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AN ALTERNATIVE MICROCREDIT DELIVERY MODEL FOR POVERTY ALLEVIATION IN NIGERIA

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ABSTRACT

*This paper takes a critical look at the credit delivery systems for poverty alleviation in Nigeria. It takes an exception to the top down approach of most of the credit delivery systems in Nigeria and proffers an alternative in the *ekpuk* (family) model of credit delivery to the poor.*

1. Introduction

ALTHOUGH Nigeria is endowed with abundant resources, it has been classified as one of the poor countries in the world in terms of its per capita income, consumption standard, provision of basic needs, shelter and overall economic performance (Aina and Salau, 1991). Available data (The World Bank, 1990; UNDP, 1990) reveal that basic social and economic indicators point to the fact that even when the rest of the developing world is making substantial progress, Nigeria is not getting beyond where it was thirty year ago. The World Bank (1996) statistics on incomes and social indicators show poverty in Nigeria to be widespread, severe, and most certainly increasing. They perceived poverty as a phenomenon with many dimensions, of which limited income is one.

Some scholars, (Olayide, 1975; Dittoh, 1994) have accused successive Nigerian administrations of not paying deserved attention to poverty alleviation. Olayide noted that the 1962-1968, and the 1970-1974 Development Plans said very little about food consumption, nutrition, and poverty of the farming as well as the working population. Nevertheless, records show that the issue of poverty started receiving serious attention after the 1975 annual conference of the Nigerian Economic Society (NES), where the problems of poverty in the country were highlighted. Since then, there have been some efforts at tackling the poverty problem. Such efforts culminated in programmes and projects like the National

Directorate of Employment (NDE), Better Life for Rural Dwellers (replaced by Family Support Programme), and the Directorate of Food, Roads and Rural Infrastructures (DFFRI).

The intensification of efforts at poverty alleviation currently being carried out by the international development community makes the provision of financial services to the poor one of the key levers to poverty alleviation. Thus, development policy makers and practitioners are making concerted efforts to promote poor people's access to credits. In line with this, the Nigerian government has established schemes, meant to encourage financial and economic activities. These include: the Agricultural Credits Guarantee Scheme, Nigerian Agricultural and Cooperative Bank, and Post Office Savings Scheme.

It is, however, obvious that these existing social poverty alleviation programmes and projects take a long time to produce relief for the poor. In this paper, a modest effort is made to x-ray existing micro-credit delivery systems for poverty alleviation within and outside Nigeria.

The paper takes exception to the current 'top-down' approach to credit delivery and economic advancement strategies and suggests an effective alternative model of micro-credit delivery for poverty alleviation in the country.

2. Theoretical Framework

The induced development theory readily lends itself to the micro-credit delivery model which is the pre-occupation of this paper. According to this theory, every country which embarks on the course of economic development necessarily encounters a set of constraints imposed by inelasticity on the supply of strategy inputs. Unless efforts are directed towards the loose reduction of these constraints by producing substitutes for these factors with inelastic supply, the whole process of economic development is bound to be greatly depressed (Hayami and Ruttam, 1971). Availability of funds in an economy is a sine-qua-non to the overcoming of the constraints. In fact, finance has been identified as an indispensable tool in development; a poorly developed financial system is an obstacle to the development of wealth, enhancement of socio-economic welfare and promotion of human dignity (Iniodu and Ukpak, 1996). It is obvious that no production, no matter how simple the technology, can take place without the use of capital. The provision of financial support through credit and savings for the acquisition of capital goods is crucial for effective economic management, the aims of which are to increase prosperity, equity, and sustainability. Economic management goals are consistent with the primary objectives of the provision of rural finance, which focuses on the improvement of the living conditions of the rural poor in developing countries.

All these are based on the assumptions that additional money, either as loans or savings will result in an increase in the overall liquidity available to the households. This additional liquidity can be used to expand any of the households' production, consumption and/or investment activities as enunciated in the savings-investment or foreign exchange gap models, which are normally used to justify borrowing for economic development.

3. Some Existing Micro-credit Delivery Models for the Poor

3.1 The Grameen Bank

The Grameen Bank is considered the 'model bank of the poor'. The idea was initiated by Professor Muhammed Yunus of Bangladesh. The bank commenced its operations in 1976 in the village of Jobra. It was set up as a result of the observation that it was impossible for landless people to obtain credit from commercial banks in Bangladesh, as they were unable to provide any form of guarantee. Professor Yunus decided to guarantee the bank loans granted to the poor himself. This decision proved to be highly successful as the repayment rate proved to be higher than 99 per cent.

Grameen innovative strength lies in training five-person groups and asking each person to ensure that the other person's loan is repaid. The president of each group attends a weekly meeting with one of the bank officials to take stock of the situation. These elements of collective guarantees, close supervision, and pressure from the other members, resulted in extremely good repayment rates. The Grameen Bank apart from being the bank of the poor, is at the same time a social movement based on principles of awareness and training which encourages participation by persons, organized into very small units of fifteen persons who meet frequently to share not only their financial problems, but also village issues.

The Grameen project became a properly constituted bank in 1983. The Bengali government provided 60 per cent of actual initial capital and the borrowers provided the rest, entrusting their savings to the bank. As at 1992, the Grameen Bank had provided its services to 1,385,000; unified 50,000 small village banks throughout 30,000 villages, and loaned 400 million dollars to its clients for small-scale trade, construction, back-up funds or local production credit, as well as for emergency funds (Vincent, 1995).

3.2 Village banks in Thailand

The village bank, according to Vincent (1995), is a financial institution administered by representatives of the villages on behalf of the villagers, who are all shareholders in the bank. The objective is to bring together shareholders, each of whom then invest 10 baht (US \$0.4) per share. A minimum purchase of five

shares per person is required before one is allowed to join the bank. The bank accepts deposits from its members as well as from all the villagers. It grants loans which range from US \$1,200 for short term (6 months), US \$4,000 for medium term (1 year), and US \$12,000 for long term (2 years and above).

The money is used to make investments in crops, cattle raising and fish farming, commerce, small-scale industries and village shops. In addition, the village bank provides various facilities in the area of health insurance, educational loans, fire and other insurance. Approximately 20 per cent of the profits are distributed among shareholders and the remainder goes towards village development funds, social assistance funds or towards providing education for the village children.

Prior to establishing a bank, two steps are normally taken — a survey as to the villager's needs and reactions, and a meeting to create the bank, elect a board and nominate a manager and three counsellors.

3.3 African traditional responsive banking initiative

The African Traditional Responsive Banking Initiative is a savings mobilization and credit delivery system developed by a non-governmental organisation — The Country Women Association of Nigeria (COWAN), which was established in 1982 in Ondo State, Nigeria. The association has as its major objective, the mobilization of traditional strengths of Nigerian women to promote their participation in the development of human and natural resources for sustainable livelihoods in rural areas and poor urban areas. The African traditional responsive banking initiative system 'modernized' traditional institutions: the *esusu* and *ajo ojojumo*.

3.3.1 *Esusu (Revolving loan)*

Under this system, members agree on an amount to be saved at every meeting. Each member is loaned the pooled amount in rotation. Members of *esusu* groups have something in common. They could be members of the same family, wives of the same compound, members of the same trade, age group and so on. Defaulters in this system are rare. When one fails to meet one's obligations, one is dealt with by the elder women's arbitration board or threatened with traditional taboos.

3.3.2 *Ajo ojojumo (Daily savings)*

Here, saving is on daily basis and under the arrangement, individuals are required to release a specified amount to the co-ordinator daily. Individual contributors may not know each other. This daily savings scheme is based on the following arrangements:

- a. the collector places the client's daily savings/money in a bank account for a period agreed upon at the time the account is established
- b. the savings of the first day of each month belongs to the collector
- c. when the client requires a loan, the collector can provide as much as double the monthly or annual savings capacity of the client
- d. the savings do not yield any interest

In 1982, COWAN started operating its savings and credit scheme based on the above local traditions in six villages in Ondo State. The concept of African traditional responsive banking initiative was created and COWAN gave out its first loan of ₦450 to two groups of 50 women. As at 1996, COWAN was operating in 720 villages in 18 states of Nigeria, and serving 78,000 women. Since its inception, COWAN has given accumulated loans of ₦26.25m.

The African traditional responsive banking initiative banking system is thus performing its role and is based on the spirit of co-operation, team work and sharing. Its slogan is NO SAVINGS, NO MEMBERSHIP. Loan recovery strategy is based on savings. Loan beneficiaries (members) are not asked to pay the loan back, but to save. By practice, they usually save more than the loan they were given (COWAN, 1996).

4. A Review of the Nigerian Government's Effort at Micro-credit Delivery to the Poor

In the early part of this paper, an outline of government's effort at alleviating poverty through micro-credit extension to the poor was made. It suffices to mention that the outline will be incomplete if we fail to include programmes like the Rural Banking Scheme (1977-1990), the People's Bank, and Community Bank. Of these three, the most comprehensive was the Rural Banking Scheme.

The scheme was initiated in 1977 and implemented in phases. A total of three phases were embarked upon before its formal termination in 1990. In the scheme, commercial banks were required to open 765 rural bank branches and utilize a stipulated percentage (50% as at 1982) of deposits mobilized from rural areas as credit to rural borrowers.

Osanwoniye (1993) pointed out that as at June 1991, which was the end of the third phase of the scheme, total deposit had increased to ₦8.3b and total loan taken stood at ₦5.1 billion with 765 branches nationwide. The degree of achievement of each phase as at October 1988 has been estimated to be 100 per cent, 96.6 per cent and 38.6 per cent respectively (Iyare et al., 1991). The actual impact on the poor peasant was found to be negligible. Inang and Ukpung (1992) corroborated this view when they stated that though the scheme had been

beneficial, most of the rural branches exhibited little or no initiative in dealing with rural sector due to their affiliation to urban-based commercial banks that are compelled by government fiat to have branches in rural areas. They went further to point out that most rural bank branches were mere deposit collecting centres for the urban based commercial centres, and so made no serious effort to develop an adaptable banking programme in the rural areas. Also this means the access of the poor to credit facilities is still a long way off.

5. A Corollary

From the foregoing discourse, it is discernible that neither the existing models nor the current efforts of the government can bail our lumpen proletariates from their poverty. This assertion is founded on a critical examination of the aforementioned models. A model like the African Traditional Responsive Banking Initiative of COWAN cannot readily fit our very poor people because:

- a. They cannot afford to be members since they are poor and by COWAN's guiding principle, membership is a function of savings. The lumpen proletariates hardly have enough to meet their basic needs, therefore the issue of savings may not make sense to them.
- b. Membership of COWAN is voluntary and they are not necessarily bound by a common unifying force. The only bond keeping members together is their personal interest. The possibility of discontinuity is very real, with little or no harm suffered by the defaulters.

Given these shortcomings, there is a strong need to develop an alternative model of credit delivery that readily lends itself to the peculiar circumstances of the poor. Such an alternative is given below.

6. The Alternative Micro-credit Delivery Model for Nigeria: The *Ekpuk* (Family) Model

The *ekpuk* model, which is hereby recommended as an alternative micro-credit delivery model for alleviation of poverty in Nigeria, is drawn from a study of the existing family structures in the nation. This inward looking initiative of the researchers is in response to the assertion by Coleman (1958) that family nationalism exhibited in socio-politico-economic awareness can be meaningfully exploited for the attainment of the objectives of self reliance, self-sufficiency and self-help by residents of rural communities.

This model has been practised in some villages in Akwa Ibom State and found to very successful. It is particularly very popular in Ikot Ukpong-Iman and Utu Ikot Essienem Ekpuk communities of Etinan and Ikot Ekpene Local

Government Areas. Basically, the system utilizes the existing Ibibio/Annang family structure in delivering credit to its members.

Technically, an extended family is formed by the unity of at least three generations of nuclear families through the extension of parent-child relationships. The extended family is often constituted by a number of compounds, the members of which can trace descent to a common pater. Among the Ibibios, a compound is made up of mainly blood relatives, plus a few strangers who might be temporary hired hands. The head of the family is usually the eldest male who established the compound, or his eldest son in event of his death. He has jurisdiction over his wives, siblings and all others in the household. His responsibilities include maintaining peace and order, encouraging members of the compound, defending the compound and seeing to the general well-being of its members. While the head of the compound exerts authority over minor domestic issues, serious matters affecting the lineage are handled by the extended family heads. He acts as the spokesman for the lineage in the ward and village councils, and the village head can only get to other members of the extended family through the extended family head.

In the past, the family was purely a socio-political linear organization. But given the contemporary economic downturn, many families in the case study areas have come together in co-operative spirit to better their economic well-being. This system of credit delivery is operated thus:

- a. Members of a given extended family decide on a meeting day, when all members of the family will meet (sometimes, even married daughters of the families are required to be at the meeting).
- b. At such meetings, each member is required to make an initial deposit of an amount agreed upon by every one present. Such amounts are fixed through consensus of family members.
- c. The total amount collected is given out to needy family members to embark on such ventures as fishing, farming, among others.
- d. The loan attracts a minimal interest of 5-10 per cent and beneficiaries are required to pay back the capital after a period of time. However, the interest is paid on a monthly basis, in conjunction with levies which are paid along with other members of the family.

The monthly contribution adds to the family's pool of financial resources, which are recycled among members as revolving loans.

In the two villages mentioned, members of the families adopting this approach have advanced economically, as they have established cassava and oil palm processing centres. The regular meetings of the families have also helped them to discuss personal problems and to solve them. Part of the family financial resources are also used in training children of members of the family. The flow chart of the model is as shown in diagram 1.

6.1 The Dynamics of the Model

In the model, the ebb (5) shows the households or compounds made up of the father, mother and the children. They are the smallest units and the targets of policy on poverty alleviation. Some of these households are rich, whereas others are relatively poor. Next to them are the nuclear family settings (or extended families). The family heads know the strengths and weaknesses as well as the aspirations of the respective individual households. Above the families are the villages and their heads as discussed previously.

In this arrangement, the use of the 'bottom-up' approach to the alleviation of poverty is advocated. The 'bottom-up' approach advocated here emphasizes the growth process which is initiated or started at the grass roots or rural areas, and the growth is then extended from this level to the urban centres or metropolis. This is against the idea of developing the urban centres or metropolis with the hope that such growth will trickle down to the rural areas or grassroots. It is expected that the growth of the poor rural families could lead to the growth and development of the urban areas and the entire economy. This would be especially so in an agriculture-led economy like Nigeria's, where the bulk of the agricultural activities take place in the rural areas.

In this model, the deliberate bypass of certain levels of government is needful. This would reduce undue bureaucratic red-tapism and unwarranted apportioning of financial resources (benefit-capture) by some policy executioners before giving the loan to the end users.

Financial resources from the central government meant for the poor should be channelled to either internal donor organisations like families support organisations etc., or the local government for onward disbursement to families. External donor agencies like UNDP, World Bank etc., should channel their funds through local governments or reach the target households through internal donor agencies or the villages, depending on the type of credit they intend to give. The local governments must be monitored by representatives of the donors and be made to readily disburse the funds to the villages for onward disbursement to the families.

However, to minimize the benefit capture in the process of executing poverty alleviation programmes, it would be advisable to reduce the number of

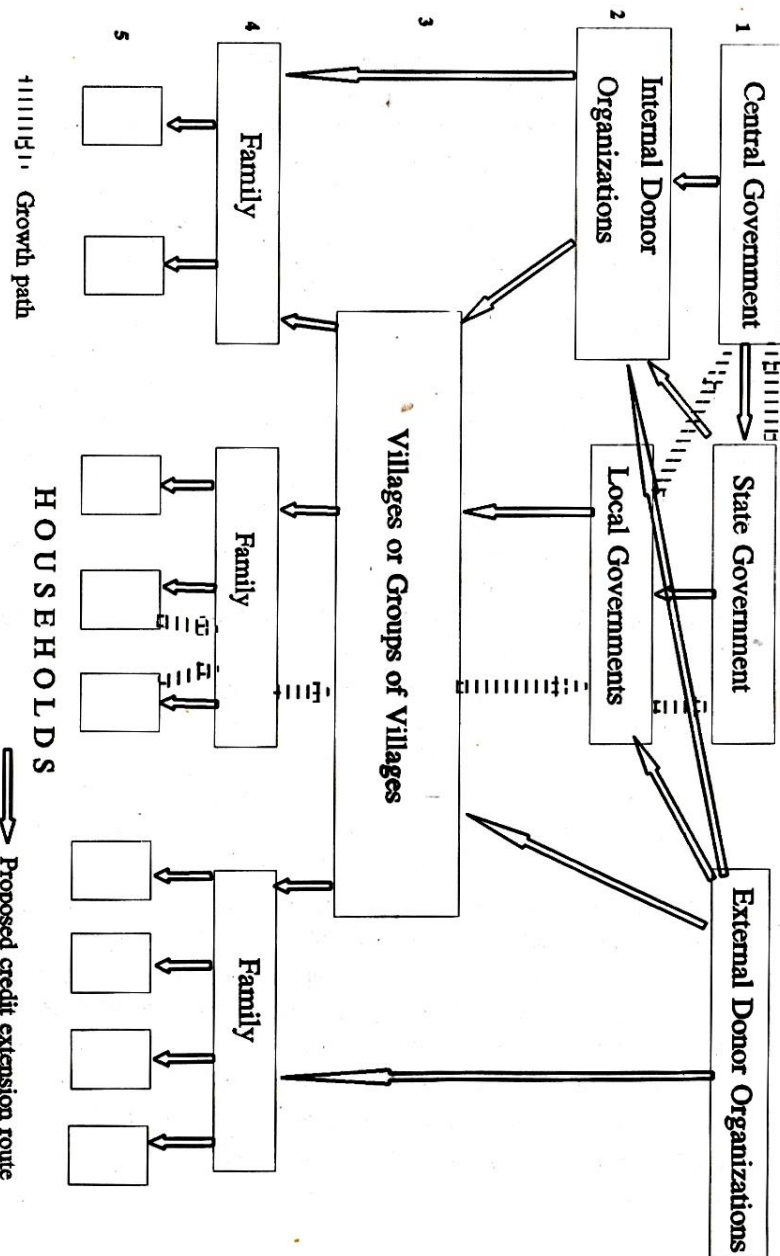


Figure 1. The EKPUR Family Model of Micro-Credit Delivery

intermediaries in the credit delivery process. The establishment of the Family Economic Advancement Programme (FEAP) by the Federal Government readily provides a good avenue for reaching out to the families. If state branches are established, such could help in the direct extension of credit to deserving families. Also, international and other donor agencies that engage in credit delivery could through their state offices, directly deliver credit to families. All that is required is putting in place the necessary structures for such operation. In this way, the number of linkages could be reduced and benefit capture minimized.

The disbursement of funds to the families must not be random. Representatives of the donors as well as the village heads should check the records for the existing families who have come together to promote their economic well-being, to ascertain their viability and understand their attitude towards loans repayment before disbursement.

The family heads have the obligation of ascertaining that funds disbursed are put into the use they were meant for and not squandered, so as to avoid defaults.

7. Efficacy of the Model

This model in traditional administrative framework is ideal for effective management of intra-community and inter community resources and projects, particularly in the Nigerian setting. This is true because:

- a. There is less risk of default. The bond that ties family members make them avert all matters that could breed litigations and curses or even sanctions by their elders. A loan beneficiary will always want to repay on time so as not to offend the elders and ancestors, and be incarcerated or excommunicated from his kith and kins.
- b. The 'bottom-up' approach adopted will ensure the minimization of unwarranted leakages from the funds before they reach their target beneficiary. This would cause the households benefiting from the given government programmes to love and respect their donors for their (the donor's) interest in them. In situations where benefits are all captured before getting to the target populace, grudge and bitterness normally characterize the attitude of the supposed beneficiaries towards donors.
- c. Loans disbursed and used well by beneficiaries could cause great development of the family. This would arouse the interest of members of other families who would need to organize themselves so as to also be beneficiaries.

8. Conclusion

As Nigeria continues the search for a solution to the problem of the greater percentage of its population — the poor, and as efforts so far have failed to give sufficient desired results, the need arises to adopt novel approaches which tackle the problem from the 'root'. It is our belief that since poverty is predominantly a rural problem, the family, which is the basic structure in every community, provides the starting point. The beauty of this model is that economic advancement of a benefiting family will have a 'halo effect' on other families as they will follow in the footsteps of the prospering families in order to improve themselves. This will breed healthy competition and growth at the family level, which will progressively be transmitted to the local government, state and national levels. We would want to conclude that this model may not in itself provide all the solution to poverty alleviation in the country. However, if well implemented, it can complement other efforts, thereby moving the country a step further from the present disturbing poverty-stricken situation in which it has found itself.

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