

A COUNTRY PAPER

ON

**THE INNOVATIVE MICRO-FINANCE
DELIVERY SYSTEMS FOR RURAL POVERTY
ALLEVIATION – *THE NIGERIAN EXPERIENCE***

PRESENTED

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**ON THE OCCASION OF INTERNATIONAL
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ON

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FOR RURAL POVERTY ALLEVIATION
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ABSTRACT

The paper tries to highlight a brief profile of the Nigerian nation showing the climate, government system, foreign relation, agriculture and rural development petroleum, communication, transportation industrialization and tourism policies of the country.

It also examine the microfinance policy, meaning of micro-finance, overview of micro-credit activities in Nigeria, detailed micro-finance policy and its objectives, strategies for its implementation etc.

INTRODUCTION

BRIEF NOTES/PROFILE ON NIGERIA

Official Name:	Federal Republic of Nigeria
Federal Capital:	Abuja (from 12th December 1991)
Area:	923,768,64Sq. Kilometres
Land Area:	910,770Sq. Kilometres
Population:	150,000,000 (population census 2006)
Adult Literacy:	57.1%
Principal Rivers:	Niger and Benue
Location:	Western Africa, bordering the North Atlantic Ocean,
Administrative Divisions:	36 States and 1 Territory
Cabinet:	Federal Executive Council
Legislative Branch:	Bicameral National Assembly: Senate, and House of Representatives
Judicial Branch:	Supreme Court, Federal Court of Appeal
Independence Day:	October 1, 1960 (from British Govt.)
Remembrance Day:	January 15
Currency:	Naira = 100 kobo
Time:	GMT + 1 EST + 6
Climate:	Humid Sub-Tropical
Weights and Measure:	Metric
Legal System:	Based on English Common Law, Islamic Law and Customary Law
Tax System:	British Oriented
VAT:	5% (Introduced Jan. 1994)
Business Hours:	
Banks:	8 a.m. – 3:30p.m Monday – Friday (not all Banks)
Federal Government Offices:	7.30 a.m – 3:30pm. Mon-Fri
Commercial Offices:	8a.m – 5:00 p.m Mon – Fri.

Brief on Nigeria

Nigeria was a colony of the Great Britain. On October 1st 1960 she became independent, with Lagos as the capital. Nigeria is located in West Africa and is bordered by French-speaking countries, namely the Republic of Niger in the North, Republic of Cameroon in the East, Benin Republic in the West and the Atlantic Ocean in the South. On 12th December 1991 the capital was officially transferred from Lagos to Abuja. English is Nigeria's official language with three national languages of Hausa/Fulani, widely spoken in the North: Yoruba, widely spoken in the West and Igbo in the East. Nigeria has a total landmass of 923,768sq km with a population of over 150million people, comprising over 250 ethnic groups. The country is a rich blend of exciting cultural diversity that has produced a land of unparalleled opportunities with warm, friendly and accommodating people. It is symbolic of our unity in diversity that adherents of Christianity, Islam and Indigenous religion co-exist, very often in the same families.

Climate

Nigeria has eight ecological zones, ranging from dry and intermediate savannah, through tropical rainforest to mangrove swamps and dry, sandy areas. The varied climate makes for equally varied crops in the different regions. The annual rainfall in the south is more than 250cm and as much as 320cm in some parts. In the north, annual rainfall is 70 to 80cm and as little as 50 to 60cm in certain parts.

Government

Nigeria is a Federation of 36 states and the Federal Capital Territory, called Abuja, which serve as the capital city and seat of Government. Nigeria practices Presidential democracy and the head of the government is addressed as President and Commander in Chief of the Armed Forces of Federal Republic of

Nigeria. A Governor, who is the presiding officer, heads each state, while the administration of the Federal Capital Territory is being overseen by an appointed Minister, who is also a member of the Cabinet. There are 774 local government councils, which are manned by chairmen. The present government came into power on May 29th 2007 and is headed by His Excellency, President Umaru-Musa Yar'adua.

Foreign Relations

Nigeria enjoys excellent relationship with many countries of the world resulting to cordial bilateral relationships. Nigeria, as a notable member the United Nations, has held positions of responsibilities bordering on global issues. Nigeria play active roles in the United Nations and its agencies, the African Union (AU), the Commonwealth and closer home, the Economic Community of West African States (ECOWAS). As a key member of ECOWAS and the UN, Nigeria has played major roles in peacemaking and peacekeeping processes in the sub-region, as well as in other parts of the globe, such as Yugoslavia and Bosnia. Also, Nigeria is a member of the Common Wealth of Nations and other International Organizations such as the Organization of Petroleum Exporting Countries (OPEC), International Labour Organization (ILO), International Monetary Fund (IMF) and the World Bank. Nigeria has also provided its key professionals and statesmen to assist other nations in their development, through the Technical Aids Corps (TAC). These Nigerians function mainly as doctors, nurses, teachers, scientists and engineers in these countries. The emoluments of these Nigerian professionals are paid 100% by the Nigerian government. It is important to observe that the administration of former President Olusegun Obasanjo has expanded Nigeria's foreign relations outlook, reaching out to many countries and organizations, formalizing relations with them for mutual beneficial economic and other activities.

Agriculture

The country is blessed with good and favourable climatic conditions, which allow for agricultural produce to thrive. Agriculture accounts for over 40% of the country's GDP and employs about two-third of the national workforce; indeed, it is the major employer of labour. About 70% of Nigeria's populations live in the rural areas. Consequently, the government has initiated several agricultural programmes aimed at boosting the production of industrial and household crops. Some of these programmes include the Presidential Initiatives on Cassava, Rice, Livestock, Fisheries and Vegetable Oil, as well as the National Fadama Development Programme. In addition, government has provided loan facilities aimed at empowering, reinforcing and repositioning the farmers to meet the emerging agricultural challenges. The National Agricultural Policy and the National Policy on Integrated Rural Development are already in place to achieve the much-desired national food security and poverty reduction. Government recognizes that the private sector is the engine wheel of any economy and has equally provided a conducive environment for private sector investment in agriculture and Rural Development.

Rural Development

The rural sector is central to Nigeria's development strategy. The sector employs nearly half of the country's labour force, generates one third of its Gross Domestic product (GDP), and accounts for 5% of its total export. Consequently, in order to enhance the efficiency of the sector, the former administration of President Olusegun Obasanjo on Tuesday, 11th December 2001, launched the National Policy on Integrated Rural Development. This Policy is hinged on five core principles of non-interventionist, Consistency, participatory, sustainability and equity. It provides a broad framework for the delivery of Integrated Rural Development Programmes as well as addresses

comprehensively, the multiple issues and options that are inherent in integrated rural development strategic programming.

Petroleum

Petroleum is Nigeria's major export and income earner. Nigeria is a member of OPEC and has about 30 billion barrels of crude oil reserve. The Nigerian National Petroleum Corporation (NNPC) is the body charged with the responsibility of overseeing the activities of oil companies in the country and making fuel available for domestic consumption.

Communication

The introduction of the Global System of Mobile Communication (GSM) in Nigeria's communication system has improved communication network in the country. The GSM network can be accessed even in the rural areas. The GSM network service providers presently operating in the country are M-TEL, MTN, Celtel, and Globalcom, Multilink and etc. Job opportunities for several thousands of people in the country have been met through the introduction of the facility. Also it has made business transactions easier and more convenient.

Transportation

Nigeria has four operational international airports located in Kano, Port Harcourt, Lagos and Abuja. There are also 17 other operational domestic airports in 17 cities around the country. There are domestic or local air travels to almost all the state capitals in Nigeria. Road transportation is the major means of transportation. With the huge amount spent on road maintenance and construction of new ones, coupled with the efficiency of the officers and men of the Road Safety Commission and other law enforcement agents, the roads are relatively safer for travel. Nigeria has three operational seaports. Two are located in Lagos State, South West of Nigeria, while one is at Onne, near Port

Harcourt, Rivers State in the South-South area of the country. Government has put in place a 25-year Strategic Development Plan for the resuscitation and development of the railway system in the country. With this plan it is envisaged that the railway system will soon assume its traditional role of providing the cheapest and safest means of transportation.

Industrialization

Government's drive toward industrialization is based on privatization and private participation. To this end, government has either commercialized or privatized almost all her companies, and is providing enabling environment for private investments, for example the establishment of the Bank of Industry (BOI) and other financial institutions which would provide means for investors to access capital for the establishment of industries. Also, government is encouraging the establishments of small and medium scale industries (SMIS) and to promote and develop this sector, government launched the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2001, which would facilitate the industrialization process.

Tourism

Nigeria is indeed a tourist paradise. Tourists come face to face with the most intricate works of the creator as they venture into the interior parts of the country, they are exposed to the beautiful undulating valleys and rocks of unusual and inexplicable shapes and formations, the meandering streams of water of the Niger Delta regions and the ancient caves littering the East and Western parts of the country. Other notable tourist sites include the Obudu cattle ranch, Yankari Games reserve, Kanji Games Reserve, the Mambilla Plateau, Olumo Rock, Ogbunike Cave, Ikogosi Warm Spring, etc. In addition, the historical sites such as the ancient walls of Benin and Kano; Badagary, where the first story building in Nigeria was erected, and the location of the

slave museum; the slave ports in Brass and Bonny and the Emir of Dura's palace. Nigeria has a rich and diverse culture, some of the notable festival in Nigeria are Eyo Festivals in Lagos State, Kwaghi Festival in Benue State, the Argugu Fishing Festival in Sokoto State, the new Yam Festivals of the Igbos, Boat Regatta of the people of the Niger Delta, the Durbars of the Northern region as well as the Rock Paintings of Birnin Kudu in Jigawa State.

MICRO – FINANCE/CREDIT, POLICY, & DELIVERY SYSTEM IN NIGERIA.

(a) **INTRODUCTION:** The central Bank of Nigeria is the apex bank that regulate all financial issues in the Country. It controls and provide policy guideline to all other banks and financial institutions in the country.

(b) One immediate justification for the formulation of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria which was launched on 15th Dec., 2005 is that the formal financial system provides services to only about 35% of the economically active population, while the remaining 65% excluded from access to financial services. This 65% are served by the informal financial sector (not regulated by the CBN) through Non Governmental Organization Micro financial Institutions (NGOMFIS), money lenders, friends, relatives and credit unions. For meaningful economic growth and development to be achieve, a well focused programme that would enhance the access of the poor people (who are in the majority) to factors of production, especially credit must be put in place.

(c) WHAT IS MICROFINANCE

Microfinance is the provision of credit, saving and other financial services to micro entrepreneurs and low-income borrowers. It is considered distinct from the intermediation of the formal financial sector because it specifically targets low income people who lack access to credit for their income generation of production activities.

The cost of administering large number of very small loans without collateral is considered by deposit money banks to be prohibitive. As a result, poor people are affectively being denied access to formal credit. Thus, the underlying objective for employing micro-finance as poverty reduction strategy is to assist the economically active poor who cannot make savings, accumulate asset or invest in any meaningful income generating activity that would help to break the circle of poverty. Traditional lending schemes such as “Adashi” and “Esusu” are good examples of microfinance schemes. These institutions create access to credit for the poor and place obligation on them for proper utilization and complete repayment, at commercial rates.

OVERVIEW OF MICROFINANCE/CREDIT ACTIVITIES IN NIGERIA

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 earner. They are mainly the informal Self-Help Groups (SHGS) or Rotating Savings and Credit Associations (ROSCAS) types. 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 as mentioned earlier.

In order to enhance the flow of financial services to Nigeria rural areas, Government has, in the past, initiated a series of publicity-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural Banking Programme, sectorial allocation of credits, concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigeria

Agricultural and Cooperative Bank Limited (NACB), the National Directorate of employment (NDE), the Nigeria Agricultural Insurance Corporation (NAIC), the peoples Banks of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In year 2000, Government merged the NACB with the PBN and FEAP to form the Nigeria Agricultural co-operative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPED) with the mandate of providing financial services to alleviate poverty.

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 programmes.

Since the 1980s, Non-Governmental Organizations (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 largely to 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. The NGOs obtain their funds from grants, fees, interest on loans and

contributions from their members. However, they have limited outreach due, largely, to unsustainable sources of funds.

MICROFINANCE POLICY

Policy Objectives

The specific objectives of this microfinance policy are the following:

- ❖ 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;
- ❖ Promote synergy and mainstreaming of the un-inform sub-sector into the national financial system.
- ❖ Enhance service delivery microfinance institutions to micro, small and medium entrepreneur.
- ❖ Contribute to rural transportation and Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

- ❖ To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.
- ❖ To increase the share of micro credit as a percentage 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 5 percent in 2020.

- ❖ To promote the participation of at least two – three of the states and local governments in micro credits financing by 2015.
- ❖ To eliminate gender disparity by improving women’s access to financial services by 5% annually; and
- ❖ To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

Policy Strategies

A number of strategies have been derived from the objectives and target as follows:

- ❖ License and regulate the establishment of microfinance banks (MFBs)
- ❖ Promote the establishment of NGO-based microfinance institutions.
- ❖ Promote the participation of Government in the microfinance industrial by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.
- ❖ Promote the establishment of institutions that support the development and growth of microfinance service providers and clients
- ❖ Strengthen the regulatory and supervisory framework for MFBs.
- ❖ Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
- ❖ Mobilize domestic savings and promote the banking culture among low-income groups;
- ❖ Strengthen the capital base of the existing microfinance institutions;
- ❖ Broaden the scope of activities of microfinance institutions;
- ❖ Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiative.

- ❖ Clearly define stakeholders' roles in the development of the microfinance sub-sector and
- ❖ Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

CONCLUSION

Although, Nigeria has made giant steps in creating more areas of micro-credit finance provision aimed at poverty alleviation, yet there are major challenges working against the success of this programmes. These amongst others includes:

- (i) Inconsistence in government policy
- (ii) Political instability
- (iii) Poor implementation of the programmes
- (iv) Lack of adequate funding,
- (v) Poor rate of loan repayment etc.