

THE NIGERIAN MICROFINANCE POLICY: A PERSPECTIVE FROM COOPERATIVE SOCIETIES

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ABSRTACT

The focus of the Nigerian government microfinance policy is to 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. However, less emphasis had been placed on the role cooperative societies could play in achieving the policy objective This paper examined the micro finance reforms of the Nigerian Government and the role that cooperative societies can play with a view to providing solutions to the problems. The study adopts largely an exploratory methodology and submitted that appropriate legal frameworks be put in place to ensure that cooperative methods are fully integrated in to the microfinance policy framework. Analysis of the information obtained revealed the unutilized capacity and potentials of cooperative societies that have contributed to the growth of other countries of the world. Therefore government should ensure that the Microfinance banks are made to relate with the poor and low income group through the cooperative societies for sustainable growth and development.

Keywords: *Microfinance, Microfinance policy, Cooperative Societies, Microfinance Banks, Nigeria*

INTRODUCTION

The federal government on the 15th of December, 2005, through the Central Bank of Nigeria (CBN) issued a microfinance policy supervisory and regulatory framework that allows for the establishment of micro finance banks that will cater for the need of small scale business and the low income group. The policy provides for the establishment of two categories of private sector-driven micro finance institutions of banks (MFBs). These are MFBs licensed to operate in a local government area which must be capitalized to the tune twenty million naira and MFBs licensed to operate in state and which must be capitalized to the tune of one billion naira.

This recent development is the latest effort of the federal government at purveying micro credits to the poor. The inability of the poor and low income group to have access to credits in Nigeria has contributed largely to the increased rate of poverty in the country (Imam 2001, Olomola 2002, Hadiza 2005, Akanji 2006, Adereti and Oladejo 2008, Akintoye and Oladejo 2008). Despite the efforts of government in the area of credit delivery to the poor and micro enterprises in the country, these

micro enterprises have continued to be denied access from the formal financial institutions (Dada and Salisu 2006). This has made for increasing rate of poverty in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. The study showed that poverty level in Nigeria has been extremely high with about two thirds of the population living below the poverty line in 1996. The delivery of financial services to poor and low income people changed significantly during the past decade. This is further confirmed by National Poverty Eradication Programme report (NAPEP 2010).

The willingness of the low income group to borrow and repay at seemingly high interest confirm the view that their financial problems has more to do with access to funds as put by Anyanwu (2004). According to Jidenma (2007) the poor lacked good credit history because they never gained access to credit in the first place, thus the poverty level continues to aggravate as observed by Akanji (2006) and Ojo (2009). Also small and medium enterprises that have been described as the nerve of a nations economy are suffering from poor funding (Basu, Balvy and Yulek, 2004; Oladejo and Dada 2008). According to 2004 surveys by CBN, 54% of Nigerians still live in poverty although down from about 70% less than a decade ago in spite of significant growth in GDP over the past five years. Banking services are available to about 40% of the population whereas more than 70% of the poor do not have access to formal finance (Soludo, 2008).

An overview of the performance of the micro enterprises in Nigeria shows that past policies made limited impact on the Micro enterprises sector as observed Akanji (2006). For instance it is estimated that micro enterprises account for about 70% of the total industrial employment in Nigeria, but contributed only 10-15 percent of the total manufacturing output. The constraints of the small businesses were attributed to include poor access to long term credit. That is why Adelaja (2006) thought the present consolidation of the banking industry though desirable but was more of threat than opportunity for micro businesses.

The micro finance power of cooperative societies can not be overemphasized. Small scale enterprises (SSEs) have been promoted greatly by Micro Finance Institutions (MFIs), the major and most geographically spread of which are cooperative societies (Akinwumi 2006, Ayoola 2006, Oladejo 2008). Apart from ready access to micro credits, Small scale enterprises (SSEs) obtain loans with soft and convenient term. The major emphasis in cooperative is on self-help, thus people cooperate because they realize that it is extremely difficult to achieve some goals by alone (Ayoola 2006, Alabi Joshua, & Ahiawodzi, 2007, Oladejo 2008; Yunus, 2008). The best way of pushing the limit of economic problem of scarcity is by working together. This is because more can be accomplished when people coordinate their efforts with each other take concerns and talents of other into considerations (Reeve, 2003). Invariably, cooperative societies remain the better alternative to economic reconstruction of the government, but its vast potentials have always been jettisoned by the Nigerian Government.

In view of this development, the paper reviewed the microfinance policy of Nigerian government with a view to examine the roles of cooperative societies and the problems that hinder cooperative societies from performing the key roles. Studies over the years have shown the positive impact of cooperative societies as micro credit delivery channel and vehicle for poverty alleviation (Reeves 2003, Asaolu 2004, Alabi, Joshua and Ahiawodzi, 2007, Yunus 2008, Narayan and Petesch 2009). However, the Nigerian government has not been able to tap the microfinance potentials embedded in the cooperative method. This was manifested in the various micro credit delivery programmes of the government where little or no emphasis had been placed on cooperative approach. With the launching of microfinance policy one would have expected the correction of past mistake by giving the cooperative societies prominent roles to play in the financial reform of the government. The disposition of the government to cooperative financing strategy poses serious threat to the poverty eradication intent of the microfinance policy. Therefore, this paper remains germane to examine the economic importance of cooperative societies so as to determine their position in the microfinance policy of the Nigerian government.

The main thrust of this paper is to provide the basis why cooperative method should be adopted and integrated into the microfinance policy of the Nigerian government as a panacea for achieving the objectives of the policy. The paper will provide answers to the following questions:

- i What is the impact of cooperative method on micro credit delivery?
- ii Will the adoption of cooperative method improve the micro credit delivery effort of the government?
- iii How can the cooperative approach be incorporated into the microfinance policy?
- iv What are the problems and challenges of adopting cooperative method?

Apart from section one that introduced the paper, the rest of the paper is divided into four segments: section two discussed the literature review and conceptual underpinnings, section three on the exploratory methodology adopted in the study, section four provide the framework of integrating cooperative method in the microfinance policy while section five concludes the paper and recommendations were made thereafter for the robustness of the author's position

The Nigerians, rich and poor, are enterprising and industrious according to Anyanwu (2004). However, the poor who account for over half of the population do not have access to formal banking services and thus they rely on formal and informal Microfinance Institutions for credits. There is a growing trend of global acceptability of cooperative societies as enhancer-factor of micro enterprises and poverty reduction strategy (Akeredelu-Ale 1988, Asaolu 2004, Akinwumi 2006, Ayoola, 2006, Alabi et al 2007, Olesin 2007, Oladejo 2008, Yunus 2008, Narayan and Petesch 2009). For example, the modern microfinance according to Dunford (2006) has its roots in the cooperative movement. Further to this is the observation of Kevin, Louis & Mark (2000) that one means for the entrepreneurial firms to overcome the constraint of

access to credit is by cooperating with either other entrepreneurial firms or possibly with larger, established, resource-rich firms. Adeolu (2003) identified restrictive bank legislation, high interest charges and imperfection in the operation of market mechanism as stumbling block to the finance of micro enterprises in Nigeria. The world Micro credit summit declaration of February 1997 in its overview of micro credits and its capacity to empower poor people to end their poverty noted that micro credit programmes extend small loans to the poor people for self employment projects that generate income allowing them to care for themselves and their families. In most cases micro credit programme after a combination of services and resources to their client in addition to credit for self employment. These often include savings, training, networking and peer support as a powerful anti poverty tool that has demonstrated relevance on six continents and nearly every country.

Modern day cooperative societies from every sector and every countries of the world are united under the world umbrella of the international Cooperative Alliance founded in 1895 with headquarters in Geneva, Switzerland. There is a Cooperative Federation of Nigeria (CFN) that represents the Nigerian cooperative movement and serves as a link for credit assistance from foreign donors to reach the grass roots cooperative movement in Nigeria (Ishola and Williamson 1995, Lawal 2006, Epetimehin 2006). Kevin, Louis and Mark (2000) conducted a research study, using a seven-nation (Australia, Finland, Greece, Indonesia, Mexico, Norway, and Sweden) sample, found that entrepreneurs from feminine, collective, and uncertainty-avoiding societies have a greater appreciation for the strategic importance of cooperative strategies than their counterparts. Moreover, entrepreneurs from feminine societies place greater emphasis on partner commonality in terms of objectives and values to ensure cooperative success, whereas those from individualistic societies emphasize contractual safeguards.

According to Narayan and Petesch (2009) Co-operatives are in many countries as significant social and economic actors in national economies, thus making not only personal development a reality, but contributing to the well-being of entire populations at the national level. Co-operatives have significantly contributed to economic growth throughout the world. Furthermore, the United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half of the world's population, was made secured by co-operative enterprises. Nearly 800 million individuals are members of cooperatives today, compared with about 184 million in 1960. They account for an estimated 100 million jobs and are economically significant in a large number of countries providing foodstuffs, housing, financial and a wide variety of consumer services as put by International Labour Conference Report (2001). Cooperative societies have continued to grow in size and scope. For instance, the Nigerian cooperative development policy issued by the Federal Ministry of Agriculture and Rural Development (FMARD, 2002) put the number of cooperative societies in Nigeria to be 50,000 with the estimated membership strength of five millions.

AN OVERVIEW OF THE MICROFINANCE POLICY

According to McCarthy (1998) the result of government intervention in the credit market for micro enterprises is usually to induce formal financial institutions to supply more credits to Small and Medium scale Enterprises (SMEs) or lower interest rate, through subsidy, offer of guarantee and outright compulsion, than they would otherwise voluntarily provide. Imam (2001) observed that over the years some NGOs came on stream to deliver credit to the poor while donor agencies play the role of founders of NGO-micro credit institutions. But what they can give to developing nation like Nigeria is only a drop in the ocean.

In recent public debates microfinance has been mentioned as an important instrument for poverty alleviation in developing countries. In many developing countries microfinance programs have been introduced in the last decade. Well-known examples are the Grameen Bank in Bangladesh, Banco Sol in Bolivia and Bank Rakyat in Indonesia. Between December 1997 and December 2005 the number of people who received credit from microfinance institutions rose from 13.5 million to 113.3 million (84 per cent of them being women). The number of microfinance institutions increased from 618 to 3,133 during the same period (Daley-Harris, 2006). The attention for microfinance and its role in reducing poverty was further increased when the UN declared 2005 to be the international Year of Microcredit, and when Mohammad Yunus, the founder of the Grameen Bank, received the Nobel Peace prize in 2006. According to the Nobel Committee microfinance can help people to break out of poverty (Nobel Committee, 2006). This according to Pham & Lensink (2006) has led to an almost euphoric attitude among policy makers and aid organizations about potential poverty reducing effects of microcredit.

Many authors argue that microcredit can help to substantially reduce poverty (Littlefield, Morduch and Hashemi, 2003; Dunford 2006). Access to credit can contribute to a long-lasting increase in income by means of a rise in investments in income generating activities and to a possible diversification of sources of income; it can contribute to an accumulation of assets; it can reduce the vulnerability due to illness, drought and crop failures, and it can contribute to a better education, health and housing of the borrower. However, others authors like (Khande, 2005; Scully, 2004) doubt that microcredit can contribute to a substantial reduction in poverty.

In the alternative, separate and special institutions have been created by the Nigerian government and specially funded to provide more and/or cheaper credit to the micro enterprises and the low income group. This and others might have informed the microfinance policy, regulatory and supervisory framework guideline issued by the Central Bank of Nigeria (CBN) in December 2005 with the following specific objectives:

- i To regulate the activities of the Microfinance institutions that have been operating outside the supervisory framework of the CBN
- ii To recognize the existing informal institutions and bring them under the supervisory role of CBN

- iii Create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of national financial system
- iv Create a platform for the establishment of microfinance bank

Challenges posed by the new microfinance policy

- i To cover by 2020 the majority of the poor but economically active population and thereby create million of jobs and reduce poverty.
- ii Increase the share of micro-credit as a percentage of total credit to the economy from the 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.
- iii Promote the participation of at least two-third of the states and local government in micro credit financial by 2015.
- iv Eliminate gender disparity by improving women's access to financial service by 5 percent annually, and
- v Increase the number of linkage among universal banks, development banks, specialized finance institution and microfinance banks by 10 percent annually.

Strategies of meeting the challenges

In order to make the policy a success the following strategies have been developed by government:

- i License and regulate the establishment of microfinance banks (MFBs) promote the establishment of NGO based microfinance institutions.
- ii Promote the participation of government in the microfinance industry by encouraging state and local/government to devote at least one percent (1%) of their annual budget to micro credit initiative administered through MFBs.
- iii Promote establishment of institutions that support the development and growth of microfinance service providers and clients.
- iv Mobilize domestic saving and promote the banking culture among low income groups.
- v Strengthen the capital base of the existing microfinance institutions; broaden the scope of activities of microfinance initiatives.
- vi Define clearly roles of stakeholders in the development of the microfinance sector, and collaborate with donors.
- vii Strengthen the skill of regulators, operators, and beneficiaries of microfinance initiative.
- viii Coordinate and monitor donor assistance in microfinance in line with the provisions of the policy.

THE SIGNIFICANCE OF COOPERATIVE SOCIETIES IN AN ECONOMY

Cooperative societies have greater role to play in the success of the microfinance policy of the Nigerian Government as Olesin (2007), averred that cooperative societies play an important role in the financial system in many countries especially East African countries by providing micro-credit to members. This is in

line with the view of Asaolu (2004) that credit societies should play an important role in Nigeria especially now when Nigeria is undergoing a much awaited economic reforms. There is hardly a country in the world in which the cooperative organization do not exist to perform both social and economic roles, the important roles a cooperative play in an economy cannot be over emphasized (King 1993). According to Akinwunmi (2006) those who introduced formal cooperative settings realized that individual farmers were too small in terms of farm holdings, total production and volume supplied. Cooperative methods are the most practical to adopt to meet the needs of the people in all spheres of development (Ayoola, 2006; Akinwumi, 2006).

Cooperative society is potentially an important instrument of social transformation, especially in the rural areas. Cooperative methods have proved to be useful in achieving increased domestic production of food, industrial raw materials, manufactured products and equitable distribution of farm inputs, farm products and other commodities as argued Epetimehin (2006). Further to this is the view of Olesin (2007) that cooperative societies in Nigeria have for decades resolved some of the financial challenges faced by workers or Low income business owners, by using the power of numbers to provide individual needs from resources pooled together by the collective efforts. The financial challenges were identified to be poverty, low income, high cost of living, inflationary pressures and lack of access to credit. Often overlooked as an association for the poor, cooperative societies have functioned in place of traditional lending institutions to provide microfinance, mortgage facilities and personal loans. This is in line with the view of Asaolu (2004) that credit societies should play an important role in Nigeria especially now when Nigeria is undergoing a much awaited economic reforms.

Sometimes cooperative societies used to promote social unity. As an organization of people, cooperative groups designed to help their members meet their economic and social needs and aspirations. As democratic and participating organizations they encourage equity and equality. For instance, Epetimehin (2006) averred that cooperative enterprises provide the organizational means whereby a significant proportion of humanity is able to take into his own hands the task of creating productive employment, overcoming poverty and achieving social integration. Lawal (2006) believed that cooperative society is a household name and need not much propaganda as to its economic importance.

Supporting this view, Olesin (2007) opined that a well run cooperative society provides a pool of funds from which individual members take loans to meet respective needs. Many cooperative societies make investments in business ventures, stocks or real poverty which generate returns that could be shared as dividends to members periodically, depending on any surplus that accrues to the fund. Cooperative societies allow what an individual can not do on his own, to be done as a group. Cooperative method is a unique way of organizing factors of productions. The concrete achievements of the cooperative movement in Britain, the Scandinavian countries of the Soviet Union and Eastern Europe, Indonesia, Uganda, Ethiopia to mention but a

few instances, demonstrate its active power. Cooperative societies contribute to productive employment and economic growth. Some proponents of the social economy in Europe see cooperative movement as a modern tool to solve problems of unemployment and regional disparity.

Affirming these views, the U.S.A Cooperative Business Survey Report (2005) revealed the economic impact of U.S - based cooperative businesses as significant, reflecting the ubiquity of co-operatives, the large number of Americans who are their owners or customers, and the role co-operatives play in generating business activity, including jobs and economic growth. For the six key sectors that are the focus of this report, agriculture, credit unions, farm credit, electric utilities, grocery and housing, the data are impressive. From the report, there are 21,367 cooperatives in the six sectors. These cooperatives have more than 127.5 million members. Cooperatives in these six sectors employ considerably more than 500,000 Americans, with aggregate payrolls of more than \$15 billion annually. These cooperatives generate total annual revenues in excess of \$211.9 billion.

Among individual sectors: Agriculture co-ops have a gross business volume of more than \$111 billion per year and 2.8 million members. The Farm Credit System has approximately \$125 billion in assets and \$96 billion in loans outstanding. Credit unions have \$668 billion in assets and more than 86 million members, who receive billions of dollars in benefits annually from lower loan rates and higher savings rates. Credit unions have \$443.5 billion in loans outstanding. Electric utility co-ops serve 37 million people and their lines cover more than three quarters of the U.S. land mass. Food and grocery co-ops generate \$33 billion in annual revenues while retail food co-ops alone pay back an estimated \$4 million a year to their members. Housing cooperatives have combined budgets in excess of \$11 billion, and make an estimated \$1.2 billion in property improvements each year.

In addition to promoting social integration, Lawal (2006) argued that cooperative societies have long been known as "schools for democracy". Ayoola (2006) opined that the impressive performance of the savings and credit cooperative can be seen in the establishment of cooperative banks in the western, eastern and northern Nigeria respectively. Even though these cooperative banks have overtime lost their cooperative identities with the Cooperative Bank Plc survived until the re-capitalization in the banking sector in December 2005, it is obvious that credit cooperative have made and will continue to make a positive impact as truly "people" bank. Even cooperative societies existed as a rural bank in their various local areas before the government introduced the concept of rural banking in 1987 and the defunct Peoples Bank of Nigeria (PBN) in 1988.

INTEGRATING COOPERATIVE SOCIETIES INTO THE MICROFINANCE POLICY

In Nigeria, both the governmental and non-governmental organizations are now placing much emphasis on group approach in extending credits to the low income

producers (Olomola, 2002). Looking at the cooperative method one observes voluntary membership, group concept, openness of operation, member's patronage and less stringent conditions of access to credit unlike formal approach to purveying credit to the poor and low income group. Although the policy view of Microfinance banks (MFBs) as community based banks, most of these good qualities of a micro credit delivery channel are lacking. Past micro credit efforts of the government have failed for lack of understanding of the micro credit philosophy of the poor and low income group. Cooperative method can be modeled into the policy by simply mandating the MFBs to link up with the registered Cooperative Societies in their areas in term of saving mobilization and credit delivery. Rather than dealing with individuals, they should be made to operate accounts for the Cooperative Societies which in turn as a group disburse loan and credits to members in a usual cooperative manner. Individual members will then pay the loan back through the selected Cooperative Societies.

PROBLEMS OF COOPERATIVE METHOD

There are some factors that affect the performance of Cooperative Societies in discharging micro credit roles effectively and perhaps the reasons for lack of interest by the policy makers in Nigeria. Generally the capacity of Cooperative Societies to provide fund to the poor and low income group is limited by inadequate capital base (Asaolu, 2004). For instance some Cooperative Societies maintain as low as 50,000 naira a capital suggesting the maximum amount they can give out as loan to members. The other critical element according to Akinwunmi (2006) was leadership. If there is purposeful leadership, if leaders are transparent, dedicated and truly serving, the cooperative society will succeed. A true leader does not cut corners, does not inflate contracts so as to receive kick backs, does not have favorites among members and does not mismanage the resources. Most leaders are not focused and in most cases engage in embezzlement of the little fund available making members to lose interest in this viable economic method.

Other problems identified in the literature are lack of training for leaders and members such that they are not exposed to modern entrepreneurial skill as well as exposure to new technology. Level illiteracy among members is also creating awareness problem. Poor accounting and record keeping has crippled the activities of most cooperative societies in Nigeria (Asaolu, 2004; Owojori and Oladejo, 2008). The general problems facing the cooperatives are due to political and socio-economic factors as identified by mass mobilization for social and economic recovery (MAMSER, 1988).

METHODOLOGY

The study adopts exploratory approach by reviewing and analyzing the view of scholars and practitioners in Cooperatives. Practical contacts with leaders of Cooperatives assisted also in the study. The Nigerian Microfinance, Supervisory and

Regulatory Framework was carefully reviewed and analysed to examine the role of Cooperative movement in the policy framework.

This study attempted to examine the impact of cooperative method on micro credit delivery, find out the adoption of cooperative method improve the micro credit delivery effort of the government, look at how the cooperative approach can be incorporated into the microfinance policy and indentify the problems and challenges of adopting cooperative method. Analysis of view of scholars, practitioners and stakeholders in Cooperatives cum the Microfinance policy guideline issued by the Central Bank of Nigeria (CBN, 2005) confirm the microcredit power of Cooperative method. The policy framework only mentioned Cooperative Societies that wish to float microfinance banks. No specific role was given to Cooperative Societies to be performed as a microcredit delivery outfit in the policy document.

CONCLUSION AND RECOMMENDATIONS

From the foregoing it is clear that the microfinance policy was designed to enable the poor and low income groups have access to credits which were denied by the formal banking services in Nigeria. The policy only gave the Cooperative Societies options for establishing microfinance banks, a role that is very vague as far as micro credit delivery system is concern .Cooperative Societies is a vibrant micro credit delivery channel of track records at poverty alleviation in some most developed and less developed countries of the world as observed from the literature review. The policy lacks most of the good qualities of a micro credit delivery system. One is therefore afraid of the reality of achieving the objectives of the Millennium Development Goals (MDGs) as emphasized in the policy. In the light of this the following recommendation are made:

- i Cooperative members should be strict to principles practices of cooperative society that have made for its success and world acceptability as a veritable mode of micro-financing.
- ii The government does not need to donate money to the cooperative societies nor give them grant. The government should provide the enabling environment for the cooperative movement to perform its micro finance functions.
- iii Cooperative method should be integrated into the microfinance policy so that they will be the major customers of Microfinance bank as a group, and as such the policy should be amended to reflect this.

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