the Nigerian financial system. Inflation rate on a 12-month moving average rose sharply from 6.9 per cent in 2000 to 15.9 per cent in 2004.
The social indicators explain the importance of the foregoing economic indicators. GDP per capita in naira increased from N39,851.5 in 2000 to N67,137.2 in 2004. In terms of US dollars, GDP per capita increased from US $388.1 in 2000 to US $493.2 in 2004. Both life expectancy at birth and adult literacy rate did not change within the 2000-2004 period. However, the incidence of poverty declined from 70 per cent in 2000 to 54.4 per cent. Further reductions in poverty level may be impaired by a rent-seeking financial services industry, low capacity utilization and high inflation rate.

Table 2 Nigerian Selected Economic and Social Indicators (2000-2004)

Indicator	2000	2001	2002	2003	2004
Economic Indicators					
Real GDP Growth Rate (%)	5.4	4.6	3.5	10.2	6.1
Oil Sector	11.3	5.2	-5.7	23.9	3.3
Non-Oil Sector	2.9	4.3	7.9	4.5	7.5
Oil Production (mbd)	2.2	2.2	2.1	2.3	2.5
Manufacturing Capacity Utilisation (%)	36.1	39.6	44.3	45.6	45.0
Gross National Savings (% of GDP)	***	11.3	15.6	13.6	15.3
Gross Fixed Capital Formation (% GDP)	7.3	7.2	0.1	12.0	16.2
Inflation Rate (%) (Dec-over-Dec)	14.3	16.5	12.2	23.8	10.0
Inflation Rate (%)	6.9	18.9	12.9	14.0	15.0
Social Indicators					
GDP per capita (N)	39,851.1	44,228.0	45,317.8	57,992.5	67,137.2
GDP per capita (US $)	388.1	390.3	369.0	440.7	493.2
Population (million)	115.2	118.8	122.4	126.2	129.9
Population Growth Rate (%)	2.8	2.8	2.8	2.8	2.8
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	57.0	57.0	57.0	57.0
Incidence of Poverty	70.0	***	***	***	54.4

Source: *Central Bank of Nigeria Annual Report (2004)*

Features of the Nigerian Poor

The dimensions of poverty in Nigeria are discussed in detail in Okunmadewa (1998). There is a large income inequality with the top 10 per cent of the income bracket accounting for close to 60 per cent of total consumption of goods and services. More than 60 per cent of rural dwellers and close to 48 per cent of urban dwellers are in poverty. Like other Sub-Saharan African countries, poverty in Nigeria is a rural phenomenon, more pronounced in the Northern part of the country, with pockets of severe poverty in the riverine and remote southern areas. Poverty has a strong relationship with age and education of head of household as well as household size. Most of the poor (also in terms of severity and income inequality) are engaged in the agricultural sector.

The poor in Nigeria live in areas served by bad roads, or even no usable roads and hence invariably lack access to productive inputs as well as output markets. They have small firms, use traditional inputs and grow mainly food crops for own consumption. Poor households face food insecurity before harvest time and are limited to starch-based consumption, stale food and left-over. Poor people have minimal linkage to influential people, or to urban opportunities and limited access to savings and credit. The chronic poor do not have adequate shelter, have only one or two sets of clothing worn at all times and do extensive physical work on the farms. Children in poor households cannot afford school uniforms, fees, and/or transport cost and they do such jobs as firewood gathering and sale, load carrying in markets and hawking of ready-to-eat food. Generally, the poor have tattered appearance. Female-headed households, widows and single mothers, the elderly and children are isolated as groups vulnerable to poverty. Table 3 summarises major rural poverty statistics in Nigeria.

Table 3 Rural Poverty Statistics in Nigeria (2002, 2003)

Total population (million) (2003)	136.5
Population growth (annual %) (2003)	24.4
Population density (people per km^2) (2003)	149.8
Rural population (millions) (2003)	72.9
Rural population density (people per km^2) (2002)	239.3
Rural population (% of total population) (2003)	53.4
% of Rural population with access to improved water source (2002)	49.0
% of Rural population with access to improved Sanitation facilities (2002)	30.0

Source: *Author's compilation from various sources.*

3. Poverty Alleviation Programmes in Nigeria

Nigeria has had a variety of poverty alleviation programmes under different military and civilian regimes. In 1992 the administration of General Yakubu Gowon launched the *National Accelerated Food Production Programme (NAFPP)* and later the *Nigerian Agricultural and Cooperative Bank (NACB)*. NAFPP was devoted entirely to funding agriculture, but later turned out to be a colossal waste. *Operation Feed the Nation (OFN)* was launched by the administration of General Olusegun Obasango in 1976. This programme only created awareness of food shortage without addressing the problem. By 1979, the civilian administration of Alhaji Shehu Shagari had introduced the *Green Revolution* which concentrated on big, mechanised farming. The *Green Revolution* gulped at least N2billion without any meaningful outreach to the poor.

The government of General Muhammadu Buhari introduced the *Back-to-land programme* as a means of engaging college graduates meaningfully in agricultural production. Apart from its isolated short-tenured success in Rivers State, the programme failed nationwide due to half-hearted conceptualisation and inconsistent implementation. Then came a myriad of poverty alleviation programmes under the administration of General Ibrahim Babangida. First, the *Directorate of Food, Roads and Rural Infrastructure (DFRRI)* was launched in 1986 to provide feeder roads, electricity, portable water and toilet facilities for rural dwellers. Second, his wife, Maryam Babangida, introduced a gender element into anti-poverty programmes, acting on the assumption that women needed special treatment in the light of their immense contributions to the national economy, both as small-scale entrepreneurs and home keepers. She launched the *Better Life For Rural Women Programme*, which ended up caring for rich Nigerian women in the urban centres instead of the rural poor.

Another programme set up by the Ibrahim Babangida's administration was the *Nigerian Agricultural Land Development Authority (NALDA)* which was intended to reduce the prevalence of subsistence agriculture and in its place infuse large-scale commercial farming. It was set up to assist farmers with inputs, and develop land for them to the point of planting, all at subsidised rates. The Babangida's administration also introduced the *National Directorate of Employment (NDE)* which has managed to stand the test of time.

By its mandate, the NDE programme was to design and implement programmes to combat mass unemployment and articulate policies aimed at developing work programmes with labour intensive potentials. The need for the creation of NDE could be traced to the drastic reduction in oil prices and the resultant economic policies at that time. The situation led to low capacity utilisation in the nation's industries and the outright closure of some. Subsequent lay-offs due to closure and rationalisation informed on the need to introduce a system that would accommodate such people, so that the already bloated job market will not suffer more congestion.

It is on record that hundreds of thousands of youths have benefited from the NDE scheme through its four-pronged approach that includes Vocational Acquisition Training (673,000), Entrepreneurial (Business) Training for Labour-Based Works programme. In 2000, NDE reported that 2,170 youths received training in vocational skills in 36 states of the federation and Abuja, while 5,075 graduated in different trades. The Directorate, which has a special gender programme, has trained several women on how to process, preserve and package food.

A noticeable drawback on the NDE's projects is the absence of follow-up programmes for beneficiaries. Many beneficiaries failed to utilise the skills they acquire, while several others did not invest the loans they received. While the Directorate reportedly disbursed N526,901,313.11 since inception for its various programmes, only 24.4 per cent of this total (N129,048,757.63) was recovered from beneficiaries.

The Abacha's administration introduced the *Family Economic Advancement Programme (FEAP)* aimed at assisting Nigerians, particularly those within the low income groups to promote viable agro and non-agro-based projects at the rural level in each local government area of the Federation. The group wishing to participate in the programme must show a commitment by depositing and providing an equivalent of 10 per cent of the loan required with a participating bank. The participating banks are selected commercial banks, the Nigerian Agricultural Cooperative Bank (NACB), the People's Bank, the community banks, the Nigerian Industrial Development Bank (NIDB), and the Nigerian Bank for Commerce and Industry (NBCI) with branches in Local government areas. Where there are no banks, the beneficiaries are from a ward or a village, and the ward or village head must identify and certify each member of the group as an indigene of that ward or village engaged or identified with a trade for which the loan is required. The plant, machinery and equipment purchased by the beneficiaries will be used as the security for the loan required.

The FEAP programme was a well-funded poverty alleviation scheme. Out of the N7billion it received, over N3billion was disbursed as loans to about 21,000 production-oriented cooperative societies nationwide. Such projects targeted for assistance included poultry production, garri-making, soap making and animal husbandry. The FEAP programme lacked an appropriate machinery for monitoring of loans and how to address loan defaults.

Critical Appraisal

The profiles of poverty alleviation programmes in Nigeria before 1999 are summarised in Table 4. First, most of the poverty alleviation programmes focused mainly on big mechanized agriculture with low or non-existent microfinance components. Each of these programmes was disbanded, as the sponsor administration was overthrown or voted out. Most of these programmes failed at one point or the other due to lack of continuity, or for shortcomings in their implementation In this respect, Maduagwu (2006:3) has noted as follows:

Amongst the reasons why the past poverty alleviation attempts failed were (1) the
politics of personal rule – a distinctive type of political system in which the rivalries
and struggles of powerful willful men, rather than impersonal institutions, ideologies,
and public polities, or class interests are fundamental in shaping political
life, (2) the top-down-big-men from Abuja approach – the master-servant relationship associated with the programmes to alleviate poverty – only the poor understands poverty and only the poor knows how to alleviate it.

Most of these poverty alleviation programmes were designed without inputs from Community-Based Organisations (CBOs) and even Non-Governmental Organisations (NGOs). At certain stages in their implementation, some of the programmes were hijacked by powerful politicians and influential technocrats to further increase the level of income inequality in Nigeria. Private sector participation was almost absent, hence it was an all-government affair aimed at sharing the national cake to political supporters at the expense of rural poverty alleviation.

Table 4 Profiles of Poverty Alleviation Programmes in Nigeria Before 1999

Sponsor Administration	Poverty Alleviation Programme	Main Focus	Microfinance Component	Current Status
1) General Yokubu Gowon	* National Accelerated Food Production Programme (NAFPP) * Nigerian Agricultural and Cooperative Bank (NACB)	Funding of agriculture Funding of agriculture and cooperatives	Low Moderate	Disbanded Restructured
2) General Olusegun Obasanjo	Operation Feed the Nation (OFN)	Created awareness of food shortage	Nil	Disbanded
3) Alhaji Shehu Shagari	Green Revolution	Big mechanised farming	Nil	Disbanded
4) General Muhamadu Buhari	Back-to-land Programme	Aggressive graduate involvement in agriculture	Nil	Disbanded
5) General Ibrahim Babangida	* Directorate for food, Roads & Rural Infrastructure (DFRRI) * Nigerian Agricultural Land Development Authority (NALDA) * Better Life for Rural women * National Directorate on Employment (NDE)	Feeder roads, electricity, portable water and toilet facilities for rural dwellers Large-scale commercial farming Gender elevation Combating mass unemployment	Nil Moderate Moderate Moderate	Disbanded Disbanded Disbanded Epileptic
6) General Sani Abacha	Family Economic Advancement Programme (FEAP)	Assisting Nigerians in low-income group in subsistence agriculture and other micro businesses	High	Disbanded

Source: *Author's compilations*

National Poverty Eradication Programme (NAPEP)

After inauguration in May, 1999, the administration of President Olusegun Obasanjo (1999-2007) realised that past poverty alleviation programmes failed due to (1) most of these programmes were not actually designed to alleviate poverty, (2) absence of a clearly defined policy framework with proper guidelines for poverty alleviation, (3) almost all programmes suffered from policy instability, political interference, as well as policy and macroeconomic dislocations, and (4) no continuity in many of the programmes. The pervading poverty that characterised the Nigerian economy by 1999 prompted the review of existing poverty alleviation schemes with a view to harmonizing them and improving on them. Three presidential panels were set up to realise this dream. These were the *Presidential Panel on the Rationalisation and Harmonisation of Poverty Alleviation Programmes and Agencies, Presidential Committee on the Review of All Poverty Alleviation Programmes, and Committee on Youth Policy, Concept of the Youth Empowerment Scheme and the Blueprint for Poverty*

Eradication Programme. The findings and recommendations of these presidential panels led to the establishment of the National Poverty Eradication Programme (NAPEP) in January, 2001. NAPEP was structured to integrate four sectoral schemes – Youth Empowerment Scheme (YES), Rural Infrastructure Development Scheme (RIDS), Social Welfare Services Scheme (SOWESS), and National Resources Development and Conservation Scheme (NRDCS). The Youth Empowerment Scheme (YES) is concerned with providing unemployed youth opportunities in skills acquisition, employment and wealth generation. This scheme operates through the Capacity Acquisition Programme, Mandatory Attachment Programme and Credit Delivery Programme. The objective of the Rural Infrastructure Development Scheme (RIDS) is to ensure the provision and development of infrastructure needs in the areas of transport, energy, water and communication especially in rural areas. The scheme is divided into the Rural Transport Programme, the Rural Energy Programme, the Rural Water Programme and the Rural Telecommunications Programme.

The Social Services Welfare Scheme (SOWESS) aims at ensuring the provision of social services including quality primary and special education, strengthening the economic power of farmers, providing primary health-care and so on. The four basic categories of SOWESS are the Qualitative Education Programme, Primary Health Care Programme, Farmers Empowerment Programme and Social Services Programme. The Natural Resources Development and Conservation Scheme (NRDCS) is aimed at bringing about a participatory and sustainable development of agricultural, mineral and water resources through the Agricultural Resources Programme, Solid Minerals Resources Programme and Environment Protection Programme.

The target of NAPEP is to wipe out poverty from Nigeria by the year 2019. Since its inception, NAPEP has trained more than 140,000 youths in more than 190 practical hands-on trades over a period of three months. Every trainee in this intervention project was paid N3,000 per month while N3,500 was paid to each trainer. The training programme was packaged with the understanding that the beneficiaries would subsequently set up their own businesses in line with the skills they have acquired. To actualise this, 5,000 beneficiaries were resettled with assorted tailoring and fashion design equipment.

Under the Mandatory Attachment Programme for unemployed graduates, 40,000 beneficiaries were attached in 2001 each of whom was paid a monthly stipend of N10,000. The installation of equipment under the Rural Telephony Project is currently in progress, while the KEKE-NAPEP project is currently being vigorously

implemented. The KEKE-NAPEP project provides a vehicle with a powerful diesel engine, and a fuel tank capacity of 105 litres. It also provides a vehicle with passenger capacity of four people, with a payload capacity of 320 kilograms. The vehicle also has adequate room for passenger luggage, with top speed of up to 80 kilometers per hour.

The KEKE-NAPEP vehicle is suitable for intercity commuting and commercial passenger carriage with a low fuel consumption of 38 kilometers per litre. The establishment of 147 youth information centers across the senatorial districts, the delivery of informal micro-credit ranging from N10,000 to N50,000 to 10,000 beneficiaries most of whom were women, are some of the other achievements of the NAPEP programme.

The Poverty Eradication Fund (PEF) which is administered by the National Poverty Eradication Council (NPEC) directly funds the National Poverty Eradication Programme (NAPEP). However, all poverty alleviation programmes originally budgeted for by participating ministries are still funded from those budgetary provisions under the supervision of NAPEP. NAPEP is also funded from contributions given to it by state and local governments, the private sector and special deductions from the Consolidated Fund of the Federal Government. NAPEP also gets donations from international donor agencies such as World Bank, the United Nations Development Programme (UNDP), the Japannese International Cooperation Agency, and the German Technical Assistance.

Once again we find that NAPEP is an all-government initiative. It is most likely that the programme would be discontinued once there is a change in government. At the moment, the microfinance component of the scheme is still low, particularly with no evidence of collaboration with community-based organizations (CBOs) and notable NGOs.

4. Banks and Provision of Micro-Credit

Until recently, banking in Nigeria was largely an urban affair. There was a disquieting dichotomy between the urban economy, and the unmonetised peasant economy in the countryside. In its effort to improve savings and credit delivery in urban areas, the Federal Government in 1977 ordered all commercial banks to go rural. Using its agent, the Central Bank of Nigeria, the Federal Government allocated specific rural towns or villages to all the banks under its *Rural Banking Programme*. Apart from extending banking services to the vast majority of people especially in the rural areas, the policy intended further to achieve the following:

* mobilisation of rural savings;
* allocation of credit among productive activities;
* institution of commercial banks as a back-up for newly introduced government development programmes;
* the linkage of money markets, especially in rural areas, with capital markets of the economy; and
* the efficient allocation of resources among different areas and regions.

These are laudable objectives which, if properly executed, could transform the country's economy within a short time. However, several problems hampered the effective execution of the Rural Banking Programme. First, the rural banking policy has been hampered by the problem of accessibility. Some of the areas allocated to banks are not accessible because they lack the basic infrastructure that is indispensable in banking. Second, there has been the problem of staffing. Most staff are recruited in urban areas and are not always keen about transfer to branches in the rural areas. Third, it is not always easy to find accommodation suitable for banking operations in most rural towns. Fourth, low businesses have always militated against the success of the policy. It is true that commercial banks would be less interested in entering areas where most of their banking business will be limited to agriculture. Agriculture is seasonal in nature and attracts seasonal business. Fifth, there is the problem of security. Most rural branches are located in areas which are very vulnerable to highway robbers. Law enforcement agents are difficult to find in some of the rural areas. Also some rural areas have no electricity, hence these rural branches have no electronic device for preventing theft. Sixth and finally, the foreign nature of some of the commercial banks makes it very difficult for them to appreciate the intention of the Federal Government in instituting the rural banking programme.

Put together, these factors have made rural banking in Nigeria hazardous. Hence only 529 out of 766 branches allocated to the various banks in the rural areas were established (Central Bank of Nigeria Report, 1987). It has been argued further that the distress in the Nigerian banking sector could be attributable to loss-making units sustained by many commercial banks in rural communities.

The People's Bank of Nigeria (PBN) was formally commissioned in October 1989 when the first branch was opened in Ajegunle in Lagos. The People's Bank was specifically designed to meet the credit needs of the ultra small-scale enterprises such as artisans, vulcanisers and petty traders. As at the end of June, 1992, a total of 169 branches had been established throughout the country; while loans outstanding as at the end of 1990 amounted to N74million for 79,061 borrowers. The Central Bank of Nigeria Report indicates that developments in the operations of the People's Bank of Nigeria were mixed in 2000, despite the continued restructuring of the operations and administrative machinery of the bank. However, the bank's reported average loan/deposit ratio further declined by 21.5 per cent in 2000 due mainly to increase in non-performing loans. Many Nigerians saw PBN loans as their share of the national cake.

Disillusioned by the poor performance of the People's Bank of Nigeria, the programme for the establishment of *community banks* was announced in the 1990 Federal Government Budget. This category of banks is expected to carry out banking business at a purely local community level. Their role is to provide effective financial services for the rural areas as well as micro-enterprises in the urban centres. Unlike the People's Bank, the Community Banks are to be privately owned, except the funds and technical support services to needy community banks may be provided by government. Formal licenses were ultimately issued by the Federal Ministry of Finance, upon application presented to it through the Central Bank of Nigeria (CBN). By the end of 1990, 705 applications had been received, 353 of which were given provisional approvals. The number of community banks increased to 401 by the end of December, 1992, showing a faster pace of granting approvals compared with the initial situation in 1990. By 2003, there were 615 community banks in Nigeria.

Performance of Community Banks

In this section we compare the performance of community banks between the 1991-92 and 2003-2004 periods as shown in Tables 5 and 6. Between 1991 and 1992, the community banks showed increases in all balance sheet items in terms of capital and reserves, total assets, deposit liabilities, loans and advances and investments. The average loan-to-deposit ratio increased from 20.7 per cent in 1991 to 27.8 per cent in 1992. Most of the micro-loans went into the financing of petty trade (43.7%), others including personal loans (28.8%), agriculture (23.7%), manufacturing (12.2%), transportation (9.1%), petty restaurants (7.9%) and cottage industries (6.6%). However, due to deregulation of the banking sector, average interest rates on loans peaked at 28.9 per cent in 1992. Interest rates on savings rose to an average of 15.6 per cent in the bid to mobilize savings deposits. Term or time deposits attracted higher interest rates of 19.4 per cent.

The picture in the 2003-2004 period shows the average loan-to-deposit ratio declining marginally from 55.1 per cent in 2002 to 53.0 per cent in 2004. However, a loan-to-deposit ratio of 53 per cent in 2004 far exceeded

the rate of 27.8 per cent in 1992, meaning that community banks aggressively expanded micro-credit to the various sectors. However the sectoral allocation of credit declined in terms of lending to agriculture, manufacturing, real estate and construction, transportation/communication.

Table 5 Summary of Community Banks' Activities, End – December, 1991-92 (₦million)

Item	1991	1992
Number of Reporting Banks	60	250
Capital and Reserves	34.0	166.5
Total Assets	126.9	774.4
Deposit Liabilities	76.7	474.6
Loans and Advances	15.9	132.2
Investments	16.8	78.9
Average Loan/Deposit Ratio (%)	20.7	27.8
Sectoral Distribution of Loans and Advances		
i) Agriculture	N/A	23.7
ii) Petty Trade	N/A	43.7
iii) Petty Restaurant	N/A	7.9
iv) Manufacturing	N/A	12.2
v) Cottage Industries	N/A	6.6
vi) Transportation	N/A	9.1
vi) Others	N/A	28.8
Deposit and Lending Rates (Average %)		
i) Savings Deposits	N/A	15.6
ii) Time/Term Deposits	N/A	19.4
iii) Interest Rate on Loans and Advances	N/A	28.9

N/A means Not Available

Source: *Central Bank of Nigeria Report, 1992.*

Table 6 Summary of Community Banks' Activities, End – December, 2003-2004 (₦million)

Item	2003	2004
Number of Reporting Banks	564	613
Capital and Reserves	7,011.1	8,156.3
Total Assets	28,689.2	34,162.3
Deposit Liabilities	18,075.0	21,407.9
Loans and Advances	9,954.8	11,353.8
Investments	2.261.0	2,612.7
Average Loan/Deposit Ratio (%)	55.1	53.0
Sectoral Distribution of Loans and Advances		
i) Agriculture	625.0	483.1
ii) Petty Trade	59.5	510.6
iii) Petty Restaurant	809.2	331.8
iv) Manufacturing	574.1	279.2
v) Cottage Industries	2,733.1	2,875.2
vi) Transportation	1,727.9	1,088.1
vi) Others	3,425.8	5,785.6
Deposit and Lending Rates (Average %)		
i) Savings Deposits	Negotiable	Negotiable
ii) Time/Term Deposits	Negotiable	Negotiable
iii) Interest Rate on Loans and Advances	Negotiable	Negotiable

Source: *Central Bank of Nigeria (CBN) and National Board of Community Banks (NBCB)*

Sectoral allocation of credit to minning and quarrying showed an increase from N59.5million in 2003 to N510.6million in 2004. An increase in community bank lending to others including personal loans increased from N3,435.8million in 2003 to N5,785.6 million in 2004.

New Microfinance Policy in Nigeria

A recent CBN Report cited in Anaro (2006) has noted that the formal financial system provides services to about 35 per cent of the economically active population in Nigeria, while the remaining 65 per cent are excluded from access to formal financial services. The report laments that inspite of the fact that there are several providers and beneficiaries of micro-finance services in Nigeria, there were no specific guidelines in terms of policies, regulations or coordinating framework. This has resulted in multiple standards and modalities of intermediation in the sub-sector. In order to address these sectoral problems, the CBN designed and launched the *Microfinance Policy Regulatory and Supervisory Framework* on December 15, 2005.

The objectives of the new microfinance policy are to make financial services accessible to a large segment of the potentially productive Nigerian population, which otherwise would have had little or no access to financial services and empower them to contribute to rural transformation. Other objectives are to promote linkage platforms among universal/development banks, specialised institutions and microfinance banks and promote synergy and mainstream the informal sector into the national financial system. A microfinance policy which recognises the existing informal institutions and brings them within the supervisory purview of the CBN will not only enhance monetary stability but also expand the financial infrastructure of the country to meet the financial requirements of the Micro Small and Medium Enterprises (MSMEs).

While the policy provides broad goals and directions, the framework gives detailed guidelines for the operational requirements for licensed microfinance banks (MFBs) on permissible and prohibited activities, ownership and licensing requirements, management quality, funding accounts and related matters, prudential requirements, accounting disclosure policies, and growth path among others. Specifically, the microfinance banks are expected to provide diversified, affordable and dependable financial services to the active poor in a competitive manner that would enable them undertake and develop long-term sustainable entrepreneurial activities. They would also mobilise savings for intermediation, create employment opportunities and increase the productivity of the active poor, raise individual household income and enhance systematic and focused participation of the active poor in socio-economic development. In addition, they would provide a veritable platform for the administration of government micro-credit programmes on a non-recourse basis and facilitate the payment services such as salaries, gratuities and pensions for the various tiers of government.

In particular, the policy recommends that state governments dedicate not less than one per cent of their annual budgets to support on-lending activities of microfinance banks in favour of their residents.

Appraisal of Micro-Credit Institutions

The foregoing discussion shows the following. First, Government participation in microfinance banking using the People's Bank of Nigeria was unsuccessful. This reflects an earlier experience of the Nigeria banking industry when government intervention produced poor performance and subsequent bank failures. Second, the rural banking policy continues to be inhibited by infrastructural and security bottlenecks. Third, the community banking programme can perform better if the operating environment favours lower interest rates and reasonable profitability. Fourth and finally, what is not clear is what advantages the proposed CBN's microfinance policy would have over the community banking programme.

Microfinance Banking Institution (MFBIs) and National |Financial Inclusion Strategy

In line with the Central Bank of Nigeria (CBN) Revised Regulatory and supervisory Guidelines for Microfinance Banks (MFBs) (2012), a microfinance bank is defined, unless otherwise stated, as 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. According to the CBN National Financial Inclusion Strategy (2012), financial inclusion is achieved when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at an affordable cost.

As of July 2011, Nigeria had 866 microfinance banks (MFBs) and the MFB network served only 3.8% of the adult population (3.2 million clients). Of these 3.2 million clients. 65% used savings products, 14% used credit products, and 4% used ATM cards.

Table 7 Level of Financial Inclusion in the Six Geo-Political Zone of Nigeria

States	No. of MFBs	Population
South Western		
Lagos	198	9,013,534
Oyo	43	5,591,589
Ogun	48	3,728,098
Ondo	15	3,441,024
Osun	31	3,423,535
Ekiti	12	2,384,212
Total	**356**	**27,581,992**
South Eastern		
Ebonyi	18	2,173,501
Anambra	79	4,182,032
Imo	36	3,934,899
Enugu	20	3,257,298
Abia	18	2,833,999
Total	**171**	**16,381,729**
South-South		
Bayelsa	3	1,703,358
Cross-Rivers	13	2,888,966
Edo	17	3,178,712
Akwa Ibom	14	3,920,208
Delta	36	4,098,391
Rivers	24	5,185,400
Total	**106**	**20,975,035**
North-Central		
Benue	8	4,219,244
Niger	22	3,950,249
Kogi	21	3.278,487
Plateau	13	3,178,712
Kwara	28	2,371,089
Asarrawa	8	1,863,275
Abuja	49	1,405,201
Total	**149**	**20,266,257**
North Eastern		
Adamawa	8	3,168,101
Gombe	3	2,353,879
Taraba	3	2,300,736
Yobe	1	2,321,591
Borno	3	4,151,193
Bauchi	13	4,676,465
Total	**31**	**18,971,965**
North-Western		
Jigawa	8	4,348,649
Kaduna	30	6,066,562
Kano	6	9,383,682
Katsina	5	5,792,578
Kebbi	8	3,238,628
Sokoto	4	3,696,999
Zamfara	5	3,259,846
Total	**66**	**35,786,944**

Source: Author's Compilations (2013)

A geo-political analysis of the spread of Microfinance Banks in Nigeria is given in Table 7. It is clear that majority of the MFBs (35%) are located in the South Western zone of the country serving over 27 million Nigerians. This is followed Southeastern region having 171 MFBs, serving over 16 million Nigerians. The other zones include North-central (149 MFBs, serving 20.27million people), South-South (106 MFBs, serving

20.98million people), North-Western (66 MFBs, serving 35.79 million people) and the North-Eastern (31 MFBs, serving 18.97 million people).

5. The Triangle of Microfinance

Perhaps what is not yet clearly evaluated in all the microfinance and poverty alleviation programmes in Nigeria is their outreach to the poor, their financial self-sustainability, and the welfare impact. These three components make up what is referred to as the 'Triangle of Microfinance'. Outreach is a hybrid index that is weighted to reflect the objective of a given intervention (Yaron, 1992). Hence, it is measured by several indicators, including the number of clients, the average loan size (as a proxy for income level), and the percentage of female clients. Financial self-sustainability is assessed by calculating a micro-financial institution (MFI)'s subsidy dependence index (SDI) – the percentage by which an MFI's average on-lending interest rate would have to increase to make the MFI financially viable without subsidies. By comparing the cost of subsidizing an MFI with the interest earned by the MFI, the SDI also captures the notion of matching grants and indicates the extent to which the MFI relies on these grants. Welfare impact is measured by the extent of increase in average individual and household income, access to basic necessities of life (water, light, food and healthcare) and general disposition of residents of rural communities in Nigeria.

In making our assessments of the micro-credit schemes and poverty alleviation programmes in Nigeria, we realise that some studies have shown that financial markets, especially in rural areas cannot operate efficiently because of an unreliable macro economic environment, biased sectoral policies, excessive government interventions, and legal and regulatory barriers (Yaron and Benjamin, 1997). In rural financial markets, these rigidities are compounded by difficulties peculiar to rural areas, such as poverty, low population densities, isolation, seasonality of incomes, limited opportunities for risk diversification, and lack of traditional collateral. These difficulties, combined with high transaction cost because of the small size of most loans discourage for-profit financial institutions from establishing themselves in rural areas.

An evaluation of selected micro-credit/poverty alleviation programmes and institutions is presented in Table 8. Each of the programmes/institutions is assessed on a five-point scale in terms of outreach, self-sustainability and welfare impact. The scores are very high (5), high (4), moderate (3), low (2) and very low (1). Programmes/institutions with score of 9 points or more have strong prospects for improving the micro-credit delivery strategy, while those with scores of less than 9 points but not below 7.5 points have prospects.

Those programmes/institutions scoring less than 7.5 points should either be discarded or restructured radically. The table shows that most of the programmes/institutions that have low prospects are government-funded and government-operated microfinance and poverty alleviation schemes. For instance, the Better Life Programme created by the Ibrahim Banangida's administration was characterised by low outreach, low financial self-sustainability and low welfare impact. It was in fact hijacked by influential urban women who used its machinery to create further income inequality. The National Directorate of Employment could have at least scaled the hurdle point of 7.5 if not for its high subsidy-dependence index. It is currently grinding under poor funding since its survival lies on the whims and caprices of those in power. It was, however, moderate in its outreach to the poor before 1999.

The National Poverty Eradication Programme (NAPEP) has some prospects, particularly in the area of outreach to the poor and welfare impact. The problem area continues to be its high subsidy-dependence index. It is most likely that a new government may discard this programme for a new model as our experience over the years shows. The People's Bank of Nigeria (PBN) with a score of 6 points on a 15-point scale is at the moment regarded as a colossal waste because government has no business being in business. Subjecting PBN to the dictates of very powerful technocrats distorted its professionalism in micro-credit delivery. However, the Rural Banking Programme could help in creating worthwhile microfinance in the forms of rural infrastructure, security and tax incentives. The welfare impact of community banks could improve further if the present Microfinance Regulatory Framework favours a liberal capital adequacy requirement, low cost of funding and cheap intervention funds for on-lending to the very poor.

Table 8 Evaluation of Poverty Alleviation Programmes and Microfinance Institutions in terms of Outreach, Self-sustainability and Welfare Impact*

Programme/MFI	Microfinance Performance Score	Outreach	Financial Self-Sustainability	Welfare Impact
Poverty Alleviation Programme				
1) Better Life Programme	(4) (very low prospect)	Low	Very low	Very low
2) National Directorate on Employment (NDE)	(6) (low prospect)	Moderate	Very low	Low
3) Family Economic Advancement Programme (FEAP)	(5) (low prospect)	Low	Very low	Low
4) National Poverty Eradication Programme (NAPEP)	(8) (Some prospect)	Moderate	Low	Moderate
Microfinance Banks				
1) Rural Banking Programme	(8) (Some prospect)	Moderate	Moderate	Low
2) People's Bank of Nigeria	(6) (low prospect)	Low	Low	Low
3) Community Banks	(11) (High prospect)	High	High	Moderate

* **Basis of Scores:** *Very High (5), High (4), Moderate (3), Low (2), Very low (1)*
Programmes/MFIs scoring 9 points or more have high prospects; while those scoring less than 7.5 points need either phasing out or restructuring. Programmes scoring 7.5 but less than 9 points have prospects.

Source: *Author's ranking..*

6. Microfinance Infrastructure and the Paradigm Shift

In building sustainable microfinance strategy in Nigeria, a number of wrong assumptions must be rejected, while specifying the building blocks of the needed paradigm shift. The major lessons learned about microfinance activities in Nigeria include (1) the failure of government to implement a microfinance policy with reasonable outreach and financial self-sustainability is obvious, (2) the private microfinance institutions, including rural branches of existing deposit-money banks are limited by an unattractive operating environment and low-capacity building in micro-credit delivery and administration, and (3) the informal micro-credit organisations are not integrated into the national banking system. Hence the size of the informal sector is expected to increase thereby leading to monetary policy failures and lagging economic growth.

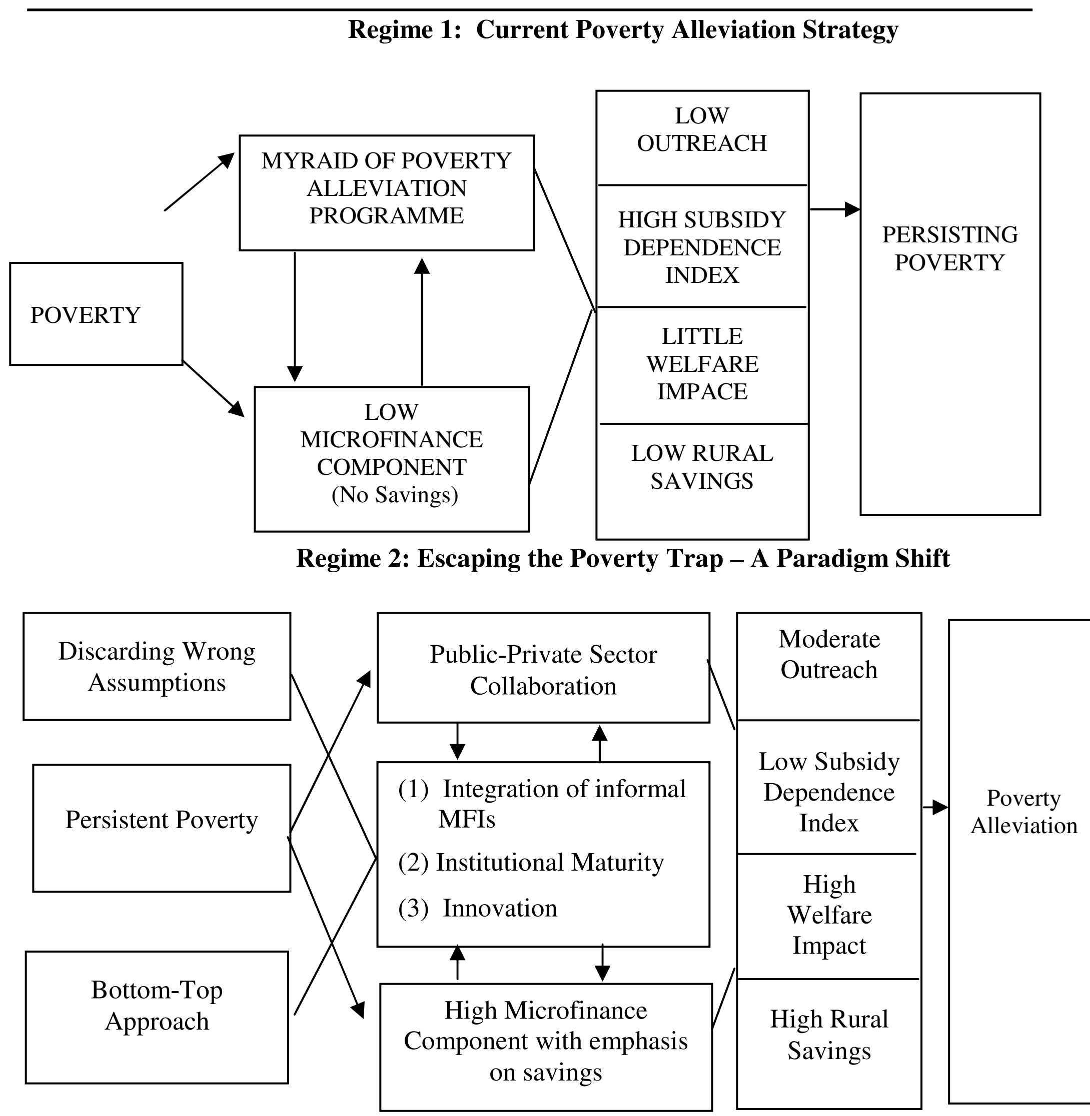
Discarding Wrong Assumptions about the Poor

We must now discard the assumptions that (1) the poor are irresponsible users of financial services, particularly micro-credit, and (2) the poor have no role in developing a sustainable microfinance policy. The International Year of Micro-credit (2005) has noted that the poor are not only "bankable" clients, but in fact they are a very important and largely untapped market. Despite not having traditional sources of collateral, the microentrepreneurs have proved that peer group pressure as well as self-interest are sufficient to ensure very high rates of repayment.

The assumption that the poor are not required in developing micro-credit and poverty alleviation programmes that affect them has proved incorrect. Most microfinance schemes have failed because of their top-down instead of down-top approach. Zeller and Meyer (2002) have shown the need for new understanding of the ways that poor households make spending, borrowing and saving decisions. The Jordan Times (2002) has reported a Participatory Rural Appraisal Model which allows local communities to identify problems and recommend solutions for poverty reduction.

The Needed Paradigm Shifts

The paradigm shifts in building a sustainable microfinance infrastructure in Nigeria are summarised in Figure 1. The building blocks entail (1) moving from excessive government intervention under regime 1 to government-private sector collaboration under regime 2, (2) encouraging microfinance programmes and institutions to develop from existing community-based savings and loan associations or the bottom-top approach to building sustainable microfinance infrastructure, (3) institutionalisation and capacity-building in micro-finance delivery. The colossal waste associated with past government microfinance schemes requires a paradigm shift from government and donor-funded subsidised credit to sustainable financial intermediation. Micro-credit schemes should not be combined with social services and rural infrastructural development. The privately-owned microfinance institutions (MFIs) or micro-credit schemes are more suitable for this purpose. Hence, the current National Poverty Eradication Programme (NAPEP) should be restructured to reflect this shift from government-managed micro-credit delivery to privately managed microfinance strategy.



Source: *Author's conceptualisation*

Figure 1: The Nigerian Microfinance – Paradigm Shift Model

In this respect, the *Rural Banking Programme* and the *Community Banking Policy* should be institutionalised and strengthened. The government-private sector collaboration can take the form of interest-free loans to rural banks for the purpose of on-lending to the poor at very low interest rates, preferably 5 per cent per annum. The current Microfinance Regulatory Framework enunciated by the Central Bank of Nigeria (CBN) will matter if it encourages existing mega deposit-money banks to venture into rural financial markets, encourage the emergence

of new community banks and an entirely new microfinance infrastructure. All these would depend on the minimum capital and prudential requirements considering the limitations that characterize the rural economic sector in Nigeria.

The CBN's Microfinance Regulatory Framework should also encourage the emergence of microfinance banks from existing community-based savings and loans associations, otherwise we shall revert to the status quo where most microfinance institutions are located in urban centres only. In India, for example, these are called 'self-help groups', some other microfinance programmes have evolved out of the revolving programmes of charitable NGOs which offered loans to help beneficiaries develop income-generating activities.

Our major emphasis now must be on the quality and capacity of the governance and management of rural banks and the computerised Management Information Systems (MISs). This institutional development is necessary for a number of reasons. First, MFIs accept client deposits, they are generally required to meet prudential requirements as defined in local banking laws. Essentially, they are required to become licensed banks. Second, institutional maturity is needed to enable and manage growth in client outreach. Growth in the client base allows the MFI to reap advantages of scale, thereby achieving a greater degree of financial sustainability. Third, institutional maturity is necessary to attract capital investments, whether concessionary or commercial, from external sources.

Providing microfinance to poor clients requires innovative operating methods to manage risk and reduce transaction costs. Households do not usually have physical assets to offer as collateral for loans, so Nigerian MFIs must develop substitutes. The most common collateral in this regard could be the formation of groups of borrowers and establishment of joint-liability procedures where loan group members effectively guarantee one another's loans. To reduce transaction costs, MFIs should deal with loan groups rather than with individual clients, and they should outsource certain administrative tasks to the groups. More importantly the role of savings should be emphasized, different from the status of most government microfinance programmes. Privately-run MFIs can launch innovative incentives that boost savings mobilisation and employee morale. For instance, savings deposit rates can be raised one or two per cent above that obtainable in the mega banks, and staff elevation should be tied to deposit mobilisation and loan recovery.

Integration of Nigerian rural communities into the market economy requires institutional evolution. Although emerging MFIs become less effective as the community becomes more integrated in the short-run, direct interventions can work if they adhere to sound operating principles (Yaron and Benjamin, 1997). Four basic questions should be answered in our attempt to develop an appropriate structure of government interventions – (1) when should the government intervene in the rural economy? (2) how should it intervene? (3) what is the appropriate targeting strategy? and (4) what should be considered in designing successful rural financial institutions?

Direct interventions in rural financial markets are warranted only when they address specific market failures and their expected net benefits are positive, or when they reduce poverty in the most cost-effective way (Baland and Plastteau, 1996, Kates and Harmon, 1992). Public support for rural financial intermediation need not mean public provision of micro-credit. Interventions can take many other forms – for example, provision of seed capital, support for pilot programmes, training and dissemination of best practices. Governments may also provide support for products or services (for example, savings and insurance) and for various modes of operation (for example, group lending and mobile banking). They can channel their assistance through a range of institutions, such as commercial banks, cooperative banks, and non-governmental organizations.

Targeting and explicit subsidies can be used to overcome barriers to financial intermediation and accelerate institutional development. Distortions can be minimised by ensuring that target funding remains the exceptions; phasing out subsidies over a specified period; continuously assessing performance against stated objectives; increasing access to financial services, rather than underpricing them; designing transfer mechanisms that encourage self-selection and minimise incentive distortions; and ensuring a level playing field for all RFIs. Good governance may well be the most important factor in the success of an RFI.

All decision makers must have clearly defined, consistently anchored powers and responsibilities. Management must be autonomous as well as accountable for operational decisions, and clients' interest must be fully represented. The appropriate form of supervision and prudential regulation depends on the RFI's size, type, and ownership structure. External supervision is particularly important for institutions that mobilise voluntary deposits from the general public.

In summary the structure of the current government managed poverty alleviation programmes should be redefined on the basis of public-private sector collaboration, direct intervention without the provision of credit, and institutional development ad capacity building in existing MFIs. In line with the works of Conning and Udry (2005), the role of financial intermediaries, competition and regulation in shaping the changing structure

and organisation of financial market should be the priority of public policy now. The issue of microfinance and women entrepreneurship needs to be studied further in line with testing the propositions provided in Iheduru (2002). Iheduru has argued that microfinance intermediation aimed at developing the rural poor and women's broad access to financial services provides the most basic conditions for sustainable livelihoods in Nigeria.

Sound poverty alleviation models can be implemented successfully without the provision of microcredit. Khan (2000) outlines the success story of the Gram Bangla Model for poverty alleviation and self-reliance in Bangladesh. The Gram Bangla Model was devised with emphasis on community education, training, healthcare, water supply, sanitation, income generation, tree plantation and conservation (with special regard to fuel for cooking), disaster mitigation, cultural activities, research, awareness generation and local government institutions. Kazi (2006) also defines the Ganokendra model as an innovative model for poverty alleviation in Bangladesh with programmes geared towards income-generating activities and establishing linkages with other services providers, both governmental and non-governmental. One particularly successful strategy for facilitating women's economic empowerment involves coordinating micro-credit available through other agencies, mainly privately-run RFIs.

7. A Model of the Nigerian Rural Financial System

In Nigeria it is difficult to assess the impact of microfinance programmes (MFPs) and institutions (MFIs) on growth because of the absence of relevant data. It is also difficult to evaluate the outreach and financial sustainability of existing rural financial institutions (RFIs) because most economic and financial indicators are urban-biased. It is therefore important to define an appropriate model of the Nigerian rural financial system as a way of providing the necessary links between the flow of financial resources and the flow of goods and services in the rural economy.

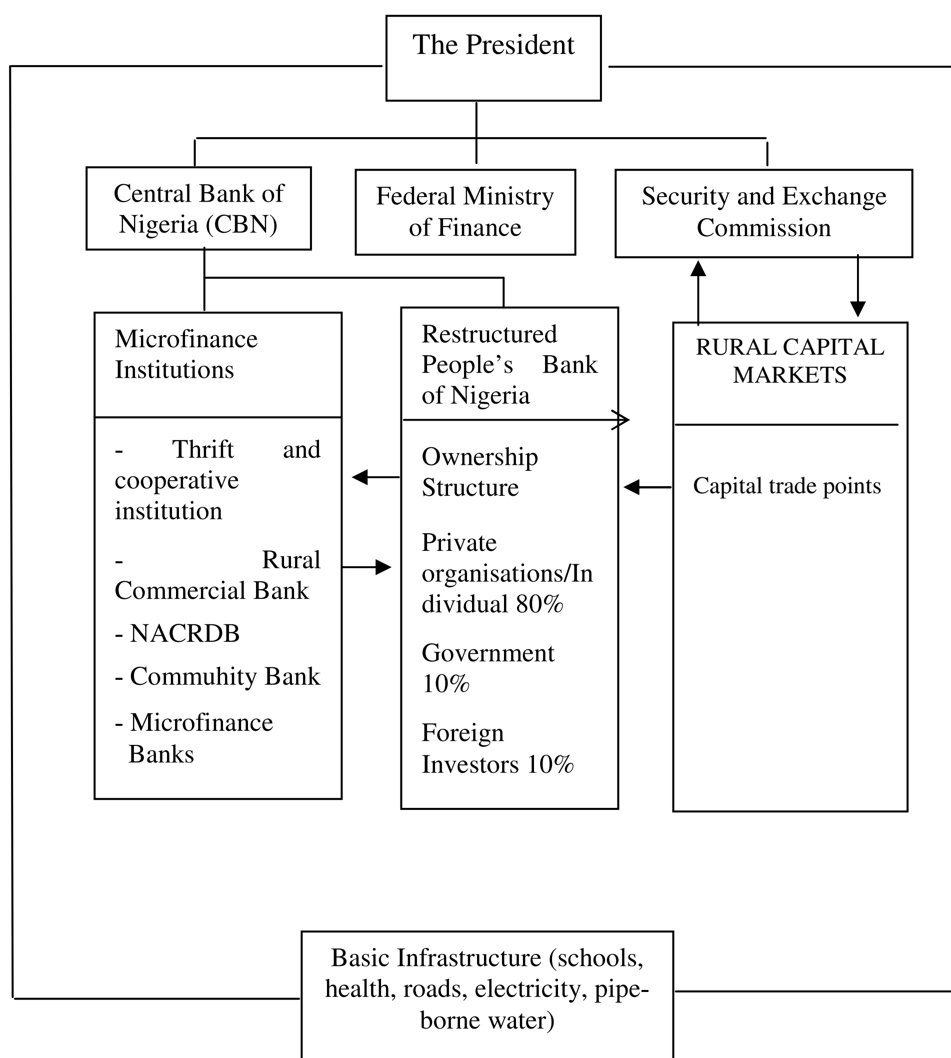
The Nigerian rural financial system must clearly specify the roles and interrelationships among financial markets, institutions, instruments, and regulations in the rural development process. The evidence shows that financial markets have always lagged behind in the progress of the rural economy. In fact we still find all over the country local government headquarters without at least one microfinance bank. There is therefore a flow of resources from rural to urban areas, thus limiting further the intermediation process in the rural sector. The failure of direct credit programmes and the clamour for a viable private sector-led microfinance infrastructure have necessitated the emergence of a new market-based paradigm. A viable model of rural financial system must include (1) adequate interest rate margins for all financial intermediaries to ensure sustainability, and (2) savings mobilisations as a stable source of loanable funds.

There is a need to clarify the functions of government-funded development banks like *Nigerian Agricultural, Cooperative and Rural Development Bank* (NACRDB), Bank of Industry (BOI), People's Bank of Nigeria (PBN) and the privately-owned rural banks. The NACRDB should focus on financing agriculture and agro-allied industries, while BOI should concentrate on small and medium-scale enterprises. The People's Bank of Nigeria and community banks should focus on micro small and medium-scale enterprises (MSMEs), including small loans to the very poor. Moreover, the ownership structure of the People's Bank of Nigeria (PBN) should be redefined to give the government a minority shareholding. The currently pervasive urban-biased policies should be discarded. It has been shown that rural development has been held back in almost all developing countries by policies that favour industry over agriculture and over rural areas (Schiff and Valdes, 1992).

The model in Figure 2 summarises the role of government and micro-credit institutions in the transformation of Nigerian rural communities. The government is expected to provide basic social and economic infrastructure (e.g. schools, health centres, roads, bridges, electricity and water). In fact these functions can be handled by a Rural Development Agency. The Central Bank of Nigeria (CBN) should create a Department of Rural Sector to collate, analyse and publish all relevant data for measuring outreach, self-sustainability and welfare impact of microfinance institutions (MFIs). The current Microfinance Regulatory Framework issued by the CBN should be reviewed based on the results of a bottom-top household survey in Nigerian rural communities.

With lagging private sector initiatives in the rural financial sector coupled with a multiplicity of largely unsuccessful government-controlled micro-credit schemes and institutions, there is a need to kick start the rural economies with rational intervention and incentive packages that promote sound rural financial institutions (RFIs). The intervention and incentives could take the form of credit lines to financial institutions and thrifts in times of trouble, interest-free loans for on-lending to micro-entrepreneurs at low interest rates, and meager subsidies to performing rural RFIs. The restructured privately-controlled People's Bank should take over all the micro-credit functions of the National Directorate of Employment (NDE) and the National Poverty Eradication Programme (NAPEP). The bank should mobilise rural savings effectively and provide micro-credit facilities to micro-enterprises, petty traders and individuals.

The Nigerian capital market should be expanded to encourage investment in shares and bonds in the rural sector through the microfinance institutions (MFIs). There is no doubt that the bulk of the Nigerian rural sector was excluded in the recent upsurge in initial public offers (IPOs) that characterised the Nigerian capital market with the consolidation of the Nigerian banking industry. Investment counselling and investor education should be regular features of the RFIs. There should also be linkages between the RFIs and the mega deposit money banks to facilitate capacity-building, sound corporate governance and promotion of best liquidity and credit risk management practices.



Source: *Author's conceptualisation*

Figure 2: The Proposed Nigerian Rural Financial System

8. Concluding Remarks

The microfinance concept is based on the idea that a small loan to an individual, family or community in the developing world can kick start a business, allowing the loan recipient to become a self-reliant economic actor, in time, the loan will be paid back, with a modicum of interest, thereby enabling the microfinance institution to underwrite another start-up. While there is some debate about the potential of micro-loans to affect the lives of the very poor, the concept is generally considered to be a success. Investors can now view the poor not as a problem, but an investment opportunity.

In recent times Nigeria has launched a variety of microfinance and poverty alleviation programmes which have largely failed owing to rising portfolios of non-performing loans. In this study we advocate a separation of micro-credit activities from social and economic infrastructure. Since governments in Nigeria have had a long

record of poor performance in banking, there is a need to discard wrong assumptions about the poor and embrace some paradigm shifts for building a sound rural financial system.

For poverty to become obsolete, it is fundamental to accept a radical paradigm shift from assuming the poor are helpless victims to viewing them as rational consumers and clients operating within the realities of the world. Moreover, the world of the poor is largely in the unregulated informal sector where the state is often a marginal player. The companion axiom, 'the poor can't save,' has proved equally wrong. Evidence from Asia, Latin America and Africa show that poor households seek to develop a 'cushion' which allows them to survive the next crisis (Mayer and Geetha 2000, Zhao, 2006; Conning and Udry 2005).

A number of problems have inhibited the emergence of a functioning rural financial system with a strong microfinance component in Nigeria. These include ambiguous orientation of functions by the financial institutions, inconsistency in the system of rural economic and social development, serious lack of financial resources, and low levels of management in rural financial institutions. A private-sector led microfinance system with government playing intervention roles when it becomes very necessary should be put in place. The recent CBN's Microfinance Regulatory Framework should aim further at (1) integrating informal microcredit groups into the formal microfinance programme, and (2) creating appropriate linkages between rural financial institutions and the Nigerian capital market.

The new approach to rural intermediation that emerged in the 1980s favours a more indirect role for governments, emphasizes savings over credit, and avoids subsidised interest rates. More broadly, it calls for governments to identify the causes of market failures and correct them through reforms rather than through direct financial intermediation intervention. Creation of a favourable policy environment for rural financial intermediation requires macroeconomic stability, elimination of urban-biased policies and promotion of integrated and resilient financial markets.

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