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Sustainable Rural Development in Nigeria through Microfinance: The Place of Women (*Pp. 252-264*)

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Abstract

The achievement of the modest goal of stopping the traumatic march of poverty, has so far eluded Nigeria and may not be able to achieve the more ambitious Millennium Development Goal (MDG) target of reducing poverty by half by 2015. Despite substantial improvements since attainment of independence in Nigeria like most developing nations, extreme poverty remains widespread. This paper uses a simple non-technical framework to explain the poverty profile of Nigeria, anti-poverty programmes, poverty indicators and the priority of rural development in the country. This framework which accounts for the dynamic interaction between the rural areas and poverty also motivates a strategy for dealing with poverty in the country. The paper however, calls for concerted informed efforts to eradicate poverty on the scale called for by the Millennium Development Goals through the promotion of microfinance institutions to empower the poor particularly the women

Key words: development, empower, poverty, dehumanizing, institutions, goals, microeconomic etc.

Introduction

The most comprehensive perception of development is one that conceives it as a multi-dimensional process involving changes in structures, altitudes and institutions, as well as the acceleration of economic growth, the reduction of

inequality and eradication of absolute poverty. According to the Central Bank of Nigeria (2000) a precursor of such change capable of fostering development is the ability of policy makers to induce desirable changes in the economic structure of any nation. Such policies must induce a wide range of changes in the entire social system, tuned to the diverse basic needs and desires of individuals and social groups within the system. Also, it should move away from a condition of life that is widely perceived as sub-standard as experienced in the rural areas and towards condition of life regarded as materially and spiritually better.

Despite significant improvements since attainment of independence in Nigeria like many nations in the developing world, extreme poverty remains widespread. The Nigerian economy began to experience recession from the early 1980 and as a result, she moved from middle level income and a developing industrial nation to become one of the poorest nations in the world (Central Bank of Nigeria, 2002-2003). Specifically, the incidence of poverty has been high and upward swinging since 1980. Data from the Federal Office of Statistics (FOS) on the poverty profile of Nigeria (1999) showed that the incidence of poverty rose from 28.1 percent in 1980 to 46.3 percent in 1985 but dropped slightly to 42.7percent in 1992 before rising to 65.6 percent in 1996.

Based on its low Gross National Product (GNP) per capital, 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 146th in 1998 and 156th out of 179 in 2001. Comparatively the incidence of poverty is more pronounced in the rural areas where over 60 percent of the population live with about 65percent of them engaged in agriculture production.

Rural poverty rose from 29.3 per cent in 1980 to 51.4, 46.0 and 69.8 percent in 1985, 1992 and 1996 respectively. Similarly, urban poverty rose from 17.2per cent in 1980 to 37.8percent in 1985 and 52.8 per cent in 1996. The specific causes of poverty phenomenon have been identified as lack of employment opportunities, inadequate access to physical assets e.g land and capital, inadequate commitment to rural development programmes; inadequate access to social and infrastructural facilities, ineffective public policy on natural resource management; lack of beneficiary participation in development programmes as well as inadequate attention to social security.

Poverty Indicators and Priority of Rural Development in Nigeria

The phenomenon of poverty has for some time now been of great concern to many nations, rich and poor alike. As a result, poverty reduction strategies have been the centre-stage of development programmes. Poor nations are more eager than ever before to get out of poverty while the rich nations are increasingly aware of the need to promote security through poverty reduction. Perhaps the best way to appreciate the importance of the concern, is to place it in the context of the Millennium Development Goals (MDGs) adopted by the United Nations in 2000. According to the United Nations (UN), the development goals set out in the Millennium Declaration express the resolve of the world's political leaders to free their fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to make the right to development a reality for everyone and to free the entire human race from want" (UN, 2000:8).

Traditional poverty analysis makes use of certain indicators. The most commonly used and understood is a poverty line. This according to the National Bureau of Statistics (2005) has become the standard tool of policy makers for poverty monitoring. In poverty line, people are counted as poor when their measured standard of living falls below a minimum acceptable threshold. There are various measures that can be used to define this minimum level of welfare: e.g. food energy in-take, dollar per day, subjective measure etc and much controversy surrounds the choice of poverty line. Whatever methods used to define this threshold, the poverty line is a relatively arbitrary divider of poor and non-poor.

Rural development is a strategy designed to improve the economic and social life of the people in the rural areas. Diejomaoh (1984) see rural development as a process of not only increasing the level of income per capital in the rural sector but also the standard of living of the population. Udo (1984) however contended that the standards of living depend on a complex of factors such as food and nutrition level, health, education, housing, recreation, security etc. The major objective of rural development therefore encompasses improved productivity, increased employment and thus high income for target groups as well as improved qualities in the basic needs of life which include food, shelter, job opportunities, health services, education, improved attitudes like political behaviour and so on.

Rural development has become a national imperative in Nigeria like most countries in Africa. A number of reasons can account for this. The

arguments for giving priority to rural development are powerful and widely accepted. Firstly and most obviously, the majority and usually the overwhelming majority of the people live and find their livelihoods in the rural areas. In Nigeria about 70% of the population reside in the rural areas, in Eastern Africa according to Chambers (1974), the proportion of the population described as rural varies, with according to official statistics 97 percent in Burundi (1970), 95 percent in Tanzania (1967), 95 per cent in Uganda (1969), 90 percent in Kenya (1969) and 70 per cent in Zambia (1971).

Okoye (1992) also reported that the development of rural areas in Nigeria, is now being stressed by the federal, state and local government because of the realization that the previous urban based development “from above” strategies adopted in Nigeria so far, have proved counterproductive. Okoye maintained that the urban and rural areas are in systemic symbiotic relationships and any meaningful development strategy, must take cognizance of the fact that the unwholesome phenomenon of rural – urban dichotomy in the national landscape connotes underdevelopment. Moreover, it is no longer argued that many of the problems of the urban areas are traceable to the inadequacies in the rural areas.

Chambers (1974) argued that the drift to the towns is another matter of concern. The high costs of urban housing and services, the health hazards of shanty towns, the security and political aspects of a large body of urban unemployed and sometimes the adverse economic effects of rural depopulation – these are all reasons put forward for wishing to restrain urban growth; and one way of achieving this is seen to be the promotion of additional income and employment opportunities in the rural areas.

There is a cluster of now orthodox economic arguments for giving priority to rural and particularly agricultural development. The errors of economists after the Second World War, with their belief in industrialization as the prime strategy for underdeveloped countries, have passed into history. The importance of self-sufficiency in food in order to save foreign exchange and to keep down urban wages; the need to develop cash crops in order to earn foreign exchange, particularly in those countries which lack minerals or oil for export; the existence of under exploited land and labour which can relatively easily be brought into production; the desirability of increasing rural purchasing power to provide markets for the new urban products – these are among the most persuasive economic reason for the shift of priority

towards agricultural development, reasons which seem unlikely to lose much of their force during the next decade and perhaps for much longer (Chambers, 1974).

Another reason for rural development relates to the egalitarian policy of the federal government which has sought to achieve a balance in the development of the different sectors of the economy and the various geographical areas of the country. According to Muoghalu (1992) rural development has also been given a boost by the growing emphasis on self-reliance, especially in the face of dwindling foreign exchange receipts to service the import sector. This has acquired increased political content as independence means nothing if we have to depend on external sources to sustain the nation in basic food items and industrial raw materials.

Finally, there is the compelling need to integrate the rural areas of the country into the mainstream of national development politically, socially and economically and for this mobilization, rural development is a potent factor.

A Brief Review of Poverty Reduction Measures in Nigeria

Poverty reduction measures consist of series of purposive acts and measures designed to address poverty problem through the provision of basic needs such as health services, education, water supply, food, minimum nutrition requirements and housing among others. The National Planning Commission (2005) however, observed that the response of various administrations to the poverty problem appears to have been largely adhoc and uncoordinated. A recent survey of the Commission on policies and interventions chronicles 28 federal projects and programmes with poverty reduction thrusts.

Such poverty reduction efforts include: Rural Electrification Schemes, Credit Schemes to small holders through various specialized institutions such as People's Bank, Agricultural and Cooperative Development Bank, Community Banks, NERFUND, SME Credit Schemes, the Family Economic Advancement Programmes (FEAP), Universal Primary Education Schemes and Low Cost Housing Schemes. Others include: Transport Schemes such as the Urban Mass Transit, Health Schemes such as Primary Health Care Programme, the activities of the Directorate of Food, Roads and Rural Infrastructure (DFRRI), the National Directorate of Employment (NDE), Better Life for Rural Women Programme as well as the Family Support Programme (FSP). More recent programmes include the National Poverty

Eradication Programme (NAPEP) as well as the small and Medium Industries Equity Investment Scheme (SMIEIS).

While none of these programmes was completely without merit, none of them had a significant lasting or sustainable positive effects due largely to; poor coordination, absence of a comprehensive framework, excessive political interference, ineffective targeting of the poor, leading to leakage of benefits to unintended beneficiaries, unwieldy scope of programmes, which caused resources to be thinly spread across too many projects, overlapping functions, which led to institutional rivalry and conflicts, absence of sustainability mechanisms in programmes and projects and lack of involvement of beneficiaries in the project design, implementation, monitoring and evaluation.

Sustained Rural Development in Nigeria through Microfinance

To eradicate poverty on the scale called for by the Millennium Development Goals, concerted informed efforts have to be made over the next ten years. Simply defining poverty and “pro-poor” growth will not be enough, our understanding must be brought to the dynamic relationship between inequality and poverty reduction. Policy then must be focused to reduce inequality, especially in high unequal economies (Elbadawi and Milante, 2005). The policy outlined should be able to address issues of unequal opportunity, as identified in the World Development Report, 2006, Equity and Development (hereafter WDR 2006). THE WDR 2006 identifies the following broad areas of unequal opportunity: political access, access to education, health care, shocks, access to infrastructure and market failures and investment opportunities, which is the focus of this section of the paper.

In market failures and investment opportunities; entrepreneurs and small landholder are often limited in their access to credit that could make their small businesses viable and raise their incomes above poverty line. Extraordinary high interest rates, limited capital and the risk of appropriation often keep the underprivileged operating at levels of marginal productivity that are simply not competitive in regional or world markets. Recent policy recommendations such as those seen in Farrington et al (2002) and Meculloch and Ota (2004) suggest that improvements in access to credit in the area of horticulture in the presence of small landholders can dramatically decrease inequality and poverty.

The availability of accessible financial instruments, services and institutions for the poor has been identified as a more direct microeconomic link between financial development and poverty reduction. It is realized that in most developing countries, financial institutions are unwilling or unable to supply financial services and often appear to have no interest in lending to the poor. Rau (2004) observed that loans from government institutions or private banks tend to enter the hands of the wealthiest segment of the targeted group because of the high cost of lending smallest borrowers with little or inability to offer collateral. Consequently, the alternative financial institutions (AFIs) or rural and microfinance institutions (MFIs), have tried to fill the gap left by the formal financial institutions. According to Holden and Prokopenko (2001) the availability of credit from semi-formal microfinance institutions as well as informal providers is currently seen as an important element in generating employment in small informal business and also has a potential to reduce vulnerability and increase the income of the poor.

The Concept and Role of Microfinance in Poverty Reduction

The unwillingness of the formal financial institutions to provide financial services to the urban and rural poor coupled with the vulnerability of government sponsored development financial schemes, contributed to the growth of private sector-led microfinance in Nigeria. Anyanwu (2004) however, noted that before the emergence of formal microfinance institutions, informal microfinance activities have flourished all over the country. According to the Central Bank of Nigeria (2000), informal microfinance is provided by traditional groups that work together for the mutual benefits of their members through the provision of savings and credit services. They operate in Nigeria under different names such as: “Ususu or Esusu,” “Etoto,” “Adashi” etc.

The Central Bank of Nigeria survey (2001) observed that the operation of formal microfinance institutions in Nigeria is relatively new, as most of them were registered after 1981. Although the availability of microfinance and the establishment of MFIS are expanding in Nigeria, there are yet no established government policies and mechanisms for regulating and supervising activities in the sector (Auyanwu, 2004). In 2000 however, a national conference on microfinance was organized by the Federal Government of Nigeria. The workshop recognized that the development of appropriate Microfinance Policy (MFP) was critical to the development of sound

microfinance practice, sustainable MFIS and by extension, viable micro enterprises in Nigeria.

Successful microfinance initiatives must create systems that bridge the gap between formal institutions and the poor. This includes multi-functional systems that deliver social as well as financial intermediation services to the poor. These systems usually come in one or two forms. They can be parallel systems in which the group provides both social and financial intermediation and brings into existence financial system alternatives to the formal institution. The second type – linking systems – involves one institution (e.g an NGO) providing the social intermediation service by linking the organized poor to a mainstream bank that provides the financial intermediation service.

Social intermediation strategies vary considerably in methodology and practice, depending on a number of factors, including institutional vision, organizational models and services offered. In terms of institutional vision and organizational model, it is important to establish whether the institution wishes to create a credit delivery system or to create a community – controlled financial intermediary. While the former requires that emphasis be placed on fostering small mutual guarantee self-help groups (e.g Esusu or Ususu), the latter focuses on creating local financial structures with autonomy in loan decision and management such as exists with village or community bank type institutions. If the goal is to support a broad-based social and economic entity, where collective assets are created and technical, market and social support services are provided in addition to financial services, then the model according to Aryeetey (2005) tends more towards a savings and credit cooperative, very much like some of what one finds in the community based development organizations.

In terms of service mix, social intermediation can range from the simple to the complex. This is in offering organizational and financial skills to borrowers, to a broad range of social services to facilitate participant development in broader ways. The sequencing of services Aryeetey further contended can also vary – sometimes it is considered necessary to provide social services in parallel with financial skill development to issue of specialization versus diversification which is not easily resolved.

Uncollateralized loans and fully liquid deposits are two financial products that could be particularly important to the poor. Since the poor are typically denied these products by formal financial institutions, the only alternatives

they have available are informal financial institutions, defined as alternative financial institution (AFIs) (CGAP, 2004a). Studies from a number of countries suggested that such institutions may contribute significantly to the course of poverty reduction and possibly to the achievement of pro-poor growth. Littlefield, Morduch and Hashemi (2003) provided some evidence that the availability of microfinance services for poor households is a critical factor that can contribute significantly to the achievement of the Millennium Development Goals. The ability to borrow a small amount of money – to take advantage of a business opportunity, to pay for school fees or to bridge a cash flow gap – can be a first step in breaking the cycle of poverty in Nigeria. As Littlefield et al (2003) rightly noted, microfinance is unique among all development interventions because it provides access to flexible, convertible and affordable financial services that empower and equip the poor to make their own choices and build their way out of poverty in a sustained and self-determined way.

Similarly, CGAP (2004b) observed that microfinance institutions are usually credit-focused and they aim at lower-income clients. They are usually not profit maximizers but rather make use of strikingly successful new technology for making and recovering tiny uncollateralized loans. Zaman (2004) reported that microfinance services have enabled people to increase their household incomes, build assets and reduce their vulnerability to daily crises. Such services contribute to improved nutrition intake and health care thereby enabling the poor to plan for their future and invest more in their children's education.

The Performance of Microfinance Institutions in Nigeria

The demand for microfinance services is high and increasing in Nigeira but according to Anyanwu (2004) the exact amount is not known. The continuous lay-off of labour from both the public and the private sectors since the introduction of the Structural Adjustment Programme (SAP) in 1986 and the growing number of graduates from schools and colleges is pushing a large proportion of the population into informal sector activities. Many micro enterprises are, therefore, springing up but without bank financial support. The growth in microfinance activities reflects the expansion of informal sector activities and the exclusion of a large proportion of economically active population from the various financial services of the formal sector.

Large volumes of financial transactions are carried out by microfinance institutions with little or no publicity around them. Their operations are not explicitly captured in official financial statistics and their activities are hardly reported on, by the mass media. Yet their transactions impact directly on a large section of the population, especially the poor (Anyanwu, 2004).

However, the CBN survey indicated that there were 160 registered MFIs in Nigeria in 2001, located in 28 out of 36 states in the country and operated largely in the rural areas. Their activities have expanded phenomenally in the last 10 years, in terms of size, branch expansion, staffing, volume and value of both credit and savings. Apart from the emerging trend that microfinance has become a commercial enterprise with some return on capital, the driving force is the desire to extend financial services and improve the living conditions of the poor,. The number of branches operated by 6 MFIs that reported on this issue, the CBN survey noted, increased almost five fold, from 266 to 1,193 between 1993 and 2003 while their employees rose over ten times to 705. The survey indicates that the number of staff employed by the 10 MFIs was 777 in 2003 but this cannot be compared with 1999 as some MFIs did not supply data for that year. The total asset base of the 6 firms that gave data on the two years rose over six fold, from just N54 million in 1993 to well over N348 million in 2003. The two largest MFIs in the CBN sample were excluded in this aggregate because they did not supply data for 1993. They had asset base of N268million and N173 million respectively and adding them up will bring the total asset base to over N789 million in 2003 (Anyanwu, 2004).

Women and Microfinance Institutions

A study of microfinance credit in 36 villages in Bangladesh (CGAP, 2004b) showed positive effect on women's decision making role, marital stability, control over resources and personal mobility. Microfinance is judged to have had such a similar impact on education in Honduras, Uganda and Zimbabwe among others. A study from Bolivia showed a situation where microfinance clients increased their income by two-thirds after joining the programme with some 86% being able to increase their savings. About 78% of those studied, did not have any savings prior to their participation in the programme. Another case of increase in income is from Ghana's "Freedom from Hunger" project clients who were able to improve their income by \$36 compared with \$5 for non-clients. In both Bolivia and Ghana, microfinance clients were

found to have better breastfeeding practice (which are associated with poverty reduction) than non-clients (CGAP, 2004b).

Women have become the focus of many microcredit institutions and agencies worldwide. The reasoning behind this, is the observation that loans to women tend to more often benefit the whole family than loans to men do. It has also been observed that giving women the control and the responsibility of small loans raises their socio-economic status, which is seen as a positive change to many of the current relationships of gender and class. According to the Microcredit Summit Campaign; “1.2 billion people are living on less than a dollar a day. Women are often responsible for the upbringing of the world’s children and the poverty of the women generally results in the physical and social underdevelopment of their children. Experience shows that women are a good credit risk and that women invest their income toward the well being of their families. At the same time, women themselves benefit from the higher social status they achieve within the home when they are able to provide income.

The Central Bank of Nigeria (2001) survey indicated that the bulk of credit beneficiaries were women, as most of the MFIS began as NGOs that had the promotion of female welfare as the basis for their establishment. Thus about 97.4 percent of the clients in the sample in Nigeria were women. Four of the institutions exclusively provide services to women while five had over 90 percent of their clients as females. Apart from the general belief that women are marginalized in terms of economic opportunities and should therefore have separate promotional agenda, the MFIs are of the view that women perform better than men in managing meagre resources and promoting micro enterprises. Other reasons revealed by the CBN survey, were that the ego problem of men make it difficult for them to solicit for small sums of money; and that cultural practices prevent men from engaging in certain businesses, such as petty-trading, hair-dressing, etc.

Conclusion

The expanding microfinance industry in Nigeria faces enormous challenges. The first challenge is for the MFIS to reach a greater number of the poor. The CBN survey indicated that their client base was about 600,000 in 2001 and there are indications that they may not be above 1.5million in 2003. This is too small for a country that has over 90 million people that require microfinance services. There is the urgent need to have in place, a policy framework that will regulate the establishment, operations and activities of

MFIs in Nigeria. This is very important for those MFIs that accept deposits from the public for which there is need for confidence building, efficiency of operations and safety of deposits. Thirdly, funding of real sector activities, especially agricultural and manufacturing production, need to be promoted by MFIs as these sectors provide the foundation for sustainable growth and development. The issue of sustainability is crucial to the continuous operations of the MFIs. Finally, there is need for a comprehensive study on the MFIs in Nigeria that will cover the entire population; estimate the level of financial activities and number of clients; and determine the financial and operational sustainability of the MFI sector.

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