Marketing the UN/OSCAL Framework as a Microfinance Model to Nurture the Non-oil Sector of the Nigerian Economy

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Abstract

Purpose

To propose the application of the UN/OSCAL model of microfinance to the Nigerian economy, and evaluate the opportunities and challenges posed by the model in accelerating the non-oil sector of the economy.

Methodology/Approach

This is paper is purely conceptual, and relies on the UN/OSCAL microfinance model as a conceptual framework of analysis.

Findings

The findings reveal the following: (1) That the success of scores of institutions devoted to providing financial services directed at the underprivileged, potentially spell hope for many in the third world (2) That the experience and varying successes of these organizations have debunked prevailing myths about poverty and the poor. (3) That in many ways, microfinance has proven an effective tool to help support the Millennium Development Goals campaign and to help halve the number of poor people globally.

Research Implications

To encourage varying and convergent approaches to poverty alleviation and economic empowerment in Nigeria, and to examine the collateral impact of a vibrant microfinance environment on the non-oil sector of the Nigerian economy.

Practical Implications

There is substantial evidence that financial services institutions focused on the poor are feasible and necessary to meet the credit needs of the poor. Under these circumstances, Nigeria needs to adopt multiple approaches to microfinance to seriously jumpstart the non-oil sector and gradually reduce over-reliance on the oil sector of the economy.

Originality/Value of Paper

This paper contributes to the burgeoning field of micro-development initiatives, particularly, microfinance and micro lending.

Keywords: Microfinance, UN/OSCAL Principles, Private Sector, Nigerian Economy Poverty Alleviation

Introduction

With only a few years to the Millenium Development Goal (MDG) target of 2015, the picture for Africa looks bleak. The MDGs target a decline by one half in the incidence of extreme poverty, as measured by the World Bank's $1 a day benchmark. While the world may achieve this target in global aggregate terms – given the strong growth and poverty reduction in India and China – most countries in Africa may miss the Goal. A little under half of Sub-Saharan Africa's population – approximately 313 million people – survive on less than $1 day. Poverty incidence today is roughly the same as in 1990, reflecting a protracted period of economic stagnation. Stronger recent economic growth in some countries – including Mozambique, Uganda, Tanzania, and Ethiopia – raises the potential for accelerated progress. However, prospects for a sustained acceleration in growth and poverty reduction are limited by infrastructural constraints, chronic deficits in health and education, and some of the world's most unequal patterns of global income distribution. Assuming positive growth trends to 2015, Sub-Saharan Africa will still miss the MDGs by a wide margin. There would be 219 million fewer people in the region in poverty in 2015 if the Goal of halving extreme poverty was met by all countries. On the current trend projection, there will be 353 million people in poverty in 2015, with Sub-Saharan Africa's share of global poverty climbing from 29% to 53% of the total (UNDP, 2005).

The Case of Nigeria

In 2006, The Human Development Index (HDI) measured the average progress of a country in human development. The Human Poverty Index for developing countries (HPI-1), focuses on the proportion of people below a threshold level in the same dimensions of human development as the human development index - living a long and healthy life, having access to education, and a decent standard of living. By looking beyond income deprivation, the HPI-1 represents a multi-dimensional alternative to the $1 a day (PPP US$) poverty measure. The HPI-1 value for Nigeria, 36.2, ranked 158th among 182 developing countries for which the index was calculated. The HPI-1 measures severe deprivation in health by the proportion of people who are not expected to survive age 40. Education is measured by the adult illiteracy rate, and a decent standard of living is measured by the unweighted average of people without access to an improved water source and the proportion of children under age 5 who are underweight for their age (HDR, 2009)

As one of the world's top oil exporters, Nigeria's oil wealth has evolved into a flash point in the country's long-running social conflict and violence. The future of the country's multinational oil industry, and the debate over whether Nigerians themselves will enjoy more benefits from the profitable resource, looms large over Nigeria's potential as a viable player in the global economy. Despite abundant natural resources, Nigeria has struggled economically for decades. It is estimated that approximately 34.1 percent of the population lives below the poverty line. (World Development Report, 2010). In light of these realities, the time has come for Nigeria to pursue alternative routes to a self –sustaining economy that is less reliant on oil.

Tried and Tested Poverty Alleviation Strategies

Traditional strategies for aiding the poor have tended to produce mixed results thus far. The Modernization programs of the 1960s in which industrialized nations attempted to jump-start the Third World often failed because they contradicted indigenous cultures and values or were too capital intensive to maintain (such as large power dams for generating electricity). The Green Revolution of the 1970s attempted to superimpose Western agricultural methods such as large tractors and chemical fertilizers on less developed countries, resulting in unintended consequences such as rising cancer rates and depleted soil. In the 1980s, the World Bank, United Nations, and others emphasized a Basic Needs Approach -- health care, access to clean water, housing, and education. But these efforts too were enormously expensive and unsustainable. Rather than assume that the traditional Third World culture is an obstacle to development, more recent thinking suggests that the old culture and the modern are not mutually exclusive. Not only might they co-exist, they may interface and interact to benefit one another. Tradition may be a useful component in the process of change, modifying the methods of the change agent to achieve greater agreement and success in the end.

Instead of the large-scale development strategies of the last 40 years, a new emergent model (microcredit) emphasizes small, focused attempts. Huge, macro solutions are seen as inefficient, costly, and often wasteful when failure eventually occurs, as exemplified by the problematic results of major donors such as the World Bank or the United Nations. Experts from such institutions often describe their projects in high-level abstractions, which seem intangible to indigenous groups in the Third World. In contrast, the new strategy carries out small, concrete projects that the community can manage, grow and improve, directly affecting its members. Over time, traditional development models have tended to be administered from a top-down, paternalistic perspective in which experts act as custodians of the projects, treating participants as second class citizens or charity cases. The result tended to be dependence, whether economic, industrial, or technical. Elites and their relatives generally obtained most key management positions, and money flowed to those individuals as direct beneficiaries of the project, whether or not the community as a whole benefitted.

Theoretical Debates

The conflicts over microcredit as a concept go back to its early years when many bankers and economists rejected the very idea of giving loans to the poor. Such a proposition defied traditional assumptions that the poor were not worthy of loans, couldn't handle the responsibility, lacked collateral and education, amongst other handicaps. However, the U.S.-trained economist Muhammad Yunus (and others) broke the mold of such theories when he realized his neo-classical economics education for a Ph.D. degree did not adequately explain the complexity of impoverished communities in Bangladesh. He had been taught that the poor are lazy, and that poverty exists in the Third World because people do not work. But, he found the realities of poverty clashed with the economic theory he taught, so he launched the Grameen Bank as a different model (Feiner and Barker, 2004) Most economists believe that self-interest drives all financial transactions.

Microcredit argues a different paradigm-that altruism and helping others, i.e. lifting the poor out of their suffering, can also explain economic behavior. The charitable motives of NGOs like ProMujer, Yehu Bank, and others have always been explicit: They sincerely want to reduce human suffering. They are not using microcredit for self-interest purposes such as making money off the poor or gaining popularity in the media. They suggest an alternative to traditional economics that often leave the poor behind. They show another economic model where the impoverished are helped out of poverty. Another conceptual debate is in the question of whether the best path to Third World development is large-scale, top-down funding of major projects versus small-scale, bottom-up microloans to minor players. As a theoretical matter, this debate has raged for two decades, mainly between scholars and policy-makers. For instance, as the most powerful player on the scene, the World Bank emerged after World War II to provide capital for reconstruction and development in the world economy, providing long-term credit to poor nations-mainly for building infrastructure like highways, bridges, dams, and other huge projects to modernize such countries.

The theory was that by investing in large-scale developments, a nation's ability to compete in the global market would increase and the poor would gradually become better off. However, in many cases, like Brazil for instance, the theory didn't work. Mainly the rich in Brazil benefited, while the poor grew poorer. Today Brazil is one of the most financially unequal countries on earth. More recently, the theory supporting microfinance services to the poor at society's bottom has begun to be accepted by the World Bank and other scholars. In recent years, these institutions have begun to focus more on poverty alleviation, emphasizing the issues of women, literacy, and microcredit. Thus, the World Bank has changed both conceptually and practically as the debate over microcredit has raged on. The World Bank's support for microcredit has changed, along with its theories: From a mere $2 million dollars for microlending in the late 1980s, to $35 million in 1996, then to over $100 million, and its portfolio over recent years has climbed to 4 billion dollars. It seems the debate is no longer whether or not microcredit is worthy of financial support. Instead, it's a question of how much. The turning point for the global expansion of microfinance can be traced to the Nobel recognition of U.S.-trained economist Muhammas Yunus, founder of the Indonesia Grameen Bank, and pioneer of microcredit for women (ADB, 2000).

This paper evaluates the opportunities presented by microfinance for the non-oil sector of the Nigerian economy, and examines the challenges pertaining to such a venture. The paper further examines the UN/OSCAL model of microfinance to see if it is applicable to the Nigerian context. The microfinance model is used purely as a conceptual framework of analysis. The UN/OSCAL model of microfinance proposes that microfinance initiatives will be successful in Africa if based on four principles of the model taken from international best practices. The identified principles are:

- pooling together peoples resources through group organizing;
- relying and building upon what people know – tradition;
- reinforcing microfinance to empower the African private sector and
- striving for efficiency.

The Un/Oscal Microfinance Model as a Framework of Analysis

The foundation on which the UN/OSCAL model of microfinance is based on is a research endeavor overseen by UN/OSCAL, in close association with the United Nations Development Program (UNDP/GIDP). Phase I of the project consisted of a compilation of over 85 microfinance factsheets which examined successful and unsuccessful microfinance efforts in African and non-African countries. The essence of the effort was to isolate strategies for a microfinance model that targeted the realities of Africa. A diverse collection of approaches has been used, ranging from traditional kinship networks, Revolving Savings and Credit Associations (ROSCAS) to NGO's and development projects. These microfinance initiatives have been funded by both the formal and informal financial sectors, as well as domestic and international donors (United Nations, 2000). Let us now examine in detail the key principles of the microfinance model

Principle 1 –Pooling together peoples resources through group organizing

This principle is based on collective support by all participants and stakeholders of microfinance initiatives through solidarity groups. It is an effective principle for microfinance sustainability in Nigeria because human and material resources can be pooled where individuals lack collateral for credit or the capacity to individually participate in a credit or savings program. Credit extension based on solidarity groups is seen as a promising lending technology to reach poor potential borrowers. The existence of trade associations in Nigeria whose activities mirror this pooling together of resources may make this principle easy to adopt.

The success of the Grameen bank is often cited as an example. The Grameen Bank of Bangladesh established by Mohammad Yunus follows the group lending methodology for credit extension. Group collateral is substituted for physical collateral. The group guarantee to repay individual loans became the hallmark of microlending. Using this mechanism, poor people with no physical collateral are able to form groups to gain access to credit (Khandker, 1998). Some identifiable benefits of this principle are:

- Groups are effective for education and training participants.
- Networking and information dissemination are enhanced.
- It can reduce administrative costs by giving responsibilities such as loan monitoring to the group
- Mutual trust and peer pressure ensure participation and repayment
- Resources can be pooled for initiatives such as common infrastructure development or bulk purchasing

The benefits of group organizing can also be extended to networking MFI's. Networks enhance MFI co-ordination, monitoring, advocacy and outreach. Such collaboration broadens the group of stakeholders involved in microfinance and provides accountable vehicles for the government and international actors to channel assistance.

Principle 2 –Relying and building upon what people know – Tradition

The sustainability of microfinance initiatives is increased by initiatives that recognize and build upon local knowledge and tradition. In Nigeria, microfinance initiatives must recognize and utilize traditional and informal savings and loan schemes which are predominant in Africa (United Nations, 2000) MFI acceptance and outreach is enhanced by familiar concepts that are more culturally compatible. When approaches to microfinancing are rooted in local culture, members and clients tend to participate, because they are directly involved in the financial decisions that shape and affect their lives. The advantages of initiatives rooted in local culture are that people become more interested in initiatives, more committed to the sustainability of the initiative, and members assume ownership and responsibility for the development of the microfinance initiative.Rotating savings and credit associations (ROSCAS) comprise one of the most commonly found informal and indigenous financial institutions particularly in Asian and African countries.

The main types of indigenous savings and credit associations are rotating and non-rotating. With the rotating type, contributions are collected at regular intervals and immediately handed over to members in rotation. The method of rotation is according to pre-agreed sequence. In the non-rotating type, contributions are also collected at regular intervals, but are deposited with a treasurer (Nweze, 1994). Members are paid back their total contributions after a predetermined cycle. In some non-rotating schemes members are entitled to the accrued interest from their lending activities and in others they are not. There is variation among ROSCAS as to the frequency of meetings, the total contribution, the number of members and the order of rotation (Anderson & Baland, 2002). Among farmers in Nigeria, *esusu* or *isusu* are voluntary mutual aid organizations in which the members pool their individual saving and have access to credit on favorable terms.

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Principle 3 – Reinforce microfinance to advance the African private sector

Worldwide, microfinance has proven to be an effective means of supporting low-income people, and of improving their livelihoods by developing entrepreneurial activities. It has assisted in raising incomes and has reduced economic vulnerability through the provision of financial services to the poor. Therefore there is a critical link between microfinance and microenterprise. If microfinance is to have a sustainable impact on poverty alleviation, it is essential that microfinance schemes be extended to include microenterprise development. According to the microfinance model, microfinance has the potential of formalizing the informal sector, empowering micro-entrepreneurs to participate and benefit from the formal economy. It can support initiatives for direct supply and market linkages to small and medium businesses.

Targeting micro-entrepreneurs can potentially develop, produce and market low-volume products with the outcome of allowing informal businesses to scale-up to the formal sector. The potential to empower the poor and micro entrepreneurs is contingent upon a supportive environment at the local level as well as the national and international levels (United Nations, 2000). Strengthening local institutions pertains to sustainability, outreach (ability to reach the poor and women) and performance. Shreiner (2000:3) defines sustainability as the ability to repeat performance through time where performance may be defined as fulfilling the mission of microfinance. The mission of microfinance is to supply financial services to the poor by cutting the cost of outreach. Van de Ruit (2001), in a draft paper, states that in practice, MFI's have to make a choice between institutional sustainability and poverty outreach. MFI's seeking sustainability, extend credit to the moderately poor whose enterprises have the potential for economic growth and employment creation. Research undertaken by the UNDP (1999) lists what donors should do to support and promote the development of MFIs:

a) Identify promising local organizations.
   Donors should look for MFIs whose objectives and operations they can support and should not mandate target groups or geographic areas of operation.
b) Identify a technical implementer.
   The technical implementer should have the primary responsibility for building the capacity of a promising local initiative.
c) Provide technical assistance for institutional capacity building.
   Technical assistance could focus on: business planning, management systems, reporting standards, accountability structures and loan and saving methods.
d) Have a credible work plan and strategy for reaching sustainability.

Generally, observers agree that donor support should be kept to a minimum and microfinance institutions should aim to become independent of donor funding. The major role that government should play in microfinance is to ensure an enabling environment. This includes striving towards macroeconomic stability and political stability. Governments should not over regulate the sector and implement interest caps that will hamper MFIs from achieving financial sustainability. Regulation and supervision of MFIs should facilitate microfinance operations and should not lead to financial repression in the sector (UNDP, 1999). Governments and donors should assist in developing linkages between the formal banking system and microfinance institutions that lend to the poor. By assisting in unlocking formal sector resources for use by microenterprises, it could enable the poor to sustain economic activities that are essential to their survival and reduce their vulnerability.

Principle 4 – Prioritize operational efficiency

Microfinance institutions should aim for efficiency in their operations if their interventions are to have a sustainable impact on poverty eradication. The goal is to become financially viable institutions, with the ability to expand outreach at a sustainable level. Before proceeding, it is necessary to unload some of the concepts just mentioned. Efficiency simply refers to the ability to maximize output per unit of input. Viability means the ability to cover costs of operation from revenues and Chua and Llanto (1995) describe the term viability with the following equation:

$Y > (OC + CK + CBL)$

Where Y is income, OC = operating costs, CK = cost of capital, and CBL = cost of bad loans.

Interest income from loans and related fees and charges should exceed total operating costs, the cost of capital, and the cost of bad loans. Operating costs include all personnel and non-personnel expenses incurred in the provision of the service. Cost of capital includes actual borrowing costs and the imputed cost of capital (which accounts for inflation). Sustainability not only refers to financial viability but includes the institutions' ability to ensure continuity of its services, to expand and adjust to changing circumstances (Chua & Llanto, 1995). Some of the premises of operational efficiency as underscored in the UN/OSCAL model include:

- Target the poorest of the poor

For microfinance to be a means to poverty eradication, the marginalized poor should be targeted as MFI aims for operational sustainability (United Nations, 2000). The Microcredit Summit Campaign defines the poorest as those living in the bottom fifty percent of the people living below a country's poverty line.

- Mobilize savings

Poor people need savings for emergencies, weddings, funerals, establishing small enterprises and cyclical expenditures such as the festive season or expenditures at the beginning of the school year.

Savings services that are effective can enhance the financial management of the poor, and increase their assets (UNDP, 1999)

- Charge interest rates that cover operational costs

Because it is costly to administer small loans, MFIs should charge interest rates that are higher than commercial bank lending rates. From the perspective of the borrower quick credit is more important than low interest rates. The cost of the loan and the cost of loan default are two costs that MFIs should cover, that are proportional to the loan portfolio. The other cost to be covered is transactional costs The advantage of charging interest rates that cover operational costs is that MFIs do not need to be dependent on donor funding which is often scarce or uncertain (United Nations, 2000).

- Conduct market research

Market research helps institutions to predict and control for costs, better innovate and adapt services to the target population and to maintain proper geographical coverage (United Nations, 2000). MFIs will be able to improve efficiency in their operations from conducting research through guidelines, best practices, management systems etc, as well as assessing their outreach to their clients.

- Streamline and decentralize operations

According the microfinance model, lean and simple infrastructures that makes use of a basic design of microfinance facilitates administration and increases operational efficiency (United Nations, 2000). Highly simplified and decentralized loan application, approval and collection procedures are a feature of successful MFIs (UNDP, 1999) and can improve MFI efficiency by lowering administrative costs. The costs to clients are also lowered when decentralization results in less time and effort being spent on traveling

- Utilize volunteer staff

Voluntary staff and profit sharing from revenues are effective in reducing operational costs. This is more applicable in rural and disadvantaged areas where utilizing voluntary staff offsets some of the costs that arise from the constraints these areas face. The training of volunteer staff to handle administration procedures is cost effective and encourages a participatory approach, which reinforces commitment to, and the sustainability of microfinance initiatives (United Nations, 2000).

- Target women

Cheston and Kuhn (2002) provide a rationale for the priority of women's access to microfinance services:

- Research done by UNDP, UNIFEM and the World Bank indicates that there is a negative relationship between gender inequalities in developing societies and economic growth and development. Therefore, there is mounting evidence that improved gender equality is a crucial component of any development strategy.
- There is a general consensus that women are the poorest of the poor. The UNDP reports that 70% of the 1.3 billion people living on less than $1 per day are women.
- Proponents of targeting women cite women's superior repayment records and cooperativeness as beneficial to the efficiency and sustainability of microfinance programs
- Lastly, microfinance is an effective tool for the empowerment of women

- Develop monitoring and assessment tools

Credible and reliable monitoring and assessment tools for evaluating MFI operations are critical for achieving institutional efficiency. Assessment tools permit the generation of systematic information for addressing and identifying weaknesses in services and management systems, streamline procedures and improve user-friendliness of systems (United Nations, 2000). Reliable monitoring procedures fosters accountability and allows MFIs to assess their outreach to the poor. Furthermore effective monitoring and assessment tools help MFIs to identify and confront problems as they arise.It is important for reporting standards to meet the standards of the private sector and for managers to use the information effectively. Accurate financial reporting is important for the following two reasons: (1) Accurate financial information leads to better decision-making and greater efficiency, and (2) the information reveals whether institutions are creditworthy and financially sound, which in turn impacts on access to further funding for expansion (UNDP, 1996).

- Invest in training.

Training of both staff and clients is an investment that could reduce operational costs and better the operational efficiency, sustainability and outreach of the organization. According to the microfinance model, training in business planning, accounting, financial management, loan tracking, delinquency management, development of savings and credit methodologies and computerized management systems (MIS), are important at the institutional level to achieve the goals mentioned above.

Clients should be trained in savings and basic management and bookkeeping skills to teach them how to invest funds in productive income-generating activities.

• Utilize pre-existing support organizations.

Newly established MFIs should make use of pre-existing support organizations at the local, regional and international level and establish linkages with NGO networks,
bankers' associations and international groups. There are microfinance organizations already established that offer advice and assistance to managers and donors such as the Consultative Group to Assist the Poorest (CGAP), the Special Unit for Microfinance (SUM) and the World Council of Credit Unions (WOCCU).

• Avoid external dependency.

For MFIs to become fully sustainable and efficient institutions, it cannot remain dependent on donor funding. Institutions that are self reliant are better able to maintain their identity, autonomy and mission. The United Nations (2000) reports that the following tools could be used towards obtaining self-sustainability:

- Appropriate interest rates
- Savings deposits
- Training

If strictly adhered to, the UN/OSCAL model purports to be a time tested framework for nurturing microfinance initiatives in general, and Nigeria in particular.

The Nigerian Microfinance Sector

In Nigeria, over 80 million people (65% of the active population) remain unserved by formal financial institutions. Microfinance specific institutions in Nigeria have not been able to adequately address the gap in terms of credit, savings and other financial services required by microentrepreneurs. In 2005, the share of micro credit as a percentage of total credit was 0.9%, and contributed a meager 0.2 percent to the GDP (CBN, 2005)
Microfinance service providers in Nigeria at the present time include:

- Traditional/informal - Rotating Savings and Credit Associations (ROSCAs) such as "esusu", "adashi"; Self-Help Groups (SHGs); moneylenders; pawnbrokers; thrift collectors; family members, friends and neighbors.
- Semi-formal institutions- credit unions; savings and credit co-operatives and multipurpose co-operatives; and Non-Governmental Organizations (NGOs).
- Universal banks
- Community banks
- Development banks

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the un-sustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas. The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, et al, 2003). They also operate in the urban centers. However, the size of activities covered under the scheme has not been determined.

Opportunities for Microfinance in Nigeria

Most Nigerians rich or poor, are generally diligent and enterprising. However, the poor who account for over half of the population do not have access to formal banking services. They rely heavily on formal and informal micro finance institutions for credit. Nigeria's teeming population of over 150 million people, requires the production of goods and services on a daily basis and funding is required for the production. Consequently, there is a huge demand for financial services and the MFIs have a prominent role to play to meet that demand. MFI operations are on the upswing, but they have very limited financial resources.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) funds and the development finance institutions (DFI) have been identified as potential sources of long-term funding for MFI operations. In addition, deposit money banks are beginning to develop interest in microfinance funding, given the unfolding commercial viability of the sector (Anyanwu, 2004).A prime example of the increased viability of this sector is Lift Above Poverty Organization (LAPO). Founded in 1987 in Benin City, Nigeria, LAPO provides affordable financial services to rural and urban poor communities. It offers a wide range of savings and loan products to its clients including regular (working capital) loans, farming loans, regular and voluntary savings. In May 2007, LAPO was awarded the Consultative Group to Assist the Poor (CGAP) Pro-Innovation Challenge Award for its innovative "Credit for Shares" loan product which aimed at encouraging the participation of the poor, specifically women in the privatization programs of the Nigerian government. In 2006, LAPO also received the Grameen Foundation "Excellence in Microfinance Award." (Grameen Foundation, 2007) The future of the industry is therefore very bright in Nigeria. However, LAPO has been the subject of recent controversy surrounding its high return on assets and high interest rates.

The most impressive illustration of this bottom-up approach is a capacity-building mechanism such as the Grameen Bank of Bangladesh (Wahid, 1993; Yunus, 1997).Consider the results since Muhummad Yunus was inspired to create the first village bank in the mid 1970s among landless peasants in Bangladesh, a place that then U.S. Secretary of State, Henry Kissinger, once called "the basket case of the world."

* Some 2,200,000 people are village bank clients.
* 5 million family members benefit from these credit and savings programs.
* 37,000 village economies have benefited from the added flow of new capital.
* Cumulative loan disbursements are over U.S.$ 2 billion dollars.
* Total savings, including individual and group funds, exceeds U.S.$ 80 million.
* The percent of overdue loans not repaid after two years is a mere 1.32%.
* 1,094 village bank branches exist throughout Bangladesh.
* The bank has staff of over 12,600. Only 583 work at bank headquarters while about half of the rest conduct banking in villages. The remaining 6,000 staff are engaged in technical projects such as wells and shrimp farms.

These numbers illustrate a dramatic change from the paltry $27 in capital Yunus first loaned to 42 poor women over two decades ago (Fuglesang, 1995; Yunus, 1990). Incredible as it may seem, Grameen's small-scale credit effort entails thousands of rural people engaged in financial transactions of over two million dollars daily in currency traded between peasants and poverty lenders -- with virtually no losses. Its poor members are now owners of the very bank they originally sought to borrow from. Additionally, Grameen's astounding success is currently being replicated by hundreds of other NGOs around the globe, defying the logic of economic theories that claim the poor are not bankable (Schuman, 1993). Nigeria can most certainly replicate this phenomenon.

Challenges to Microfinance in Nigeria

The bourgeoning microfinance industry in Nigeria faces an array of potential challenges.
On a global scale, widespread poverty threatens our world today, and poverty alleviation continues to dominate the agenda of world deliberations. The first challenge is the high proportion of the population designated as poor. The existing microfinance in Nigeria, serves less than 1 million people out of a potential 60 million that need microfinance service. A Central Bank of Nigeria (CBN) survey indicated that their client base was about 600,000 in 2001, and there are indications that they may not be above 1.5 million in 2008. The Government and its institutions, including the Central Bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

There is an urgent need to have in place a policy framework that will regulate the establishment, operations and activities of MFI in Nigeria. This is very important for those MFIs that accept deposits from the public for which there is need for confidence building, efficiency of operations and safety of deposits. The current situation of lack of a policy framework encourages multiple standards and lack of uniformity in financial transactions. The UN/OSCAL model of microfinance which proposes that microfinance initiatives will be successful in Africa if based on the aforementioned four principles of the model taken from international best practices can be applied to the Nigerian situation. Additionally, funding of real sector activities, especially agricultural and manufacturing production, need to be promoted by the MFIs as these sectors provide the foundation for sustainable growth and development.

Currently, only about 14.1 and 3.5 percent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 per cent, funded commerce. This is understandable, as the bulk of the funds came from grants which are not sustainable, but this structure is not desirable. The MFIs can take advantage of the banks' small and medium industries equity investment scheme (SMIEIS) fund, ten per cent of which has been reserved for microenterprises, to finance real sector activities. (Anyanwu, 2004)

Conclusion

The broad assessment of micro-entrepreneurship, microenterprise, and microfinance strategies seems to hold considerable promise. These bottom-up methods are being implemented in Asia, Latin America, some parts of Africa, the former Soviet Union, and even in the United States. Based on explosive growth in recent years, it may very well come to pass that a bottom-up strategy holds the promise to global development for all. More importantly, the proliferation of microfinancing opportunities has the potential to diversify the Nigerian economy thereby making it less reliant on oil revenue. According to Chu (1995), "Microenterprise credit stands at the threshold of being an effective and massive attack on world poverty." Statements like Chu's, are becoming more commonplace as the positive effects of micro lending proliferate around the globe. Wiping out poverty is not the only reason business people seem to be paying more attention to micro lending. It is simply good business, even by Wall Street standards.

In the second quarter of 2007, Grameen Foundation announced its first Growth Guarantee transaction in Sub-Saharan Africa: US$1 million for Lift Above Poverty Organization (LAPO), a leading microfinance institution (MFI) in Nigeria. Citibank, acting through its subsidiary in the country, The Nigeria International Bank (NIB), structured the US$1mm Naira equivalent loan supported by a US$500,000 guarantee from Grameen Foundation. This marks the first transaction between a Nigerian MFI and NIB/Citibank, and it is also LAPO's first leveraged commercial bank transaction. The stimulation of an indigenous private sector is recognized as a critical catalyst for future employment and economic empowerment in the emerging non-oil sector of the Nigerian economy. From all indications, microfinance efforts with explicit development and economic empowerment objectives are more likely to follow the principles of the UN/OSCAL model if Nigeria desires not to reinvent the wheel in their goal to alleviate poverty in time to actualize the MDGs by 2015.

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