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BANKING SECTOR REFORMS IN NIGERIA: AN OVERVIEW OF MICRO-FINANCE POLICY

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This paper evaluates micro-finance policy as contained in the Banking Sector Reforms in Nigeria. It is hoped that it would serve as a useful guide to the stakeholders, potential investors, students, and other relevant regulatory agencies charged with the task of achieving credible reforms, especially the aspect of microfinance policy in Nigeria. The issues discussed relate to the background of microfinance, conceptual framework, policy's objective, targets and strategies, categories of microfinance bank and expected benefits of the policy. This paper concluded that in spite of the failures in the earlier microfinance programmes in Nigeria there are still sufficient supports for the potentials of microfinance in poverty reduction, economic growth and development if properly implemented. To make good the economic development potentials of microfinance in Nigeria the following suggestions were made: adequate capitalization of microfinance, a simple and rational regulatory framework and the elimination barriers and unnecessary requirements for obtaining micro-credits.

INTRODUCTION

Reforms are usually occasioned by the need to review and reorganize the status quo and the prevailing approach to carrying out a function with a view to attaining efficiency and greater operational heights. Banking sector reforms are designed to re-orientate and re-position the sector for attainment of an effective and efficient state and to foster the much desired economic development (Kolawole, 2006).

Reforms have been a regular feature of the Nigeria banking system. They have been introduced in response to the challenges posed by developments within the economy and the international financial systems. The early banking reforms came by way of legislations intended to strengthen the banking regulatory framework. The first was the banking ordinance of 1952 enacted to stem the banking sector distress arising from the uncontrolled establishment of indigenous banks and the consequential collapse of twenty-two of the twenty-five indigenous banks established between 1927 and 1951 (Soludo 2006). Soludo further gave analysis of other

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legislations to include:

- The Central Bank of Nigeria Act of 1958.
- The Banking Act of 1969.
- Nigeria Deposit Insurance Corporation Act of 1988.
- The CBN Act of 1991 which amended and repealed the CBN Act of 1958; and
- The Banks and other Financial Institution Act of 1991, which also amended and repealed the banking Act of 1969.

It should be noted that though these legislations resulted in a considerable strengthening of the banking system, did not succeed in preventing the cycles of boom and burst completely in the sector. To buttress this point were cases of distresses in the banking system in 1980s and 1990.

The current reforms in the banking sector are part of the broader on-going national economic reforms. According to Soludo (2006) the reforms programme consist of the following elements:

- i) Minimum capitalization of banks to the tune of N25 billion with full compliance by the end of December 2005;
- ii) Consolidation of banking institutions through mergers and acquisitions;
- iii) Phased withdrawal of public sector funds from banks, starting from July 2004;
- iv) Adoption of a risk focused and rule-based regulatory framework (this involves strengthening Risk Management Systems in banks and the adoption of Risk-based Supervision by CBN;
- v) Adoption of zero tolerance in the regulation framework especially in the area of data information rendition/reporting;
- vi) Automating the process for the rendition of returns by banks and other financial institutions through the Electronic Financial Analysis and Surveillance System (e-FASS);
- vii) Strict enforcement of the contingency planning framework for systemic banking distress;
- viii) Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures;
- ix) Establishment of the Asset Management Corporation;
- x) Reduction of Government equity interest in banks;
- xi) Currency reform;
- xii) Micro-finance sector reforms, which include the approval and launching of the micro-finance policy, the conversion of existing community banks into micro-finance institutions etc.
- xiii) Reform of the foreign exchange market.
- xiv) Revision and updating of relevant laws;

- Xv) Enforcement of the law on dud cheques;
- xvi) Institutionalization of Good Corporate Governance; and
- xvii) Reengineering and refocusing the CBN on its core mandate as a monetary authority.

The Background of Micro-finance Policy

The practice of micro-finance in Nigeria is culturally rooted and dates back several centuries. The traditional micro-finance institutions provide access to credit for the rural and urban, low-income earners. They are mainly the informal Self-Help Groups (SHGs) or Rotating Saving and Credit Associations (ROSCAs), other providers of micro-finance services include saving collectors and co-operative societies.

In order to enhance the flow of financial services to Nigeria's rural areas Government has in the past financed micro/rural credit programmes and other institutional arrangement. All these are targeted at the poor. These include:

- The Rural Banking Programme
- Sectorial Allocation of Credits
- Concessionary Interest Rate
- Agricultural Credit Guarantee Scheme (ACGS)
- Establishment of Nigerian Agricultural and Cooperative Bank Limited (NACB)
- The National Directorate of Employment (NDE)
- The Nigeria Agricultural Insurance Corporation (NAIC)
- The Peoples Bank of Nigeria (PBN)
- The Community Banks (Cbs)
- National Poverty Eradication Programme (NAPEP).

It is worth noting that micro-finance services sponsored by the government adopted the traditional supply-led subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, etc.

Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs with a shift from the supply-led approach to demand-driven strategy. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the Trusteeship Acts as the sole package or part of their charity and social programmes of poverty alleviation. However, they have limited outreach due largely to unsustainable sources of funds (CBN, 2005).

From the appraisal of the existing micro-credit programmes in Nigeria. The following limitations were observed:

- Weak institutional capacity

- Weak capital base
- The existence of a huge un-served market
- High rates of illiteracy among existing and potential borrowers
- Poor physical infrastructure, particularly roads and power generation facilities.

However, with growing awareness of potentials of micro-finance in poverty reduction, economic growth and development, coupled with the emergence of several successful and fast growing micro-finance institutions in most developing countries has effectively put the issue of micro-finance policy in Nigerian as the major components of the banking sector reforms. The policy is designed to enhance deposit mobilization and credit extension at the grassroots, rejuvenate the latent capacity of the poor by providing them with micro-finance service and serve as spring board for boosting their economic activities and increasing household income.

Generally, according to Kolawole (2006), the policy is aimed at:

- Making financial service available to more Nigerians who are potentially productive.
- Bringing the informal sector into the main stream and creating synergy.
- Improving service delivery by the micro-finance institution.
- Transforming the rural area by harnessing latent entrepreneurial capacities.
- Promoting linkage programmes between universal banks and micro-finance banks; and
- Creating employment opportunities.

Conceptual Framework

Micro-finance simply means the provision of micro-credit to the poor who are traditionally not served by the conventional financial institutions. The poor is defined by CBN (2005) as one who has meager means of sustenance or livelihood and whose total income during a year is less than the minimum taxable limit set out in the law relating to tax income. Three features distinguish micro-finance from other formal financial products. These include:

- The smallness of loan advanced/or saving collected
- The absence of asset-based collateral; and
- Simplicity of operations.

However, overtime, micro-finance has transcended beyond credit administration to include a boarder range of services such as savings opportunities, insurance and money transfer. Micro-finance practitioners came to realize that the poor who lack access to traditional formal financial institution needed and require a variety of financial products to achieve

meaningful improvement in their business activities. The core of micro-finance programme goes beyond more than access and distribution of money to more issues of how money is utilized most efficiently and effectively by the active poor investors. This brings us to the development of appropriate regulatory and supervisory framework based on the particular features and risk associated with this activity. The framework is expected to adequately address the features and risks of micro-finance. This is because the characteristics of micro-finance clients are distinct, their credit methodology is different and in many cases the ownership structure of the institution is not the same as that typically found in conventional finance institutions. Therefore, these factors and others give rise to a unique risk profile that needs to be addressed adequately.

Micro-finance Policy's: Objectives, Targets and Strategies

According to CBN (2005), the following are the objectives, targets and strategies for micro-finance policy in Nigeria.

Objectives:

The main objectives of the policy are:

- Make financial service accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial service.
- Promote synergy and mainstreaming of the informal sub-sector into the national financial system.
- Enhance service delivery by micro-finance institutions to micro, small and medium entrepreneurs.
- Contribute to rural transformation; and
- Promote linkage programmes between universal/development banks, specialized institution and micro-finance banks.

Targets:

The micro-finance is targeted towards the following:

- To cover the majority of the poor economically active population by 2020 thereby creating a lot of job and reducing poverty.
- To promote the participation of at least two-thirds of the state and local governments in micro-credit financing.
- To increase the share of micro-credit as a percentage of total credit to the economy from 0.9% in 2005 to at least 20% in 2020; as the share of micro-credit as a percentage of GDP from 0.2% in 2005 to at least 5% in 2020.
- To increase the number of linkage among universal banks.

development banks specialized finance institutions and micro-finance banks by 10% annually; and

- To eliminate gender disparity by improving women's access to financial service by 5% annually.

Strategies:

A number of strategies have been developed by the Central Bank of Nigeria in order to achieve the set down objectives and targets of the micro-finance policy in Nigeria. These include:

- Licensing and regulating the establishment of Micro-finance Banks (MFBs).
- Promoting the establishment of NGO-based micro-finance institution.
- Promoting the participation of Government in the micro-finance industry by encouraging states and local governments to devote at least one percent of their annual budgets to micro credit initiations administered through MFBs.
- Promoting sound micro-finance practice by advocating professionalism, transparency and good governance in micro-finance institutions.
- Promoting the establishment of institutions that support the development and growth of micro-finance service providers and clients.
- Strengthening the regulation and supervisory framework for MFBs.
- Mobilizing domestic saving and promoting the banking culture among low-income groups.
- Strengthening the scope capital base of the existing micro-finance institutions.
- Broadening the scope of activities of micro-finance institutions.
- Strengthening the skills of regulators, operators and beneficiaries of micro-finance initiative.
- Clearly defining stakeholders' roles in the development of micro-finance sub-sector; and
- Collaborating with donors, coordinating and monitoring donor assistance in micro-finance in line with the provision of this policy.

Categories of Micro-finance Banks

There are two categories of micro-finance banks. There are those licensed to operate as unit banks in a local government area and those licensed to operate as micro-finance banks at state level. The micro-finance at local government area is required to have a minimum capital base of N20

million, while those licensed to operate at state level are required to have minimum capital base of N1 billion. Both categories are allowed to aspire to have national coverage provided they grow organically. It is expected that those operating at local government level cover two-third of the local government, while those operating at state level required to start from a state of its location, and cover two-third of the state before moving to another state in its national coverage.

Further development of the policy requires that the existing community banks should beef up their respective capital bases and transform to micro-finance banks to be able to operate either at the local government or state level.

Micro-finance banks are expected to, among other things:

- Provide integrated financial service to the active poor to enable them to develop sustainable entrepreneurship.
- Provide avenues for the administration of the micro-credit programmes of government, other agencies and individual.
- Create employment opportunities, increase the productivity of the poor and raise their individual incomes.
- Provide payment services for various agencies and governments.

Expected Benefits of Micro-finance Policy in Nigeria

Offering financial service to people not served by the traditional banks and lending institutions has been called a weapon against poverty and hunger by the United Nations. In the same vein, Norwegian Nobel committee recognized the policy as a strategy for peace. While the activities of micro finance programme in Bangladesh has led to the wining of the 2006 peace prize for successful efforts to create economic and social development through an efficient and sustainable micro-finance programme. (soludo, 2006)

Research has shown that if the new micro finance policy is properly implemented in Nigeria, the following benefits are expected from the policy

- * Creation of efficient and effective service delivery system:
- * Provision of opportunities for more funds from different finance centres such as 10% SME fund, 1% state and local Government annual budget funds:
- * Create and economic and social development through:
 - Increased capacity building and utilization of industries
 - Increased demand for goods and services
 - Growth in income per capita
 - Poverty reduction
 - General price stability
 - Reduction in population cost of living and improvement in living

standard of people and

- Overall economic growth and development. (CBN 2007)

Conclusion and Recommendations

In spite of the failures of the various micro-finance programmes in Nigeria in the past, there are sufficient support for the potentials of micro-finance in poverty reduction, economic growth and development if well implemented. Micro-finance has been found to be a veritable tool for economic development all over the world. With the new approach given to micro-finance in Nigeria economic development is expected to increase significantly.

Recommendations

To make good the economic development potentials of micro-finance in Nigeria the following are suggested:

- Adequate capitalization of micro-finance banks to meet the financial needs of the economically active poor for their activities.
- A sample and rational regulatory framework which would achieve a balance growth, promote transparency, control the risks faced by institutions engaged in micro-finance as much as possible.
- Eliminate barriers and unnecessary requirements for obtaining micro-credits.
- Encouragement should be given to the operators (MFBs) by the CBN by way of assisting in manpower building, i.e. subsidizing the training of their staff at the Financial Institute Training Centre (FITC).

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