THE ROLE OF MICROFINANCE BANKS IN THE ECONOMIC DEVELOPMENT OF A NATION [1]

ABSTRACT

This paper examines the important role of microfinance banks in the economic development of a nation. It emphasizes the fact that sustainable economic development in any nation cannot be achieved without rural transformation and the empowerment of rural dwellers. This therefore brings to the fore the urgent need to reposition microfinance banks to optimally play their roles in economic development of our nation. Finally, it affirms that microfinance banks must be at the heart of poverty alleviation programmes and developmental efforts in Nigeria as well as highlighting the contributions of the Central Bank of Nigeria and Nigeria Deposit Insurance Corporation towards achieving these objectives.

1.0 INTRODUCTION

Many scholars have attempted to succinctly define the concept of rural development in the past. Mabogunje (1980) defined rural development as an improvement of the living standards of the low income population living in the rural areas on a self sustaining basis through transforming socio-spatial structure of their productive activities. Adedayo (1983) also described rural development as the improvement and transformation of the rural space in order to enhance the quality of life of the inhabitants.

It is well established that empowerment is closely related to development as it connotes an increase in economic strength of a people. Rural development and empowerment are therefore critical ingredients for alleviating poverty and ensuring a society's economic growth and transformation.

Economic development is about people and their welfare. It is argued that rural dwellers require empowerment to awake and enhance their enterprise and thus make them commercially viable and sustainable.

[1] Being the text of a paper delivered by Alhaji Umaru Ibrahim, Mni, Fcib, at the second North-East Economic summit, 2013 held on 3rd and 4th December, 2013 at the Government House Banquet Hall, Gombe.

The farmers require seedlings, fertilizer, pesticides and farm implements. Empowerment is needed to address the micro nature of most of their enterprises and the often slim margins. Economic growth in the agricultural sector had long been recognized as a precondition to overall economic growth and poverty reduction.

Also, the rural dwellers, the poor and low income families need empowerment to fund their lifecycle needs, via improved healthcare needs, educational needs of their children, better housing, and increase choices in dietary needs and improvement in their knowledge and methods of enterprise. They equally need empowerment to provide rural infrastructure and substitutes to amenities that government is yet to provide. They need empowerment to fund their social activities such as weddings, funerals and of course, disaster relief during the incidence of flood, pestilence, drought and other disasters. To achieve all these, the provision of funds through microfinance banking is considered as the best option available. Microfinance banking is the provision of a broad range of financial services such as deposits, loans, money transfers and insurance to the poor and low income household and their micro enterprises at affordable cost. It is a system of financial intermediation that addresses the multi-faceted challenges of the rural dwellers and low-income households and is arguably adapted to their situation and needs.
The World Bank (1993) categorized microfinance institutions as those institutions which "consists of agents and organizations engaged in relatively small financial transactions using specialized, character-based methodologies to serve low income households, micro enterprises, small farmers and others who lack access to the formal financial system". It is crystal clear from the foregoing that the focus and key objective of microfinance is poverty alleviation or reduction. Indeed, Dr. Muhammad Yunus of the Grameen Bank in Bangladesh noted succinctly that "microfinance is a potent anti-poverty tool". There is therefore an important linkage between access to financial services (financial inclusion) and poverty alleviation. Microfinance banking has been serving as a driver or an essential instrument of financial inclusion in many

countries. It is important to reiterate that the established chain of relationship that microfinance is one of the best options available for national poverty reduction.

The Grameen Bank in Bangladesh, the Self Help Group (SHG) in India, Community/Village Bank and Credit/Cooperative Unions in Indonesia and, of late, Islamic Microfinance in Malaysia have risen up to the poverty challenges in their various communities and are making a difference.

Considering the importance of micro financing to economic development as identified in numerous literature, it is no wonder therefore that the Committee of Governors of the Central Bank of Nigeria (CBN), at its meeting held on 25th January, 2011 resolved that microfinance banks must be well positioned within the next five years to play their roles in economic development of Nigeria. Indeed sustainable economic development in a country like ours cannot be achieved without rural transformation and empowerment of the teeming rural dwellers.

The paper is organized as follows: Section 2 discusses the role of microfinance banks in national economic development; Section 3 highlights the plight of microfinance banking in the North-East Zone, while the Role of the NDIC in the repositioning of the microfinance banks is presented in Section 4. Finally, Section 5 contains the summary, conclusion and recommendations of the paper.

2.0 The Role of Microfinance Banks in National Economic Development

The studies carried out by Pollinger and Cordero (2007) confirmed that microfinance banks in their various models assist to reduce and alleviate poverty and enhance economic development, particularly in developing economies. In Nigeria, they have accelerated the operation of poverty alleviation programmes of the Government and supported promising entrepreneurs while aiding new ones to emerge. The role of microfinance banks in the promotion of national economic development is entrenched in the objectives of the microfinance banking scheme in Nigeria that was formulated in line with the objectives of the Millennium Development Goals (MDGs), the National Economic Empowerment and Development Strategy (NEEDS) and the Vision 2020. These roles include the promotion of rural development through financial intermediation, stimulation of productive activities in the rural sector, development of banking habits among rural dwellers, ensuring the development of an integrated national financial system and improving the economic status of small-scale producers in the rural and urban areas. Microfinance banks (MFBs) are therefore strategically positioned to expand the financial frontier and stimulate the exploitation and development of economic opportunities in the informal sector through the provision of traditional and even non-traditional banking services such as technical and managerial assistance, sale of output and input purchase financing, machinery and equipment leasing and community development financing.

The government should recognize that to achieve sustainable economic development, resources must be channeled towards financial empowerment of the dwellers in the rural areas and urban slums, improve the standard of living of the economically active poor, catalyze rural transformation and foster the growth of small and medium enterprises (SMEs). The microfinance banks are therefore the cornerstone in the promotion of rural development through financial inclusion and financial literacy, deposit mobilization and credit delivery to finance micro-enterprises, boosting small-scale enterprises/agriculture by financing them or by acting as channels for on-lending funds to beneficiaries, generating employment and promoting entrepreneurship, providing skill and facilitating the Federal Government's National Poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS).

Recently, the Federal Government, through the CBN, floated the N220 billion Small and Medium-Scale Enterprises Fund (SMED). This fund would be accessed by MFBs for onward lending to micro and medium enterprises. In order to further expand the role of MFBs, the Federal Government through its financial inclusion strategy has rolled out a number of new initiatives including agency banking whose guideline was released in February 2013. Under this initiative, an MFB can appoint agents (a retail or postal outlet) to process customers' transactions on its behalf. The aim is to facilitate financial intermediation in the rural areas and increase their financial inclusion. The role of the microfinance banks can therefore be summarized to include the following:

a) Deposit Mobilization and Promotion of Saving Culture:
One of the requirements of microfinance clients is a safe place to keep their savings so that they can build up large sums of money to meet several needs- payment for shops, tools, accommodation, school fees, medical expenses, marriages, burials, etc. These needs are met by the savings mobilization activities of the MFBs. Most micro enterprises find it difficult to leave their shops and business premises for banking transactions. The convenience of this role is that the staff of the bank go to the customers at their houses, shops, etc. for daily collection of deposits and loan repayments. The microfinance banks usually pay interest on the amount saved. This role has helped to promote a healthy banking culture among the hitherto marginalized groups.

b) Credit Extension to Customers: Credit delivery is perhaps one of the most important roles of microfinance banks, as the loans extended are the main source of funds used to expand existing businesses and in some cases to start new ones. The credit delivery system in the microfinance banks exclusively focus on the poorest of the poor, organize borrowers into small homogenous groups, and give loans to meet diverse development needs of the poor without emphasis on tangible collaterals. Many microfinance banks have a number of loans such as small business loans, small entrepreneur lending, loans for hardcore poor, partnership build up programmes, etc. Governments also encourage co-operatives to partner with the microfinance banks to raise bulk loans for on-lending to the beneficiaries.

c) Employment Generation: MFBs also contribute immensely to job creation in the rural areas through the provision of skills acquisition and adult literacy programmes. It has therefore been acknowledged that the rural setting is an arena of many industries and self-employed micro-enterprises, which could be empowered to contribute significantly to the national economy. In some cases, the MFBs may pass on new skills and production techniques to a micro enterprise under a profit sharing agreement at the end of the production period. Most startup financing are aimed at job creation.

d) Promotion of Entrepreneurship: The aim of microfinance is not only to extend credits to beneficiaries but to promote entrepreneurship and boost rural financial markets that will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them.

The MFBs also facilitate economic development by providing ancillary capacity building to micro-enterprises in areas such as record keeping and small business management; collection of money or proceeds of banking instruments on behalf of their customers through correspondent banks; provision of payment services such as salary, gratuity and pension for the staff of micro-enterprises and various tiers of government; provision of loan disbursement services for the delivery of credit programme of government agencies, groups and individuals for poverty alleviation on non-recourse basis; provision of ancillary banking services to their customers such as domestic remittance of funds and safe custody; and investment of surplus microfinance funds in suitable instruments including placing funds with correspondent banks and in treasury bills, among others.

Other roles played by microfinance banks include; reorientation of the rural populace on sound financial practices, as well as issues such as partnering with other institutions to provide insurance services to clients, reproductive healthcare, girl child education and the granting of scholarship to children of clients up to secondary and university education (Ehgiamusoe, 2011). All these areas have a direct positive link with entrepreneurial capabilities of the rural people.

3.0 Microfinance Banking in North-East Zone

The available statistics indicate that out of about 170 million estimated population of Nigeria, 121 million or 71% live in rural communities and are involved in the informal sector of the economy. Although, they are economically active, they are largely financially excluded from mainstream banking and the credit system. Research by

Enhancing Financial Innovation and Access (EFInA) in 2012, showed that 76.2% of the rural residents in Nigeria are unbanked. Therefore, there exists a huge, untapped banking potential for the success of microfinance banking in all parts of the country, especially the North-East geopolitical zone. There are 903 (MFBs) presently operating in Nigeria. The geopolitical distribution of the MFBs with the population of the six geopolitical zones is shown below:

Table 1: Geopolitical Distribution of the MFBs

S/N	Geopolitical Zone	Population (2006 Population Census)*	% of Total Nigerian Population	No. Microfinance Banks	%
1	North-East	18,971,965	13.55	35	3.9
2	North Central	18,841,056	13.46	164	18.2
3	North-West	35,786,944	25.56	77	8.5
4	South-West	27,511,992	19.65	339	37.5
5	South-South	21,014,655	15.01	127	14.1
6	South-East	16,381,729	11.70	161	17.8
	Total	140,003,542	100.00	903	100.00

Sources: Central Bank of Nigeria and National Population Commission*

The 2006 national population census showed that there are 18,971,965 people living in the North-East zone of the country comprising of 9,830,069 males and 9,141,896 females. As shown in table 1, while the North-East zone is inhabited by 13.55% of the total population in Nigeria, going by the 2006 National population census, the zone has the least number of microfinance banks (35 MFBs or 3.9% of the 903 MFBs in the country). The state governments in the region are therefore called upon to employ this proven antipoverty tool usually employed by governments, especially in developing economies to alleviate poverty and enhance economic development of the vast majority of its people who are mainly rural dwellers.

The distribution of MFBs by states in the North-East Zone is in Table 2

Table 2: Distribution of the MFBs

S/N	State	No. of Microfinance Banks	%
1	Adamawa	8	22.9
2	Bauchi	14	40
3	Borno	4	11.4
4	Gombe	4	11.4
5	Taraba	4	11.4
6	Yobe	1	2.9
	Total	35	100.00

Out of the six states in the zone, Bauchi State is leading with fourteen (14) or 40% of the total microfinance banks in the zone, closely followed by Adamawa state with eight (8) or 22.9% of the MFBs in the zone. It is therefore important to note that the Microfinance Policy Framework recognizes the roles of public sector microfinance institutions and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Directorate of Employment (NDE) etc in the development of the sub-sector and in facilitating economic development.

The governments in the North-East geopolitical zone, being responsible and primary stakeholders, have a role to play in creating the enabling environment and/or set up government agencies to provide non-commercial (social security) resources targeted at difficult-to-reach-people and the poorest of the poor. They must collaborate or partner with other relevant stakeholders and encourage capacity building for operators of microfinance banks in the sub-sector in collaboration with other development partners. They should also adopt measures aimed at nurturing new microfinance institutions to a sustainable level as was the case in Kano state and other states like Delta and Lagos states who have taken specific initiatives in this direction.

[2]It is worthy of note that , three years ago, the author challenged the governments of Kano and Jigawa states in a position paper on how the two states could drive their poverty alleviation initiatives through microfinance. The author is delighted to state here that two years down the line, the government of Kano state that hitherto had only seven (7) microfinance banks, had facilitated the establishment of additional 37 microfinance banks in the state

The Lagos State Microfinance Institution (LASMI) was established as an agency of Lagos State Government in 2008 by an Act of the State Assembly. The vision of LASMI is to "alleviate poverty in Lagos State by empowering the active poor" while its mission is to "distribute the dividends of democracy to the people of Lagos state by providing basic financial assistance and other value added services". LASMI executes its mandate of poverty alleviation by entering into partnerships with microfinance banks (the agency banks) under a Memorandum of Understanding (MOU) to render specified services to the targeted clientele, the poor people in rural/sub-urban and metropolitan Lagos. LASMI contributes 50% of the partnership fund and sometimes introduces eligible customers to the agency banks who, under the MOU, contribute the remaining 50%. As at June, 2011 of the over ₦1.3 billion disbursed through its partnership with eight (8) microfinance banks, the state-wide exposure of LASMI to the economically active poor in the state was ₦890 million. According to the Chairman of LASMI, the institution has generated over 200,000 jobs since its inception. Lagos state was awarded the 2nd prize at the 2009 CBN Entrepreneurship Award Ceremony in recognition of the LASMI success story.

Delta state also practices microfinance programme through its Micro-Credit Programme (DSMCP), the body that is responsible for managing the Delta state's microfinance programme. The programme targets the rural and urban poor, unemployed poor, particularly school leavers, economically disadvantaged persons, the physically challenged, and HIV infected persons who are discriminated against because of their status. DSMCP disburses funds not directly to beneficiaries but through microfinance banks with little or no interest depending on the category. As at January, 2011, DSMCP had disbursed about ₦3 billion to empower over 80,000 people especially women and rural people who hitherto had no access to cheap funds. Delta state government won the 1st prize at the 2009 CBN Entrepreneurship Award Ceremony.

At the federal level, various attempts were made in the past to initiate poverty alleviation programmes to accelerate economic transformation of the country for sustainable development. These efforts included the creation of many schemes and institutions targeted at poverty alleviation in Nigeria. Such schemes and institutions included but not limited to the following; The Rural Banking Scheme; Sectoral Allocation of Credits; Concessionary Interest Rates; Agricultural Credit Guarantee Scheme (ACGS); The National Directorate of Employment (NDE); The Nigerian Agricultural Insurance Corporation (NAIC); The Peoples Bank; The Family Economic Advancement Programme (FEAP) and The Community Banks.

The failure of some of these initiatives to achieve the desired objective of sufficiently alleviating poverty and promoting economic empowerment of the teeming poor led to the formulation of the Microfinance Policy in December, 2005 by the CBN. That policy served as a blue print for the establishment of microfinance banks in Nigeria and also opened a window for the erstwhile existing community banks to migrate to microfinance banks.

With the benefit of experience from five years of operating the Microfinance Policy, the CBN reviewed the policy in April, 2011 ostensibly because of the poor understanding of the concepts and operational methodology of microfinance practice, mission drift on the part of the operators of microfinance banks, poor corporate governance and risk management practice, weak capital base and weak capacity amongst others. The revised policy therefore took into account lessons of experience, present global economic trends and the envisioned future for small business development in Nigeria. Under the new policy, MFBs have been categorized into National, State and Unit MFBs with different capitalization requirements of ₦2 billion, ₦100 million and ₦20 million, respectively, to promote penetration and spread of microfinance practice in all parts of the country.

The Microfinance Policy objectives of the federal government include 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;
- Mainstreaming of the informal sub-sector into the national financial system;

- Enhance service delivery by microfinance institutions to micro, small and medium entrepreneur and

- Contribute to rural transformation and promote linkage programmes between deposit money/development banks, specialized institutions and microfinance banks.

In furtherance of the above, policy targets were set to include the following:

- To cover the majority of the poor population who are economically active by 2020 thereby creating millions of jobs and reducing poverty;

- To increase the share of micro credits as percentage of total credit to the economy from 0.9 percent 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-thirds of state and local governments in micro credit financing by 2015;

- To eliminate gender disparity by improving women's access to financial services by 5 percent annually and

- To increase the number of linkages among deposit money banks, development banks, specialized finance institutions and microfinance banks by 10 percent annually.

A number of strategies were also articulated to achieve the set targets. One of the strategies which deserves attention, is to `promote the participation of Government in the Microfinance Industry by encouraging States and Local Governments to devote at least one (1) percent of their annual budgets to microcredit initiatives administered through Microfinance banks'. State governors should give serious consideration to this strategic initiative by adopting, at this summit, a consensus position in providing at least one percent of the respective States and Local Governments' annual budgets to the development of microfinance banking as a veritable tool for rural transformation and economic empowerment of the people of the North-East geopolitical zone.

4.0 The Role of NDIC in Re-positioning MFBs

NDIC has been fully supportive of MFBs since their inception to ensure that the pronounced policy objectives of the scheme are achieved and that the MFBs are sustainable and profitable for inclusive growth and development of our economy for the benefit of all. It is for this reason that the Corporation conducts routine examination on the MFBs to ensure their soundness and safety, provide deposit guarantee, financial and technical assistance, financial literacy and depositor-friendly failure resolution mechanisms.

In a bid to boost confidence, NDIC on January 1, 2008 extended deposit insurance cover to microfinance banks. The upward review of the deposit insurance limit from one hundred thousand (₦100, 000) Naira as stipulated by the NDIC Act of 2006 to two hundred thousand (₦200, 000) Naira in 2010 is another effort made by the NDIC to enhance the ability of these banks in savings mobilization for investments, credit creation and economic development and to build public confidence in these banks.

The NDIC in collaboration with the CBN and Chartered Institute of Bankers of Nigeria (CIBN) in 2009 commenced the Microfinance Certification Programme (MCP) for the Board, Executive and operators of MFBs to upscale capacity building in the MFB sub-sector. This was another mechanism of ensuring mandatory continuing education scheme. However, it is worthy of note that the North East is lagging behind in the number of certified microfinance operators.

5.0 Summary, Conclusion and Recommendation

The paper has attempted to discuss the role of MFBs in the economic development of Nigeria. Empirical evidence has affirmed that microfinance banks are at the heart of the poverty alleviation programmes and national economic development. Microfinance has filled certain gaps which the conventional banks have neglected, viz. provision of financial services to the active poor and under privileged, undertaking financial literacy at the grassroots level and provision of business training skills. Microfinance banks have, thus far, helped in reducing poverty and financial exclusion and could achieve greater strides if more efforts are made by all and at all levels. There is also the need for closer collaboration by all stakeholders to ensure human and institutional transformation, provision of incentives and a conducive operating environment for the microfinance banks.

Finally, the following actionable points may be derived from the paper for the benefit of the North-East region:

a) First, identification of ways of addressing the dearth of MFBs in the Sub-Region;
b) Second, the need to follow the Kano State Government's footsteps of establishing new government-assisted MFBs to meet the needs of the unbanked and under-served;
c) Third, creation of initiatives to facilitate the establishment of Islamic microfinance institutions to serve those who avoid conventional banks because of riba (Interest);
d) Fourth, provision of incentives that will attract more microfinance activities in the sub-region and
e) Finally, collaboration with the federal government and its agencies in the consumer protection and financial literacy campaigns.

It is my prayer that the purpose and objectives for which this summit is organized will come to pass in no distant future.

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