

Much Ado About Nothing: The Case of the Nigerian Microfinance Policy Measures, Institutions and Operations

B. O. Iganiga

*Department of Economics, Ambrose Alli University, Ekpoma, Nigeria
E-mail: beniga3@yahoo.co.uk*

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ABSTRACT From the literature, it has been observed that there exist a huge untapped potential for financial intermediation at the micro and rural levels of the Nigerian economy. Attempts by the government in the past to fill this gap, through supply – driven creation of financing institutions and schemes have failed due to high operating cost, repayment problem, weak refinancing facilities, client apathy and drop out among others. To this end, the paper suggested some success imperatives including group delivery methodology, efficient Management Information System (MIS), involvement of clients and intensive use of microfins and monitoring among others to achieve the stated microfinance policy objectives within the ambit of the Millennium Development Goal (MDGs) by 2015.

I. INTRODUCTION

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of poor for entrepreneurship would be significantly enhanced through the provision of micro-finance services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income, and create wealth (Iweala, 2005).

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and/or savings collected, (ii) the absence of asset-based collateral, and (iii) simplicity of operations (Ogbunaka, 2003).

Over the years, microfinance has emerged as an effective strategy for poverty reduction. Across developing countries, micro, small and medium enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services. Microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development Goals (MDGs). Access to sustainable financial services enable owners of micro enterprises to finance income, build assets, and reduce their vulnerability to external shocks. Access to financial services enable poor

households to move from everyday for survival to planning for the future, investing in better nutrition, their children’s education and health and empowering women socially (Ehigiamusoe, 2005).

In Nigeria, micro-financing is not a new phenomenon as evidenced by such cultural economic activities as “Esusu”, “Adashi”, “Otataje”, etc, which were practiced to provide funds for producers in our rural communities. What is current however, is the effort of governments in Nigeria to modernize micro-financing in rural and urban communities to improve the productive capacity of the rural and urban poor, enhance their economic standing which alleviates the level of the national economy.

After failed trials in Directorate of Food, Road and Rural Infrastructure (DFRRI), Rural Banking by commercial Banks and even People’s Bank programme, the government of the Federal Republic of Nigeria took the bull by the horns by enacting legislation for the establishment of community banks (now microfinance institution). To complement government efforts, over the years, a lots of NGOs has formally been licenced to operate as micro finance institutions. Some existing NGO microfinance institutions were transformed and Universal Banks were encouraged to engage in microfinance services of recent, microfinance banks regulation and supervisory guidelines were inaugurated.

Given this background, this paper is poised to examine the Nigerian microfinance policy measures, institutions and operation over the

years. Evaluate the effectiveness of these policies and institutions in providing the needed succour to their target group and the emerging challenges.

II. CONCEPTUAL ISSUES

Microfinance is the supply of loans, savings and other basic financial services to the poor. These owners of micro and small enterprises require a diverse range of financial instruments to meet working capital requirement, build assets, stabilize consumption, and shield themselves against risks (Ehigiamusoe, 2005). Financial services include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services. In practice, microfinance is much more than disbursement, management and collection of little bits of loans.

In a more comprehensive style, Ehigiamusoe, 2005, stressed that microfinance refers to “flexible processes and structures by which financial services are delivered to owners of microfinance enterprise on a sustainable basis”. Microfinance recognizes the peculiar challenges of micro enterprises and of their owners. It recognizes the inability of the poor to provide tangible collateral and therefore promotes collateral substitution. Disbursement and repayment are structured to suit credit need and cash flow pattern of small businesses (Aderibigbe, 2001).

Kimotho, 2005 defined microfinance simply as the provision of very small loans (micro – credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfer, as practitioners came to realize that the poor, who lacked access to traditional formal financial institution, needed and required a variety of financial products to achieve meaningful improvement in their business activities.

While microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor, micro-credit refers specially to small loans. The average loan size varies from country to country, but in most cases, the average loan is equivalent to \$120.0 – 150.0 in the respective currency. For example, in Philippines, the average loan size is \$124.0.

Microfinance is not charity despite its

appellation as “poverty lending”. Primarily, microfinance seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market for reason of their poverty, that is lack of command over assets. It therefore places obligation on the borrowers for proper utilization and complete repayment of borrowed amounts even at commercial interest rates (Kpakol, 2005).

From the literature, three (3) features distinguished microfinance from other formal financial products. These are:

- (a) the smallness of the loans advanced or savings collected.
- (b) The absence of asset based collateral and
- (c) Simplicity of operations.

Given these characteristics, microfinance institution (MFI) has come to be defined as any institution that provides credit and other financial services to the low income entre-preneurs who are traditionally not served by the conventional/formal financial institutions.

Microfinance is not new especially to us in Africa. In our societies and history, we come across schemes and social arrangements which enable people to pool their financial resources for onward distribution to cooperating and needy individuals. Ready examples includes “*adashi*” and several variants of “*esusu*”. Nigerian micro-finance institutions have also integrated best practices of traditional schemes into their operational procedures.

III. A REVIEW OF MICROFINANCE POLICY MEASURES AND INSTITUTIONS IN NIGERIA

In this section, an attempt shall be made to X-ray some policy measures and institutions that have been put in place by the government and non-governmental organizations (NGO) to facilitate the operation of microfinance scheme in Nigeria.

1. Microfinance Policy

a. *Microfinance Policy Measures*

In Nigeria, the formal financial system provides services to about 35% of the economically active population, while the remaining 65% are excluded from access to financial services. These 65% are often served by the informal financial

sector, through Non-Governmental Organisation Microfinance Institutions (NGO – MFIs), money leaders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would 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). Such a policy over the years have been aimed at creating a vibrant microfinance sub-sector that would be adequately integrated into the mainstreams of the national financial system and provide the stimulus for growth and development.

Over the years, the federal ministry of finance in conjunction with the Central Bank of Nigeria (CBN) have formulated various policies aimed at stimulating the operation of microfinance institutions in Nigeria.

Nigeria Microfinance Policy Strategies

Some of the notable microfinance policy strategies conjured by ministry of finance and Central Bank of Nigeria (CBN) over the years include:

- (i) License and regulate establishment of Microfinance Banks (MFBs).
- (ii) Promote the establishment of NGO-based microfinance institutions.
- (iii) Promote the participation of government in microfinance industry by encouraging states and local governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.
- (iv) Promote the establishment of institutions that support the development and growth of microfinance service providers and clients.
- (v) Strengthen the regulatory and supervisory framework for MFBs.
- (vi) Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions.
- (vii) Mobilize domestic savings and promote the banking culture among low-income groups.
- (viii) Strengthen the capital base of the existing microfinance institutions.

- (ix) Broaden the scope of activities of micro-finance institutions.
- (x) Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of microfinance policy.
- (xi) Increase in the capital base of community banks (now microfinance institutions) from N250,000 to N20m.

b. Microfinance Policy Targets

The targets of the above policy measures are as follows:

- 1) To cover the majority of the poor but economically active population by 2020 thereby creating millions of job and reducing poverty.
- 2) To increase the share of micro-credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro-credit as a percentage of GDP from 0.2 percent in 2005 to at least 15 percent in 2020.
- 3) To promote the participation of at least two thirds of the states and local governments in micro-credit financing by 2015.
- 4) To eliminate gender disparity by improving women's access to financial services by 5% annually; and
- 5) To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

c. Policy Objectives

The specific objectives of microfinance policy over the years include:

- (1) Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;
- (2) Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- (3) Enhance service delivery by microfinance institutions to Micro, Small and Medium Entrepreneurs;
- (4) Contribute to rural transformation, and
- (5) Promote linkage programmes between universal/developments banks; specialized institutions and microfinance banks.

Given these myriads policy objectives, to

what extent have they been realized? An examination of this fact/puzzle forms the main thrust of the paper. Before attempting this evaluation, a brief discussion of the various institutions involved in microfinancing is imperative.

IV. PARTICIPATING INSTITUTIONS IN MICROFINANCE ACTIVITIES IN NIGERIA

The practice of microfinance in Nigeria can be categorized thus,

1. Informal/Traditional microfinance institutions
2. Formal/Modern microfinance institutions

1. Informal/Traditional Microfinance Institutions

The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low – income earners. They are mainly the informal Self-Help Groups (SHGs) or rotating Savings and Credit Associations (ROSCAS) type. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds (Agaifa, 2006).

In order to enhance the flow of financial services to Nigeria's rural areas, government has, in the past, initiated a series of publicly – financed micro/rural credit programmes and policies targeted at the poor. This led to the establishment of formal microfinance institutions.

2. Formal/Modern Microfinance Institutions

These include:

a. Universal Banks

Universal banks currently engaged in microfinance services, either as an activity or product do set up a department/unit for such services and such unit is subject to the provisions of the MFBs regulatory and supervisory guidelines.

b. Community Banks (Microfinance Banks)

All licensed community banks in Nigeria that

met CBN guidelines have been transformed to Microfinance Bank. There are two categories of Microfinance Banks (MFBs).

- (i) Micro-Finance Banks (MFBs) licensed to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital, this category of banks is N20 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state.
- (ii) Micro-Finance Banks (MFBs) licensed to operate in a state.

These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid-up capital for this category of banks is N1 billion.

3. Non-Governmental Organisation Micro Finance Institutions (NGO – MFIS)

The present policy in Nigeria recognizes the existence of credit only membership – based microfinance institutions under the supervisory purview of the Central Bank of Nigeria, such institutions engaged in the provision of micro-credit to their targeted population and forbidden from mobilizing deposits from the general public. The registered NGO – MFIs are required to forward periodic returns on their activities to the CBN. Lift above poverty organisation (LAPO) in Benin City is an example of NGO – MFIs. NGO – MFIs that wish to obtain the operating license of a microfinance bank are required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

Special microfinance schemes operated by some state governments fell under this category.

4. Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) and Small and Medium Enterprises Equity Scheme (SMEEIS) in the

development of the sub-sector. Such agency performs the following functions.

- (i) Provision of resources targeted at difficult-to-reach clients and the poorest of the poor;
- (ii) Capacity building;
- (iii) Development of MFIs' activities nationwide;
- (iv) Collaborating/partnering with other relevant stakeholders; and
- (v) Nurturing of new MFIs to a sustainable level.

5. Special Microfinance Schemes

In Nigeria today, some governmental agencies across the various tiers of government operate special credit schemes for traders, farmers, young school leavers, graduates and artisans. These are credit outlets that may not be registered and hence not supervised by CBN. They are directly under the control of the government agency that midwives them.

6. Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGO and missionaries with a Pro-poor orientation. The services provided by donor agencies include grants, donations, technical assistance, etc.

The donor agencies, in conducting their microfinance activities complied with the relevant provisions of this policy. The target clients for donors' support may include; MFIs, NGO, regulatory, and other relevant agencies. However, for the purpose of leveraging the evolving micro-finance initiative, donors are expected to direct most of their assistance to licensed MFIBs to ensure an orderly resource injection, transparency and synergy.

Once again, given these numbers of micro-finance institutions and agencies, is the existing potential for financial inter-mediation at the micro and rural levels in the Nigerian economy fully tapped? The answer to this question forms the main crux of the next subsection.

V. STYLIZED FACTS ON THE OPERATION OF MICROFINANCE PROGRAMME IN NIGERIA

The practice of microfinance in Nigeria is

culturally rooted and dates back several centuries. The traditional microfinance institution provide access to credit for the rural and urban, low-income earners. They are mainly the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAS) types. Other providers of microfinance services include saving collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds.

In order to enhance the flow of financial services to Nigeria's rural areas, successive governments in Nigeria have in the past, initiated a series of publicly – financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes are:

1. Rural Banking programme.
2. Sectoral Allocation of Credits, Concessionary Interest Rate, and the Agricultural Credit Guarantee Schemes (ACGS) in 1977.
3. Establishment of the Nigerian Agricultural and Cooperative Bank Limited (NACB), in 1973.
4. Introduction of National Directorate of Employment (NDE).
5. Establishment of the Nigerian Agricultural Insurance corporation (NAIC) in 1988.
6. People Bank of Nigeria (PBN) and Community Banks (Now Microfinance Banks) was established in 1989 and 1990 respectively.
7. Family Economic Advancement Programme (FEAP) was initiated.
8. The Nigerian Bank for Commerce and Industry (NBCI) was established in 1973.
9. In year 2000, NACB and PBN and FEAP were merged to form the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB).
10. National Poverty Eradication Programme (NAPEP) was launched in 2003.
11. Small and Medium Enterprises Equity Investment Scheme (SMEELs) was initiated of recent.

Microfinance Services, particularly, those sponsored by government, have adopted the traditional supply – led subsidized credit approach mainly directed to the agricultural sector and non farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived due to the unsustainable nature of the programme.

Since the 1980s, Non-Governmental Organiza-

Table 1: Major microfinance institutions and schemes in Nigeria

<i>Institutions</i>	<i>Year of Est.</i>	<i>Objectives</i>	<i>Type of Inst.</i>	<i>Ownership</i>	<i>Statue</i>
NACB/NACRD	1973	Rural financing	DFI	Government	Merged
B	1973	Rural financing	DFI	Government	Merged
NBCI/BOI	1989	Rural financing	DFI	Government	Merged
PBN/NACRDB	1990	Commercial	Commercial	Private	Existing
CBS/Microfin					
<i>Schemes</i>					
ACGS	1977	Provide fund for Agr.	Agric finance	Government	Merged
NDE	1987	Create employment	Public	Government	Existing
NAIC	1988	Insure Afric Product	Public	Government	Existing
FEAP	1991	Reduce poverty	Public	Government	Merged
NAPEP	2002	Reduce poverty	Public	Government	Existing
NEEDS	2004	Reduce poverty	Public	Government	Existing
SMEEIS	2004	Reduce poverty	Fund	Government	Existing

Source: Financial Markets in Nigeria, CBN Publication, 2005.

Some derived from CBN Reports.

Note: DFI = Development Finance Institution

NEEDS = National Economic Empowerment Development Strategies

NAPEP = National Poverty Eradication Programme

NAIC = Nigeria Agricultural Insurance Corporation

ACGS = Agricultural Credit Guarantee Schemes

SMEEIS = Small and Medium Enterprises Equity Investment Scheme

tions (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply – led approach to a demand-driven strategy. The number of NGOs involved in microfinance activities has increased significantly in recent times due to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and the declining support from development partners amongst others.

The NGOs are charity, capital lending and credit only membership based institutions. They are generally registered under the “trusteeship Act” as the sole package or part of their charity and social programmes of poverty alleviation. A CBN survey of MFIs in 2005 identified 180 registered MFIs in Nigeria. Their operations increased tremendously of late in terms of size, branch expansion, staffing, saving and credit levels. 96 institutions that responded to the CBN survey had between then savings of about N99.4 million and outstanding credit of about N649.6 million (CBN, EFR, 2006). The NGOs obtain their funds, grants, fees, interest on loans and contributions from their members. However, they have limited outreach due, largely to unstable sources of funds.

From the foregoing, it could be observed that there are significant business transaction in the financial subsector, and yet we also know that

much of Nigeria’s microfinance needs are still not met and that microfinance need are high and continue to increase

1. Assessment of Performance Based on Out - Reach Analysis of Major Microfinance Institutions and Schemes

For the purpose of this analysis, emphasis will be the major microfinance institutions and schemes that have been existence for quite some time.

a. Nigerian Agricultural and Co-operative Bank Limited (NACB/NACRDB)

The Nigerian Agricultural and Co-operative Bank Limited (NACB) was established in 1973. NACB is owned 60% by the federal government of Nigeria and 40% the Central Bank of Nigeria. NACB's objectives include the promotion of agricultural production and rural development; assisting in the improvement of the income and quality of life of rural dwellers through the granting of small and medium term loans.

Credit Delivery

NACB delivers credit to the agricultural sector of the economy at concessionary interest rates. This is carried out through the provision of loans to individual farmers, co-operative organizations limited companies, and state and federal government

Table 2: Distribution of microfinance banks (community bank) in Nigeria

<i>S. No.</i>	<i>State/Zone</i>	<i>Cbn Licensed</i>	<i>States/Zones</i>	<i>Cbn Licensed</i>
1	<i>South East Zone</i>		<i>South South Zone</i>	
	Abia State Chapter	19	River State Chapter	10
	Abambra State	81	Cross River State	14
	Imo State Chapter	37	Bayelsa State Chapter	1
	Ebonyi State Chapter	6	Edo State Chapter	20
	Enugu State	22	Akwa Ibom State	7
			Delta State Chapter	22
		165		74
2	<i>North East Zone</i>		<i>North West Zone</i>	
	Bauchi State Chapter	6	Sokoto State Chapter	4
	Adamawa State	7	Zamfara State	3
	Gombe State	3	Kaduna State Chapter	6
	Borno State	2	Katsina State Chapter	Nil
	Yobe State	2	Kebbi State Chapter	6
	Taraba State	2	Kano State Chapter	5
			Jigawa State Chapter	1
		22		25
3	<i>South West Zone</i>		<i>North Central Zone</i>	
	Lagos State Chapter	39	Kwara State Chapter	15
	Ogun State Chapter	44	Kogi State Chapter	23
	Oyo State Chapter	42	Benue State Chapter	7
	Osun Chapter	26	Plateau State Chapter	7
	Ekiti State Chapter	18	Niger State Chapter	7
	Ondo State Chapter	17	Nassarawa State	Nil
				FCT, Abuja Chapter
		186		65

Source: Compiled by Author.

agencies. Although the number of loan outstanding during the period of existence, however, NACB had N3.8 billion loan outstanding in 1994 (see Appendix) in addition the number of agricultural projects that were granted loans by NACB increased from 2,446 in 1990 to 6,286 in 1994. This represented a 157% growth in the number of loan approval by the Bank within 1990–1994. Similarly, the population served by the bank increased by 13.22% during the period. In addition, women accounted for only 1.73% of the population served by NACB as at 1999. From 1995–1999, the NACB ran aground with outstanding loan of N3 billion unpaid and its activities was at its lowest ebb (see Appendix, Table A). This led to its emergence with NBC

b. Nigerian Bank for Commerce and Industry (NBCI now BOI)

Nigerian Bank for Commerce and Industry (NBCI) was established in 1973 for the provision of financial services, such as equity investment and granting of loans and guarantees to indigenous enterprises in commercial and manufacturing

activities. NBCI, is owned 60% by the federal government and 40% by the Central Bank of Nigeria.

NBCI does not take deposit from the general public in any form. Funding has traditionally relied on government subventions, concessional loans from multilateral financial institutions and inter-bank borrowing. However, the Bank's clientele base increased by 212% within ten years from 259 clients in 1984 to 809 clients in 1994 (see Appendix). NBCI unlike NACB serves corporate organizations and small-scale manufacturers and not individuals.

Credit Delivery

The 212% growth in NBCI clientele from 259 to 809 also represented the growth in the number of loans granted during 1985 to 1994. Also, the number of outstanding loans increased from 208% to 798 during the same period (see Appendix). However, since 1995, there has been a sharp drop in the population served by NBCI. This was perhaps as a result of competition from the new generation commercial and merchant

banks, dwindling funding resources and recession that hit the nation's small-scale manufacturers –which constituted NBCI's clientele base in the 1990s. Furthermore, the establishment of the National Economic Reconstruction Fund for providing finance to medium and small scale manufacturing enterprises appears to have duplicated the functions of NBCI in recent years and has made NBCI to have less impact among existing small manufacturers or new entrants into the manufacturing sector.

Following the dismal performance of NBCI in late 1990s, NBCI was merged with NIDB and NERFUND to form the new "Bank of Industry" (BOI) in 2000 with a recapitalisation of N50 billion whose activities who are yet to be well documented for proper appraisal.

c. People's Bank of Nigeria (PBN now NACRDB)

People's Bank of Nigeria (PBN) was established in 1989 for the provision of financial services such as savings and granting of credit facilities to the less privileged members of the Nigeria societies. In view of its policies of providing banking services to the remote area of the country, PBN draws its customers largely from the informal sector. PBN is 100% owned by the federal government of Nigeria and about 99.9% of its loanable funds derived from the three tiers of government.

Credit Delivery

From inception, the loans delivery rate of PBN has been low. In 1989, it stood at 625 in 1989. It rose to 3.917 in 1991, before it declined by 96.7% to 131 in 1994 (see Appendix). The economic recession and the low consumer demand which impacted adversely on general commerce as well as the need to contain the growth of bad loans were responsible for the decline in the number of credit sanctions during the period the bank existence. The number of loans outstanding fluctuated from year to year. However, only 53 loans were recorded as outstanding for 1993 and decreased to all time decrease of 25 in 1998.

There is no information regarding the clientele/flow –of funds between the rural and urban area and urban area and Sectoral distribution of credit during the period of its existence. However, women contributed only 2.01% of PBN clientele in 1998.

Due to the poor performance of PBN, in loans delivery, the bank was formally merged with NACB and FEAP to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) limited on the 11th of October, 2000 with a recapitalisation of N50 billion.

The new bank's primary role is grass root funds mobilisation and credit delivery. Consequently, in 2002, the sum of N2.13 billion was approved for 26,942 clients out of a total of 28,422 applicants who applied for an estimated N2.90 billion. In 2003, the sum of N1.045 billion was approved for disbursement to eligible customers in the first quarter of the year. As at the end of July 2003, the total of N2,916 billion had been approved by the bank for disbursement to eligible customers.

In spite of the emergence of these banks, the activities of NACRDB still remain restricted to the few urban centres with a negligible numbers of women as clientele (see Iganiga, 2006).

d. Community Bank/Microfinance Banks

Community banks are commercial entities that are expected to be profitable and self-sustaining. They engage in deposit mobilisation among the members of their community. Community banks started operation in Nigeria with the appearance of Kaduna Community Bank in December 1990.

According to the report of the National Board for Community Banks, the Clientele of CBs increased from an average of 1,546 in 1990 to 9,898 in 1994 i.e. over 60% increase (see Appendix). Similarly, the number of serving deposit accounts grew from an average of 1,773 in 1990 to 4,580 (258%) by 1994 year end. This is by no means a mean achievement which could be accounted for by its grass root level and the distress syndrome that characterized other financial institutions then.

By 1995, there emerged 1355 community banks with provision licence issued by the National Board for Community Banks (NBCB). This number declined to 774 functional banks as a result of poor management, lack of training and insufficient supervision. In 2000, supervision of community banks was granted to the CBN by legislation. As at 2004, a total of 634 CBs have been granted CBN final licenses.

During the first quarter of 2007 the capital base of community banks was reviewed from N5m to N20m, the deposit of CBs were issued by NDIC

and their activities were placed under the strict supervision of CBN for them to intermediate in microfinance programme effectively.

The CBN Licensed Microfinance Banks are 634.

Given the above Distribution in rural and urban areas, Microfinance banks have the widest reach to the grassroot poor producers in Nigeria.

Credit Delivery

CBs loans granted to clients increased from an average of 22 in 1991 to 5.367 in 1994 (Appendix) while the loans portfolio per community bank increased from average of N9 million in 1990 to N31 million in 1996 (Table Appendix). In addition, the number of loan outstanding per bank during the period increased from the average of 107 in 1990 and peaked at an average of 2,500 in 1992 and decline to an average of 154 in 1993. Furthermore, CBs were able to increase their credit base from 0.74% of the rural population served to 24.35% in 1994, with outstanding loans per staff averaging N37,639 (see Appendix). Also, women accounted for 34.64% of CBs clientele base as at 1994 (see Appendix). This is more than three times the percentage of women by its nearest rival PBN.

As at the end of 2004, the micro-finance intermediation activities of community banks is as shown thus;

- (a) Total mobilized deposits = N21.4 billion
- (b) Asset base = N34.2 billion
- (c) Loans and Advances = N11.4 billion

The various poverty alleviation schemes including National Directorate of Employment (NDE), Family Economic Advancement Programme (FEAP), National Poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving the United Nation's Millennium Development Goals (MDGs) by 2015 required these micro-finance institutions for success.

The success of these programmes and projects for advancement of the MDGs are linked with the successful funding of the various activities by the financial services of these microfinance institutions. The failure of these institutions means failure of these programmes among other factors. Thus, the non-performance of these schemes could be understood to a greater extent, (Ukeje and Amoo, 2005).

From the foregoing, it could be observed that

the sampled microfinance institutions and schemes had not performed to expectation except community banks now microfinance institutions. This has left the large resources in the rural and semi-urban areas untapped and thus, exacerbated the level of poverty in these areas.

VI. CHALLENGES OF MICROFINANCING AND SUCCESS IMPERATIVES

One of the acknowledged **Eleven Principles of Microfinance** is *building of institutions which deliver financial services to the poor in an efficient manner and on a sustainable basis*. It is only efficient institutions that can reach large number of people thereby making substantial impact on poverty.

To achieve sustainability and scale, micro-finance institutions and authorities must devise strategy to effectively address the **six challenges** of microfinance. These are:

(i) **High Operating Cost:** Small Units of services pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.

(ii) **Repayment Problem:** Loan delinquency is a major threat to institutional sustainability; it is the deadly "*virus*" which afflicts MFIs. Delinquency demoralizes staff and deprives beneficiaries of valuable services. Delinquency is a symptom of poor leadership. This has accounts for the failure of most MFIs and schemes in Nigeria.

(iii) **Inadequate Experienced Credit Staff:** Micro financing is more than dispensing loans. To be viable, MFIs require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFIs in Nigeria are on their first jobs and majority are school leavers. This deficiency limits expansion and institutional performance.

(iv) **Lack of RE-financing Facilities:** MFIs in Nigeria are not-for-profit entities with donors as sources of funds. Grants are hardly adequate to meaningfully scale-up out-reach. Emerging development issues such as HIV/AIDs and environmental degradation are attracting attention of donor agencies. Non-profit status of MFIs

inhibits effective engagement with financial institutions like the universal banks.

(v) **Client Apathy and Drop-out:** Improper client services and delivery strategies could lead to client drop-out. Most pro-poor MFIs lose up to 20% of their client base annually. High drop-out rate increases cost as old clients who require little training are lost.

(vi) **Internal Control Challenge:** Large transactions and informal operational approach pose serious internal control challenge. Operational procedures could be breached at disbursement and collection points. High cash transaction which is a feature of microfinancing is a source of temptation for fraudulent practices.

VII. SUCCESS IMPERATIVES

Microfinance institutions desiring to be sustainable, delivering appropriate services to a large number of clients, and doing so with excellent repayment performance, must pay attention to the following success imperatives.

(i) **Group Delivery Methodology:** A common feature of microfinance is group delivery methodology. Members are assisted and encouraged to organize into self-selecting credit groups. Membership of such groups ranged between five and sixty. Groups could be formed along commonality of business activities or location of residence or business.

Group methodology reduces cost of lending. Several visits to individuals' homes for disbursement and collections are reduced to few visits to group meetings. Also, group lending aids credit discipline and good repayment performance. Group members exert tremendous peer pressure on each other to perform.

(ii) **Efficient Management Information System (MIS):** Accurate and timely information is needed for planning and monitoring. Automated MIS is most preferred as it is fast, accurate and very efficient. It enhances staff productivity as it relieves credit offices of manual processing thereby freeing their time to recruit more clients. Where MIS is manual, it should be simple and transparent.

(iii) **Intensive Monitoring:** Intensive monitoring is the effective response to repayment problem and internal control challenge. Effective monitoring strategy consists of:

- 3 detail and clear operational procedures and monitoring *check lists*

- 4 availability of adequate monitoring staff. These are Area and Divisional Managers who are solely charged with the responsibility of ensuring that breaches of procedures are prevented, detected, corrected, and where necessary promptly sanctioned, and

- 5 monitoring activities should be extended beyond branch operations to activities at the credit group level.

(iv) **Involvement of Clients:** Service users should not be seen as faceless customers of formal financial institutions who are identified by their account numbers, clients of MFIs should be seen as partners. They are constantly engaged. Some MFIs provide institutional structures for clients' participation in the governance and management of the institutions. MFIs should have Branch Councils which are made up of leaders of groups supervised by a Branch Office. Each council should have an elected leader while the Branch Manager serves as secretary. The council meets quarterly to address operations of the branch. Lift Above Poverty Organisation (LAPO) as a case in point.

(v) **Charge Real or Market Rates:** Since beneficiaries of microfinance are poor, rates of interest should be low or subsidized. However, MFIs have accepted the view that real or market rates be charged to ensure sustainability. The cost of reaching the poor with financial services is enormous. Also, subsidized interest rates connote charity which diminishes the feeling of obligation for repayment. When faced with choices of low interest rates by a transient institution or real rates by a sustainable institution, client would favour the latter (Akintola, 2005)

(vi) **Develop Innovative Products:** MFIs must recognize that (i) credit needs of clients are diverse and (ii) there are always emerging needs. Credit products should be developed to meet these needs. Clients should be constantly engaged to determine the trends of their requirements. Tested strategies include market research, client exit and satisfaction surveys, and impact monitoring and assessment exercises (Olaikan, 2005).

(vi) **Intensive Use of Microfin:** A microfin is a powerful automated planning in microfinance. Planning is a key function in any performing MFI. The planning department is charged with task of formulating business plans and short term plans as quarterly and annual plans. The department periodically reviews performance of key indicators as out-reach (Client-base); profitability and portfolio quality.

VIII. CONCLUDING REMARKS

Robust economic growth cannot be achieved without putting in place well focused programme to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant, increase employment opportunity, enhance household income and create wealth.

Unfortunately, from the analysis, it could be observed that most institutions and programmes put in place for this purpose (micro financing) by government and individuals and group of individuals have at best recorded limited success in securing wide access to sustainable micro credit as a critical instrument for growth and poverty reduction. From the impact assessment, it could be observed that most of these institutions and policies and schemes relating to microfinance become moribund few years after initiation due to high operating cost, repayment problem, weak access to re-financing facilities, client apathy and drop-out and internal control challenges among others.

With the additional liquidity provided by the recent bank (Microfinance Bank) complemented by the success imperatives suggested in this paper, the microfinance policy objectives would be realized within the ambit of the Millennium Development Goals (MDGs).

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APPENDIX

Table A: Clientele of the Nigerian Bank for Commerce and Industry (NACB) 1990 – 2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Number of Client	55.632	32.650	32.866	57.568	47.553	39.953	39.211	31.951	26.211	25.712
Number of Saving/ Deposit Account	-	-	-	-	-	-	-	-	-	-
No. of loans outstanding	n.a	n.a	n.a	n.a	n.a	32.11	39.19	64.11	5.129	5935
Number of loans granted (last) available years	2446	1381	1906	2834	6286	6511	6221	5011	5121	5221
% population served	4.40%	4.43%	5.80%	4.92%	13.22%	13.92%	13.91%	13.89%	11.91%	1051%
Women as percentage of total client (1990 – 1999)										1.73%

Note: NACB was merged with PBN and FEAP to form NACRDB in October 2000.

Table B: Clientele of the Nigerian Bank for Commerce and Industry (NACB) 1990 – 2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Number of Client	782	806	808	808	809	832	808	701	709	635
Number of Saving/Deposit Account	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
No. of loans outstanding	771	793	796	799	798	789	772	781	693	695
Number of loans granted (last) available years	782	806	808	808	809	832	808	701	709	635
% population served	19.2	4.3	0.2	0.2	n.a	0.5	0.3	0.3	0.2	0.1
Women as percentage of total client (1990 – 1999)	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Note: NBCI was merged with NIDB and NERFUND to form Bank of Industry (BOI) in 2000.

Table C: Clientele of the People's Bank of Nigeria (PBN): 1990 – 2000

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Number of Client	1100	3898	3411	3030	4223	3005	3001	3001	2012	1009	n.a
Number of Saving/Deposit Account	790	1367	2669	2504	3967	1221	2112	2091	1201	1002	n.a
No. of loans outstanding	n.a	710	270	962	53	341	3121	3031	3129	3211	n.a
Number of loans granted (last) available years	625	1768	3917	3013	1351	1311	321	902	801	102	n.a
% population served	56.82	45.32	114.83	99.44	n.a	4.36	41.31	30.52	5.32	2.51	n.a
Women as percentage of total client (1990 – 1999)	n.a	n.a	n.a	n.a	n.a	9.75%	4.51%	3.30%	2.50%	2.01%	n.a

Note: PBN was merged with NACB and FEAP to form NACRDB.

Table D: Clientele of the Community Banks (CBs): 1990 – 2005

	1990	1991	1992	1993	1994	1998	1999	2000	2001	2002	2003	2004	2005
Number of Client	1546	2955	10265	8360	9898	9895	10003	11007	12035	13111	13211	15319	16321
Number of Saving/ Deposit Account	1773	1148	2342	4136	4580	4555	9789	5891	6791	7899	10093	11393	15211
No. of loans outstanding	107	447	2500	154	701	703	718	815	917	1032	1095	1393	1958
Number of loans granted (last) available years	0	22	1065	1577	5367	5767	6921	7392	8111	8129	9112	10391	12391
% population served	0	0.74	10.38	18.86	24.35	25.31	25.39	33.91	33.92	33.94	34.91	34.31	32.116
Women as percentage of total client (1990 – 1999)	n.a	n.a	n.a	n.a	34.64%	n.a	n.a	n.a	n.a	n.a	n.a	n.a	30.51%

Note: CBs metamorphosed to Microfinance Bank in the last quarter of 2006.

n.a: Not available

Source: Obtained from CBN Statistical Report (Various editions).

Table E: Number of Financial Institutions in Nigeria (1990 – 2005)

Financial Institution	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Deposit Money Bank	107	109	120	120	116	115	115	115	89	90	90	90	90	89	89	25
Community Bank	1	66	402	879	970	1355	1368	1015	1015	1015	881	747	769	725	725	725
People's Bank (Branches)	169	200	228	271	275	278	278	278	278	278	278	-	-	-	-	-
Primary Mortgage Institutions	-	23	145	252	279	280	288	115	194	194	194	79	80	81	83	90
Bureau de change	92	102	132	144	191	223	240	250	244	260	260	80	83	82	93	121
Stock Brokerage Firms	80	110	140	140	162	162	217	226	226	226	n.a	n.a	n.a	581	581	581
Finance Companies	-	-	48	310	290	276	279	279	279	280	93	98	102	102	112	112
Insurance Companies	102	107	121	125	136	145	187	181	168	104	118	118	118	103	103	103
Dev. Finance Institutions	-	-	3	3	3	4	5	5	5	5	5	5	5	5	5	5
Discount House	4	4	4	4	4	4	4	4	4	8	8	6	6	4	4	4

Source: Central Bank of Nigeria Stock Exchange