International Journal of Innovative Research in Social Sciences and Strategic Management Techniques
ISSN Hard Print: 2465-728X, ISSN Online: 2467-8155 Vol. 2, No. 1 September, 2015

HEALTHY MICROFINANCE SUBSECTOR – PANACEA FOR SUSTAINABLE MSMEs AND POVERTY ALLEVIATION IN NIGERIA

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Abstract

Micro, Small and Medium Scale Enterprises (MSMEs) has been acknowledged to be the highest employer of labour all over the world and catalyst for sustainable growth and development. Despite these obvious value additions to society, finance has remained a major hindrance to the MSMEs businesses. The reasons are not farfetched, the deposit money banks are unwilling to lend to this segment of the market in view of the high risk profile inherent in MSMEs businesses. The Microfinance subsector has been the vanguard towards bridging this financing gap since the introduction of microfinance policy regulatory framework of the central bank of Nigeria in 2005. This study examines past and present efforts at bridging this financing gap and how healthy microfinance subsector has become imperative to bridging the financing needs at the bottom of the pyramid in order to provide employment for the teeming population, alleviate poverty and achieve sustainable growth and development. The data for this research is from secondary source, Text books, materials from journals, newspapers, magazines, text books, CBN vision 2020 document, CBN statistical bulletin, internet documents among others. The paper concludes with recommendation for deliberate government policy towards a healthy and sustainable microfinance subsector that would effectively support the MSMEs for optimum performance by bridging the financing gap faced by the MSMEs businesses and make way for job creation, poverty alleviation, sustainable growth and development.

Keywords: *Healthy, Microfinance Subsector, MSMEs, Panacea, Poverty Alleviation, Sustainable*

http://internationalpolicybrief.org/journals/international-scientific-research-consortium-journals/innovative-research-in-soc-sci-strategic-mgmt-techniques-vol2-no1-sept-2015

Background to the Study

The concept of MSME defies universal definition among academics and practitioners. It is both relative and dynamic, varying from country to country. It depends on a country level of development. MSMEs in America may qualify as a multinational institution in Nigeria or Ghana as the case may be. The criteria often adopted in defining MSMEs include; number of employees, relative size, capital outlay, sales volume, financial strength, ownership and type of industry Oshagbemi, (1982) cited in Onwumere (2000).

The Micro, Small and Medium Enterprises Development Fund (MSMEDF) Revised Guidelines (August, 2014**)** by Development Finance Department Central Bank of Nigeria defined MSMEs as follows; Micro Enterprises as enterprises with less than 10 employees with a total asset of less than N5 million (excluding land and buildings) and operated by sole proprietor,. Small and Medium Enterprises (SMEs) as entities with asset base of N5 million and not more than N500 million (excluding land and buildings) with employees of between 11 and 200.

This paper is an appraisal of the relevance of the micro, small and medium scale enterprises (MSMEs), in sustainable growth and development of the economy. Identification of the financing needs of this segment of the market and how microfinance institutions can help in addressing these needs**,** general features of MSMEs includes:

1. Either sole proprietorship or partnership, may be incorporated as limited Liability company, however their operations hardly reflect this.
2. Labor intensive processes and centralized management.
3. Limited access to both long and short term capital.
4. Depend largely on local raw materials
5. Operate with local technology not comparable with large organizations.

Literature Review

Deposit money banks cannot easily finance the MSMEs because the deposit money banks must process loans at a cost that can only be covered by interest charges. They must have confidence in the borrower's intent and ability to repay the facility. According to Otero & Rhyme, (1994) the practice that most banks use to gain confidence in the quality of loans are expensive. They involve credit checks to gain information about the customer's character, project appraisal to assess the customer's business prospect and formal collateral. There is no doubt that these techniques cannot fit into MSMEs lending because project appraisal is usually expensive apart from the fact that MSMEs do not keep records. They have no established credit rating and lack marketable collateral which makes the deposit money banks shilled away from MSMEs lending.

Whereas microfinance involves the provision of broad range of financial services savings, loans, payment services, money transfer etc to the poor and low income earners, households and their microenterprises. According to the reversed manual of the microfinance certification programme (2011), the attraction of the microfinance to the MSMEs can be gleaned from the following;

1. Microfinance has the capacity to support income generation for enterprises operated by low income households.
2. Microfinance can help to build financial self-sufficiency, subsidy-free and locally managed institutions
3. Microfinance activities sometimes mimic traditional system (such as ROSCA and Ajoh). They provide the same services in similar ways, but with greater flexibility, at a more affordable price to microenterprises and on more sustainable basis, which makes microfinance services very attractive to a large number of microenterprises.
4. Microfinance activities can strengthen existing formal financial institutions, such as savings and loan cooperatives.

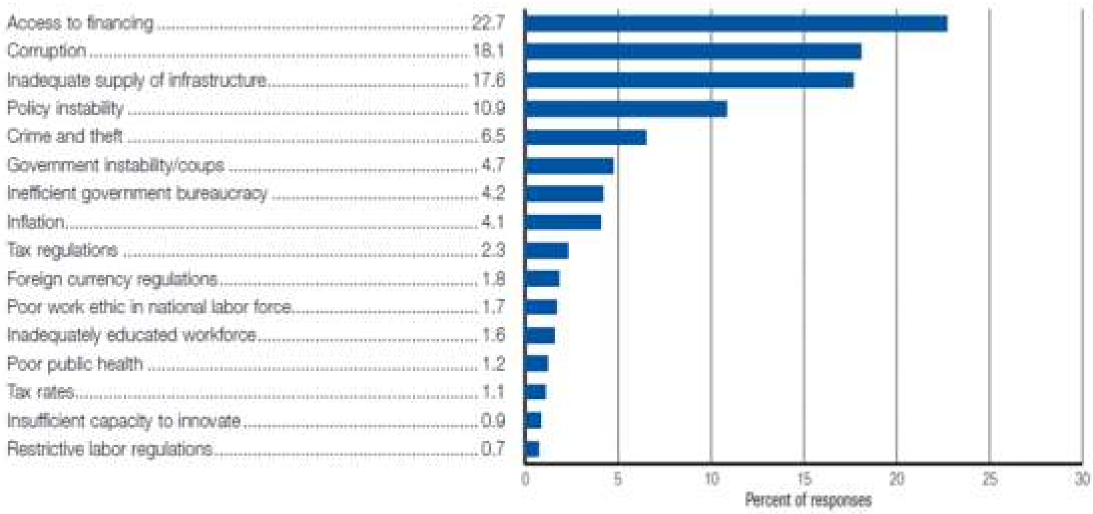
Therefore there is urgent need for deliberate policies that would ensure the sustainability and growth of the microfinance subsector if it must play this important role of bridging the financing gap faced by the MSME's, in Nigeria which will ultimately create jobs, alleviate poverty, and make way for sustainable growth and development.

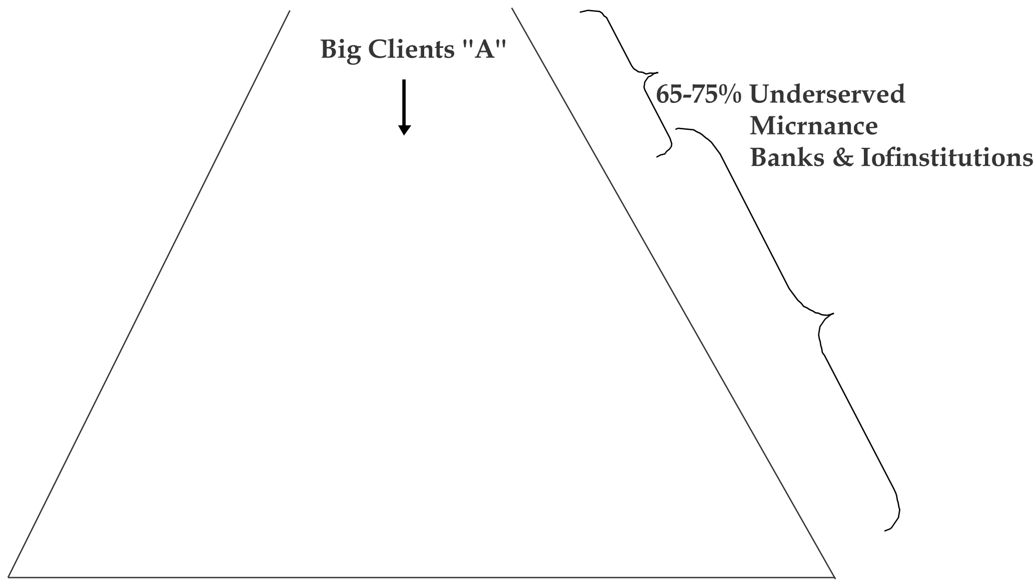
Theoretical Framework: MSMEs, Issues, Challenges and Prospects

According to the financial system strategy 2020 document of the World Bank. Identifying solutions is the easier part, implementation is the key challenge. Implementation sequencing and coordination in circumstances of government or market failure which characterized the SME sector require heightened monitoring. Bench marking which is key to performance and results. The indicators need to be measurable and carry incentives as well as sanctions linked to performance. Identification of clear measures for result and accountabilities for action will make for successful implementation.

Problematic Factors in Doing Business in Nigeria (Finance)

Fig 0.1, The Africa Competitiveness Report 2013 of the World Bank identify utmost problem satisfactory for doing business in Nigeria as follows:





Micro, Small & Medium Scale Business Segment of the Financial Market in Nigeria(Bottom of the financial system pyramid from the diagram (Fig 0.2) above, while the deposit money banks with huge capital and strong deposit base only finance their large clients constituting between 25% to 35% of the population. The triangle clearly show that deposit money banks serve about 35% Nigerians, while the rest of the population (bottom of the pyramid) are served by the microfinance institutions, with their small capital and meager deposit base to garble with. Thus, the urgent need to up scale the subsector becomes imperative, in order to deal with the enormous challenges of financing the MSMEs businesses in Nigeria. There is the urgent need for deliberate government policies to support the growth and sustainability of the subsector by the apex regulatory institution and other stakeholders. This will make way for job creation, poverty alleviation, sustainable growth and development.

In the performance of this onerous responsibility of financing the over 65% of the population who are underserved by deposit money banks. The microfinance supervisory and regulatory framework of the apex regulatory institution came to be in 2005. These microfinance institutions have been faced with enormous market challenges that require proactive measures in order to succeed in playing this role of bridging the financing gap for the MSMEs in Nigeria. Financing at the retail end of the market involves higher transaction cost and lower return. Apart from the risk of dealing with clients who are unlikely to hold ownership of tangible assets require by lending bankers for loan collaterisation. Manpower need, retail skill and strategy of microfinance institutions are other challenges in the subsector. Therefore there is need for quality leadership, as well as quality corporate governance, experience and organizational skills to deal with operational issues at minimal cost. Enhanced product delivery channels system, improved risk management, quality portfolio management, efficient credit collection using tools like credit scoring and credit bureau would add value to the overall performance of the microfinance sub sector. The challenges, the microfinance institutions faces with respect to MSMEs clients, are that they often do not have financial statements or official records. The microfinance institution often rely on the past payment behavior, this being a prediction of future behavior. Information of fulfillment of past credit obligations with creditors is an essential factor in determining credit worthiness or otherwise of the MSMEs. Other sources of information for SME credit client of microfinance banks include Suppliers, Utility Companies, Public Data Bases, Credit Bureau, cannons of Lending based on character, capacity, capital as well as condition, Peer Group, Market Association and Immediate Community among others. The conscious effort of ensuring efficiency and effectiveness would enhance the performance of the subsector, bridge the financing gap of the MSMEs, create jobs, alleviate poverty and lead to sustainable growth and development.

Fig. 0.2
Deposit Money Bank Loans and Advances to Small Scale Enterprises from 1992 to 2008

Observation	DMB Credit to Small Scale Enterprises (N'Million)	DMB Total Credit (N'Million)	DMB's Credit to Small Scale Enterprises as a percentage of Total Credit
1992	20400	41810	48.79
1993	15462.9	48056	32.18
1994	20552.5	92624	22.19
1995	32374.5	141146	22.94
1996	42302.1	169262	25
1997	40844.3	240782	16.96
1998	42260.7	272895.5	15.49
1999	46824	353081.1	13.26
2000	44542.3	508302.2	8.76
2001	52428.4	796164.8	6.59
2002	82368.4	954628.8	8.63
2003	90176.5	1210033.1	7.45
2004	54781.2	1519242.7	3.62
2005	50672.6	1899346.4	2.67
2006	25713.7	2524297.9	1.02
2007	7806751.4	0.17	0.89
2008	13512.2		

Data Source: Central Bank Statistical Bulletin Dec. 2013

Fig 0.3

Analysis of DMB total Credit in Relation to its Credit to MSME from 1992 to 2008

Fig 0.4a

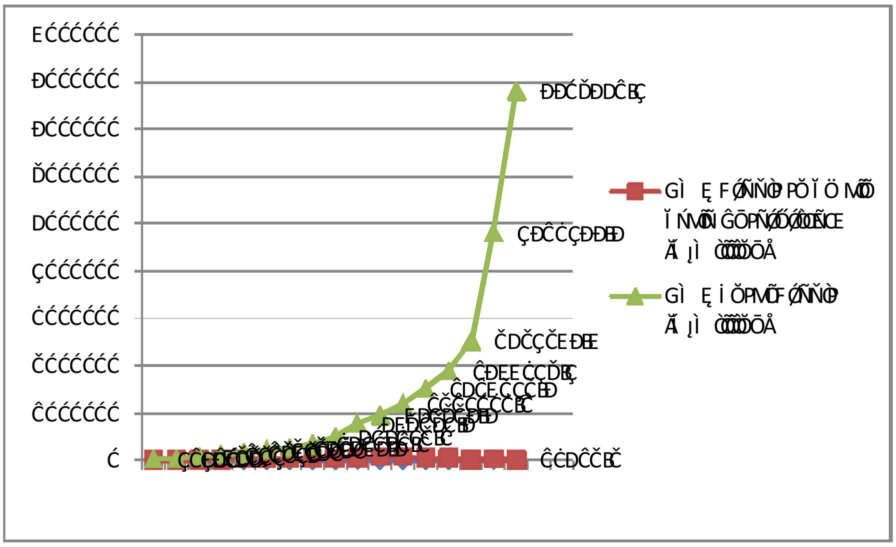


Fig 0.4b

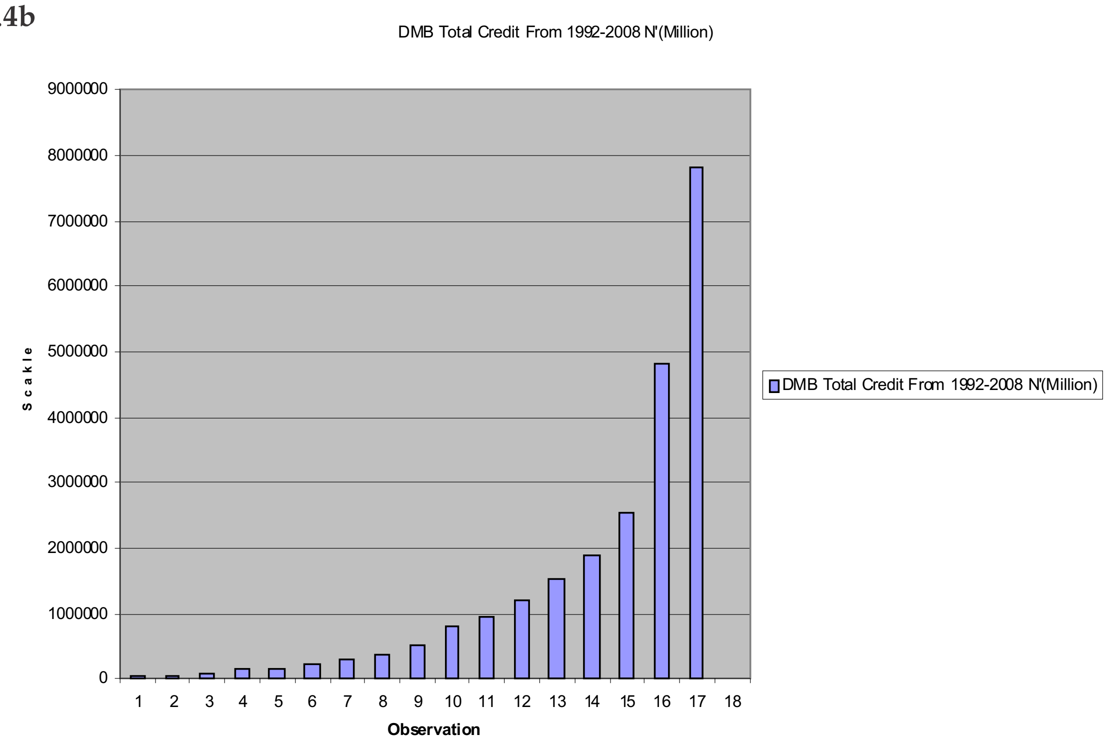


Fig 0.4c.

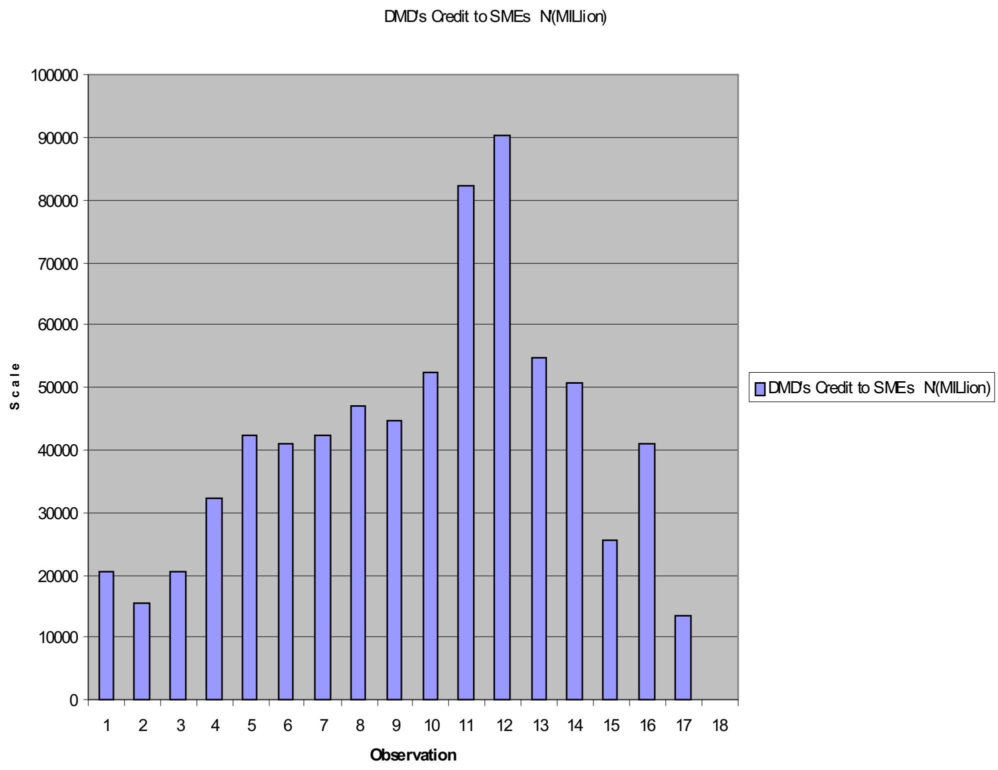


Fig 0.4c : The Trend of DBM Credit to MSMEs between 1992 to 2008

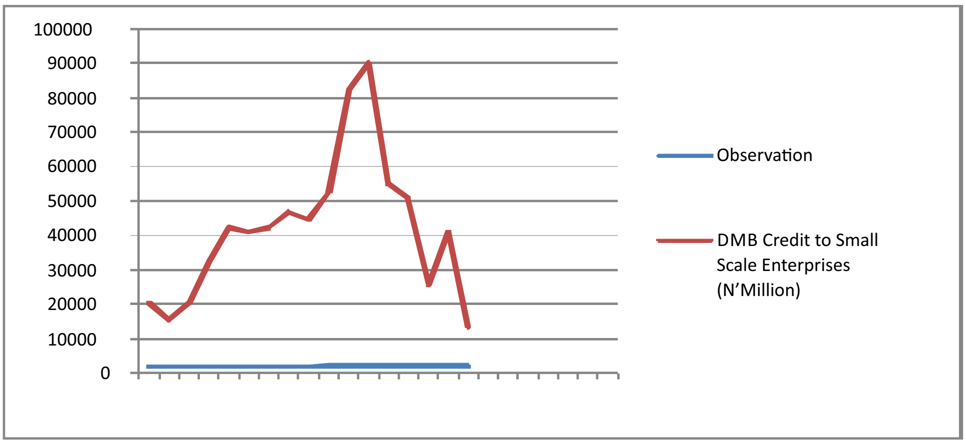


Fig 04d

The above trend of deposit money bank's lending to the MSME sector between 1992 to 2008 does not justify the importance of MSMEs that will play a pivotal role as a catalyst for job creation, poverty alleviation and sustainable growth and development in a nation with a population of over 150million people. The retrogressive and steady decline in credit allocation to this sector of the economy over the years under review by the deposit money banks as depicted by the trend line in Fig 0.4d portends danger for national development. Also in Fig 04b and 4c, specifically while the volume of total deposit money bank's credit steadily increased showing growth in total credit to the economy, credit to the small and medium scale enterprises declined steadily. Despite government directive on mandatory allocation of 20% of the money deposit bank credit to this sector in 1986, the above trend has shown clearly that the money deposit banks are most unwilling and cannot bridge this financing gap mostly needed by this sector of the economy in view of the high risk profile in the sector. The importance of microfinance banks and institutions that are close to the grass root and well acquitted with their immediate environment cannot be overemphasized. Therefore there must be deliberate policy and enabling environment to create room for a sustainable microfinance subsector in Nigeria

Criteria for Measuring the Health of Microfinance Institution

Microfinance institution can be sick just like human being in most cases unknown to the individual; this can even lead to sudden and unexpected death. Therefore it is imperative that the stakeholders and the regulatory institutions regularly evaluate the health status of the microfinance banks and institutions to avoid sudden death or what can be likened to heart attack if there must remain sustainable and support the MSMEs. Realizing that a healthy financial institution is said to be a sound financial institution and the international standard for measuring the soundness or otherwise of a financial institution is an acronym (CAMEL) must be adopted.. The regular application of this tool will no doubt be of immense benefit to ensure the sustainability of the microfinance subsector in Nigeria.

Assessment OF Soundness

Camel Factors	**Weight**
Capital Adequacy	30%
Asset quality	30%
Management	20%
Earnings	10%
Liquidity	10%

1. **Capital Adequacy:** Check to be sure that capital is commensurate with the nature and extent of risk of the institution and the ability of management to identify, measure, monitor, and control these risks.

2. **Asset quality:** Asset quality is based on factors such as the quality of loan underwriting and investment strategies; adherence to sound policies, practices, and internal controls; the adequacy of the allowance for loan losses; and the proper management of risks. These factors will reveal the existing and potential credit risk associated with loan and investment portfolios.

3. **Management:** The ability of management to respond to changing business conditions, or initiate new activities or products, is an important factor in evaluating a financial institution's overall risk profile.

4. **Earnings:** Ask about the adequacy of current and future earnings to fund capital in light of the institution's current and prospective financial and operational risk exposure, potential changes in economic climate, and strategic plans.

5. **Liquidity:** What are the current and prospective sources of liquidity compared to funding needs? Asset-liability management (ALM) practices should ensure the institution is able to maintain liquidity sufficient to meet financial obligations in a timely manner and to meet loan demands. Understanding these five critical elements will give you a clearer picture of the health and stability of the financial institutions and the microfinance bank subsector in particular.

Conclusion

This study posits that microfinance is an empowerment tool that can bridged the access to finance gap for micro, small and medium scale enterprises in Nigeria. The Africa competitive report 2013 of the World Bank identified access to finance as the most problematic factor in doing business in Nigeria as demonstrated in fig 0.1 Despite past government pronouncements and morasuation to the deposit money banks for mandatory allocation of 20% of their credit to this sector, the trend of credit allocation to the sector nosedived as shown in fig 0.3 from 1996 to year 2008. The deposit money banks are most unwilling to lend at the bottom of the financial system pyramid in view of the high risk profile associated with MSMEs businesses as shown in this study. Therefore there is urgent need to bridge this financing gap if we must create employment for our teeming youths, alleviate poverty and attend sustainable growth and development. The need for deliberate government policy to create enabling environment that would foster sustainable microfinance banking subsector cannot be overemphasized.

Microfinance banks no doubt operate at the grassroots and know their client within their immediate environment which reduces their credit risk when compared with deposit money banks. Thus the microfinance bank subsector is better placed to bridge this protracted issue of access to finance for MSMEs in Nigeria, if we must create jobs, alleviate poverty, and attend sustainable growth and development.

Recommendations

This paper recommends that a robust and sustainable microfinance subsector will provide access to finance opportunity to MSMEs. This will solve the age long vicious cycle of poverty occasioned by lack of access to finance. For a sustainable microfinance subsector that will adequately bridge the financing gap of the MSMEs the following suggestions becomes imperative.

1. The establishment of microfinance fund for on lending to MSMEs, it took the Central Bank of Nigeria enormous time and resource to create this fund. However in its modus-operandi it seems like fund set up for political patronage, there is need for the apex financial institution to channel the fund to the microfinance banks for on-lending to microenterprises for sustainable growth and development. Also the microfinance regulatory policy framework reorganized the need for the provision of 1% in the annual budget of the three tiers of government for microfinance, this has not been implemented. The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund could be a veritable source of the microfinance fund in Nigeria.

2. The need for training and development in the microfinance subsector will make for value addition which will translate to sustainability. The Central Bank of Nigeria has undertaken the training of the principal officers of the microfinance institution in the last few years through the microfinance certification programme (MCP) in conjunction with the Chartered Institute of Bankers of Nigeria (CIBN). However more need to be done, the microfinance banks have limited resources and can hardly afford the establishment of training centers and opportunities for training of their other manpower who are not principal officers in skills such as operation, cashiering , marketing etc

3. Up-scaling of the oversight function of the regulatory authorities to ensure; - Quality Corporate Governance of the microfinance banks and institutions

4. Vibrant internal control at the institutional level of the microfinance institutions.

5. Efficient risk management, as a follow up to Basel accord, the CBN has introduced risk based supervision.

6. Diversification of ownership of the microfinance institution, this will make way for knowledgeable people on the board of the microfinance institutions. It will also make for sustainability; a situation where father, mother and children are the shareholders and a member of the board of a microfinance bank is fault with danger that is better imagined.

7. The establishment and empowerment of an independent microfinance regulatory authority, the CBN already has enormous challenges of supervising the money deposit banks in addition to their other statutory functions. There is no gain saying that the distress syndrome in the Nigeria banking sector in the last two decades was accessioned by lack of effective supervision by the regulatory authorities. To saddle the CBN with more burden of supervising over 1000 microfinance banks would tantamount to suicide mission that would do the country no good.

8. States and Local government corroboration with the microfinance bank subsector will make for sustainability. If these tiers of government are able and willing to contribute 1% of their budget to microfinance fund, knowing fully well that it would bring development to their people by creating job opportunities, the subsector will thrive and achieve their mandate.

9. Infrastructural support from development partners and other stakeholders. Provision of infrastructures for microfinance institution can be challenging in view of their low capital base which limit their ability to provide most modern infrastructures that would enhance effective and efficient operation. If such infrastructures are provided by development partners and other stakeholders, the microfinance institutions would channel their funds to the creation of access to finance to the underserved and become sustainable.

10. Tax holiday for newly established microfinance institutions for at least 5years as well as legislation prohibiting all forms of extortion of microfinance institutions by government agents in whatever guise, this will create room for the growth and sustainability of the subsector. If the above suggestions are implemented the most problematic factor in doing business in Nigeria (Access to finance) will vanish, this will give way to job creation by the MSMEs, poverty alleviation, sustainable growth and development.

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