

Micro Credit as a Sustainable Economic Development and Poverty Reduction Tool: The Enugu State Experience

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Abstract

The Millennium Development Goals (MDGs) and the globalization problems have been poverty reduction and socio-economic development. The classical theorists believe that the most important function of the state is security. Security in a holistic nature of man and his environment. It is the process of these securities (physical, social and economic) that the idea of poverty eradication comes to view. Economic development could only be real when man can take control of his environment, manipulate his environment progressively with a view to increase productivity. To achieve this, man needs sustainable motivation and empowerment. Nigeria being in league with the World Bank and in collaboration with the Millennium Development Goals (MDGs) has been making effort to eradicate poverty by 2015 and specifically Nigeria 's vision 2020. Hence the federal government has established some agencies with a view to reducing poverty and improves the living standard through capacity building. Poverty reduction being one of the main agenda of the government since 2000 also revolves with the seven points agenda of the present government of Nigeria. Enugu State being one of the states in Nigeria and also a state that has been upholding the ruling party's policies and the government policies, has also been pursuing this economic development with vigour. Micro credit being one of the economic development programme, has been viewed as one

of the surest means of eradicating poverty. Hence Nzenwa (2000:92) sees credit culture as ‘an important part of a developed economy’” Nzenwa believes that credit creates fund and increases investment for more production thereby making goods and services available. Micro credit being one of the economic tools of poverty reduction is by this paper analytically examined.

Introduction

Every knowledge has its own fundamental discovery; In mechanic, it is the wheel, in science, fire, in politics it is the votes. Similarly in economics and financial management, in the whole public and commercial side of man’s social existence, money is the essential invention on which the rest is based. Geoffrey Crowther.

Crowther in Swammy (1985) was emphasizing on the importance of money in a man’s life. The Millennium Development Goals (MDGs) has embarked on total reforms which are aimed at poverty reduction and socio-economic development. Nigeria , being in league with the Millennium Development Goals, has been making effort touch poverty reduction and better standard of living.

Poverty reduction and socio-economic development could be a direct measure for real development. Hence AVM Koinyan states that development starts only when man is able to take control of his environment, to manipulate his environment, to manage progressively everything in that environment to increase his production and productivity of all those things he needs to live a qualitatively better life. It is the extent to which man is able to do this by himself, in a progressively better manner that is the true measure of his development (Koinyam in Nzenwa 2000).

Development shows an in dept increase in physical, mental, socio-cultural and economic standard. It includes such invisible standard as human resource development and intellectual ingenuity. It is not only an economic growth but economic growth plus positive change in social, cultural and institutional development. Economic development, according to Nzenwa (2000) is on increase in per capita of the people within the

state. In other words, the higher per capita income, the higher the level of development economically. In his own analysis, Maxwell views economic development as a positive attitude of the people towards project development with a view to enhance their living condition thereby raising their standard of living (Maxwell 2004). Economic development is an increase in the wealth of the people with a view to possess effective demand (i.e. purchasing power) to their basic wants. In other words, the ability of the people to influence their environment positively and secure such needs and wants that enhance their higher standard of living could be viewed as economic development. Wafure sees economic development as both structural and functional transformation of all economic indices from low to a high state (Wafure in Peter 2005). To him it shows economics growth accompanied by functional changes in the structure of the economy plus political, social and economic structure. It includes positive changes in technology, socio economic and institutional arrangement that enhances output.

Micro credit

A credit culture is an important part of developed economy. Nzenwa (2000), believe credit creates new businesses. Credit culture helps people to developed ideas and executes such ideas. Credit purchase creates fund and increase investment for more production thereby making more goods and services available for sales. By so doing, it creates a multiplier effect in terms of flow of goods and services. This leads to economic growth which could be transformed to economic development (Nzenwa 2000: 92).

Micro credit has to do with soft loans usually given to small and medium scale entrepreneurs, farmers and artisans /craftsmen, etc to enable them procure, produce or improve their productivity as well as increase their general welfare. Micro credit could lead to the establishment of cottage industries, livestock farming, fish ponds and piggery farming. It could lead to real successful farming to the extent of export promotion of agricultural products such as palm produce, cashew, cocoonut and allied product. Micro credit could be facilitated by organized groups such as cooperative societies, clubs, town unions, age grade etc and or individuals (Okali, and Otiti 1992).

The international year of micro credit was launched on 18th November, 2004 with the following as its objectives.

- Assess and promote the contributions of micro credit and micro finance to the millennium development goals (MDGs).
- Promote public awareness and understanding of micro credit and micro finance as vital points of the development equation.
- Promote inclusive financial sector
- Support sustainable access to financial services and
- Encourage innovation and new partnership by promoting and supporting strategic partnership to build and expand the outreach and success of micro credit and micro finance (www.cenbank.agric.microcredit.html). Micro credit emphasizes on financial sector and strengthening the powerful but often untapped entrepreneurs spirit existing in community around the world. It is aimed at empowering the poor and the low income earners by engaging them in profitable economic activities, live better lives and contribute to the nation building.

According to the charter establishing micro credit, it has to be observed by all United Nations (UN) member countries annually with national programmes and events aimed at creating awareness on the relevance of micro credit.

In Nigeria , the programme is being channeled to the National Poverty Eradication programme (NAPEP) and through the National Economics Empowerment and Development Strategies (NEEDS).

The United Nations Development Programmes (UNDP) launched the pilot micro finance project called micro start in 1997. It brought together stakeholders of micro credit and Donor agencies such as USAID, World Bank, EU, DFID, Ford foundation etc. UNDP after assessing some micro finance institutions in Nigeria based on its lay down criteria, approved some micro finance institutions in June 2000.

These micro finance institutions include the following:

- Justice Development and Peace Commission Ijebu Ode , Ogun State .
- Lift Above poverty organization, Benin city , Edo State .
- Save and Produce (SAP), Jos, Plateau State
- Outreach Foundation (OF) ,Yaba , Lagos State
- Peace Development Centre (PDC) Uyo, Akwa Ibom State .
- Self-Reliance Economic Advancement Programme Ilorin Kwara State
- Nalt-United self-Help Organization (NUSHO) Nsukka- Enugu State .

A take off grants of N815,000 was given to each of the MFIs for onward disbursement to the people /groups in accordance with MFIs requirement. Recently, the Federal Government through the Central Bank of Nigeria (CBN) has approved most of the community banks as MFIs ,thereby making MFIs ubiquitous nation wide. Hence Anyanwu (2004) states that micro credit is the scheme aimed at enhancing the status of both the urban poor and rural poor. Micro credit is aimed at building communal capacity for wealth creation among enterprising poor people and promoting standard of living through strengthening rural banking methodology and eradicate poverty through the provision of micro credit for skill acquisition.

In evaluating these micro finance institutions, two major criteria are used.

- a) Outreach and
- b) Sustainability

While Outreach is the ability of micro finance institution to provide high quality financial services to a large number of clients, Sustainability is the ability of these MFIs and micro-credit beneficiaries of having mutual confidence on one another in transecting and retaining loans /credits agreement businesses.

The primary goal of economic planning in Nigeria is the attainment of rapid increase in the nation's productive capacity with a view to

improving the living standard of the people. Roth (1997) believes that micro-credit is the only ingredient in the mix of factors necessary for a successful enterprise to respond to potential demand for goods and or services. He sees micro credit and micro-financing as the main tool for rural and social development.

In 2004, the Federal Government through the National poverty Eradication programme (MAPEP) came up with micro finance coordination programme which aimed at providing micro credit to the poor on a sustainable basis (NAPEP 2004). The coordination programmes describes micro finance as “the provision of credit savings and other financials services to micro-entrepreneurs and low income borrowers” it further emphasizes that due to inaccessibility of the poor and low income earners to commercial banks lending and their incapability to provide collaterals, micro-credit financing is principally designed to target the poor to help alleviate their poverty status thereby encouraging economic and social development. The objective of micro finance “as a poverty alleviation strategy is to assist the poor who cannot otherwise make savings, accumulate assets or invest in any meaningful income generating activities that would help break the cycle of poverty” (MFCP, 2004: 3). Micro finance coordination programmes MFCP also aims at

- a) Making available a large pool of fund for micro credit.
- b) Bringing the interest rate at a reduced level so as to encourage the poor and the borrowers, hence encouraging the poor for the participation of the process of Nigeria ’s economic growth and development by raising their standard of living.
- c) Recognizing and encouraging community banks and some commercial banks to register as micro finance institutions (MFCP 2004).

According to the working document of NEEDS, it offers (among other programmes) improved irrigation for farmers for the production of crops/food varieties and help boost agricultural activities and to tackle poverty head-on, support small and medium scale enterprises that will help create jobs and in conjunction with the State Economic Empowerment and Development Strategies (SEEDS) and Local Economic Empowerment and

Development Strategies (LEEDS); NEEDS seeks to implement integrated rural development programme general development etc (NEEDS 2004).

Micro credit has the features of group delivery and economic empowerment for low income earners or rather the poor. The structural mechanism and product of micro credit financing are designed to meet the financial needs of those locked out by banks and other formal financial institutions. These groups are the small business owners or entrepreneurs. They could be professionals or artisans (skilled or unskilled) who are cash trapped towards capacity building and or skill acquisition.

Micro credit scheme deals mostly with beneficiaries who are usually ill-equipped in terms of educational skills and management techniques. These group are not versed in feasibility studies and professional speculated market survey /prediction, hence the loans attract little or no collateral with very low interest rate. Of course micro-credit scheme offers loans of maximum of one million naira to a group of not more than twenty members. In other words, as the name implies, it offers fund which obviously is low in size (i.e. small loans,).

Enugu State experiences

Micro credit in Enugu state has been an old scheme, though it was given prominence recently following the global emphasis on micro-credit as one of the tools for rural development and poverty reduction. In 1970s, the defunct government of East Central State introduced a programme known as “Otu olu obodo”. The programme encouraged farmers and small business entrepreneurs in raising fund.

‘Isusu self help’ contribution has been in existence since 1970s. This is a programme whereby some organized group of individuals would be contributing some amount depending on the capacity of each person ranging from N10 to N10,000 or more, weekly or monthly. The money is for on lending to the needy members with a little interest attached (usually 2% to 5%). At the end of the year, the amount is distributed with accrued interest to members.

The formation of the Community Development Committees (CDC) in 1980s was aimed at making the community to identify viable projects /business with a view for joint financing with the state government. Thereby enhancing development and reducing poverty among the people.

The Non-Governmental Organizations (NGOs) such as USAID, DFID, UNDP, have been playing significant roles in Enugu State towards poverty reduction. For instance the rural development programme which is being carried out through the Community Development Coordinating Centre (CDCC) is community 'bottom up participatory development programme. The community contributes 25% for a viable project; the local government contributes 25%, while the state government contributes 50%. It is worthy to note that the community contribution fund use to be supplemented by grants from international agencies such as DFID, USAID, and UNDP etc.

The Nigeria Agricultural Cooperation and Rural Development Bank (NACRDB) and some commercial banks have been offering some farmers and entrepreneurs micro credit to assist them in their farming and businesses respectively.

Farm cluster for selected crops such as cassava, cashew, oil palm and rice projects have receive boost from the state government through the Enugu State Agriculture Development Programme (ENADEP) and donor agencies such as USAID and UNDP at subsidize amount and very low rate of interest. The aim is to help the subsistent farmers with access to capital, farming tools, better technology, and seedling including sprouted seeds. SME cluster development which objective is establishment of business parks around junction towns such as Ninth Mile Corner near Enugu , Obollo Afor, Ozalla junction and Oji River , have helped some traders to take up shops at these parks through micro finance ventures at affordable interest rate.

The emergence of the Nigeria 's Fourth Republic ushered in new ideas and decisive means of poverty reduction. The Federal Government introduced Poverty Alleviation Programme (PAP) in 2000 and in 2001; National Poverty Eradication Programme (NAPEP) was established. NAPEP by establishment was aimed at:

1. Coordinating and monitoring poverty reduction programmes of the Federal, State and Local governments and also the efforts of NGOs towards poverty reduction.
2. Assist in formulating policies aimed at Poverty Reduction.

3. Intervene through specific activities to spur economic development at grassroots etc. Based on the above mandate, NAPEP designed the following schemes.

a) Youth Empowerment Scheme (YES) which is designed to empowering the youth especially the unemployed. It has Capacity Acquisition Programme (CAP) and Managed Attachment Programme.

b) Community Enlightenment and Sensitization Scheme (COMESS), which is aimed at enlightening the public on the activities of the government towards poverty reduction.

c) Capacity Enhancement Scheme (CES) which is designed to help artisans who could not fund their trade or vocations.

d) Social Welfare Service Scheme (SOWOSS) designed to encourage socio-economic well being of the people.

e) Rural Infrastructural Development for the Rural Dwellers aimed at developing and transforming the rural communities and

f) Micro Finance Coordination Scheme (MFICOS) aimed at mobilizing resources from the three tiers of government, commercial banks, NGOs, etc for on-lending to low income Nigerians who are interested in micro enterprise (i.e. the active poor).

Between 2001 and 2007, NAPEP has made much impact on the lives of the people of Enugu State . For instance, during the period of CAP and NAP, it trained 2001 unemployed non-graduate candidates and 1120 unemployed graduates and spent N7,220,500.00 and N11,200,000.00 respectively on the candidates by way of monthly allowances. Thereafter, some of these trained candidates were assisted on micro-credit loan, for their vocations. Within the same period more than ninety eight (98) keke-NAPEP (i.e. tricycles) were provided to the people on credit purchase bases. The tricycle maintenance parts were provided and sold at relatively cheaper prices (mostly on credit) by NAPEP to the keke NAPEP owners/riders.

In 2002 some farmers were trained in Otta farm, Ogun State and provided with micro credit fund of N100, 000 each to establish poultry

farms and livestock business. Also in 2004, 54 cooperative societies were assessed trained and granted capital ranging from N250,000 to N500,000 each, under Micro-Credit Schemes of NAPEP.

In 2005 to 2006, about 52million naira was granted and distributed to about 70 cooperative societies under the Multi-Partner Micro-Finance (MP-MF) scheme. Also between 2007 and 2008 the three tiers a government jointly spent over N102 million on Conditional Cash Transfer (CCT) scheme. This scheme is also called Care of the People (COPE) (NAPEP, 2007), (NAPEP, 2008), (COPE, 2008) CCT, 2007 and 2008).

In 2008 the sum of N157 million was disturbed to the organized cooperation societies under the Village Economic Development Solution (VEDS). More than 121 cooperative societies benefited from this scheme. Also in 2008 about N16 million was granted to Faith based organizations under the auspices of Promise Keepers programme (PKP).

Conclusion

From the above analysis, it is clear that micro-credit programmes in Enugu State have been a sustainable venture. The governments, (i.e. the three tiers of government) especially the federal government have really made significant efforts towards poverty reduction in the state. The Millennium Development Goals (MDGs), International Development Partners and other NGOs have really contributed toward poverty reduction and economic development of the people of Enugu State . The war against poverty is multi-dimensional phenomenon. It should not be all government (or its associates) affair to fight poverty and establish sustainable economic and rural development. The fight should be decisive and all embracing with a view to meet the MDGs target of 2015 and Nigeria 's Vision 2020target for total eradication poverty.

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