A Review of Microfinance as a Catalyst for Economic Empowerment in Developing Nigerian Economy

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ABSTRACT

This paper on Microfinance Banking as a Catalyst for Economic Empowerment reviews the task and activities of microfinance banks by discussing the past initiatives, the current policy, and the justifications for establishing MFBs as well as the implications of the current policy on some economic challenges in the country within the context of achieving the Vision 20-20-20 agenda. The study is a desk research which relies basically on secondary data where textbooks, journals and periodicals were consulted to arrive at the conclusion and recommendations. It is then concluded that many rural communities do not have functional microfinance bank, even those that have do not have access to loan facilities because the microfinance banks are not adequately funded by the government to cater for the people's welfare. The writer therefore recommends that though microfinance policy is good and especially coming at a time the country is poised to joining the league of the twenty largest economies in the world by the year 2020, the number of Microfinance Banks has to increase. Also, adequate and quality social infrastructural facilities should be provided to create viable microfinance activities as human beings can only be economically active if there are facilities to work with to enable them perform optimally in their chosen activities.

Keywords: **Microfinance Policy, Economic Empowerment, Nigeria Economy.**

INTRODUCTION

As part of the current reform programmes of the Federal Government of Nigeria, the Microfinance Policy Regulatory and Supervisory Framework, aims to provide sustainable access to finance for the economically inactive poor. At the same time, it is targeted at creating environment of financial inclusion to boost capacity of Micro, Small and Medium Enterprises (MSMEs) to contribute to economic growth and development through job creation which will lead to improved standard of living and poverty reduction among others (Lemo, 2007).

In order to realize the above dream, the country had adopted several policies, strategies and programmes spanning over the period of its years of political independence (and even before then) till date. Notable among these are the Economic Development Plan (1946-85), the Structural Adjustment Programme (1986-1988) Guided De-regulation (1989-1999) and Beyond the Vision 2020 Project and National Economic Empowerment & Development Strategy, NEEDS (2003-2007 and beyond).

Currently, there is the Vision 20-20-20 with focus on establishing Nigeria as one of the 20 largest economies in the World by the year 2020, consolidating Nigeria's leadership role in Africa, and establishing Nigeria as a significant player in the global economic and political arena (Federal Ministry of Information, 1975).

Gross Poverty; as shown in Appendix 1, 36 years after independence, and going by various indices: National, Geographical Zones, Sector, Gender of Head of Household, Size of Household and Education of Head of Household, the incident of poverty grew generally in 1980, 1985, 1992 and 1996. Statistically for instance, National poverty grew from 28% in 1980, 46.3% in 1985 and 65% in 1996. Though progress has been made, the country still remains largely underdeveloped relative to its potentials (with poverty ravaging the land). It is in the spirit of confronting some of these challenges that the New Micro Finance Policy is expected to play a major contributor role even in the country's Vision 20-20-20 project (Federal Republic of Nigeria, 2007).

The paper is divided into five sections while section one is the introduction section, two looks at the significance of Microfinance and Nigeria's past Microfinance related initiatives, section three appraises the country's current Microfinance Policy and section four looks at the current (new) policy vis-à-vis some of the country's development challenges. Section five concludes the work.

Literature

The importance of Microfinance and its promotion especially in developing countries is underscored by the fact that the poor and impoverished people in many of these countries do not have access to credit facilities from financial institutions. The need for equity to finance businesses provides a compelling reason for microfinance more so as such will help in uplifting the living conditions of poor people (Hulme & Mosley, 1996; Johnson & Rogaly, 1997; McKiernan, 2002; and Onwumere, 2007). The promotion of microfinance activities is an indirect approach to the provision of employment to a large number of people who are unemployed in the rural and urban areas of many countries. Small and medium enterprises development is encouraged with great attraction for self employment.

By promoting Microfinance Institutions (MFIs), government is inadvertently advancing the cause of education. Many people especially the poor in developing countries who are educationally challenged find pride of place in training their wards educationally. Women empowerment is a critical and often political issue in developing countries, it has become accepted that the repayment rate of microfinance facilities by women is significant (ranging between 80% to 90% and 100% in most cases. Getting women to have access to such finances will not only improve their incomes, give them more active roles in family decisions, encourage their economic/financial self-reliance. By improving the level of income accruing to the poor, demand for goods overall in the economy will be increased and it will promote economic growth significantly (Soludo, 2006).

Past Microfinance Related Initiatives in Nigeria

Though Microfinance activities traditionally and cooperatively induced have been common features in Nigeria, public sector initiatives have in the past taken varying dimensions. Okafor (2006) categorizes these into three. These are:

1. Credit Targeting Monetary Policy Initiatives
2. Public Sector Funded Credit Schemes and
3. People's Bank and Community Banks.

Under the Credit Targeting Monitoring Policy Initiatives, banks were compelled to provide credit at a minimum target level to prioritized sectors of the economy, notably agriculture and manufacturing with emphasis on Micro and Small Scale Enterprises (MSSEs). This was the case up to the early 1990s, the initiative could not achieve the desired results as many banks found the sector especially unattractive and preferred to be sanctioned and pay the penalty. The Public Sector Funded Credit Schemes embarked upon by the Federal Government at various times including the Small-Scale Industries Credit Scheme SSICS in 1971 and the Small and Medium Enterprises Loan Scheme (SMELS 1992), both of which involved direct banking beneficiaries, these however were urban-biased. The National Economic Re-construction Fund (NERFUND) 1994 and the Family Economic Advancement Programme (FEAP) 1997 were schemes set up by the government but which operated through participating banks. Okafor (2006) maintains that though some of these programmes made substantial contributions in terms of aggregate loans distributed and number of projects promoted, they were also inundated with such limitations as poor monitoring of loan performance (lending often to diversion of funds) and poor loan recovery performance, among others.

There was the People's Bank (established in 1990) and the Community Banks that came into existence following the Community Banking Act of

1990. The defunct People's Bank represented government's first real attempt at promoting microfinance institution and it was designed to be self sustaining and to extend microcredit to business operators at the grass root level. People's Bank suffered from inherent limitation of credit ceiling per customer of a maximum of ₦250, 000 which was not adequate for a fairly good investment. Again, it was not allowed to provide wide ranging banking services to people (Federal Republic of Nigeria, 2004).

Under the Community Banking Act, community banks were established by communities and private individuals/organizations in both the rural and urban areas of the country though the main focus of the initiative was for the rural communities. The number of community Banks operating in the country however experienced mixed fortunes having fallen from 776 in 2003 to 753 as at December 2004 due to delisting of 23 of them by the CBN (Federal Republic of Nigeria, 2004).

The Current Microfinance Policy in Nigeria

The Current Microfinance Policy, Regulatory and Supervisory Framework for Nigeria define what microcredit means as well as a poor person. The policy document of Central Bank of Nigeria of 2005 stated that Micro-finance is about providing financial services to the poor who are traditionally not served by conventional financial institutions. According to Iwuagwu (2008), three features distinguish microfinance from other formal financial products. These are:

1. The smallness of the loans advanced and/or saving collected.
2. The absence of asset based collateral
3. Simplicity of operations

Also, New Microfinance Banks are to be established while the existing community banks in the country (753 as at 2004 were to convert to Microfinance Banks if they met the regulatory and conversion requirements). The regulatory and supervisory guidelines for Microfinance Banks (MFBs) in Nigeria defines a Microfinance Banks as a Microfinance Bank (MFB), unless otherwise stated shall be constructed to mean any company licensed to carry on the business of providing microfinance service, such as savings, loans, domestic funds transfer, and other financial services, that are needed by the economically active poor, Micro, Small and Medium Enterprises to expand their businesses as defined by those guidelines (Federal Republic of Nigeria, 2005).

Justification for the Establishment of MFBs in Nigeria

In the view of Okeke (2008), the establishment of microfinance is anchored on the following reasons:

- Weak-institutional capacity, which leads to prolonged sub-optional performance of community banks, microfinance and development of finance institutions due to incompetent management, weak internal controls, lack of deposit insurance scheme, poor cooperate governance, lack of well defined operations and restrictive regularly/superiorly requirements.

- Weak capital base of existing institutions, grossly inadequate to provide adequate cushion for the risk of lending without collaterals to micro entrepreneurs. As at 2005, only 75 out of the 600 community banks that submitted their financial statements to the CBN, had up to ₦20 million shareholders'' fund impaired by losses.

- The existence of huge unserved market: Only 2% of rural households have access to financial services. Moreover, only one million people out of 40 million that need financial services in Nigerian are served by existing Microfinance Institutions (MFIs).

- Economic Empowerment of the poor, employment generation and poverty reduction: This was in line with one of the policy thrusts of National Economic Empowerment and Development Strategy NEEDS aimed at empowering the poor and the private sector through the provision of financial services for their productive engagement.

- The need for increased savings, opportunity arising from the fact that the poor can save if given the opportunity. Most people still keep their monies in kind or simply under the pillows, which is crude and risky way of keeping savings thereby undermining the aggregate volume of mobilizable resources that could be channelled to deficit areas of the economy.

Implications of the Current Microfinance Policy on Some Nigeria's Developmental Challenges

One of the greatest development challenges facing Nigeria is how to reduce the scourge of poverty in the midst of immense potentials and plenty". The current policy and its operations represent the most wholesome approach ever embarked upon by the country to reach the financially unserved segments of the economy as well as inject as process of poverty alleviation. Having a careful look at the microfinance banking density in Nigeria, it means that a lot still has to be done in order to really open their credit window to a majority of small scale entrepreneurs in our economy.

In the geographical spread of approved microfinance banks as at December 2007 among states in Nigeria and the Federal Capital Territory shown in Appendix 2, the banking density shows that only Anambra and Ogun States achieved a density of one Microfinance Bank to less than

10,000 of their population. Apart from these two states, those that had one bank to 200,000 of their population include Abia, Cross River, Delta, Edo, Ekiti, Enugu, Imo, Kogi, Kwara, Lagos, Osun, Oyo, and the Federal Capital Territory. Others with one bank to more than 200,000 but less than or equal to 500,000 of their populations (that is, > 200,000 ≤ 500,000 included Adamawa, Ebonyi, Niger, Kaduna, Ondo, Plateau and Rivers. Those with one bank to more than 500,000 and less than or equal to 1,000,000 (one million) of their populations include: Akwa Ibom, Bauchi, Benue, Gombe, Kebbi, Nasarawa, Sokoto, Taraba and Zamfara. It is obvious that states with very low number of microfinance banks relative to their population must take initiative and encourage their citizens to take advantage of the current microfinance initiative. They can partner with the private sector. This is even more relevant especially as states are expected to set aside an amount of not less than 1% of their annual budgets for on lending activities of microfinance banks in favour of their residents (Lemo, 2007; Soludo, 2006)).

Conclusion and Recommendations

Many rural communities do not have functional microfinance bank, even those that have do not have access to loan facilities because the microfinance banks are not adequately funded by the government to cater for the people's welfare.

Where micro credit facility is available, it becomes difficult for rural people to access the fund due to stringent or hard conditions attached to the scheme such as high collateral demand, and serious paper work. The writer also concludes that it is highly imperative to empower the rural people by providing for them, social amenities that will make living conducive for them such as power supply, transport system, and building of markets (especially in the rural areas) other aspects include Medicare, education, quality water supply and security.

Generally in implementing the microfinance policy, the government of Nigeria should strengthen institutions that provide basic infrastructures especially where the poor reside and also pursue programmes promotive of macroeconomic stability. It is only by so doing that positive impacts of MFBs will have concurrent effects on the country's economic growth and development. Implementing the microfinance policy to its fullest is an opportunity the country cannot afford to miss if its Vision 20-20-20 target must remain on course.

Though Microfinance Policy is good and especially coming at a time the country is poised to joining the league of the twenty largest economies in the world by the year 2020, the number of Microfinance Banks has to increase (possibly geometrically). Certain distortions in the economy that affect returns on investment, incomes and savings have to be fully addressed. These include enhancing the state of the country's infrastructure (currently in bad shape) notably power supply, transport system, and building of markets (especially in the rural areas) other aspects include Medicare, education, quality water supply and security. These positively affect the lives of the target population for microfinance. For instance, stability from epileptic power supply will have positive effects on sustainable production activities, on prices of goods and services, income savings, reduced cost of doing business, as well as creation and exploration of new investment opportunities, thereby generally aiding macroeconomic stability.

Also, adequate and quality social infrastructural facilities should be provided to create viable microfinance activities as human beings can only be economically active if there are facilities to work with to enable them perform optimally in their chosen activities. Only healthy and active people can be meaningfully engaged in economic activities. Nigerian banks are quickly embracing the microfinance policy by opening up subsidiaries. For instance, First Bank is already in partnership agreement with Graeme Bank of Bangladesh (the leading microfinance bank in the world) on microfinance training. This should be encouraged by policy makers in order to increase the reach of these banks to the people and subsequently their access to microfinance.

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