FINANCIAL EMPOWERMENT: THE NEED TO DEVELOP A MORE RESPONSIVE, PRO-POOR STRATEGY IN FINANCING A SUSTAINABLE LINKAGE IN NIGERIA

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Against the background of a few definitions[1], the following issues need to be carefully considered in order to sufficiently address the subject:

- What are the basic criteria for assessing who is rich and who is poor in the context of the definition in Nigeria?
- What are the ultimate objectives and benefits derivable from “empowerment”?
- Should undeserving poor people or group of people be empowered for the sake of it and how do we separate the grains from the chaff?
- Do the poor have all it takes to run profitable business ventures?
- Will they not see the funds as part of their national cake and use it to pursue their basic needs?
- In the absence of collaterals, how will financiers package credit facilities to ensure repayment?
- Do the laws establishing our existing banks allow them to provide credit to the poor?
- Which types of specialized banks are better suited to provide financial services to the poor in Nigeria?
- What are the types of legitimate businesses that can be supported by the financiers?
- Will there be concessionary interest rate for the poor and who will subsidize the cost of the funds?
- How will the subsidy be managed to avoid distortions in the system?
- How best can the credits be structured to ensure overall objectives of financial empowerment?
- Considering the large population of the poor will the credit facilities go round to make meaningful impact?
- How can the stakeholders sustain the financial empowerment?
- Were the past government efforts aimed at providing financial empowerment to the poor in Nigeria successful?
- What were the constraints or obstacles and can the Nation avoid the pitfalls of the past?

These are some of the issues that should agitate the minds of every right thinking Nigerian including the poor in developing a pro=poor approach.

BACKGROUND

The basic objective of this topic, apart from empowering the poor to be economically productive, is also to reduce poverty in this group. Statistics have revealed that poor masses constitute about 65%-80% of the population of developing countries. For financial empowerment to be successful, governments must put in place policies that would raise the level of investment in infrastructures to enhance effective participation of stakeholders.

In the last twenty-five years, most developing countries have paid much attention to financial measures that could empower the poor to participate in productive ventures. These measures are usually designed and implemented by banks, more technically referred to as Micro-Finance Banks (MIC-MFB)

[1] EMPOWERMENT: To give people more control, confidence in themselves or the situations they are in.
POOR: People who have very little or not enough money for basic needs.

EXISTING FINANCIAL SYSTEMS IN NIGRIA

- **Commercial banks.**

In the early 80s, the Central Bank of Nigeria's monetary policy guidelines made it mandatory for commercial banks to open rural branches under the rural banking scheme to facilitate savings and extension of credit to the poor in rural areas. In addition, the banks were to extend a specified proportion of their facilities to small and medium scale enterprises

There is abundant evidence that the commercial banks failed on this mandate due to the following reasons.

- Commercial banks are elitist in nature; the poor have no channel to approach banks for credit.
- Lending is structured for short term lending operations with strict collateral conditions, which the poor cannot afford.
- The banks are interested only in short-term LPO financing with high interest and administrative charges.
- There are also socio-cultural impediments which prevent the poor from approaching the banks for loans

The questions that arose were:

- Where will the poor get the collaterals to secure the loans?
- High interest rate may not make their businesses profitable as their foreign competitors elsewhere secure such loans at 2-5% per annum
- Are there institutions in place to eradicate socio-cultural impediment?

All these led to the abysmal failure of the commercial banks in this direction.

- **Development Banks**

- **Nigerian Agricultural and Cooperative Bank (NACB)**

This bank was established to provide credit to the agricultural sector and by extension, the poor in the rural communities where agriculture is the principal way of life. It was made mandatory for the CBN to contribute 40% of the equities to NACB to finance the programme known then as ***Agricultural Credit Guarantee Scheme Fund.***

Between 1978 and 2000, the Central Bank of Nigeria guaranteed almost three trillion Naira =N=3 trillion (equivalent of about $2.0bn). Unfortunately, the major chunk of this went to the rich farmers rather the poor small ones. There abound several similar initiatives (like the Fertiliser Fund, which, though designed for the poor, always ended up making the rich, even richer.

- **Nigerian Bank For Commerce And Industry**

The Nigerian Bank for Commerce and Industry had similar objectives to provide institutional financing to small borrowers engaged in commercial and industrial production but not eligible to borrow from the elitist Bank of Industry. Like NACB, they also failed to deliver on their mandate.

- **The Peoples Bank of Nigeria (PBN)**

After the introduction of the Structural Adjustment Programme (SAP) in 1986, most banks became distressed and had to cut back on their rural banking activities. The **Peoples Bank of Nigeria** was therefore established to target the urban and rural poor. The bank was opened to mobilize savings and advance credit to the poor.

Between 1990 and 2000, the Federal Government subsidized the PBN to the tune of more than =N=1.8 billion. However, the impact made by the bank to support the poor could not be sustained, hence the bank had to be merged with the Bank of Industry.

- **Nigeria Export-Import Bank (NEXIM)**

This Bank was established to provide liquidity to commercial and merchant banks to support exporters at concessionary interest rates. Exporting however requires huge capital outlay for it to be profitable. At the onset, NEXIM relied solely on subvention from the Federal Government. Expectedly, it fell far short of its mandate, and ended up unable to provide finance to support the poor.

Most of these development banks failed because:

- They are not tailored to meet the needs of the poor as profitable enterprises.
- The poor cannot provide the required conventional collaterals required.
- Banks prefer to provide large loans as result of the high cost of administration involved in a large number of customers.
- Social-cultural attitude of the poor that prevent them from coming up to take loans in the banks.

- **Community Banks**

During the same period of the Structural Adjustment Programme (SAP), Community Banks were opened in the rural and urban areas to complement the activities of the PBN. Unlike the PBN, the community banks are rural based and private sector financed.

The communities themselves, group of private people or cooperatives, fund them. Until recently when the micro finance firms were licensed, this was considered the best pro-poor financial strategy in Nigeria.

- **Micro-Credit Finance Banks**

A few years ago, the Federal Government designed a new initiative that sought to compel Nigerian banks to set aside ten per cent (10%) of their profits before tax, for equity participation in small and medium scale industries. Again, very few MSMEs have been able to access these funds either for domestic development or export.

The crucial issue, however, is how do the poor have access to these funds for development and export? How do the poor overgrow the socio-cultural impediments that hinder them from seeking formal loans to grow their businesses? The answer lies in the establishment of Micro finance firms and the strengthening of community banks.

<u>INNOVATIONS IN ARRANGING FINANCE</u>

Perhaps as a natural response to a common threat, Nigeria's "poor community" – tradesmen, traders, labourers etc. have designed their own type of primitive financing structures. A lot of these have manifested in the form of Cooperatives and informal trade associations. The strategy here is to develop a "loanable capital base" from contributions by members. This is then given out on a revolving basis at lower interest rates.

Another version of this is seen in offices (private and public sector alike) where lower cadre workers agree a "monthly contribution" that is taken by the contributors on a rotational basis.

This enables contributors access to higher and healthier capital with which they have been able to start a street-side trade, a small industry (like garri processing, snailery etc.)

<u>RISING TO THE NEED FOR A MORE PRO-POOR STRATEGY</u>

- **What the Government has done**

The Nigerian Government has, over the past few years experimented with various strategies to address the issue of poverty reduction, alleviation or eradication. Some of these initiatives include:

- Poverty alleviation programme (PAP)

- Establishment of a full agency, under the Presidency, the National Agency for Poverty Eradication Programme NAPEP
- The National Poverty Eradication Programme (NAPEP) of the Federal Government of Nigeria is established mainly to monitor, coordinate and review all poverty eradication efforts in the Country with a view to improving impact and enhancing equity and effectiveness on the use of resources. NAPEP has also been mandated to extend interventions in sectors requiring immediate and/or priority attention.
- Establishment of the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN);
- Creation of a full Agency for the attainment of Millennium Development Goals, (MDGs);
- As stated earlier, a more responsive micro-finance scheme that will not only mobilize savings in the rural areas but also facilitate the on-lending of the mandatory ten per cent (10%) profit before tax which is set aside by the banks.

Ideally, the last provision represents how community and micro finance banks in Nigeria can serve as a vehicle for on lending to the poor. This is because these banks are rural based and their banking approach enables them to use group pressures and other local and traditional approaches to recoup their loans.

The Small and Medium Scale Development Enterprises (SMEDAN) has also been playing a vital role in addressing socio-cultural impediments through education. The agency has done a lot in establishing Business Development Centres, Cluster development initiatives and advisory services on access to trade finance; etc.

SMEDAN could further assist in ensuring that the poor have access to fund by identifying reliable MSMEs and recommending them to the banks, especially the MSME departments of Commercial banks as well as the Bank of Industry.

However, there is a need to streamline the operational modalities of these banks in order to make them more effective and efficient. Nigeria should borrow a leaf from model of countries, which have succeeded in this sector.

Indonesia China, India and Bangladesh are good reference countries. The Grameen Bank in Bangladesh recommends itself for study.

- The bank is one of the most successful micro –credit finance institutions in the world.
- The Bangladesh's Grameen (Village) Bank started in 1976 and it is reputed with pioneering the micro-credit movement all over the developing countries of the world.
- The Bank brought credit to the poor, illiterate and women with a methodology and institution around the financial needs of the poor.

Characteristics of the bank:

- Borrowers fall below certain income group
- Collateral not required
- Clients must join cooperative or belong to five member groups to guarantee one another's credit.
- Group initially evaluates the credit request of others before banks consideration.

Nigerian community and Micro-Finance banks can be patterned after the structure of Grameen Bank for maximum results. The Micro support under UNDP approach is also worthy of note. It is anchored on a set of six guiding principles, strategies and approaches that could be adopted to strengthen the community and micro finance banks. The principles are:

- Adoption of people and community-centered participatory development approach.
- Marching the objectives of the scheme with needs, culture, values and aspirations of the groups and community members.
- Building real partnership among relevant agencies, NGOs, Banks and the beneficiaries.

- Recognition of Government/donor collaboration with banks as well as capacity building.
- Accessibility of the financial services.
- Financial and operating self-sufficiency.

LINKAGE BETWEEN PRO-POOR FINANCINT STRATEGIES AND EXPORT DEVELOPMENT IN NIGERIA

It is saddening to note that most of the Government agencies listed above, established to address the issue of poverty reduction and access to finance, operate independently of one another.

This has made it impossible to establish an authentic direct linkage between their activities and the desirable aspirations of National trade Support Institutions such as the Nigeria Export Promotion Council, the Nigeria Export Processing Zones Authority and others in the same line

CONCLUSION

From the foregoing, it is obvious that for financial empowerment of the poor to be achieved on a sustainable basis in the Nigerian environment, Community and Micro-Finance banks must operate as follows:

- There should be no armchair banking. The banks must be actively involved in the borrowers' businesses;
- They must assist to build, develop and impart business acumen to the poor.
- They should not only assist the poor in their planning, but also support them in their fieldwork with business ideas
- In addition to providing capital, the banks should assist them with vocational training to acquire more knowledge to manage their resources.
- They should identify existing legitimate businesses and provide the required financial support; traders, artisans, hairdressers, tailoring, pure water processing, food etc
- The banks collaterals should be flexible. It should be any form of collateral that both parties find flexible.
- It could be a guarantor, character of the borrower, knowledge and cash flow of the business.
- The banks should engage in information based lending; lending based on knowledge of the industry, business, person, and the socio-cultural economic factors surrounding the business and the owner.
- Loan repayment should be tied to the business cash flows instead of tangible collaterals, which may not be adequate and cumbersome to realize at the end of the day.

On the other hand, genuine and committed efforts must be made forthwith in establishing a direct linkage between all existing Government initiatives and institutions, desirably with export market access as a common goal. Perhaps one of the strongest advantages in Nigeria today, is the availability in abundance, of cheap but skilled and talented labour. A creative approach to harnessing these latent talents for exports will, no doubt prove a strong and innovative strategy to create new wealth.