A SYNTHESIS OF GRAMEEN MICROFINANCE MODEL: LESSONS FOR NIGERIA

BY

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Abstract

Economic literature had acknowledged the contribution of the microfinance banking sector in economic development of countries due to its capacity in employment generation, increase in household income and as a poverty reduction and financial inclusion strategy. Because of thesecritical roles, various countries are taking measures to harness its potential in order to achieve the desired developmental goal. The challenge however, has been the best and most effective model or strategy to adopt. The Grameen (GB) microfinance banking modelof Professor Mohammed Yunus has achieved success in Bangladesh in poverty reduction, financial inclusion and sustainable economic development. It is being replicated and adapted by many countries. The paper analyzed the GB model, noted its critical success factors and juxtaposed it with the microfinance banking practice in Nigeria using the CBN 2005 and 2011 microfinance frameworks.It was observed that microfinance banking in Nigeria has not been successful due to wrong design,inappropriate methodology and other challenges. The paper further noted that some useful lessons can be learnt from the success achieved by the GB model to make microfinance banking achieve its objective in Nigeria. Finally, some recommendations were made to the regulatory authorities and operators to remodel microfinance practice in Nigeriaso as to achieve the desired benefits.

1.0 INTRODUCTION

There are numerous debates and argumentsin contemporary economic literature on the contribution of microfinance in poverty eradication, financial inclusion and economic development in different countries. (See Raham and Nie(2011); Grunewald and Baron (2011); Komolafe(2011); Iganiga(2008);Aigbokhan and Asemota(2011). At the centre of most of these academic discourse is the reference to the microfinance model of Grameen Bank of Bangladesh in South Asia. According to Agene(2011),microfinance is the provision of full range of financial services comprising micro credit, micro savings, insurance and funds transfer to low income (poor) clients including consumers and self-employed, who traditionally lack access to deposit money banks and related financial services to help them grow micro-enterprises or engage in other productive economic activities. Microfinance is based on the premise that the poor are economically active but are constrained by access to finance and are therefore excluded in the financial intermediation chain. It is believed that enabling access to these classes of economic agents will promote financial inclusion and also pull them out of grinding poverty to which some of them have been subjected to for a long time. This is because the process will enable the active or working poor to become more self-sufficient and improve their lives and those of family members, the community and the society at large.

Over the years, microfinancing has emerged as an effective poverty alleviation strategy across developing countries. One of such developing countries with a successful history of microfinancingis Bangladesh where the operations of Grameen bank had become a reference point. Grameen bank was incorporated in 1983 by Professor Mohammad Yunus for the provision of micro-finance services to remove the credit constraints of the rural poor in Bangladesh which are very active economically.Yunus started his experimentation in the 1970s. Apart from being the dominant microfinance institution in Bangladesh in outreach, outstanding loan, savings mobilization and efficient service delivery, it provides microcredit to 13 million poor households with cumulative recovery rate of 98% (Raham and Nie, 2011). The Grameen bank has been able to demonstrate the effectiveness of microfinance programs towards sustainable development for the rural poor in Bangladesh culminating into Professor Yunus being awarded the Nobel Peace Prize in 2006. The Grameen model has been adopted or adapted by many countries in addressing poverty reduction and as a financial inclusion strategy. What lessons can Nigeria also learn from the Grameen microfinance model? What are the success factors of this model? How can these be adapted in Nigeria's microfinance strategy as encapsulated in the CBN microfinance policy framework and operation?

In Nigeria though microfinance has been in existence for decades, the formalization by the monetary authorities commenced in 2005 by the release of the "Microfinance Policy, Regulation and Supervisory Framework"by the Central Bank Nigeria (CBN). The objectives, justifications and strategic targets of the framework stated the emphasis it places on poverty alleviation, encouraging participation of the economically active poor, elimination of gender disparity in the access to financial services, and also increasing the percentage of microcredit to both GDP and total credit in the Nigerian economy. Five years into its practice revealed some gaps in the implementation which made the achievement of the objectives/targets far from realization. Obe(2011)stated that the current microfinance banking framework in Nigeria cannot work, nor achieve the cardinal objective of poverty alleviation. Babajide(2011)in support of this view, submitted that the framework for microfinance banking in Nigeria is faulty and cannot achieve its objectives based on identified gaps in procedure and implementation by both operators and regulators.The CBN revised the framework in 2011, in which it observed that a huge gap still exists in outreach of financial services to the poor. The success rate is therefore mixed.

In 2011, Professor Mohammad Yunus after a careful assessment of microfinance practice in Nigeria concluded that what is practiced is not microfinance but micro commercial banking.[1]This statement asserts to the fact that the implementation of the microfinance policy in Nigeria is faulty. Therefore, the question arises: what success factors can we learn from the Grameen model to transform microfinance operation in Nigeria? The drive to identify and harness these issues informs the need to carry out this study.

The objective of the study is to identify the basic methodology and critical success factors of the Grameen microfinance model with a view to deriving possible applicable lessons for Nigeria. In doing this, the specific objectives of the study are:

I. Examine the Grameen microfinance model with the view to bringing out the success factors;
II. Identify impediments/weaknesses of microfinance practice in Nigeria, juxtapose its operation with the Grameen bank model, and;
III. Recommend some useful lessons from the GB model for enhanced microfinance practice in Nigeria.

In order to achieve the stated objectives, the following research questions are investigated:

I. What are the basic features of microfinance bank operation in Nigeria?
II. What are the impediments to formal micro-financial participation by the low income earners and the poor in Nigeria?
III. What are the key success factors of the Grameen microfinance model?
IV. Does the Grameen model have any useful lesson for microfinance banking in Nigeria?

[1] Professor Muhammad Yunus visited Nigeria in September 2011 to attendthe maiden edition of the First Bank of Nigeria Plc. International Conference with the theme: “Micro-Financing as a Tool for Poverty Eradication and Economic Growth,” held in Lagos. He delivered the key-note address at the event.

The study will adopt a thematic literary approach to analyse the work. The structure of the remainder of the paper is as follows: The first section is the introduction;the second section presents the theoretical concept; conceptual issues and review of some empirical studies. The third section discusses the Grameen Microfinance model. In the section, the socio-economic environment, emergence of the bank, its ownership, operational mechanism and critical success factors were discussed. Nigeria's microfinance model is discussed in the fourth section by a review of the 2005 and 2011 microfinance regulatory frameworks which were analysed and juxtaposed with GB model.In section five, the paper drew some useful lessons from the GB model while section six contains the recommendations and conclusions of the paper.

2.0 LITERATURE REVIEW

2.1 THEORETICAL CONCEPTS

The contribution of the banking industry in facilitating economic development of nations, due to its link with key sectors of the economy has been widely acknowledged by economic literature. Tiel (2001) suggested that a well-developed banking system support economies to reach their potential because they enable firms which have successfully identified profitable opportunities to exploit them by channelling investment funds from those in the economy who are willing to defer their consumption plans into the future. One important function of the banking system is its role of financial intermediation.In the performance of this role of financial intermediation, banksalso promote economic development, through capital accumulation, investment through credit creation and output.Iganiga (2008) argued that robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. Iweala (2005) further posited that through such process, the latent capacity of the poor can be significantly enhanced by the provision of micro-finance services. It will also enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income, and create wealth.

It was further observed that in the performance of this intermediation role over the years, these financial institutions (commercial banks/deposit money banks)important as they are in economic development, do not meet the needs of some segments of the economy. This is because of the class of customers they service, pricingmethods and instruments used. The type of customers they deal with and loans they grant are sophisticated in nature and very large. As a result, a significant population of the active economic agents of the society are either excluded or under served. The need arose therefore toinclude the financially excluded segments into the formal financial intermediation process by creating a micro-financing corridor.The call for the inclusion of micro-credit and micro-finance in banking therefore, became very loud.

Mirero (2004) defined microfinance as the provision of very small loan that are repayable within short periods. He submitted that clients of microfinance institutions (MFIs) are basically low-income individuals and households with minimal assets that can be used as collateral and includes financial products and services targeted at the poor. Zeller and Sharma (1998) supported this school of thought when they posited that microfinance can help to establish or expand family enterprises, potentially making a difference between grinding poverty and an economically secure life. Hulme (1998) concluded from his studies of 13 MFIs in seven developing countries that access to microfinance could increase income and improve the asset holding position.

Agene (2011) viewed microfinance as the provision of a full range of financial services comprising micro-credit (including micro-leasing), micro-saving, insurance, and fund transfers to low-income (poor) clients, including consumers and the self-employed, who traditionally lack access to deposit money banks and related financial services, to help them grow micro-enterprises or engage in other productive economic activities.Aigbokhan and Asemota (2011) argued that access to credit affects welfare outcomes by alleviating the capital constraints on poor households for their agricultural and micro and small scale non-agricultural enterprises. They further asserted that access to credit also increases the poor household's risk-bearing and risk-coping abilities and enables consumption smoothing over time.

One inference that can be drawn from the above arguments is that microfinance means integrating the financial needs of the poor and low-income into a country's mainstream financial system. This is based on the assumption that they are economically active and can empower themselves if they have access to credit.

2.2 CONCEPTUAL ISSUES

The concept of microfinance is not new but may be as old as human commercial existence.Agene (2011)posited that the origin of microfinance was traced to the era of the Franciscan monks who founded the community-oriented pawnshops of the 15th century as well as to the founders of the European credit union movement in the 19th century.Seibel (2004) stated that Microfinance is not a recent development as it is not just a contemporary solution for poverty in developing nations. According to Ehigiamusoe (2011) this was because, for many years, there have been institutional arrangements in formal and informal form that delivered financial services to the low income people. He further argued that these early initiatives might differ from modern microfinance in some service delivery approaches but the objectives are similar. He believed that generally, the evolution of microfinance or microcredit has been due to the needs of the underprivileged, poor and lowincome to pull themselves out of poverty and exploitation.

Apart from Europe, there are evidence which suggest the existenceof informal microfinance and microcredit institutional arrangements that serve similar financial delivery to the poor, facilitated tradeand empowered the low income and financially excluded from the mainstream financial economy in Asia,the Americas,Africa and others.Hugon (1990) was of the view that such informal financial arrangements existed before the modern medium of exchange and existed to serve social and economic goals.Aryeety (1995) and Alasia (2005) identified two main variants of such informal arrangements to be purely savings, and savings and credit. Chandavarkar (1985) and Akanji (1998) submited that the two types involve in-cash transaction and are common in Africa. The two types are commonly called Rotating Savings and Credit Associations (ROSCAs) have various local names. Forexample,according to Alasia (2005), in Africa, it is called 'Gamiayah,' in Egypt, 'Susu' in Ghana, 'Tortines,' in Niger, Ivory Coast, Burkina Faso and Cameroun, in Nigeria 'Susu' in Igbos, 'Osusu' in Efik, 'Oku' in Kalabari, 'Adashie' in Hausa, 'Dashi' in Nupe, 'Esusu' in Yoruba. In Bolivia it is called 'Pasnaku' and 'Tanda' in Mexico. In Asia, it is called 'Ko,' in Japan, 'Hui' in China, 'Arisan' in Indonesia, 'Chitfund' in India and 'Paluwagan' in the Philppines.

Ehigiamusoe (2011) further argued that the provision of financial services to the low income persons has evolved through phases across the world and identified four broad models of microfinance. These are the; African indigenous microfinance model; Cooperative thrift and Joan model; Asian pro-poor model and Commercial microfinance of latin American model. The African indigenous microfinance model is basically traditional, characterized by huge savings mobilization, group delivery approach, flexible and existed in an informal form. Savings and credit or loan features make up the model. The Cooperative thrift and Joan model applies basic principles of co-operative enterprise to savings and loan transaction as in the African model. However, the thrift and credit groups are organized on the basis of the core co-operative principle of volunteerism, democratic control and equality. The Asian pro-poor model has features which include; exclusive focus on low income persons or the poor and group delivery methodology. Loan sizes are usually small; clients are organized into self-selecting groups, regular loan receipts, installment loan repayments and deposits. In some institutions, non-financial services such as health, education and others are delivered to group members. The Grameen Bank Model is atypical example. The Commercial microfinance of Latin American model emphasizes individual methodology. Proponents of this model advocate for the integration of microfinance into the mainstream financial sector in order to use microfinance as a poverty alleviation tool using the huge national resource.

From the above, we see that although the concept of microfinance or microcredit is not new, it has however undergone several developmental phases. In all these, the rationale of its practice in the different jurisdictions is the same; to provide financial services to the poor or low-income persons and small entrepreneurs and businesses deprived access to the mainstream financial system. In that regard, Akinyooye (2010) observed that Economics Professor Mohammad Yunus of Bangladesh may not have invented the word 'Micro-credit' but appears to have simply put the two age-old words together to describe his lending in 1976 of the Bangladeshi Taka, equivalent to of US $ 27 to 42 very poor landless women in the rural village of Jobra to make bamboo furniture.

The modern concept of microfinance is attributed to Mohammad Yunus who pioneered the microcredit revolution in the 1970s. His microfinance model was built on institutional design for risk management, incorporated social mission; group participation,includedbirth control, sanitation concerns and made financial services to be provided to the door steps of the poor. The success of this model was acknowledged when in 2006 he won the prestigious Noble Peace Prize.The model has been copied and adapted by many countries as financial inclusion, poverty eradication and economic growth strategy.

EMPIRICAL STUDIES

Grunewald and Baron (2011) carried out a comparative study of Grameen Bank of Bangladesh and SKS Microfinance of India with the objective of examining their method of operation, ownership and the sustainability of future survival. They used a descriptive approach and relied on secondary sources of information. The study found, among other things, the following:

SKS Microfinance is the largest microfinance bank in India and the world's fastest growing MFB, while Grameen bank is the largest MFB in Bangladesh operating from 2,562 branches. They found that the two banks involved in social banking using microfinance as a tool. They also found that the two banks had similar objective of enabling people in poverty and small enterprises to obtain small loans, by providing access to money and credit. The study examined the similarities and differences of the banks by analyzing the objectives, the Chairmen of board of the banks, ownership, organizational structure, governance and related matters, outreach, socio-economic environment andoperational mechanismas the focal point of the study and raised the question of long term viability of their mission.

The study made the following conclusions.Both institutions have similar objective of poverty eradication. Although both institutions had provided access to credit to the poor, made collateral-free loans to the poor for creating income and had diversified the types of loans, the two differ in raising capital and their future strategies. They observed that while the SKS Microfinance – (founded by Mr.VikraAkula), was founded to attract commercial financing which had better prospect of raising large capital and longevity, its social banking objective may be compromised. This is because;investors'excess emphasis on profit maximization maydeemphasize non-profit dimensions and is inconsistent with the original mission.

On the contrary, the Grameen Bank they posited may not be self sustaining if it depended on donor funds. Therefore, to continue the performance in the future, it must be aggressive, gain greater visibility in global capital market and must transcend the boundaries of Bangladesh for financial support. The study also found that Grameen bank had a 98 % loan repayment rate which makes the achievement of its social mission easy. Furthermore, while the SKS MFB is owned by the founder and other investors, GB is owned by majority of its borrowing members.

In another study, Rahman and Nie (2011) examined the microfinance approaches of the Grameen Bank in Bangladesh. They also adopted a descriptive methodology in their analysis and also relied on secondary sources of information.The study examined the background to the emergence of the bank, its organizational structure, ownership and outreach, operational mechanism, products and service delivery procedures amongst other factors against how the bank met their client's needs, developed relatively low cost delivery mechanism and generated resources. The study found fifteen (15) critical success factors of the bank that made it unique. These include the following;

i.) Lending mechanism: The bank offers individual loan along with group lending with individual and group responsibility.

ii.) Accountability: The sincerity of the field officers as well as the borrowers; particularly the women.

iii.) Hearing Women's Voice: Provided market suggested products after hearing from the women who are the majority clients.

iv.) Focused Target: The bank developed programmes that targeted the 'Ultra poor' or the poorest of the poor which refers to those at the very bottom of the social ladder.

v.) Trustworthiness: The bank established a personal relationship with the borrowers, through a certain degree of faith to the community.

vi.) Prominence to Women: The contribution of women to increasing family income through participation in entrepreneurship and business activities was recognized and given attention.

vii.) Screening Procedure: 'Bad' clients were screened out through client's involvement in group selection.

viii.) Collateral: The bank adopted a collateral free and simple loan approval process.

ix.) Monitoring for Repayment: There was intensive supervision of borrowers by field staff. This is supported by peer group monitoring which ensures repayment.

x.) Use of Group Pattern: Through the formation of groups in the form of cooperatives, the villagers and clients key into the progamme without difficulties.

xi.) Diversified Products: Product diversification has contributed to economies of scale.

xii.) Partnering: Through partnering with donor agencies and other bodies, the bank was able to secure soft loans to support its financial self-sufficiency of the huge number of clients.

xiii.) Administrative Efficiency: Through the development of good human relationship, the transfer of administrative and transaction costs to clients were greatly reduced.

xiv.) Maintaining Friendly Relationship with Government: The bank had gained government reliance by its hard work, appropriate structure, assurance to improving the lives of the poor, particularly women.

xv.) Decentralization: The bank's decentralization policy combined with widespread information communication system and the organizational structure makes good management and promoted transparency.

Based on their findings, Rahman and Nie (2011), suggested that, "Poverty" and "Poverty Alleviation" are common terminology and frequently heard words;and micro-credit programs have a strong relationship with poverty alleviation. They further conceived that it is not a simple task to improve the livelihood of the poor people.Haan and Michele (1998)on their own part opined that, the geographical location of the poorest and the environment of the border in which they operate also makes it more difficult to help them. They further submitted that while the poorest can be found in urban areas, most of the poor are concentrated in rural areas where basic physical infrastructure is highly inadequate.The study concluded further that, because the GB offers small loans to the poor using the group structure which did not have any physical collateral and deprived of access to credit offered by regular commercial banks, it created social pressure and solidarity which made repayment successful. The institution of a transparent organizational structure made its cost of operation to be low. Rahman and Nie (2011), further observed that due to the introduction of diverse products and honesty of both officers and borrowers, the GB model has achieved a huge success and had been replicated and applied in many developing and developed countries such as China, India, Pakistan, Sri Lanka, USA, Canada, Germany and some African countries.

Nigeria can also replicate or adapt the GB model,in such a manner as will suit our environment and address our peculiar needs.

Jegede et al (2011), in their study of the 'Impact of Microfinance on Poverty Alleviation in Nigeria' had the following objectives in mind: i) to examine the roles of Microfinance in reducing poverty, ii) to assess the level of Microfinance operations in nation building through poverty alleviation and iii) to make recommendation for effective and efficient realization of the scheme. They used a descriptive survey method for the study. The method was found ideal for the study because it involved collecting data from rural communities' members of microfinance institutions with a view to determining whether or not microfinance contribute to poverty reduction by increasing their income and welfare. The population used comprised all rural communities' member MFI and non-members in Lagos State. Out of the 80 copies of the questionnaire administered, 68 were returned and used for the analysis. Chi-square, regression analysis and Analysis of Variance (ANOVA) were computed using Statistical Package for Social Science (SPSS). The study found thatthere was an empirical relationship between microfinance loan disbursement and poverty alleviation, employing chi-square test, F-test and T-test. The study further found that: (i) there was a significant difference in income between those who used microfinance institutions and those who do not use them; (ii) There is a significant effect of microfinance institutions in alleviating poverty by increasing income and changing economic status of those who patronized MFIs. Based on these findings, the study concluded that microfinancing is a potent strategy of poverty reduction and a viable tool for conveying credit to the poor. They however observed that for the MFIs to play that role of a viable tool for sustainable poverty alleviation, more effort is required on the programme's outreach and depth compared with the present status quo.

The conclusions drawn from the review of the various studies above are that;first, the poor and low income people are economically active if they have access to finance or credit. Second, microfinance and microcredit is a tool to reach the poor and low income. Third, there is a positive and significant relationship between microfinance and poverty reduction, employment generation and asset ownership. Fourth, microfinance can be used as a potent financial inclusion strategy and by extension facilitate economic development. Fifth, the inclusion of social mission as is the case of the Grameen Bank has more impact in pulling the poorest of the poor from grinding poverty, increase household incomes and raise their standard of living.Finally, the Grameen model of microfinance which has achieved success the world over is been replicated, applied and adapted to suit different economies in solving poverty, financial inclusion and development dilemmas.

3.0 REVIEW OF GRAMEENMICROFINANCE MODEL

Socio-Economic Environment/Background of Bangladesh

Bangladesh, a country with 162million people in south Asia (the 7th most populated in the world) gained her independence in 1971 from Pakistan. Majority of its population live on subsistence farming and reside in the rural areas with high poverty rate. Its currency is Taka. According to a 2007 UNICEF report on Women and Girls in Bangladesh, girls are fed last and less than their brothers. Girls are given into marriage as early as 15 years and according to tradition, their families pay heavy dowriesin giving out their daughters for marriage (unlike Nigeria where the men pay dowry on women)which further impoverished them. Girls are therefore very vulnerable to trafficking, sexual abuse, child labour and prostitution, rape, acid attack and other societal denials.

According to Akinyooye (2010), a high percentage of women lack freedom to go alone to hospital, health center or outside their villages, towns or cities. More than half of adolescent girls in Bangladesh become mothers at 19 years with half of them malnourished. The country has the worst maternal mortality rates in South Asia at 320 deaths per 100,000 births. Girl child education is not a priority. Men decide for their wives including what they wear, make purchases for them including foodstuff and spends even their own money. Men entitled to pocket incomes from their wives in the name of 'tea and cigarette allowance". Female headed households faceeven more serious poverty challenges. It was these socio-cultural practices in the society which provoked the Professor Mohammed Yunus who was then an economics lecturer to start a socio-cultural revolution through his research. His work helped to bring self confidence to women and indeed reduced the traditional/cultural exploitation of women by men.

Emergence of Grameen Bank

The establishment of what is today known as Grameen Bank (GB) started as a pilot research by its founder, a Professor of Economics, Mohammad Yunus in 1976 in Bangladesh when he saw the dire need for finance by rural bamboo stool makers in the district of Jobra. According to Dowla and Barua (2006), these rural bamboo stool makers could not access credit offered by the money lenders due to high interest rates and other conditions. He observed that their businesses were economically viable and they could repay loans if given to them. He therefore, experimented by lending his US $27 to 42 poor rural women in the village of Jobra near Chittagong University, Bangladesh where he was the head of Economics Departments. His US $27 was fully repaid which strengthened his believe that the poor are indeed capable of been trusted financially and has the capacity to repay loans. The successful Grameen project officially became the Grameen Bank in 1983 – a self regulating member owned bank for the poor. Today the GB is owned by the rural poor whom it serves (Rahman and Nie (2011). Mohammad Yunus was worried about the high level of poverty and some socio-cultural factors contributing to this circle of poverty. He then decided to embark on a social and cultural revolution by combining microfinance with socio-cultural change, and environmental advocacy.

He advocated the reduction of the family size, stoppage of dowry payment and receipt and encouraged income generating ventures by women. He then advocated better health care and environmental sanitation by drinking good water, planting and eating vegetables and digging of pit toilets amongst others. These resolutions are recited compulsorily at all meeting to ensure unity of purpose and acceptance. These resolutions/points were codified into what is called the 16 Decisions of Grameen Bank which are as follows: i.) We shall advance the four principles of the GB, which are; Discipline, Unity, Courage and Hard work - in all walks of our lives. ii.) Prosperity we shall bring to our families. iii.) We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest. iv.) We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus. v.) During the planting season, we shall plant seedlings as possible. vi.) We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health. vii.) We shall educate our children and ensure that they can earn to pay for their education. viii.) We shall always keep our children and environment clean. ix.) We shall build and use pit latrines. x.) We shall drink water from tube wells. If it is not available, we shall boil water or use alum. xi.) We shall not take any dowry at our son's weddings; neither shall we give any dowry at our daughter's weddings. We shall keep our center free from curse of dowry. We shall not practice child marriage. xii.) We shall not inflict any injustice on anyone; neither shall we allow anyone to do so. xiii.) We shall collectively undertake bigger investments for higher incomes. xiv.) We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her. xv.) If we come to know of any breach of discipline in any center, we shall help to restore discipline. xvi.) We shall take part in all social activities collectively.

Ownership and Organizational Structure

According to Casuga(2002), borrowers of the bank own 95% of its shares while the remaining 5% is owned by the government.The bank is regulated by government ordinance of 1983 and governed by a board of governors. The board consists of 13 members made up of the Managing Director, three persons including the Chairman of the corporation appointed by the Government, and nine members elected from the borrower shareholders.According to Rahman and Nie (2011), since 1986, all the nine members were selected from the borrower-shareholders from a thirteen member board of the bank. Grunewald and Baron (2011) stated that although the bank is technically a for profit business, it is exempted from tax payments.The bank operates 2,562 branches with over 13million customers. According to Latifee(2008), the bank has a decentralized, pyramidal operating structure in its administration, lending units, centers, branches, areas and zonal offices including the head office in Dhaka. This makes loan approval easy and fast as the functions of the management and decision making processes have been delegated to lower levels. The bank focused on women as its core clients.

Operational Mechanism

The establishment of the GB was premised on the concept that the poor have underutilized skills and the potential to be successful if they have access to money and credit. This is based on the experience of the founder who observed that, the rural poor face a significant shortage of capital, and traditional financial institutions, with their impossible loan conditions, inaccessibility and bureaucracy, ignore the poorest of the poor (Yunus, 2007). The bank’s operational mechanism is therefore anchored on this philosophy.

Branch set up

Majority of the GB branches are set up in the rural areas where the poor reside. Officers of the bank are picked or recruited from the village or environment and given some training after which they mobilize individuals into organizing themselves into forming small solidarity group of five. Men and women who share common social and cultural affiliationin accordance with socio-cultural norms of the community form different groups. These groups are inducted and lectured on the principles, philosophy and entrepreneurial initiatives of the bank.The bank delivers credit to the door steps of the clients instead of the clients going to the bank's offices. The bank therefore has a large outreach in terms of number of customers and geographical coverage.Rahman and Nie (2011) posited that bank has extended services to 83,458 villages, with 2,562 branch offices spread across the country, serving 8.32 million borrowers (cumulative number as at end of July, 2010).

Administration

The bank operates a decentralized administrative policy. The decentralization policy combined with widespread information communication system and organizational structure makes for good management and promotes transparency.Latifee (2008), submitted that, the bank has a decentralized, pyramidal operating structure in its administration, lending units, centers, branch, area and zonal offices including the head office in Dhaka. This makes loan approval easy and fast as the functions of the management and decision making processes have been delegated to lower levels. The bank maintained a small office structure. It also established a personal relationship with the borrowers through a certain degree of faith to the community which promoted trustworthiness. Furthermore, through the development of good human relationship, administrative and the transfer of transaction costs to clients were greatly reduced.

Target Group

The target groups of the bank were the poor rural women. This is because it is believed that women as care takers were capable proper money management and hadgoodrepayment histories (Rahman and Nie(2011)). The Bangladeshi society restricts women's interaction with men and their mobility. Furthermore, Holmes and Jones (2010) posited that the cultural behavior restricts women's mobility to go to the market, leaving them dependent on men to put their income-generating skills and knowledge into practice in terms of income generation from their assets. As a result of these cultural inhibitions, the rural women are placed in a helpless position which leads to their being malnourished, less educated and less important than their male counterparts.

Furthermore, Rahman and Nie (2011) posited that therewas growing number of female-headed households due to divorce,(which leave them impoverished) deaths of a male income earners, cases of desertion and male migration. Based on all these factors, the GB targeted rural women as their focal clients. The bank developed programmes that targeted the 'Ultra poor' or the poorest of the poor rural women which refers to those at the very bottom of the social ladder.The bank recorded a 97% active women borrower base as a fall out of its commitment to women economic and social empowerment.

Products of the Bank

The bank had a variety of loan and savings products based on market research. This is done after hearing from the women who are the majority clients. Loan products developed include; micro enterprise, education loan, village phone loan, basic loan, housing loan, insurance products, education loan – to build schools, loan for irrigation pump, transportation vehicle, river craft for transportation and fishing. Loan Product diversification has contributed to economies of scale. Examples of savings products include; compulsory savings, children welfare fund and pension savings.

Loan Administration

The bank's policy had been group lending. However, in line with the GB model,it offers individual loan along with group lending with individual and group responsibility. However, the bank uses group based approach in its loan administration. The method relies on peer pressure within the group to ensure that loan agreements are followed. Through the formation of groups in the form of cooperatives and peer socio-cultural affinity, the villagers and clients key into the progamme without difficulties. Formation of like-minded group is a prerequisite for loan approval as it ensure group solidarity. Through such procedure, 'Bad' clients were screened out through client's involvement in group selection.

Thereafter, group members are educated about the rules and regulations of the bank during which members are told that not all members can get initial loan at thesame time. According to GB (2010), two members obtain loan first, begin to repay principal plus interest for over six weeks before two others become eligible for loan. Loans are disbursed in small amounts while most loan durations were under one year. Maximum loan disbursement was in the range of US $ 388.49. Some of the loans have some weeks or months moratorium before payment. Interest rates are fixed and were not more than 10% for most loan types. Clients do not require any collateral.Through the development of good human relationship, administrative and the transfer of transaction costs to clients were greatly reduced.

Loan Monitoring and Repayment

The loan officers/bank workers who are familiar with the group members and mainly from the environment attend all the meetings, participated in the discussion, disburses and receives money. All transactions are openly carried out and members take effective roles in both individual and group progress and challenges. The accountability regime in the bank anchored by the sincerity of the field officers as well as the borrowers; particularly the women made loan repayment easy. The "sixteen decisions" are recited at all meetings to show commitment (which includes; the eating of vegetables, education for children, planting trees, reduction of family size, non-payment and receipt of dowry etc.).

Through effective screening procedure, 'bad' clients were screened out through client's involvement in group selection. The active involvement of loan officers in the weekly meeting makes monitoring for repayment easy. Furthermore, theintensive supervision of borrowers by field staff which is supported by peer group monitoring further ensures successful repayment.

Grameen bank had a 98 % loan repayment rate which makes the achievement of its social mission easy.

Monitoring the effect of the Loan

The bank apart from monitoring the application of the loan on members for purposes of repayment also has a mechanism to evaluate the effect of the loan on the personal lives of members. The bank has developed ten (10) Indicators to ensure this. This is based on its philosophy of enabling the economically active poor to move out of poverty by measuring improved standard of living of borrowing members. The 10 indicators are;i.) The family now lives in a house worth Taka 25,000 minimum or a house with tin roof and each family member sleeps on bed instead of on the floor.ii.) Family members drink pure water of tube-wells, boiled or purified water with alum, arsenic-free purifying tablets or pitcher filters. iii.) All children in the family over six years are all going to school or finished primary school.iv.) Minimum weekly loan installment of the borrowers is Taka 200 or more.v.) Family uses sanitary latrine. vi.) Family members have adequate clothing for everyday use such as warm clothing for winter – sweaters, shawls blankets, and for mosquitoes.vii.) Family has additional sources of income, such as vegetable gardens, fruit-bearing trees etc that they can fall back on in terms of emergency.viii.) The borrowing maintains an average annual balance of Taka 5,000 in the savings account.ix.) Family experiences no difficulty in having three square meals daily throughout the year.x.) Family can take care of the health of its members through adequate healthcare.

The success of the GB is anchored on its focus and mode of operation coupled with its monitoring and evaluation methodology.

4.0 MICROFINANCE IN NIGERIA

There was no conscious effort of a formalized micro-financing scheme in Nigeria until the introduction of Community Banks in 1992.Okoye(2011)states that though a plethora of microcredit initiatives in Nigeria in the past (Peoples

Bank, FEAP, FSP, SME, NERFUND, etc) appears on the surface to be good attempt but were largely politically motivated and so did not serve the interest of the society at large. A number of the multi-sectoral programmes established were not microcredit or microfinancing in nature, objectives, approach, features and operation. For example, the rural banking schemes of the CBN werepredicated on the profit orientation of commercial banking. The small-scale entrepreneurs they were meant to serve were priced out by the lending policies employed by the lending institutionsin terms of interest rates charges, collateral requirements,product design, and loan administration amongst others. The focus of some of these schemes such as the National Economic Reconstruction Fund (NERFUND), Nigeria Bank for Commerce and **Industry** (NBCI) and the Nigerian Agricultural Insurance Company (NAIC) were not targeted at micro-credit customers but for micro-commercial bank customers hence the success recorded from their implementation was low. The scheme which had a success rate closet to the desired level was the NAPEP financial support and money transfer.

Typical microcredit or finance customers have the following characteristics;

Business Ownership: They own their business, finance it and work themselves or mostly employ family members. The nature of their businesses is usually small, simple and unsophisticated.

Occupation: They are usually self employed engaged in small income generating activities. They include artisans involved in unsophisticatedbusiness such as motor and bicyclemechanics, carpentry, bricklayers, vulcanizers, plumbers, barbing , hair weaving/dressing salons, painters, printers, operators of grinding business, fridge, air conditioners and heating equipment and GSM technicians, welders, etc.They are also engaged in small scale farming, fish, poultry farming, patent medicine and chemists, manufacturers of pure water, toilet roll, bread, provision stores, distribution, food sellers (cooked and raw), laundry business,etc.

Asset: They usually do not own asset required for collateral by banks.

Capital: They have limited access to capital. They are mostly self or family financing. They also require small capital.

Level of Education: Most of them do not have tertiary education, but have primary, secondary and diploma education.

Income Level: Most of them fall within the poverty line.

One would readily observe from the above characteristics of microfinance customers that previous efforts of reaching these segment of the society was not meaningful because, the amount of loans given were far above their needs, collaterals and other conditions, high interest rates charged and other requirements were more than what they can afford. The results has been that, though huge amounts of money and loans were disbursed, but not for these micro-credit customers. The first formal microfinance effort that tend to target the poor and the low income who were economically active but denied access to credit came in December, 2005 when the CBN introduced the Microfinance Policy, Regulation and Supervisory Framework for Nigeria.

THE CBN MICRO-FINANCE FRAMEWORK

The CBN introduced the Microfinance Policy, Regulation and Supervisory Framework for Nigeria in 2005 with the following five specific objectives.

i. 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;
ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;
iv. Contribute to rural transformation and
v. Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

Some of the policy targets of the framework include; cover majority of the poor but economically active population by2020 thereby creating millions of jobs and reducing poverty; increase the share of credit as a percentage of total credit to the economy from 0.9% in 2005 to 20% in 2020; eliminate gender disparity by improving women's access to financial services by 5% annually; improve linkages among universal, development, specialized finance institutions and microfinance banks by 10% annually and increase state and local government participation in credit financing by 2015.

The CBN revised the policy framework in 2011 with the following objectives:

i. Provision of timely, diversified, affordable and dependable financial services to the economically active poor;
ii. Creation of employment opportunities and increase the productivity and household income of the active poor in the country, thereby enhancing their standard of living;
iii. Promotion of synergy and mainstreaming of the informal Microfinance sub-sector into the formal financial system;
iv. Enhancement of service delivery to micro, small and medium enterprises (MSMEs);
v. Mobilization of savings for intermediation and rural transformation;
vi. Promotion of linkage programmes between microfinance institutions (MFIs), Deposit Money Banks (DMBs), Development Finance Institutions (DFIs) and specialized funding institutions;
vii. Provision of dependable avenues for the administration of the microcredit programmes of government and high net worth individuals on a non-recourse basis; and
viii. Promotion of a platform for microfinance service providers to network and exchange views and share experiences.

In broad terms, the policy targets and strategies of the 2005 and 2011 policy frameworks are similar except that the 2011 framework stipulated a 10% annual access to financial services of the economically active poor as a policy target. An analysis of the implementation of the framework and operation of microfinance banks in Nigeria since 2005 show the following;

i. Wrong concept of microfinance: It does appear that the concept and practice of microfinance banking has been misunderstood by both regulators and operators. Microfinance institutions are operated as micro-commercial or micro-deposit money bank whose focus and objectives are quite different from those of microfinance.
ii. Poor outreach: Most of the offices/branches of microfinance banks are in the urban and semi-urban centers. Majority of the economically active but poor and financially excluded live in the rural areas which were not reached. The CBN stated that outreach of formal financial institutions barely increased from 35.0% to 36.3% since 2005. This is attributed to the urban bias of microfinance banks. Instead of the banks finding or going to the prospective customers, the customers find the banks at a cost.
iii. High interest rates: The microfinance institutions charge high interest rates on loans. Sometimes, their interest rates are even higher that deposit money banks as some charge up to 4% and 10%, per month. Calculated on an annual basis gives you between 48% and 120% per annum.
iv. Poor funding: Micro financing in Nigeria is a private driven business. They are poorly funded by the government. There had been plans to create a pool of funds to enable customers easily access, but this arrangement lofty as they are had been in the pipeline for quite some time.
v. High cost of operation: Because of the set up, operation and concept of microfinance, microfinance banks compete with Deposit Money Banks which result in high operational cost. The category of personnel specified by the regulatory authorities to work in such institutions, the acquisition oftastefully furnished offices and vehicles further escalate the cost of operation.

vi. Wrong regulation: Due to the wrong concept and philosophy of microfinance by the government, the authorities lack understanding of what they are regulating. An analysis of the regulatory and supervisory guidelines for microfinance banks in Nigeria show similar supervision as those of deposit money banks. MFIs are examined annually.

vii. Limited Products: There is no variety of products for microfinance clients. This couldbe due to the wrong concept and lack of market research by both the regulators and the operators.

viii. Lack of focus on target clients: Although the framework mentioned the poor and low income, there is no definite or clear definition of these set of people to whom micro-credits are to be administered. Therefore, one finds it difficult to see a lot of credit going to them. Most credits approved in these banks are beyond the need of the low income. They are micro-commercial in nature mostly requiring collateral security.

ix. Collateral: Some microfinance operators still insist on the provision of collateral as a requirement for loan disbursement. The element of trust and honesty is lacking.

x. There is high loan default rate because of wrong lending policy.

xi. Poor corporate governance practice and dishonesty of operators and borrowers.

Based on the challenges in the operation microfinance banking in Nigeria, it has not been able make significant achievement. The CBN (2011) after a careful analysis of its microfinance policy framework and implementation since 2005 observed; there exists a huge untapped potential for financial services at the micro level of the Nigerian economy. Attempts by Government in the past to fill this gap did not achieve the desired result. Achievements recorded in the subsector since 2005 have been mixed. While outreach by formal financial institutions increased from 35.0% to 36.3% (1.3%), the institutions have been confronted with numerous challenges including, poor corporate governance and asset quality, weak internal control and risk management, amongst others. It concluded that as a result, the revised microfinance policy framework provides that MFBs would be adequately capitalized, better managed, run on low cost structure and be operated in a safe and sound manner.

In 2010 the operating license of 103 MFBs were revoked while some others voluntarily closed their banks. Majority of these MFIs were located in the cities and urban centers. The major cause of their poor performance was due to high non-performing loans and poor corporate governance.

Compared to the GB model, the Nigerian model has not recorded appreciable success. Although, the socio-cultural environment of Bangladesh and Nigeria may not be exactly the same, some similarities exist between the two countries. For example, while denial of the girl child in education, early marriage and other gender discriminatory policies exist in some parts of Nigeria, they are not overwhelming as it was in Bangladesh. However, the prevalence of high poverty rate, constraints of access to financial resources and financial exclusion of the poor but economically active people are common in the two countries. Furthermore, because both countries are in the bracket of developing countries it will be useful to draw some lesson from the GB model to redesign the Nigerian model.

5.0 LESSONS FOR NIGERIA

While the critical success factors of the GB model were anchored on the bank's philosophy, branch outreach, target clients, loan administration, collateral free lending, new business development, low overhead, trust and honesty of field officers and borrowers, low interest charges, loan monitoring and repayment among others, which led to ahuge success been recorded in the Grameen Microfinance model, the same could not be said of the microfinance model in Nigeria. What are the factors responsible for his, and what useful lessons can Nigeria learn from the Grameen model. A critical analysis of the two models shows that the following lessons can be drawn and applied in Nigeria from the Grameen model.

i. Appropriate conceptualization of Microfinance banks: Unlike the GB model that appropriately conceptualized and defined the business of microfinance in theory and practice, the Nigerian model did not. That had led to the application of commercial banking laws and regulation in MFIs. For example, the location of urban branches is not allowed in the enabling law of the GB model.
ii. Definition of clients: The Nigerian model must define its clients in simple and clear terms as is the case of the GB model. First, microfinance is for the poor, the poorest poor and low income. They have no asset and must be looked for.
iii. Rural Location: While majority of MFIs are located in the rural areas in Bangladesh, a sharp contrast exist in Nigeria. Majority of MFIs are urban based thereby excluding the poor and low income majority who live in the rural areas from access to banking services.
iv. Funding: While the GB enjoys a lot of funding from governments and donor agencies, the Nigerian MFIs hardly enjoy such patronage.
v. Collateral requirement: While the GB model does not insist on collateral, the Nigerian model is not strict. Some of them insist on production of collateral as a condition for lending even when contravening the statute. Since most microfinance clients do not own assets, the insistence automatically excludes them.
vi. Mode of operation: While the GB model adopt individual and group lending, but emphasis on group lending, the Nigerian model emphasis on individual lending. Secondly, while the GB model goes to the clients, the Nigerian model waits for the clients as a business strategy. Thirdly, while the GB model disburses small amounts with fixed and low interest rates, the Nigerian model disburses amounts for micro-commercial businesses using high and floating interest rates.

vii. Business strategy: While staff of the Grameen bank are involved in business development, group meeting etcof their clients in the GB model, the Nigerian model adopts a strategy of pure commercial business strategy of non-participation and interference in clients business.Furthermore, while new business was an attraction to the GB model, such was not an attraction to the Nigerian model which instead preferred existing business.

viii. Target Group: While the GB model had its target group as women whom it identified as economically active, the Nigerian model even though mentioned gender in the framework did not apply gender consideration in credit approvals. It is considers ability to pay principal and interest as a primary factor.

ix. High cost of operation: While the GB has a low cost of operation due its simple office, furniture and personnel, the Nigerian model has a high operational cost due to its high overhead in paying for its personnel, expensive and tastily furnishedoffices and other running costs. As a result, the high operational cost is transferred to customers in Nigeria.

x. Limited Products: While the GB model has a variety of both saving and loan products that covers the need of its clients, the same is not the case of Nigeria. Microfinance products are limited in Nigeria.

xi. Super Profit Orientation: The Nigerian MFIs have a profit orientation as a cardinal objective of their establishment while the GB model was founded on the social concept and objective of solving/reducing poverty.

xii. Ownership of MFIs: MFIs in Nigeria are owned by very few rich people. This is facilitated by the regulatory requirement which put minimum capital base at N20 million. The same is not the case at the GB model where the bank is owned and managed by the poor-borrowing customers.

xiii. Social Mission: While the GB model incorporates social mission in its philosophy, the Nigerian model does not and is run on purely economic enterprise.

6.0 RECOMMENDATIONS AND CONCLUSION

6.1 Recommendations

Based on the observations made and the useful lessons drawn from the GB model in the preceding section, we make the following recommendations:

i. Appropriate conceptualization of Microfinance banks: There is need to appropriately conceptualize microfinance in Nigeria. Such conceptualization will define the end or target clients, ownership and the target problem it is expected to solve in concrete terms. For example, the urban bias in its location and other operational modalities should be well defined.

ii. Funding: The governments at the various levels should play more visible role in providing funding for onward lending as a soft loan to clients. For example, 0.5 % of pretax profits of companies can be set aside to have pool of capital for lending.

iii. Collateral: MFIs should not insist on collateral security as a requirement for lending. Since most microfinance clients do not own assets, the insistence would automatically exclude them.

iv. Mode of operation: A clear distinction should be made in terms of lending amounts, interest rate charges etc between deposit money banks and MFIs.

v. Business strategy: Field officers of MFIs in Nigeria should be well trained and orientated by the regulatory authorities on the concept and operation of microfinance. They should be made to look for the clients, be involved in their business development and build trust with them.

vi. Target Group: While the GB model had its target group as women whom it identified as economically active, the Nigerian model even though mentioned gender in the framework did not apply gender consideration in credit approvals. It is considers ability to pay principal and interest as a primary factor.

vii. Availability of Product Variety: Both the regulatory authorities and the MFIs should ensure the availability of variety of products. This can be done through market research in consultation with the clients.

viii. Simplification of Account opening Requirement: Personal Identification and other Legal requirements should be simplified. For example, tradition/community leaders rulers and religious leaders should be part of identification process where MFB clients do not have identity cards.Similarly, KYC proceduresshould also be simplified to ensure less sophistication and ease for target customers to maintain account.

ix. Super Profit Orientation: The Nigerian MFIs should de-emphasis profit orientation as a cardinal objective of their establishment.Social Mission orientation should be incorporated into its philosophy.

x. Simplification of operations: Both the regulatory authorities and the MFIs should emphasis low cost of operation. Maintenance of simple office, furniture and personnel. This would require redesigning ownership and other operational mechanism to incorporate the concept and objective of poverty reduction and financial inclusion, reduction of over-heads, simplification of business models, lowering of credit management system and collateral requirements.

xi. Consideration to Locality: MFIs should be located only in their villages or locality so that they can cater to locals on a higher trust levels and simplified requirements for customers and borrowers.

xii. Enlightenment: A continuous massive public enlightenment programmes should be carried to sensitize the public on microfinance activities and the need for their cooperation and participation. Churches, Mosques, NGOs and Community Unions can be used as a launching pad.

xiii. Literacy rate: Literacy rate in the country should be stepped up to enable active participation of a wider clientele.

xiv. Re-classification of MFBs: The current classification MFBs into national, State and Unit should be reconsidered with a view to separating micro-credit functions of MFIs from the current "micro-commercial" situation. This could be achieved by scrapping the National MFIs and keeping the services of that middle segment of the market under the purview of Deposit Money Banks. The State and Unit MFBs can be thenretained solely to cater for the MF sub-sectors.

xv. Enabling environment:The government at all levels should provide the necessary economic and infrastructural environment for microfinance to thrive.

6.2Conclusion

The study has attempted to provide some extant information on the purpose, development and operation of microfinance. Relevant studies on microfinance in Nigeria, the Grameen bank model and its operation were reviewed and examined thereby revealing the factors impeding the effectiveness of MFIs in Nigeria. The study further identified the success factors of the GB model and drew some useful lessons for Nigeria. The analysis had shown that microfinance can successfully empower the economically active poor and thus reduce poverty. Furthermore,it came to the fore that microfinance is a veritable financial inclusion strategy, as well as a poverty reduction tool withpossible positive contribution to sustainable development in Nigeria.

Based on the above we therefore conclude that microfinance has the potential to reduce poverty, close the gender gap in economic empowerment and facilitate economic development. It is our firm believe that this potential will be adequately harnessed if these lessons drawn from the success of the

Grameen model as elucidated here are incorporated into the on-going reform process in the sub-sector while situating them within the realities of our financial climate.

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