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MICRO-FINANCE AS A STRATEGY FOR POVERTY REDUCTION

BY

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ABSTRACT

The paper established the facts that poverty is indeed increasing in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. It further indicated in the introduction that the World Bank and the IMF group are focusing on poverty reduction as a prerequisite for debt relief. The paper is structured into five sections with introduction being section one. Section two gives conceptual framework and reviews some country experiences of micro-credit programs. Section three describes the efforts put in place in Nigeria-the World Bank group efforts and the IMF to alleviate poverty while section four offers the micro-finance model and principles, that could be adapted in Nigeria considering the Nigerian experience on financial intermediation. Section five concludes the paper. In the conclusion, the paper emphasized that indeed micro-finance is a strategy of poverty reduction. Looking ahead to the future of micro-finance program in Nigeria, the paper indicated that:

- **There is significant room for improvement within the current dispensation.**
- **The current situation with improved revenue through oil wind fall could support the poverty reduction program.**
- **Serious issue of supervision must be tabled and discussed thoroughly with the financial sector regulating authorities for the new merger of formal/informal credit institutions.**

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* Training must be built into the micro-finance program.
* Ensure the budget provisions are made during fiscal year to assist program of transfer to the poor.

1.0 INTRODUCTION

When the present administration came into office on the 29th May 1999, it paid attention to poverty reduction. During the regime preceding this administration the World Bank tried to focus on poverty reduction in Nigeria and so commissioned a study on poverty assessment in Nigeria. The study not only profiled poverty but also established quantitatively the trend of poverty encroachment to development from 1980 to 1996.

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. This situation, the study indicated could have been worse but for the dampening effect the period 1985 to 1992 had on poverty, when the rising trend of the earlier period was reversed before the upward movement resumed again. Specifically, poverty level went up to 50% between 1980 and 1985, from 28.15%. to 46.3%. Between 1985 and 1992, there was a drop of about 4 percentage points to 42.7%. However, by 1996, the level jumped up to 65.6%, an increase of more than 50% of the 1992 figures.

In absolute figures, however, the population in poverty continued to rise over the 16 year period. Despite the drop in poverty level in 1992, high population growth resulted in an increase of about 5 million in the population in poverty over the period 1985-1992. The estimated number of the poor therefore rose from 18 million 198Q to 35 million in 1985, to 39 million in 1992 and to 67 million in 1996. By the end of 1999 estimated poor rose to 74.2million. The movement in the per capita household expenditure (pce) over the period determined this pattern of poverty. After normalizing for inflation, the figures revealed that pce for 1996 was not only lower than for other years but also was less than half of 1980pec. The figures (in1996 prices) were N2400 for 1980, N1270 for 1985, N1780 for 1992 and N1050 for 1996. The estimate for 1999 rose by 10.8% to N1163 due to improved workers remuneration coupled with the new taxable income bands which enhanced purchasing power of the citizenry.

Based on the established framework of the study, the poverty level was estimated to have risen in 1999 to 70.6%. This increase gives much concern and within the concept of democratic process, the high level of poverty is an indicator that point to the need to improve the output of governance which is expected to impact on poverty.

At the global level, the World Bank devoted the "World Development report 2000/2001: Attacking Poverty" to the subject based on new evidences and a deeper understanding of the meaning and casuses of poverty. The report argued that major reductions in world poverty are indeed possible. It shows that economic development continues to be central to success in reducing poverty, but that poverty is also an outcome of economic, social and political processes that interact with and reinforce each other in ways that can ease or exacerbate the state of deprivation in which poor people live. Consequently, the report concluded that to conquer poverty requires actions at the local, national and global levels-to expand poor people's opportunities, empower them, and increase their security.

This paper therefore will establish the need to empower the poor, which has been estimated to be on the increase through the operation of micro finance as a strategy for poverty reduction. The rest of the paper is organized as follows. Section two tries to give conceptual framework and review some country experiences of micro credit programs. Section three describes the efforts put in place in Nigeria and by the World Bank Group and the International Monetary Fund. Section four offers the micro finance model and the principles that will make it work in the Nigerian context considering Nigerian experience on financial intermediation. Section five concludes the paper.

2.0 CONCEPTUAL FRAMEWORK

Understanding how to alleviate poverty is a central concern of development economies. Bruno, Squire and Ravallion (1995) indicated that there are ample evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty. Such program can have a short-run or long-run perspective. Timothy Besley (1997) took a short run perspective on program design for alleviating poverty, assuming that income-earning abilities are fixed. He took two disparate approaches to program design, which he called the technocratic and the institutional. The technocratic approach usually associated with economists, focusing on targeting, exploring the theoretical and empirical implications of trying to direct limited resources to people with the greatest need. These efforts emphasize the difficulties of identifying target groups and use creative approaches to program design that substitute for detailed information required to achieve first- best results. Central to such explorations are the incentive effects of program design, which underscore the need to know key behavioral parameters, such as labour supply responses, in order to formulate policy.

The institutional approach is more common among non-economists. For them the question of why program for the poor do or do not work has much more to do with social institutions than with policy design. In this view antipoverty policies fail because the poor lack political power or because administrative incompetence or corruption keep governments from delivering services. Thus improving the lives of the poor requires developing institutions, improving government performance, and changing political structures and attitudes towards the poor.

The gulf between these two perspectives is evident in their views of the role of non-governmental organizations (NGOs), in poverty alleviation programs. The technocratic approach rarely refers to NGOs, while the institutional approach considers them vital to the attack on poverty in developing countries. The increasing concern with better targeting in poverty alleviation program stems from governments' desire to minimize the cost of achieving poverty alleviation objectives. This desire is an implication of models in which taxpayers, as financiers of transfer programs, seek fiscally efficient methods of helping the poor-that is, they want program to be designed in a way that minimizes the financial burden imposed. Thus the insights from the technocratic literature are legitimate concerns in a well-defined decision-making model of antipoverty policy.

A commonly accepted model of program design, the cost-minimizing approach, addresses a number of salient features in current debates about transfers to the poor. Moreover, it is consistent with the desire for targeting. It is also a useful first step toward developing a positive theory of transfer to the poor. The model by Besley (1992) and Coate (1995) makes no pretense at realism. The model is a useful vehicle for clarifying thinking about a number of issues relating to poverty alleviation programs. The model views society as composed of two groups: those who make transfers (the rich) and those who receive them (the poor). The model assumptions are as follows:

- That the rich care only about consumption of the poor and not their utility.
- The rich control government and its objective is to design a poverty alleviation programs that is financed through taxes paid by the rich.
- There must be voluntary participation by the poor in poverty alleviation program, which means that the poor must be willing to take any benefits intended for them.

However, certain transfers to the poor such as food-for-work program in India and Bangladesh had been proved to enhance the efficiency of credit markets by using the coupon as a collateral. For example in Bangladesh and Srilanka, a poverty program allowed people who participated in a loan program to pledge their rice ration coupons as collateral and as a result, borrowers' repayment rates increased substantially (Sanderatne 1986). In addition, in the private informal credit market, 45 percent of households pledged the ration cards that gave them access to subsidized "fair price" shops (Platteau et al 1980). It has been proved by Platteau that households that pledged their coupons gained greater access to capital. Thus transfer can perform two distinct roles. In the first, it helps to reduce poverty while in the second, as collateral, it is like a catalyst changing agents' scope for opportunistic behavior and improving the operation of credit markets.

The literature on economic theory of credit markets and saving decision in economies characterized by incomplete markets and imperfect information is growing. The most current literature after Stiglitz and Weiss (1981) are Alderman and Paxson (1992) who provided a new theoretical foundation for policy interventions to correct market failure. By studying the institutional arrangements through which financial transactions take place, it showed that credit transactions reflect the economic environment in which they occur. In Africa, the economic environment is largely characterized by risks, with unpredictable variations in income as a result of weather and other exogenous processes. In the absence of compete insurance markets, credit transactions take on a special role in allowing resource transfer in response to income shocks.

This paper therefore considers the concepts discussed so far to proffer the basic principles for using the credit market, micro-credit in particular as a strategy for alleviating poverty. But before proffering solutions the paper will review country experiences of micro finance program as a strategy for poverty alleviation in the next section.

2.1. Review of Country Experiences of Finance Program For the Poor

In order that we appreciate the successes and/failures of those programs we are going to review, it is pertinent to bring to focus the various breakthrough that have made micro finance program an imperative to alleviating poverty.

The delivery of financial services to poor and low-income people changed significantly during the past decade. First, and perhaps of most importance, long standing and fundamental assumptions about the bank ability of the poor have been overturned based on well-documented experience in banking with the poor in a selection of developing countries. A small number of highly effective micro finance programs have demonstrated that low-income clients can use small loans productively, repay them back fully and on time when given reason to do so, can and are willing to pay high real interest rates for their loans, and so save and often need savings services as much as or more than credit services. These findings correct earlier notions that the poor cannot use credit effectively, do not have the capacity to repay loans, cannot afford to pay high interest rates that reflect the real cost of funds, and do not generate sufficient surplus funds to enable them to save.

Secondly, a shift in thinking is within the effort being made for delivering credits and savings to the poor. This is being conceptualized as extending the reach of national financial systems to include low-income customers. For example, financial sectors are being redefined to include non-bank financial institutions as well as banks. This framework differs radically from the long-standing practice of separating micro finance programs from financial sector development and including it within "project" context for social welfare services for the poor. In this view, micro-finance institutions fit within a continuum of financial and, in fact represent an essential component of an integrated financial system that serves the majority of citizens. This new paradigm necessarily has far-reaching implications:

- Links between all financial institutions on the continuum become far more important,
- The need to revise banking regulations to include non-bank financial institutions arises, and

- A new legitimacy is granted to financial institution that serve the poor and to their clients who come to represent an enormous new market for financial services rather than a hefty welfare burden.

A third breakthrough has been the development of new lending technologies that are effective both in reaching large numbers of low income borrowers and in moving micro-finance institutions toward financial sustainability. These technologies are designed to deliver small loans with terms and conditions that meet the needs of poor clients, to lower lenders' transaction costs, and to increase revenues by using full-cost interest rates and high loan repayment rates.

A fourth important change is that micro-finance institutions are now expected to attain high levels of (if not full) financial sustainability within a reasonable period of time. The generation of credit programs were fueled by a constant supply of donor funds and paid little attention to operating costs, loan losses, and the expense of auxiliary services. Efficiency and cost recovery were not priorities for service providers or for international donors. As a result, credit programs had minimal outreach because credit funds were limited to donor funds, repayment rates were poor, financial intermediation was stunted because cheap credit discouraged the mobilization of local deposits, and credit was concentrated in the hands of privileged and les-than-creditworthy borrower who successfully pursued these subsidized loans.

Over the past decade a handful of pioneer micro-finance institutions have demonstrated not only the bank ability of the poor but also the potential for sustainability of financial institution that serve the poor. Full financial sustainability is reached when administrative, loan loss, inflation and financial costs are covered entirely by revenues.

The fifth development of significance is the new focus on mobilizing savings among the poor. Micro finance institutions increasingly are under pressure to mobilize savings, and there is some contention among practitioners about the wisdom of this trend. It is clear that savings service are needed urgently by large number of poor people around the world to protect their incomes and to serve as an alternative to the assumption of debt. Savings deposits also offer micro finance institutions a valuable source of sustainable local funds.

2.1.2 Experience of Some Micro finance Models.

There are basically formal and informal models of purveying micro credit to the target group. The most successful had been the informal model because several developing economies where poverty is high, some individuals, households and regions remain isolated from markets and from mechanisms for borrowing and lending or insuring against risk (Aryeetey, 1995). Consequently, informal lenders tend to target the poor (including women) albeit not always successfully; attempts by better financed innovative schemes to target the same poor people have been no more successful. The issue therefore is no longer simple one of targeting or not targeting, but of how to equip institutions that can reach the poor at least cost (that is, informal lenders) to extend their reach.

- **The Informal Model**

The informal model is built around group concept. The model works in a situation where groups whose commitment to savings and credit are weak and look up to donor-sponsored credit. While this works better with a group that voluntarily come together to form a revolving savings and credit association, it

develops managerial problem where the groups are not cohesive and not voluntary (Besley, coate and Loury 1993).

(i) **The Grammen Bank** experience started with the group concept-informal lending to the poor. It was started to assist landless people in Bangladesh to obtain credit, which could not be obtained through the formal commercial banks credit facilities. The program was successful because the groups were cohesive (landless) and voluntarily formed. The program has since been linked to formal micro credit model. It operates using the modality of collective guarantees, close supervision and peer pressure from other members of the Grammen group. The model had been quite successful as a bank for the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of poor.

As at 1999, the Grammen Bank had provided its services to about 1.5 million poor, unified about 60, 000 small village banks in the linkage process and about $480 million to its clients for small scale trade, construction, backup funds or local production credit as well as for emergency funds.

(ii) **Non Government Organization (NGO)** approach is also grouped as informal model as it tends to adapt the Grammen principles and usually are gender specific and sectorially motivated. There are women groups, farmers union, trader union etc.

In Ghana and Gambia, the most successful micro credit programs are women finance association. The programs were reported to have had high rate of repayment. In the Gambia experience, the program rewarded depositors at above-market rate of interest which was 20-50 per cent in 1999. The high interest rate was not fixed by the formal institution but by the village assemblies. The assemblies meet to decide on the composition and responsibilities of credit committees, the interest rate and the types of savings instruments. Although, the Ghana and Gambian programmers operate as an informal credit model, the quality of service could be compared to the financial market.

(iii) **Esusu:** Esusu is a revolving loan scheme in Nigeria and entrenched in most West African countries operating as an informal micro-credit programme. The group formed to operate the revolving schemes are voluntarily. Members make fixed contributions of money at regular intervals. At each interval, one member collects the entire contributions from all. Every member takes a turn until the cycle is completed, and then it starts again. For people who take their turn late, esusu functions as a savings mechanism. The esusus are very strong program that have assisted the target group to alleviate poverty, particularly among market women in rural/urban markets. East Esusu's group has a recognised leader and Esusus are often used as a model by NGOs trying to establish micro-finance programe in urban setting.

- **The Formal Model**

The formal micro-finance model is built around formal financial institutions such as the commercial banks, rural/village/community bank etc. Most of the formal institutions that purvey credit to the poor had not been successful. The reasons adduced for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institution. The Grammen experience is an example of that model that have been able to transform from informal to formal model of purveying micro-credit to the poor. The credit need of the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problem of no collateral. The formal microcredit operators have found that per-client costs are high and expensive to reach groups of client physically and in part because poorly developed infrastructure increases the expense of delivering even basic needs. In addition, most programs offering micro-finance services have a small capital base and do not have access to the level of financing that would be required for significant scaling up.

This is the reason why commercial banks and development banks could not really purvey micro-credit and could not be used as the second-best to informal lending. The case of Nigerian Agricultural and Cooperative Bank, Nigerian Industrial Development Bank, Peoples were quite recent and confirmed the enormous problems of using the formal model as a strategy to alleviate poverty.

The Linkage Model

The framework for linking informal savings collectors to the formal institutions formed the basis of the breakthrough discussed earlier. In view of the banks' readiness to acquire more information about the Informal Sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programs. An example is the recent meager of the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria and Family Economic Advancement Program (FEAP) to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). Also the current Bankers Committee initiative which is supported by the CBN, for banks to set aside 10% of their profit before tax for equity investment in small scale industries will be tangential to alleviating poverty through the lending window or through joint ventures.

In Ghana, the framework for linking informal savings collector to the largest commercial bank was done by the collectors forming a registered association with which the bank deals. This linkage has led to an increase in the proportion of esusu depositors that gain access to credit facilities from their esusu collectors. The loans to deposits in the Ghana model rose from 9 per cent to 60 per cent in the two years of operations. The scheme was based on observation that increased lending by collectors often led to larger numbers of depositors.

The linkage that has been made with the new institution NACRDB should be enhanced by designing policy to overcome the observed obstacles such as distrust, inadequate knowledge about informal agents and prejudice, all of which create a risky environment for formal banks linking up with informal micro-credit activities.

* **Donors Model**

Donors have played a very strong role in the micro-credit program, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model proposed by Union Gabriel and Itoro O Ibanga (1997) called "The Ekpuk (family) model worked perfectly well within an extended family structure, particularly proven successful in some villages in Akwa Ibam State. However, this system of credit delivery need to be encouraged to work through formal credit institutions as much as possible, such as the community banks and NACRDB. It will help to support the development of strong non bank financial institutions with less risk of default.

3.0 EFFORTS AT MICRO-CREDIT DELIVERY TO THE POOR

Nigerian Government Efforts and Problems

By the understanding of the level of poverty in Nigeria, Government attempted with several micro-credit programs to alleviate poverty programs/projects such as Agricultural Development programs (ADPs), National Directorate of Emplotments (NDE), Better Life for Rural Dwellers (Later named Family Support Programs), the Directorate of Food, Roads and Rural Infrastructure (DFRRI) were pursued during 1986 to 1999. Other institutions that have also attempted purveying micro-credit were the rural banking scheme (1977-1990), People's Bank (1987-1990); community bank (1990 to date). In addition, the Central Bank of Nigeria's Agricultural Credit Guarantee Scheme which came into existence since 1977.

Although all the programs were directed at improving the productive base for sustainable growth, most of the efforts at purveying micro credit to alleviate poverty were largely irrelevant, urban structured from the standpoint of the realities of (who is the poor?)-understanding the poor. The programs in terms of resource endownment were dominated by government who gave paternalistic subventions in trickles. The way the programs had functioned over the years was such that credit system was essentially directed at meeting the needs of elites whereas the program is largely for small peasant poor group.

The semi-bank agencies in the system, some of which were created precisely to redress the weaknesses of the existing system were saddled with myriads of problems especially inadequate funding as well as lack of appropriate skills to mobilize/identify the poor and cannot therefore provide the essential remedy in a sustainable way.

The most serious problem in the agencies set to provide credit (NACB, etc) was the fact that they lacked adequate professional staff. CBN (1986) credit study shared that some 64% of personnel of NACB were administrative staff. Lending procedure were tortuous, with extremely demanding forms for completion by uniformed and illiterate farmers and the target group who are basically seeking relatively small loans.

Bilateral/Multilateral Institutions Efforts

The World Bank Group and the International Monetary Fund's efforts at assisting countries to understand the poverty situation in their economy, assess the level and determine to reduce the level, knowing that most developing economies are held back with debt obligations, have proved quite successful in most developing countries. It has helped Nigeria to open up again discussions with our creditors and have enabled us reschedules our debt at very accommodating concessions at the Pairs Club Group of creditors.

The World Bank and the IMF determined in 1999 that nationally - owned participatory poverty reduction strategies should provide the basis for all their concessional lending and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative. This approach builds on the principles of the comprehensive development papers on Poverty Reduction Strategy by country authorities for submission to the Bank and fund boards.

There are core principles underlying the development and implementation of poverty reduction strategies and these are as follows:

- Country-driven, involving broad-based participation by civil society and the private sector in all operational steps.

- Result-oriented, and focused on outcomes that would benefit the poor
- Comprehensive in recognizing the multi-dimensional nature of poverty, but also prioritized so that implementation is feasible, in both fiscal and institutional terms;
- Partnership-oriented, involving coordinated participation of development partners (bilateral, multilateral, and non-governmental).

Based on a long-term perspective for poverty reduction, the World Bank created no blueprint for building a country's poverty reduction strategy. Rather, they established key processes which should reflect a country's individual circumstances and characteristics. To develop effective poverty reduction program, there is the need to:

- Develop a comprehensive understanding of poverty and its determinants, beginning with an understanding of who the poor are, where they live and their main barriers to moving out of poverty. Furthermore, the multidimensional nature of poverty (low income, poor health and education, gender, insecurity, powerlessness etc) needs to be carefully considered.
- Choose the mix of public actions that have the highest impact on poverty reduction. A solid understanding of the nature and causes of poverty allows a foundation to select and prioritize macroeconomic structural and social policies based on their expected impact on achieving a country's poverty targets.
- Select and track outcome indicators using appropriate framework to indicate progress for chosen poverty outcome and to test the effect the policies and programs and adjust as needed.

4.0 MICRO-FINANCE MODEL FOR NIGERIAN POVERTY ALLEVIATION STRATEGY

Starting from the conceptual dimension of transfers of wealth and transfers through government fiscal operation, one will want to agree that in the current dispensation the country can afford realistically to adopt a model of transfer from the rich through the government fiscal operation and from the government through deliberate fiscal allocation to the poor to implement program that will alleviate poverty. Nigeria must pursue a progressive micro-finance model.

The program must be such that will assist the totality of the needs of those groups that will participate. The credit must facilitate production (economic activities), consumption (hunger etc.), social/welfare (health, education etc.).

The program must be such that can serve as seed capital to provide fund for the development of promising ideas or products including the development of prototype. There are many school leavers with promising ideas and many handicraft workers who need only small seed capital to move out of poverty.

The program must be such that can finance start-ups by providing funds for commercial production and marking, developed ideas and products. It should be available to finance expansion of commercially viable/successful business in order that the operator will not sink back into poverty.

Consequently, micro finance model for Nigeria should be such that would have, the linked institutional framework coupled with fiscal support for effectiveness (see Chart).

The chart showed the flow of revenue to the program and the credit service required of the program. The services must ensure the following:

- Operations are concentrated in rural areas and focus on the micro enterprises.
- Ensure working capital loans. As regards credit, most micro-entrepreneurs need working capital loans
- Do not include restrictions concerning the use of loan, allow for guarantee that matches their capacities such as personal guarantees and peer pressure.

However, in implementing the strategy through the new institution, it would be quite instructive to utilize the result of the poverty assessment in order to establish priorities for financing. First identify the regions with high level of poverty and organize them into cohesive groups. Second, determine what transfer programmes you want to adopt. For example, grain coupon etc. which could be used as collateral to access micro-credit which could alleviate poverty. These regions would form pilot projects with adequate supervisory, monitoring and evaluation teams, for replicating in other regions. More importantly is the need to have financial regulatory authority to be part of the team for effectiveness and for completeness considering the current dispensation of Universal Banking.

<u>Principles for Effective Micro-finance Institution</u>

The experience of micro-finance lending in Nigeria had not been quite successful from the formal model approach. Inadequate information will preclude making a categorical statement of the success of informal model. However, most

poor groups seem to appreciate informal lending. In order that the proposed model where we have linked institution to purvey credit work successfully, the following principles should be considered to avoid the pitfall of the past institutions:

- **Simplify services;** make the credit program customer-friendly. Use a simple application process (often not exceeding one page) appropriate to low levels of literacy and numeracy and streamline operations to minimize staff time per loan,
- **Offer small initial loans:** start with very small loans appropriate for meeting day to day financial requirement of micro enterprises and motivate repayment by offering larger loans as incentives for repeat customers.
- **Offer short term loans;** offer initial loans of three to six months with frequent repayment periods.
- **Localize services, focus on scale;** Locate close to entrepreneurs (in small scale industrial estates, villages etc). Select staff from local communities, including people with lower levels of education (and salaries) rather than from staff in formal banks. Locate where there is a critical mass of client in order to reduce transaction costs. Micro-finance programs reach sustainability in part by making large volume of loans.
- **Shorten turn around time;** limit the time between loan application and disbursement. Since the majority of micro-loans are for working capital, speed is ideal for borrowers and saves administrative costs for lending institutions. Turn around time can be lowered by relying on solidarity groups to screen clients and by decentralizing loan approval.

- **Motivate repayment:** Motivate repayment via group solidarity and joint liability. Group lending is efficient because it externalizes costs. Character-based lending to individuals (as opposed to groups) can be effective where the social structure is cohesive and there is little potential for political abuse.
- **Recognize that the poor do save:** Credit program are more sustainable when they are financed with personal savings. Savings are often half of informal finance. However, accepting deposits is labour-intensive and therefore quite costly. Moreover, unstable programs can rob the poor of their savings. Great care must be taken when an institution accepts fiduciary responsibilities.
- **Charge full-cost interest rates (factoring in inflation, loan losses and delinquency and the cost of loan funds).** The administrative costs of lending to the poor require interest rates that are substantially higher than rates charged by commercial banks. Micro entrepreneurs have shown a willingness to pay high rates for services that meet their needs.

5.0 CONCLUSIONS

This paper has established that micro-finance is indeed a strategy of poverty reduction. More importantly is the model of purveying credit to the poor as discussed in section two. It is a progressive strategy for Nigeria to have developed a strong linked institution by merging the formal, semi, formal and informal institutions that has in the past purveyed credit to the poor under one umbrella eg. NACRDB.

Looking ahead to the future of micro-finance programs in Nigeria, several conclusions could be drawn. First, there is significant room for improvement within the current programs using principles and practices established in this paper. Second, the unique conditions in Nigeria of having the best of time in revenue generation through oil wind fall, efforts must be made to strengthen the institution that have been merged, to also reduce poverty level before the 2003 election. The higher the level of poverty in any democratically run economy, the lower the score for good governance.

Third, micro-finance could still be run by other financial institutions in spite of the linked merger of NACRDB. However, serious issue of supervision must be tabled and discussed thoroughly with the financial sector regulatory authorities.

Fourth, issues concerning training should be viewed seriously. As shown, poverty is deep in Nigeria and education has been shown in the poverty assessment study to be negatively related to poverty. Training should not be restricted to reading and writing but more importantly to skills acquisition for those who had attended primary education and apprenticeships for some vocational jobs.

Fifth, is the issue of fiscal/budget subvention to micro-finance program. This is a challenge to the government and the regulatory environment. In conclusion, at an aggregate level, micro-finance services are a means of broadening economic participation to include marginal groups that have been left out previously. The main benefit is the heightened political stability that flows from having more stakeholders participate in the resource endowment of the country and thereby push growth and development to a sustainable level.

Table 1
LOANS GUARANTEED BY AGRICULTURAL CREDIT GUARANTEE SCHEME FUND, 1978 - 2000
(₦'000)

	1978	1979	1980	1981	1982	1983	1984	1985	1984	1985	1986	1987	1988
Loans Guaranteed	11,284	33,596.70	30,945.00	35,642.40	31,763.50	36,703.50	24,654.90	44,243.90	24,654.90	44,243.90	68,417.40	102,152.50	118,611.00

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Loans Guaranteed	129,300.30	94,494.40	82,107.40	88,031.80	80,845.80	103,186.00	164,162.10	225,502.50	242,038.20	215,697.20	246,082.50	361,450.40	606,518.00

Table 2
PEOPLE'S BANK
(₦' 000)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Subvention the Federal Government	232.1	-	451.7	489.2	696.3	-	-	-	-	-	-	1,869.3
Loans & Advances	74.0	-	78.0	167.3	178.2	340.0	350.0	360.1	400.5	804.8	737.6	3,490.5

Table 3
COMMUNITY BANK
(₦' 000)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Loans & Advances		15.90	132.20	708.20	1,147.80	1,366.40	1,480.10	1,501.20	1,972.20	2,631.00	3666.60	14,621.60
Sectoral Distribution of Loans and Advances												
Agriculture and Forestry			23.70	123.20	123.30	141.20	168.60	364.80	607.20	918.20	1,613.70	4,083.90
Manufacturing and food processing			20.10	69.60	82.70	148.00	175.30	171.10	245.20	286.60	458.00	1,656.60

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