POVERTY ALLEVIATION THROUGH MICRO FINANCING IN NIGERIA: PROSPECTS AND CHALLENGES

Dr. Joseph E. Imhanlahimi and Eseoghene Joseph Idolor,

Abstract

This study takes a critical look at the recent micro finance policy and attempts by the Nigerian government to encourage private sector-led establishment of micro finance banks (MFBs) as a potent means of poverty alleviation. The objectives of the study are to examine the inherent strengths and limitations, and proffer solutions. The methodology adopted is a clarification of extant concepts, explication of rationale for the government's policy, and a brief review of the development of micro financing in Nigeria. It also involved a critical analysis of the dominant issues in the policy. The study identifies vital constraints to the policy as including weak infrastructures and fraudulent persons in the process. Some of the recommendations to improve the success of micro financing to reduce poverty in Nigeria are more efforts at institutionalisation of MFBs and financial liberalization. Others include the provision of adequate infrastructures such as functional roads and electricity, especially in the rural areas

Introduction

The issue of micro finance or micro credit or small amount of money loaned to a person or a group of persons has become a topic of interest in the Nigerian finance industry and economy in general. This interest is as a result of the growing awareness both nationally and internationally of the important role which small-scale business organisations play in the economic development and poverty reduction of any country. 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 the 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 (CBN, 2005). Based on its low Gross National Product (GNP) per capita, Nigeria has since 1990 been classified as a poor nation. The United Nations Development Programme (UNDP) using its Human Development Index (HDI) ranked Nigeria 142nd among the 172 countries listed in 1997 and 156th out of a list of 179 countries in 2001(CBN, 2003).

To increase public access to micro finance and hence alleviate poverty, the Central Bank of Nigeria (CBN) embarked on a detailed thirteen-point reform agenda in July 2004, on the consolidation of the Nigerian Banking industry to meet the development challenges of the 21st century (CBN, 2004). The major thrust of the plan was that all banks should increase their capital base to N25 billion within 18 months and also to consolidate their operation through mergers and acquisitions before December 31st 2005. Banks not able to meet the minimum capital base at the stipulated time frame were given the options, if they so wished, to re-apply for license to operate as micro finance banks. This would enable them to fully help complement the emergent and already existing micro finance institutions operating in both the formal and informal sectors of the nation's economy.

The thesis of this paper is that a sustainable micro finance policy which is properly implemented, especially through micro finance banks, is a very potent instrument that can be combined with other initiatives for poverty alleviation to the benefit of the vast majority of Nigerians. The paper further explores the major policies of government in recent times aimed at enhancing micro financing in Nigeria. This is with a view to identifying their inherent weaknesses and benefits, with a special focus on microfinance banks, and to suggest ameliorating measures. All this is to ensure that micro finance banks contribute their quota to the success of the federal government's National Economic Empowerment and Development Strategy (NEEDS), the State Governments' Economic Empowerment and Development Strategy (SEEDS) and Local Governments' Economic Empowerment and Development Strategy (LEEDS). These strategies, which are development initiatives of government, are not explored further in this paper. They are however aimed at poverty alleviation and possibly eradication in Nigeria, and micro financing, with special reference to micro finance banks, is one important implementing instrument.

The methodology adopted is a critical bench-mark analysis of governmental records such as the CBN's on micro finance policy and operations, so as to highlight the strengths, weaknesses and, of course, proffer some suggestions. Additional methodological insights in support of the above were the critical survey and analysis of extant literature.

The first section of this paper deals with the background matters such as the introduction, objectives, methodology and structural layout. It is followed in section two by some conceptual issues, including the concept of micro finance, poverty and poverty alleviation. Section three is an overview of micro finance activities in Nigeria. Reasons for the establishment of micro finance banks are dealt with in section four. Section five handles the prospects and challenges of micro financing in Nigeria. The paper discusses recommendations in section six, followed by conclusion.

Some Conceptual Issues

Concept of Micro Finance

Micro finance can be defined as a development tool used to create access for economically active poor to financial services at a sustainable and affordable price (CBN, 2005). Eluhaiwe (2005) opined that micro finance is the provision of thrift, credit and other financial services and productions in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Micro finance can also be defined as the provision of very small loans that are repaid within short periods of time and are essentially used by low income individuals and households who have little or no assets that can be used as collateral (Ukeje, 2005). And the United Nations (2004) defines micro-credit or finance as a small amount of money loaned to a person or a group of persons, often without collateral.

It would be observed that except Eluhaiwe's definition, the other definitions have tended to restrict micro-credit or finance to only the offering of money to the borrower. However, like Eluhaiwe (2005), Igbinedion and Igbatayo (2004) and Ehigiamusoe (2006), among others, have rightly argued that micro finance also includes other services than loaning of money. Such services include savings, micro insurance, money transfers and micro investment services, including advice and monitoring of the development of the funds in order for the borrower to enjoy large risk aversion and hence achieve his/her, or the group's desired purpose.

It is against the above background that we provide a rather comprehensive definition of micro finance. It may be defined as the financial and other ancillary resources or services (such as savings, money transfers and financial advice) offered to the borrower, sometimes without asset collateral. It is aimed at empowering him/ her, or the group, to undertake an enterprise with a view to achieving optimum success for an improved standard of living and to be able to contribute to the development or smooth organisation of the community. This definition agrees in many respects with the CBN's (CBN, 1999) declared objectives (e.g., stimulation of productive activities and rural development) of community banks (CBs) as micro finance institutions. It is rather comprehensive in order to show the ramifications of micro finance as a serious matter, or that it is not a jamboree or 'no longer the domain of charity
(Ehigiamosoe, 2006).

Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, hiring tools, food catering, etc.) or people earning small wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly savings and loans. The overall aim of micro financing as highlighted in our definition is to ensure the achievement of the purpose of the borrower which is generally to improve his /her, or the group's, lot and hence operate better in the community.

Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or saving collected, the absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Others are its targets as the marginalised group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004). The group lending approach has implication for the pressure that the members of the group bring to bear on one another to ensure loan repayment, so that the group can continue to enjoy borrowing or loan facilities.

In developing countries, a majority of the population do not have access to financial services and thus constitute the group that micro finance tries to reach. Nigeria, like any other developing country, is saddled with the problem of rural-urban migration, mass illiteracy, poor infrastructures, poverty and low access to formal financial services. Hence the need for the recent micro finance policy, aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Small and Medium Enterprises (SMEs) as well as the rural and urban poor. The policy has created a platform for the establishment of Micro Finance Banks (MFBs) geared towards enhancing the provision of diversified micro finance services on a long-term and sustainable basis for the poor and low-income groups. It would also help create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for economic growth and development. (CBN, 2005). It also has the potential of not only urban-rural but rural-rural migration as Nyberge and Rozelle (1999) noted with respect to China.

Poverty

Poverty has been categorized into two: absolute and relative (United Nations Economic and Social Commission, 2000). Absolute poverty has been conceptualized as the inability of a person or household or group to obtain or satisfy the most basic and elementary requirements for human survival in terms of food, clothing, shelter, health and transport. Others are education, recreation and interest to participate in governmental decisions that affect the individual or household or group directly or indirectly (Onokerhoraye, 1995; United Nations Economic and Social Commission, 2000; Aliyu, 2003). Monetarily the absolute poor person or household or group is said to earn ‘less than US$1 a day’ (United Nations Economic and Social Commission, 2000: 1).

Relative poverty is defined as a condition in which a person or household or group earns a per capita income of less than one third of the average per capita income of the country (World Bank, 1997). The relative poor person’s or household’s or group’s income is measured on a comparative economic basis, hence it is different from the absolute index.

Three different parts of poverty have been identified. These are the poverty of money, poverty of access and poverty of power (United Nations Economic and Social Commission, 2000; Agbonifoh and Asein, 2005). Poverty of money relates to ‘inadequate access to the means of asset or wealth acquisition … (that is) the individual or household does not earn enough income’ to meet the basic needs of life. ‘This form of poverty may result from poor access to education, lack of marketable skills….’ (Agbonifoh and Asein, 2005: 513). Poverty of access arises from an individual’s or a group’s inability to enjoy certain basic infrastructures, especially because group members do not have the means to access them. The poverty of power manifests when the individual or group cannot influence government decisions that affect him or the group either directly or indirectly (United Nations Economic and Social Commission, 2000).

It would be observed that the above three parts of poverty can be said to be interrelated. This is especially so as money underlies all of them. With adequate access to money, there is generally a corresponding access to infrastructures, power and so on. It is as well to emphasise here that the concept of poverty is rather holistic as it embraces issues such as education, recreation, participation in decision making and money. These generally impact on many aspects of life. This is largely the rationale why micro financing is very important as it enables the poor to access more aspects of life for better fulfillment.

Poverty Alleviation

In the words of Agbonifoh and Asein (2005: 514), ‘poverty alleviation refers to the process of reducing, mitigating or amelioration the level of inaccessibility of a group or community to money/assets, basic infrastructures and power to influence governmental decisions, which affect them.’

Some other insights that should be added to the above conceptualization are that poverty alleviation should include the provision of education (Aliyu, 2003), advice (Igbinedion and Igbatayo, 2004), training and skills (World Bank, 1997).

In the light of the above additions, we provide a more comprehensive conceptualisation of poverty alleviation. It is concerned with access or increased access of the societal poor to money or credit or assets, education, advice, training, skills, basic infrastructures and participation in governmental decisions that affect them directly or indirectly.

With the availability of the above basics to the poor, poverty alleviation is surely underway. Poverty eradication is more ambitious or difficult to undertake. Hence it is not explored in this paper.

Overview of Micro Finance Activities in Nigeria

The practice of micro finance in Nigeria is culturally rooted and dates back several centuries. The traditional micro finance 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). Other providers of micro finance services include saving collectors and co-operative societies. Some informal names for these in Nigeria are "Osusu" in the Western, "Itutu" in the Eastern, and "Adastu" in the Northern parts of the country. This informal financial system generally has limited outreach due primarily to paucity of loanable funds and risk aversion fears by potential investors. Hence, it could not make appreciable impact on poverty alleviation in the country.

The Nigerian government as far back as 1971 has identified poverty as the bane of rural development in the country. Poverty was found to be a rural phenomenon with 8.4 million of the estimated 10 million extremely poor being from rural areas (World Bank, 1995). Of course, it is now realised to be an urban phenomenon also. To enhance micro finance, government has in the past initiated a series of publicly financed micro finance programmes targeted at the rural and urban poor. Such programmes included Rural Banking Programme (RBP) and the Nigerian Agricultural and Co-operative Bank (NACB), Peoples Bank of Nigeria (PBN), CBs, Nigerian Agricultural Insurance Corporation (NAIC), the Family Economic Advancement Programme (FEAP) and recently the National Poverty Eradication Programme (NPEP) (CBN, 2005). But they have not been largely effective.

The inability of the formal financial institutions to provide financial services and intermediation to both the rural and urban poor, coupled with the non-sustainability of government sponsored development schemes, induced the growth of private sector-led micro finance in Nigeria. However many of them began as non-governmental organisations (NGOs) established for the purpose of eradicating poverty from the rural and urban areas. They depended solely on aids and grants that came from their foreign donors and sponsors. Also 'the deregulation of Nigeria's financial sector since 1986 influenced the rapid emergence of non-bank financial institutions, including CBs, which have been involved in micro financing in Nigeria' (CBN, 1999: 23). These are the institutions or establishments that the government has in the current policy upgraded or provided with an enabling environment to transform into M.F.Bs. At the same time, government is actively encouraging more initiatives from the private sector in the establishment of more M.F.Bs under the new regulation and the guidance of the CBN. A brief examination of the prospects and challenges of micro financing now follows.

Reasons for the Establishment of Micro Finance Banks

The rural sector is made up of small –scale farmers, food processors, informal traders and other micro entrepreneurs. Most of the poor people are trapped in a vicious circle of poverty, which can be broken by micro finance as a poverty alleviation tool (Mosley and Hulme 1998).

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 micro finance institutions, money lenders, friends, relatives and credit unions (CBN, 2005).

The current drive to establish private sector led micro finance banks became necessary because of the following deficiencies prevailing in the existing formal/ informal micro finance institutions in Nigeria.

Low Capital Base

The capital base of existing micro finance institutions in Nigeria is weak compared to that of other countries that have remarkable success in this area. The low capital base of the existing institutions, especially CBs cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. A recent report by the CBN (2006) showed that the reporting 757 CBs all over the country had a total liabilities of only N55.06 billion. While loans and advances amounted to only N16.50 billion, the capital and reserves stood at N12,619.9 billion only. This is why researchers (e.g., Igbinedion and Igbatayo, 2004; Ehigiamusoe, 2006) are agreed that micro finance, which can help to increase the tempo of rural development in Nigeria, suffers from significant under-funding. And commercial banks are usually urged to show interest but they have as yet been reluctant.

Weak Corporate Governance

Most micro finance institutions in the country have been plagued with inept management problems ranging from inaccurate reporting, non-compliance with regulatory requirements, to declining ethics and gross insider abuse of power. There has also been misconduct that has equally led to operational deficiencies and prolonged sub-optimal performance of many existing community banks and micro finance institutions. All of this has been worsened by inadequate or ineffective system of sanctions.

Huge Potential Market

In Nigeria, the market not being served by the existing financial institutions is very large. According to a Central Bank of Nigeria report (CBN, 2005), the average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1 to 57,000 inhabitants, which means that less than 2% of rural households have access to financial services. Furthermore, the eight leading Micro Finance Institutions (MFIs) in Nigeria mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit with an average loan size of N8,206.90. This translates to just about 320,000 membership-based customers that enjoyed one form of credit or the other from them. This number is simply insignificant.

Special Distinguishing Features

The micro finance banks are required by law to be well capitalized, technically sound and oriented towards lending to low-income earners. They basically are of two categories. The first Community Banks (CBs) were licensed to operate as ‘unit banks owned and managed by the owner-communities, and designed to meet the aspirations of the rural (and also urban) population who do not have access to the conventional banking institutions’(CBN, 1999:23). The second category comprises micro finance banks licensed to operate in a State in virtually similar circumstances like the CBs. For the former a minimum paid up capital of N20 million is required for each branch opened while the latter requires a capital base of N1.0 billion. The recognition of these two categories of banks does not preclude them from aspiring to have a national coverage subject to their meeting the prudential requirements. This was to ensure an orderly spread and coverage of the market and to avoid, in particular, concentration in areas already having large numbers of financial institutions (CBN, 2005). Such banks also differ from the conventional banks in Nigeria, because their emphasis is geared towards serving the financial needs of the rural and low-income urban population.

Table 1 shows some of the distinguishing features between a micro finance bank and a universal or conventional bank in Nigeria.

Table 1: Distinguishing Features between a Micro-Finance Bank and a Universal/Conventional Bank.

	Criteria	Micro finance bank licensed to operate as a unit bank (Community Bank)	Micro Finance Bank licensed to operate in a state	Universal/Conventional Bank
A	Minimum paid-up capital/shareholders' funds	N20.0 million	N1.0 billion	N25.0 billion
B	Scope of activities covered by license	To operate within a local government area. Not to engage in sophisticated banking services such as forex business	To operate within a state. Not to engage in sophisticated banking services, such as forex business, but can receive tenured loans and equity from abroad.	To operate nationally and also in international markets. To engage in forex transactions and domiciliary accounts for customers.
C	Limitation on credit to an individual or company.	Credit, subject to a single obligor limit of 1% for an individual / corporate entity and 5% for a group of paid-up capital.	Credit, subject to a single obligor limit of 1% for an individual/ corporate entity and 5% for a group of paid-up capital	Single obligor limit applies, subject to asset collateral
D	Limitations on deposits from an individual or a company	No limit	No Limit	No limit
E	Access to public sector deposits	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes.	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes	Permitted
F	Cheque writing accounts	Cheque issuing customized to the correspondent bank.	Cheque issuing customized to the correspondent bank	Cheque issuing freely permitted.
G	Geographical coverage	In rural and urban area/community per bank	Must operate in both rural and urban areas within a state in a proportion prescribed by the CBN	All parts of Nigeria and foreign branches and subsidiaries

Source: CBN, 2005a., 2006

As has already been stated, the goals of micro finance banks are many. Basically they are to help create employment opportunities, increase productivity of the economically active poor, increase standard of living, mobilise savings for effective intermediation, and provide veritable avenues for the administration of the micro credit programmes of government and private institutions. It is as well to provide a diversified, dependable and affordable financial service to the active rural and urban poor, and generally improve rural or /local development. How far has the policy been realized will now occupy our attention.

Prospects and Challenges of Micro Financing in Nigeria

Prospects

The demand for micro finance in Nigeria is high and increasing. Continuous lay off of workers from both public and private sectors of the economy and the growing number of unemployed graduates from schools and colleges are pushing a large proportion of the population into the informal sector of the economy (CBN, 2005). Also the domestic market is large with over 140million people in need of various goods and services. Large volumes of financial transactions are carried out by micro finance institutions with little or no publicity around them and they are breaking even. Their operations are not explicitly captured in official statistics and their activities are hardly reported by the mass media, yet their transactions impact greatly on a large section of the population, especially the rural and urban poor. This holds promises, prospects and opportunities for both the monetary authorities, M.F.B institutions as well as the poor masses. Some of the benefits are briefly highlighted below.

First, the establishment and strong encouragement and indeed controls, like in China's rural transformation operations (See Nyberg and Rozelle, 1999), of private sector led M.F.Bs in Nigeria is likely to attract a significant level of foreign banks and donor agencies into the country which will become a feature in the industry over time. This will bring about more international confidence in the Nigerian micro finance sub-sector, thereby attracting a huge volume of foreign direct investment and foreign portfolio investment. Secondly, the new government regulations on M.F.Bs will ensure a capital base that can support service delivery channels, which will effectively provide banking services to customers and mobilise funds from the public to the real sector of the economy. To achieve this, the M.F.Bs institutions will need to deploy various capital intensive service delivery channels. Thirdly, injection of fresh capital into the industry will greatly address the case of weak capitalisation directly or indirectly by providing investment capital for service delivery systems and risk management capabilities. This will help improve the ratings of M.F.Bs locally and internationally. Fourthly, the willingness of the low income group to borrow and repay loans at seemingly high interest rates confirms the view that the financial problem of the poor has to do more with access to capital and not high interest rates, though we are not advocating high interest rates' but 'de-control of interest rates' in support of Nyberg and Rozelle (1999). This is a welcome development for M.F.Bs and could be capitalised upon since the rural and urban poor readily patronise them.

A fifth benefit is that available data in the micro finance sub-sector indicate that the poor are bankable with high repayment rates averaging over 80 percent. These high repayment rates have been traced to the social collateral or collective responsibility of clients who are required to be in groups most of the time. Nyberg and Rozelle (1999:31) style this as 'harnessing peer monitoring through group- lending contracts….' Grouping of clients enhances the security of credits as they jointly assume responsibility for repayments as defaulting members jeopardise the chances of members of the group getting new loans. Thus they put pressure on one another to ensure repayment, which greatly reduces the risk faced by micro finance institutions (Igbinedion and Igbatayo, 2004). The sixth is that the current micro finance policy permits M.F.Bs to fund their operations from equity, savings, interest from loans as well as other sustainable avenues. These include.

> *Access to the State and local government funds to be established with 1% of their annual budgets; access to the National Micro finance Development Funds; access to the 10% portion of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund set aside for micro finance; and access to the Agricultural Credit Guarantee Scheme Fund (ACGSF) (CBN, 2006: 172-173).*

All these would reduce their high dependence on foreign aids and grants and thus help ensure financial sustainability. Finally, there exist many new windows of opportunity for the emerging M.F.Bs in Nigeria, as they have been exempted from value added tax (VAT) on lending and tax on interest income or revenues. This principle of exemption from profit tax is to be applied to any M.F.B that does not distribute its net surplus but rather ploughs it back and reinvests the surplus to finance more economically beneficial micro, small and medium scale enterprises. (CBN, 2005).

Challenges

Over the years, the various specialized financial institutions established by the government and even the private sector-led M.F.Is have been faced with one problem or the other and as such could not meet the objectives for which they were set up. The current task before the CBN and the emerging M.F.B s in ensuring the realisation of the objectives of reducing poverty, by increasing public access to micro credits, is indeed an onerous one. This is especially so as it is basically a pioneering effort with no strong and sustainable previous internal experience in private sector-led micro financing. Experience of other countries, though germane and dependable may not represent an absolute fit to our peculiar socio-economic environment. In some cases, however as Nyberg and Rozelle (1999) noted in the case of China, the experience is the same in virtually all the less developed countries with regard to low expertise. Some of the specific challenges that have been identified include:

- Lack of country specific experience and technical knowledge on large scale private sector-led micro financing arising from paucity of experienced staff on the subject of micro finance operations from both the regulators' and operators' sides;
- Lack of infrastructures and operational challenges arising from bad roads, unstable electricity supply and poor information and communication technology (ICT) management in Nigeria.

The last problem, so critical, has led to the CBN's issuance of 'Minimum requirements and standards for sustainable Management Information System (MIS) in Micro Finance Banks (MFBs)' through circular letter No. OFID/DO/CIR/Vol.l/482 of August 21, 2006 (CBN, 2006: 181).

- The problem posed by delinquent assets and non-performing loans of M.F.Is, which might distort their financial statements if not well handled. This situation could worsen with the prevalence of falsified records and accounts kept by them, and consequently lead to serious erosion of their capital base. This situation has partly informed the CBN's insistence on a 'Minimum Shareholders' funds unimpaired by losses to operate a unit micro finance bank'. It similarly party informed the CBN's issuance of 'Requirement and Procedures for the conversion of CBs to Micro finance banks, … pursuant to the National Micro finance Policy, Regulatory and Supervisory Framework for Nigeria', in a circular letter No. OFID/DO/CIR/Vol. l/450 of February 3, 2006 (CBN, 2006: 167).
- The possibility of inflow of laundered funds into M.F.Is, coupled with the stretched supervisory capacity as a result of the plethora of capital verification exercise is a major task before the regulators and the M.F.Is.
- The ability of the CBN to wake up to its mandate of managing and rendering assistance to M.F.Is, and strengthening its supervisory arm to effectively curtail any sharp practices by M.F.Bs as well as being proactive in detecting any corporate irregularities in the industry pose a big challenge. Some of the requirements from the CBN, in view of the dominant problem of personnel inadequacy and the threat to the operations of M.F.Bs, are the restructuring and up-grading of the board of directors. Others are up-grading the management and staff in line with mandatory minimum qualifications and experience prescribed in the regulatory and supervisory guidelines for MFBs, and the possession of requisite certificate on micro finance and practices from the Certification Institute (CBN, 2006).
- Problems of self-sustainability, arising from a limited supply of operating funds as a result of the low interest charged for loans. Lending volume and sustainability would further be eroded because these institutions lack incentives to undertake careful underwriting and enforce timely repayment of loans.
- State owned M.F.Is, especially those lacking profit orientation, have been very vulnerable to political influence and manipulations. Beneficiaries of such schemes are frequently selected for political and partisan reasons rather than because they fit the profile of the ostensibly targeted beneficiaries or were sound credit risks. Furthermore, wealthy households appropriated the benefits of many of these programmes because they preferred to borrow from them rather than from the unsubsidized universal banks. Some of them have occasionally defaulted because of their political influence in government and the existence of an ineffective, politically and corruptly battered judiciary in Nigeria, which is just beginning to wakeup.

All the above challenges, which have indeed been rather the problems of all manners of M.F.Is, not necessarily M.F.Bs, constitute the rationale for the better regulated and potentially sustainable, M.F.Bs under the guidance of the CBN.

Conclusion

Micro-financing or micro-credit is as old as Nigerian history with its different names in different parts of the country. This type of micro finance has not been sustainable but has helped a good number of low income Nigerians in the rural and urban areas in the country to live their subsistence living. The government's efforts to sustain micro finance has subsisted simultaneously with the historical ones referred to above. The government's micro finance efforts have been promoted through agencies and institutions which included RBP, ACGSF, NACB, PBN, CBs, etc. It has since been discovered that many beneficiaries from the financing systems tended to regard them as charity or father Christmas gestures and therefore refused or failed to honour the repayment schedules or obligations.

The above scenario greatly informed the reform of the M.F.Is, with the MFBs being the emerging beneficiaries of all the previous efforts. The government is partnering the private sector to ensure the emergence of sustainable MFBs as the dominant M.F.Is in Nigeria. Towards this end, the CBN, following its successful consolidation of commercial banks in Nigeria through re-capitalisation in 2005, has brought its experience in that sub-sector to bear on the emerging peculiar MFBs. A number of regulatory guidelines have been issued since 2005 which are being seriously implemented, to give more confidence to investors (both foreign and local) in the new and fledging industry as discussed earlier in this paper.

All the above efforts have been considered to have some benefits or prospects for micro finance clients and the industry. These benefits include the establishment of private sector-led micro finance banks which will no longer be expected to act as charity homes to borrowers. Other benefits are ensuring a capital base, willingness of the target group to borrow and repay loans, obtaining more funding from other sustainable sources than shareholders, and incentives like exemption from VAT on some transactions.

Like the earlier attempts to provide micro finance or credit to the needy Nigerians, the present efforts have not been without problems. These have included lack of country –specific tested experience for institutional micro finance business, lack of adequate infrastructures, problem of fraudulent persons, supervisory and operational problems.

But in all, this paper has found that MFBs and industry would appear to have come to stay in Nigeria, with the new determination of the CBN on regulating finance institutions very vigorously. A number of recommendations to assist in the sustainability of the MFBs and institutions have been made in the paper. Included in these are the institutionalisation of the MFBs through sustainable regulations and guidelines, which are strictly and objectively implemented. There should be continued financial liberalisation which will, in the long run, encourage savings for more capitalisation of MFBs and hence more credit facilities to borrowers. Development partners have been enjoined to invest in the emerging MFBs as they have potentials to offer regarding business opportunities. The upgrading and provision of infrastructures especially in the rural areas were also advocated, so as to provide the necessary enabling environment for rural dwellers who are generally poor, to try to increase their revenue and hence deposit savings. On the other hand, it is hoped that such rural infrastructures could encourage urban-rural or rural-rural migration.

In Nigeria, political commitment has always remained the vital missing link between what can be done and what is done. The recent commitment of the banking system regulators to micro finance issues represents the foundational requirement needed to address the structural and operational problems of the industry and should therefore not be truncated for whatever reasons.

In spite of the fledging nature of MFBs and industry in the country, there is a lot of potentials from Nigeria for some other African and indeed less developed countries, including China, Egypt, Ghana, Morocco, Senegal, South Africa, and Zambia not MFBs. They can glean from what Nigeria is doing in this matter, as discussed in this paper, to inform them on M.F.Bs, which is somewhat different from the conventional banking industry and the general micro finance institutions.

Recommendations

The presentations in the prospects (benefits) and challenges (problems) in section five of this paper have harped on some of the issues which are briefly canvassed below. A general statement about the recent work of the CBN's (2005; 2006) regulatory framework is in order here. It shows that the apex financial institution, especially with its world acclaimed successful re-capitalisation of conventional banks in 2005, is determined more than ever before to sanitise and firmly institutionalise the financial industry in all its ramifications in Nigeria. This is a cause for cheer which should encourage all investors, both national and international, to be rest assured that it is no longer business as usual in Nigeria.

Flowing from the above, the first recommendation we make is that the CBN that has started the firm institutionalisation of the M.F.Bs in Nigeria, should build on its strength to ensure that its reform programmes in the micro finance sub-sector are driven to their logical conclusion. Nigerians as well as investors of all colourations should be strictly protected from all manners of fraudulent persons. These could be from among directors, staff, shareholders, participants (e.g., suppliers) and stakeholders, (e.g., CBN supervisors) in the MFB industry. The CBN must therefore enforce to the letter, conditions, requirements and guidelines on the personnel (Board of Directors, top management staff, etc.) of MFBs which have been referred to in section three of this paper. In fact, the enforcement of the requirements or guidelines on operators, thereby making them real professionals as well as participants and regulators, would mean solving the problems of the MFBs more than halfway. For as Likert (1961) correctly observed, right or appropriate organisational personnel are the "live-wire" of any organisation. Without them, every other thing in the organisation is moribund. The heart of this recommendation is that the CBN should strictly specify regulatory guidelines for MFBs to operate, and then strictly enforce them objectively without fear or favour. This recommendation agrees with 'strict regulatory environment' for the operation of M.F.Is in China (Nyberg and Rozelle, 1999: 31).

Enforcement of regulatory and supervisory guidelines, which is most dominant in the successful operations of the MFBs and other M.F.Is in Nigeria, cannot be expected to be done alone by the CBN. The active and unalloyed participation of other agencies or institutions like the law courts, Economic and Financial Crimes Commission (EFCC), the police, etc., must of necessity, be sought as coordinates to the CBN in this matter. As Carmody (1998), and Imhanlahimhin (2001) have pointed out, the high level enforcement of laws, rules and regulations begets higher goals achievement in the social system or organisations concerned. In short, we recommend that the State's law enforcement agencies must be above board in assisting the CBN in the enforcement of the regulatory guidelines for MFBs to operate. Carmody (1998: 35) puts it this way, the State must be 'strong and hard' to bring about development, in this case, through the MFBs.

The financial liberalisation, which is part of the reform that the CBN has embarked upon with the 2005 re-capitalisation exercise of the conventional banks and the current reform of the M.F.Bs must be pushed to the logical conclusion. These include the 2005 and 2006 Regulatory and Supervisory Guidelines for Micro Finances Banks. Research has shown that in the long run, the effects of financial liberalisation on savings are positive. 'Liberalising domestic finance markets – particularly if done by strengthening the domestic banking sector (which includes the micro finance banks) improves the efficiency of financial intermediation and hence investment, contributing to growth' (Loayza, et al; 2004: 405). This is exactly what the CBN is doing in Nigeria which, it is hoped, will strengthen investors' confidence in the finance industry. Financial liberalisation of micro finance in Nigeria geared towards helping to transform the poor and rural areas, contrasts sharply with what obtains in China. There, they have a system of controls of "interest rates" which Nyberg and Rozelle (1999: xii) have rightly criticized.

Development partners (foreign and local, including non-governmental organisations, universal or conventional banks) should invest in the emerging MFBs, especially with the new CBN which is objectively working to shore up the fortunes of the financial industry in Nigeria. Thus, their paid-up capital can increase for more credit facilities to be made available to micro entrepreneurs. With the earlier recommendation on the needed assistance and cooperation of the State's law enforcement agencies to the CBN, all forms of malpractices, corruption and fraud could be reduced to the bearest minimum in Nigeria. It is heartening to note that the CBN has embarked 'on a number of measures on Anti-money Laundering/ Combating Financial Terrorism' which led to a 3% decline (no matter how small, it was not increase) in 'fraud and/or forgery in the banking industry in 2006' (CBN, 2006: 22). With the stand of the administration of President Umaru Musa Yar' Adua, that there should be no hiding place for malpractice, fraud or corruption in Nigeria, which cohabits with the CBN's position, development partners surely have bright investment prospects in the emerging MFBs industry in the country.

Infrastructures, such as good road network, electricity, potable water, functional schools, and health centres, should be provided especially in the rural areas in Nigeria. These would encourage urban-rural migration, or rural-rural migration as it is being experienced in China with the establishment of rural industries (Nyberg and Rozelle, 1999). In turn this will increase the active working population in the rural areas. This will also have an implication for revenue generation. The independent variable in this recommendation is the availability of enabling infrastructures facilities environment, while the dependent variable is revenue generation for deposit savings mobilization to increase the MFBs'/financial institutions' base for more micro credit financing of micro entrepreneurs/borrowers in Nigeria.

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