Promoting Entrepreneurship in Nigeria through Microfinance

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ABSTRACT

Economic prosperity, defined as a movement of people from the economic poor class to the economic middle or rich class of a society, in Africa has been achieved by a few countries. However, most countries, like Nigeria are left still chasing that elusive goal. Entrepreneurs, who spur economic growth in a society, are lacking in Nigeria. Steps taken by the Nigerian government to encourage entrepreneurship has led to uneven results in different sectors of the economy and for different stakeholders. The traditional banking system in Nigeria has also left many entrepreneurs without adequate capital. By comparing Nigeria with Bolivia, an argument is made for more microfinance endeavors and better management of the existing microfinance institutions; this will in turn cover the gaps left by the government and traditional banking system in spurring entrepreneurship.

INTRODUCTION

African countries have long sought for a source of economic prosperity[1] independent of Western influence. While this goal has been partially achieved in some parts of Africa, it is still left as an aspiration in other parts of the continent. This paper focuses on the West African country of Nigeria which is a perfect example of the elusive goal mentioned above. Nigeria, the tenth largest producer of crude oil in the world[i], is still not living up to its *economic prosperity* potential. How can a country so great in resource not achieve its economic goals?

Pose the above question to a citizen of Nigeria and the response will most likely be corrupt government/bad governance. This typical response gives insight to one of the underlying problems of the Nigerian economy: Its economic system is perceived to be too dependent on its government and hence citizens find fault solely with it when their needs are not met. As a result, there are little empowerment mechanisms in the country encouraging innovative thinking (entrepreneurs). Since micro-finance seeks to empower citizens of a country to be innovative and builds an entrepreneurial

[1] Economic prosperity within a country is a movement of people from a poor economic class to the economic middle or rich class of a society

mindset, this paper argues more is greatly needed in Nigeria. Furthermore, the paper argues for better management of the existing nine hundred micro-finance institutions in Nigeria. Micro-finance well implemented is more accessible, has a higher return on investment, a higher societal impact than the traditional source of financing (bank loans) and -with an increased number of participants - a lower interest rate.

In this paper, firstly, the history of microfinance in Nigeria is discussed. Secondly, we assess the perception that the Nigerian government is standing in the way of economic prosperity. We further investigate the role the government has played in spurring entrepreneurship in Nigeria and its societal impact. We show that the Nigerian government has been active in privatizing its state-owned enterprises in hopes of increasing citizen participation; however, this has not led to entrepreneurial growth and hence another medium is needed. Thirdly, we review the banking system in Nigeria and its effectiveness in loan management. We show the banking system has its flaws, which leaves entrepreneurship wanting in Nigeria, hence another medium is needed. Fourthly, we review how micro-finance has brought about significant entrepreneurial growth in a country with similar background as Nigeria. The authors choose Bolivia as a method of comparison because of its similar economic liberation pattern with Nigeria. Furthermore, we make a comparison between the banking system in Nigeria and the current microfinance system to argue for more microfinance institutions. Finally, we suggest best practices that would improve the effectiveness of the current microfinance institutions based on the Bolivian model and other best practices.

MICROFINANCE HISTORY IN NIGERIA

The practice of microfinance in Nigeria is rooted in its culture and dates back several centuries. While the microfinance institution has not been structured in the past, the *informal* sector of the microfinance institution was always present. The family unit, a component of the informal sector in Nigeria, is strong and people frequently rely on their family's support when other avenues fail. Other informal microfinance institutions provide savings and credit loans to its members; structured like solidarity loans. In recent years, the microfinance institution has developed to more than just the informal sector. The *formal* microfinance institutions provide savings, credit and insurance facilities to the public. Similar to other countries, the goal of the microfinance institutions is to provide access to credit for the rural and urban, low-income earners, however its impact has been limited due primarily to inadequate funds. In order to enhance the flow of financial services to Nigerian rural areas, the Nigerian government initiated a series of publicly-financed micro credit programs and policies targeted at the poor, for example, the Agricultural Credit Guarantee Scheme. This credit encouraged lending institutions to lend to the poor because the Nigerian government bore the risk of loan default. Microfinance services in Nigeria have adopted both the supply led and demand driven strategy of microfinance, as a result, the number of NGOs involved in microfinance activities has increased dramatically to 900. The inefficiencies of the formal sector in providing funds for the poor have also led to this increase in microfinance institutions.

As the microfinance institutions in Nigeria continued to grow, there were no established governmental policies for regulating and supervising activities in the industry. In 2000, the World Bank, in a meeting with the Nigeria government regarding microfinance, recommended the Central Bank of Nigeria take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation of MFIs. In responding to this recommendation, the Central Bank of Nigeria conducted a baseline study of MFIs in 2001. The survey identified constraints on the operations of MFIs, specifically the lack of performance standards and the absence of a regulatory framework. The Central Bank study made the following recommendations[ii]:

1. There is need to develop a regulatory and supervisory framework for the operations of MFIs in Nigeria. It is desirable to regulate only MFIs that mobilize savings for purposes of lending to their clients. MFIs that do not belong to this category may be encouraged to be self-regulatory.
2. An apex regulatory institution should be established and charged with the responsibility of building capacity through the training of directors and managers of MFIs to enable them develop an efficient information system for identifying and managing risks, and satisfying relevant data and information requirement of regulators and stakeholders.
3. The Government should also improve on the state of infrastructural facilities to reduce the transactional costs associated with the administration of micro credit in the country.

Subsequently, a microfinance policy in Nigeria was implemented by its Central Bank[iii]:

Policy Objectives

1. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

2. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
3. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;
4. Contribute to rural transformation; and
5. Promote linkage programs between universal/development banks, specialized institutions and microfinance banks.

Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

1. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.
2. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.
3. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.
4. To eliminate gender disparity by improving women's access to financial services by 5% annually; and
5. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

1. License and regulate the establishment of microfinance Banks (MFBs)
2. Promote the establishment of NGO-based microfinance institutions
3. Promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.
4. Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;
5. Strengthen the regulatory and supervisory framework for MFBs;
6. Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
7. Mobilize domestic savings and promote the banking culture among low-income groups
8. Strengthen the capital base of the existing microfinance institutions
9. Broaden the scope of activities of microfinance institutions;
10. Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;
11. Clearly define stakeholders' roles in the development of the microfinance sub-sector; and
12. Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

Why then is there a need to study microfinance in Nigeria, one might ask? There remain inefficiencies in the current state of microfinance in Nigeria and future roadblocks can be avoided by studying what others have done. Furthermore, there is a need for more capital in the microfinance sector of the economy to increase its impact in the lives of people. There is also a need for the government to review its policies and renew its resolve on its proposed legislation.

GOVERNMENT, ECONOMIC PROSPERITY AND ENTREPRENEUSHIP

A direct relationship exists between governmental privatization and entrepreneurship within a country.[iv] As a result, significant improvement has been made on the part of the Nigerian government to increase the participation of its citizens over the last two decades through privatization. Under a scheme launched by then President Ibrahim Babangida in 1988 as part of an IMF-backed structural adjustment program, 73 enterprises were privatized by the end of 1992.[v] While the enterprises noted above were ones the government had little ownership to begin with, large state owned privatizations have occurred since. In 1999, the Nigerian government passed the *Privatization and Commercialization Act* which lists out three phases the government would embark to privatize its larger owned institutions. The first two phases involving the privatization of commercial and merchant bank, quoted cement companies, downstream oil companies are almost complete. Phase three entails the larger state-owned enterprises including the National Electric Power Authority (NEPA), Nigerian Telecommunications Plc. (NITEL), Nigeria Ports Plc. (NP Plc), Nigeria Airways, the Nigerian Security Printing and Minting Company Ltd (NSPMC), Nigeria Railway Corporation (NRC) and Petroleum Refineries, the National Insurance Corporation of Nigeria (NICON) and the Federal Airport Authority of Nigeria (FAAN). Encouragingly, the Nigerian government's set guidelines are actually being adhered to and privatization of Phase three is currently being carried out[vi].

Furthermore, Nigeria embarked on a process of deregulating its financial sector, particularly with the repeal in 1995 of the Exchange Control Act. The Act was replaced by the Foreign Exchange Decree of 1995, which permits any individual or corporate body to invest in any Nigerian enterprise or security with foreign currency or capital imported into Nigeria through an Authorized Dealer (a bank or other non-banking organization so licensed by the Central Bank of Nigeria) either through telegraphic transfer, checks or other negotiable instrument.[vii] This legislation was important for the Nigerian stock market as day traders increased in large numbers particularly because one didn't have to be present in the country to trade its stocks. Nigerian entrepreneurs were able to start financial trading firms within and outside Nigeria as a result.

Despite these improvements in Nigeria, like America, there often is a difference between the state of '*Main Street'* and '*Wall Street'*. Specifically, while the above changes brought about growth in the upper class of the Nigerian economy, the middle class shrunk as more people became poor in Nigeria. **Table 1** below, shows the percentage of poor people in Nigeria between 1980 and 1996 the same period during the economic liberation of Nigeria. Presently, according to the UN, the poverty level is at 76% of the population. [viii] One of the possible reasons for this disconnect is that most privatizations beneficiaries were foreign investors or wealthy Nigerians. Given the proportionately few amount of wealthy people in Nigeria, the impact on the greater society was little. Another reason could be that the wealthy few Nigerians who benefitted from the privatization efforts did not invest or spend their money on domestic goods; hence the multiplier effect of the currency could not fully take effect. Furthermore, **Table 1** points out another important distinction, the poverty level in rural areas was greater than the poverty level in urban areas, indicating disproportionate benefits. While the burden for entrepreneurship cannot be levied only on the government of a country, it is the responsibility of the government to provide an environment conducive to existing entrepreneurs. However, specifically on the infrastructural limitations, inadequate electricity, political and economic instability and lack of enforcement of patent laws the Nigerian government has also been under par.[ix]

One can conclude that while the government's effort to spur entrepreneurship has been genuine, it hasn't achieved its goal of economic prosperity as we defined it. The entrepreneurial spirit has been enjoyed by a relatively small group of people and there exists conditions that do not encourage but stifle the works of entrepreneurs.

BANKS AND ENTREPRENEURSHIP PROMOTION

In 2004, the Central Bank of Nigeria announced a plan to raise the capital base of its existing 89 national banks in the country to 25 billion naira. This announcement led to some mergers and acquisitions in the financial industry and also led to the end of some of the banks. As of December 31st 2005, 25 banks emerged having fulfilled the capital base requirement. The rationale for the increase in the capital base, according to the former Chairman of the Nigerian Central Bank, Charles Soludo was to make banks more efficient. Prof Soludo stated that "the small size of most of our banks, each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating expenses, and with bunching of branches in few commercial centers--- lead to very high average cost for the industry. This in turn has implications for the cost of intermediation, the spread between deposit and lending rates, and puts undue pressures on banks to engage in sharp practices as means of survival……..This is not healthy for the economy."[x] However, despite the consolidation of the banks, lending to small business enterprises and entrepreneurs has not improved. Nigerian banks due to the increased capital base are guilty of taking no risk at all and hence only scramble for the few high net worth members of society and stampede them with loans.[xi]According to a survey[xii] taken of business entrepreneurs the main hindrances to obtaining a loan from a bank in Nigeria still remain. These hindrances include banks hedging against associated risks by relying more on collateral and less on the yardsticks for creditworthiness or sometimes, sound loan approval; establishing necessary but often restrictive and time consuming procedures and offering high interest rates. One might suggest that the banks request for collateral is the prudent thing to do; while this might be correct in a developed country, in a developing country it excludes a majority of the population especially the poor.

A similar study discovered additional loan management problems in Nigerian banks[xiii]. First, there is a positive relationship between bankers individual preference to risk and loan approval; as a result loan approvals do not follow a specific loan guideline, but often rely on whether the banker would personally invest in the business or venture. Secondly, in general, many banks do not advertise their loans to the public; this is especially true in rural areas. Thirdly, banks lend more when there is a government safety net to mitigate any potential losses, thereby making the citizens dependent indirectly on the government to finance their business. (Most of the government safety nets in Nigeria are in the field of agriculture, which is of use to many rural residents who are farmers, but what happens if the loan is not protected by the government, for instance, starting an after school program for children? This loan practice by banks therefore is not adequate in spurring lending.) Furthermore, a large number of bank lenders were found to be too conservative[2], prefer the use of overdraft facilities[3], prefer short term advances, offer rigid prepayment structures, prefer those in already good financial position, prefer those with management expertise, and have no business advisory unit in terms of crisis in business. These all have profound implications on lending in Nigeria. A bank that prefers to offer short term advances and a rigid prepayment structure does not allow the environment needed for business to

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[2] A conservative lender is defined as one who requests a higher than normal financial position that is necessary to get a loan.

[3] Overdraft facilities require the applicant to already have an account with the bank before any loan can be granted.

grow as most businesses experience losses in the early years of operation. A bank that requires applicants with already good financial position fails to realize that to spur economic growth; bankers need to take chances specially in developing nations. A bank that has no business advisory unit will set their customers up for failure, by giving them the loan and not providing guidance on how to maximize their capital, which essentially mitigates the losses the banks could experience. A bank lender that is too conservative will deny a lot of loan applications.

This apparent inadequacy of the banks in Nigeria to provide loans to entrepreneurs is actually admitted by the Central Bank of Nigeria on its website; stating that "in Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. The 65% are often served by the informal financial sector, through Non Governmental Organizations (NGO) – microfinance institutions, money lenders, friends, relatives and credit unions." [xiv] Hence, the practice of the traditional banking system in Nigeria is not the answer in spurring entrepreneurship in Nigeria.

MICROFINANCE AND ENTREPRENEURSHIP PROMOTION (COUNTRY CASE STUDY: BOLIVIA)

Bolivia has become one of the great examples of how microfinance can spur economic growth and entrepreneurship in a country; however, it too has its flaws. Bolivia experienced a major economic change in 1985 after an era of hyperinflation. The new government set Bolivia on the path of economic liberation, like Nigeria. The government moved to privatize its state owned business and set a liberal economic policy that spurred growth in Bolivia. The rise in the informal sector of Bolivia coupled with economic liberation led to the growth of microfinance in Bolivia. Furthermore, the microfinance institutions in Bolivia *unionized* thereby giving its members more clout to protest unfavorable economic policies like an increase in interest rates in bank lending rates.

Prodem, the first microfinance institution in Bolivia, was successful because of the financial backing it had from key businessmen and politicians in the country. Furthermore, Prodem's effective strategy made the operations of the microfinance institution effective. Prodem, for example, implemented a strategy of helping vendors buy in bulk and pay cash from its retailers; retailers offered discounts to customers who didn't need a line of credit, hence Prodem showed it understood the business of its clients. Prodem set its microfinance institutions around a *solidarity guarantee strategy*, where loans were given to a group of individuals and only upon successful payment by the initial member of the group will the loan be available to other members of the same group. Furthermore, if a member of a solidarity group was unable to pay, the other members of the group was to support that member. Prodem left the financial decisions of who gets a loan with its branch managers, effectively cutting out the waiting time to get a loan. This reduction on processing time also led to a reduction in interest rate because of the reduced cost. Prodem marketed heavily to women, who were new entrants to the labor force and were now needed to support the income of their husbands.[xv]

The success of Prodem in Bolivia led to the entry of other microfinance institutions. This growth in the microfinance sector led to a thin spread in the amount of grants each microfinance institution could get access to. Hence a crisis of capital became apparent in Bolivia; as a result a move to make microfinance institutions commercialized[4] came into play. Furthermore, the microfinance institutions felt they were controlled solely by the biggest donors and hence sought a way to be free from the restraints of its donors; commercialization of the microfinance institutions seemed to solve this problem also. The transformation of the microfinance institutions was also led by the recognition that low-income people wanted better opportunities to save; for the microfinance institutions to begin taking deposits from its customers, the Central Bank required them to become commercialized. The Bolivian model of microfinance tried to allow microfinance institutions to be commercialized but at the same time remain essentially a microfinance organization. Briefly put, the model involved using some or all of the capital of the microfinance institution to purchase shares in a newly created financial institution. The microfinance institution would be the lead shareholder of this new franchise. This new financial institutions was then allowed to accept deposits from customers. A key opposition to this approach was whether sponsors of the microfinance institutions were willing to allow their funds be used to capitalize a private, for profit commercial bank. The Bolivian model is unique to the approach taken in different countries as most NGOs fear than by being commercialized they lose control of the new institutions. The Bolivian model keeps the NGO structure as part of the newly commercialized institution.

To make this model successful numerous changes had to be made in microfinance industry in Bolivia. The Central Bank in Bolivia required that the administrative costs of the microfinance institutions be reduced. For example, Prodem's administrative costs were close to 20 percent of assets compared to the 5 percent range for a conventional bank. Secondly, strict *internal control* procedures

[4] Commercialized: To operate like a regular commercial bank

were to be followed; previously microfinance institutions were allowed to hire one person to do different roles, however, if these microfinance institutions were to be commercialized this practice could no longer continue. The Central Bank was willing to allow the pseudo microfinance commercial banks to maintain their solidarity group loans, though originally it had requested that only loans that had collateral be approved; this requirement would have excluded most the clientele base for the microfinance institution as the solidarity group loans did not have collaterals.

Table 2 below shows the performance of microfinance institutions after commercialization. These microfinance institutions reported *returns on equity* as good as or better than mainstream financial institutions and better performance than other non-commercialized microfinance institutions[xvi]. Their administration costs reduced per loan due to the larger size loans each institution was able to approve. The amount of delinquent loans per portfolio stayed at a relatively low rate even as the total loan outstanding increased. The interest income per portfolio declined steady, an indication of falling interest rates on loans.

IMPLEMENTING THE BOLIVIAN MODEL IN NIGERIA

As in Bolivia the measures of the effects of microfinance can be measured across different sectors of a society: economy, individual clients and social and political level[xvii].

Economy

In Bolivia, our case model, microfinance did *not* impact its economy because of the misperception of the role of microfinance. Many political leaders still viewed microfinance only as a way to lend money to the poor and not as a way to invite poor people to be part of the economic revolution of the country. Secondly, Bolivia had not shed the perception that corruption still flourishes behind the scenes, as a result the economy and the microfinance institution was affected. Thirdly, in Bolivia, the informal sector was involved in counterfeit products (for instance, a business owner could be selling Nike clothes or shoes that have the Nike label but were not actually produced by Nike) and hence was not able to contribute to the import and export industry of Bolivia. Policy makers argued that as long as these exporters are putting false brand labels on their clothes and selling on the gray market, the Bolivian government cannot represent their interest in trade negotiations. Fourthly, although microfinance covered a large share of its potential market, the amount of funds involved remained a small fraction of the total financial system. Finally, the microfinance industry multiplied the sector without transforming it, for example, more people were producing the same products but there was no development in the products that they produced.[xviii]

Nigeria can learn from the mistakes of Bolivia to ensure that its microfinance sector can contribute economically to its progress. Economic progress is important to entrepreneurship because as was noted above, the microfinance industry does not operate in a vacuum. We urge the Nigerian government to continue its steps in cleaning up the perception of the corruption in government. We urge the Nigerian government to *enforce* its patent infringement laws against businesses the sell counterfeit product; similar to Bolivia, the Nigerian markets are filled with *knock offs* of original merchandise. The perception problem of the poor is not unique to Nigeria but applies to a way forward in microfinance. The poor aren't looking for a giveaway but value hard work as much as the rest of the population. Treating the poor then as an important sector in the building of Nigeria will be beneficial. Microfinance institutions in Nigeria should hold innovative classes for its customers that teach them how to grow their business, this way the entrepreneur will not be stuck producing the same product and will be more adaptive and dynamic.

Political and Societal

The environment that businesses operate in is vital to the success of the business. Hence reviewing how microfinance can impact the political arena is relevant to spurring entrepreneurship. In Bolivia, our case model, the unionization of the microfinance institutions gave the sector a clout during elections, allowed the microfinance institutions to have rallies when a policy decision was unfavorable to them and allowed them to negotiate for better working environments[xix]. A similar approach in Nigeria can only be beneficial to the political climate and would be a bottom up approach to changing the country as a whole. The market women of *Mile 12 Market* in Lagos have different concerns than the businessmen of Abuja, having a political climate that is favorable to all spectrums of entrepreneurs will encourage more interest in the venture.

Individual

Perhaps the most important dimension is the impact of microfinance on individual lives. In Bolivia, microfinance wasn't only a cushion to support the family but was also a platform that allowed families do things they were not able to do before. This is true not only in Bolivia but also in Indonesia and everywhere the microfinance story has been implemented. The reach of microfinance in Nigeria, compared with the other sources of financing, makes the individual impact appealing. In 2001, a survey performed by the Central Bank of Nigeria showed microfinance institutions present in 28 out of 36 States in the country and operating largely in the rural areas[xx]. Poor families will be able to afford education for their kids, health for their family and economic prosperity.

COMPARATIVE ANALYSIS: MICROFINANCE/TRADITIONAL BANKING SYSTEM

Nigeria currently has 900 microcredit institutions within the country serving different aspect of the society. The number of microcredit institutions greatly increased due to the requirement by the Central Bank of Nigeria that community banks should transition into being microfinance banks if certain capital requirements are met. One might ask that with already 900 microcredit banks why there is a need for more microcredit facilities. This is because the problem in Nigeria, regarding microfinance, is two folds. The first being that the 900 microcredit institutions in place are still not bending the poverty curve in the country and also that the existing microfinance institutions are not being well managed. To the second point, the Central Bank of Nigeria in an attempt to better manage the microcredit institutions within the country, moved to bring all microfinance institutions under its authority. The Central Bank hopes that by doing this it would help prevent any financial shock that section of the economy may face. Furthermore, the microfinance policy of the Central Bank emphasizes management training for microfinance banks.

Table 3 below shows the balance sheet and income statement of the commercial banks and microfinance banks in Nigeria. The information shown for the commercial banks is an aggregate of the 24 national banks in Nigeria. The information shown for the microfinance banks is an average of a sample of microfinance banks in Nigeria whose financial statements are accessible to the public.

Capital Base

As is evident from the financial information, microfinance institutions in Nigeria suffer from an inadequate capital base. This small capital base affects the lending practices within a microfinance institution as lenders become pickier about who to lend money to; which in turn slows down the flow of capital to those that need it desperately. In the Bolivian framework this problem was partially solved by the funding and grants the microfinance institutions received. In Nigeria, a solution to this problem could be commercialization, as was utilized in Bolivia[5]. The use of more solidarity groups in Nigeria could also increase the amount of funds that are available to a group of borrowers. The government could also give incentives for people to give grants to microfinance institutions, for example, a tax holiday for a period of time and can increase its scope of aid to more areas than agriculture. Foreign capital would also be attracted to the increased return on equity that commercialization could bring and would also invest in microfinance institutions. The main driver of capital though should be the savings of the members of the microfinance institutions. As some microfinance institutions in Nigeria are already doing, providing an attractive savings interest rate would encourage members to deposit their money in the banks. Another source of financial for microfinance institutions is the borrowings it makes from mainstream banks. The Nigerian Central Bank has proposed that all mainstream commercial banks save 10% of the profit annually into a Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund. This fund will then be utilized to provide financing to the microfinance institutions. However, as of the 2004 report from the Central Bank, the funds meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose.[xxi]

Operating Expenses

The operating expenses in the microfinance institution in 2007 and 2008 were between 70 percent and 95 percent much higher than commercial banks. This could arise due to a same administrative cost that was noted in Bolivia. A streamlining of the loan procedures in the microfinance institutions could help reduce these costs. Internal control procedures at the microfinance institutions will also be beneficial. The management initiatives that are part of the microfinance policy of the Central Bank will be key in closing this gap.

Liquidity

Using the measure of working capital (current assets – current liabilities), commercial banks in Nigeria are more liquid than microfinance institutions. Furthermore, review of the bank reserves shows the flexibility each bank has to respond to certain shocks in the financial system. As was noted in the Bolivian model this could be as a result of a lack of capital also and hence could also be mitigated by more commercialization. Regional microfinance institutions that enable firms to pool together their

[5] Microfinance in Nigeria has some form of commercialization. In the 2005 Central Bank of Nigeria Microfinance Policy Framework, Microfinance Banks(commercialized NGOs) were required to have a capital base of 20 million naira

resources could also increase liquidity; this would be implemented like a microfinance interbank loan system where one bank can lend from another bank.

Accessibility and Reach

It is generally accepted that microfinance banks can reach areas commercial banks don't. This is especially true in Nigeria. In rural areas where roads are still made of clay, local residents may not have transportation to get to the banks; these and other similar factors is what lead to the increase in the informal sector in Nigeria. Many members either got their loans from family members and friends. Microfinance has a history on building upon informal sectors and hence has the potential for have a greater impact on society than a traditional bank.

Although Nigeria already has 900 microfinance institutions; in country of 154 million people that is less than adequate. As it currently stands there is one microfinance bank serving 172 thousand people. With the liquidity and capital case problem mentioned about this barely able to solve the *economic prosperity* goal mentioned defined above. A per capita ratio of 1 microfinance bank to a thousand citizens is a more practical goal.

Conclusion

In conclusion, the government and traditional banking system leave gaps in the Nigerian economy that microfinance can fill. Using Bolivia as an example of what microfinance can do and how to increase the impact of microfinance in a society, microfinance well implemented leads to a higher return on equity, is more accessible, has more reach and will spur entrepreneurship in Nigeria

Tables

Table 1					
Year	Estimated Total Population (in million)	Population in Poverty (in million)	Poverty Level (%)	Urban Poverty Core (%)	Rural Poor Core (%)
1980	64.6	18.1	28.1	3.0	6.5
1981	66.7	21.3	32.0	4.0	8.0
1982	68.4	24.2	35.5	4.0	9.8
1983	70.6	27.5	39.0	5.7	11.2
1984	73.0	31.4	43.0	6.8	13.0
1985	75.4	34.9	46.3	7.5	14.8
1986	77.9	35.8	46.0	8.0	14.9
1987	80.4	36.5	45.4	8.5	15.0
1988	83.1	37.4	45.0	9.0	15.2
1989	84.9	37.7	44.5	9.2	15.4
1990	86.6	38.0	44.0	9.5	14.8
1991	88.5	38.5	43.5	10.2	15.7
1992	91.3	39.0	42.7	10.7	15.8
1993	93.5	45.8	49.0	11.0	20.0
1994	96.2	52.6	54.7	14.0	24.0
1995	98.9	59.3	60.0	22.0	28.0
1996	102.3	67.1	65.6	25.2	31.6

Table 2							
BancoSol	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Loans Outstanding	27	49	61	63	72	76	82
Total Portfolio	8.8	24.8	33.2	36.7	47.4	63.1	74.1
Average Loan Balance	326	506	544	583	658	830	904
Admin Costs/Portfolio	22	21	21	22	20	18	17
Interest Income/Portfolio	n/a	n/a	50	33	47	33	33
Return on Equity	-9	4	13	9	14	24	29
Delinquent Loans/Portfolio	3.2	2.9	5.1	3.1	2.6	2.1	4.5
Procredito							
Loans Outstanding	1	2	5	16	24	30	35
Total Portfolio	0	1	2.1	6	11.9	20.4	28.6
Average Loan Balance	543	518	391	375	496	680	817
Admin Costs/Portfolio	n/a	n/a	n/a	27	20	14	13
Interest Income/Portfolio	n/a	n/a	n/a	40	35	32	31
Return on Equity	n/a	13	11	7	18	36	27
Delinquent Loans/Portfolio	12.1	10.4	10.4	5	n/a	n/a	5.7

Table 1: Reproduced from *http://www.sarpn.org.za/documents/d0002274/images/table1.gif*

Table 2: *How Lending to the Poor Began, Grew and Came of Age in Bolivia (Elizabeth Rhyne)*

Table 3							
Commercial Banks(in billions)				**Microfinance (in millions)**			
	2007	**2008**			**2007**	**2008**	
				Asset			
Cash	1,802.00	2,891.00		Cash	1,410.00	2,293.00	
Call and Placements	438.00	1,224.00		Call and Placements	21,382.00	26,247.00	
Balance with Banks	-	-		Balance with Banks	11,801.00	17,459.00	
Governmental Securities	1,584.00	792.00		Governmental Securities	-	-	
Short Term Funds	491.00	929.00		Short Term Funds	-	-	
Lease and Advances	3,802.00	6,170.00		Lease and Advances	22,850.00	42,753.00	
Investments	892.00	1,356.00		Investments	3,716.00	7,295.00	
Other Assets	1,006.00	1,411.00		Other Assets	8,142.00	14,470.00	
Fixed Assets	454.00	570.00		Fixed Assets	6,250.00	12,237.00	
Asset	10,469.00	15,343.00			75,551.00	122,754.00	
Deposits	5,363.00	8,703.00		Deposits	41,218.00	61,568.00	
Due to Other Banks	198.00	226.00		Due to Other Banks	291.00	2,082.00	
Long Term Loans	257.00	317.00		Long Term Loans	498.00	3,034.00	
Other Liabilities	2,685.00	2,740.00		Other Liabilities	11,733.00	19,048.00	
Money at Call and Taking	254.00	567.00		Money at Call and Taking	-	-	
Other Borrowed Funds	1.00	1.00		Other Borrowed Funds	-	-	
Paid-Up Capital	153.00	211.00		Paid-Up Capital	11,203.00	28,340.00	
Reserves	1,558.00	2,578.00		Reserves	10,608.00	8,682.00	
Liability	10,469.00	15,343.00		**Liability**	75,551.00	122,754.00	
	2007	**2008**			**2007**	**2008**	
Interest Income	1,178.00	1,787.00		Interest Income	12,113	4,414	
Interest Expenses	562.00	808.00		Interest Expenses	689	333	
Net Interest Income	616.00	979.00		Net Interest Income	11,424	4,081	
Non-interest income	577.00	700.00		Non-interest income	14,354	4,886	
Operating Income	1,193.00	1,679.00		Operating Income	25,778	8,967	
Operating Expenses	786.00	1,072.00		Operating Expenses	17,468	8,594	
Profit before tax	407.00	607.00		Profit before tax	8,310	373	

Table 3: *Commercial Bank Data provided by Central Bank of Nigeria (http://www.cenbank.org) Microfinance Bank Data provided by a sample of microfinance institutions including (AACB Microfinance Bank Limited, Calabar Microfinance Bank Limited, MBA Microfinance Bank Limited, Oredegbe Microfinance Bank Limited)*

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