MICROFINANCE AND RURAL POVERTY ALLEVIATION IN NIGERIA: THE COCA-COLA AND HAIER MODEL

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ABSTRACT

Poverty is one of the major problems of mankind and its alleviation one of her major agendas. Poverty is viewed largely as a problem of the poor earning too little income, consuming too little to attain a socially acceptable standard of living, and possessing too few assets to protect themselves against unforeseen problems (Meyer,2001). In recent years, microfinance has emerged as an important instrument to relieve poverty in the developing countries. In Nigeria, poverty alleviation has spawn a broad array of initiatives, including the Green Revolution, Operation Feed the Nation, Rural Banking programme, Sectoral Allocation, National Poverty Eradication programme, and a host of others. Inspite of all these lofty initiatives, rural poverty has remained unabated.

This paper explores the reasons why the various micro-financing approaches have rarely reached the poorest of the poor in Nigeria and argues that micro-credit alone is not always the best way to help the poorest of poor. Our findings indicate that in Nigeria, majority of the conventional micro-financing measures are rather synthetic, and quite exotic to the active poor who quite often reject them since they are not tailored in line with their peculiar need. This adversely affects government projects and efforts to combat poverty in the country through micro financing. Under the circumstance, the study suggests the adoption of the Coca-Cola and Haier Model of rural financing which has potential to serve the country better.

Key words: Microfinance; Poverty alleviation; Banking; Model

INTRODUCTION:

One of the compelling challenges facing mankind today is the problem of poverty. Poverty is not only on the increase but also wide spread in many developing countries. The dimensions of hunger and malnutrition, which are extreme cases of poverty are alarming and cannot leave any one indifferent. According to an ICFD report, an estimated 174 million under-five children in the developing world were malnourished in 1996-1998, and 6.6 million out of 12.2 million deaths among children in that age group were associated with malnutrition. However, today, as other continents such as South Asia continues to register sustainable economic growth and development, Africa is not only lagging behind but is still trapped in a vicious circle of poverty, borrowing and donor depending syndrome, which practically sabotage real economic development.

Poverty alleviation has increasingly occupied the attention of the international community in the last two decades. Successive submits have made commitments to drastically reduce the misery from which so many humans suffer throughout their lives. For instance, at the United Nations millennium submit in September 2000, world leaders met and agreed on eight development goals that have come to be popularly known as Millennium Development Goals (MDGs). One of the development targets in the overarching goal of halving extreme poverty by the year 2015.

In Nigeria poverty alleviation has been a major concern of past successive governments which led to a plethora of poverty alleviation programmes in the country. Indeed poverty alleviation has spawn a broad array of initiatives including Operation Feed the Nation (OFN), Green Revolution; Directorate of food, Road, and Rural Infrastructure (DFRRI), National directorate of Employment (NDE), Better life Programme, Family Support Programme and a host of others. The big suggestion however is what impact did these lofty programmes make on the perturbing and perennial problem of poverty in Nigeria? How have they affected the rural poor – the poorest of the poor in Nigeria? What have been their impacts on Nigerian economic development?

Iyaniga (2007) observed that robust economic growth cannot be achieved without increasing peoples' access to factors of production, especially credit. He stressed that the latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income, and create wealth. Iyamu (2008) stated that an economy without a vibrant micro, small and medium enterprises base cannot enjoy sustainable growth. Governments at all levels are therefore under enormous pressure to address the problems of unemployment, poverty and micro enterprise development. Microfinance has become an issue that fits perfectly into the economic and political agenda.

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. It is regarded now as the newest silver bullet for poverty alleviation, but it also needs to be stressed that microfinance is not a new phenomenon in Nigeria. It existed in the past without government intervention in various forms in different parts of the country as "esusu" among the Yorubas, "etoto" for the Igbos and "adashe" for the Hausa (CBN 2000). It was practiced then to provide funds for producers in our rural communities. In realization of the great potentials of microfinance institutions (MFIs), the Nigerian government has at various times made impressive effort to modernize the traditional micro-financing programmes and schemes in rural and urban communities to improve the productive capacity of the rural and urban poor, and enhance their contributions to the national economy.

One of the major challenges microfinance currently faces in Nigeria is for the MFI to reach a greater number of the poor in time and in the form acceptable to them. The existing microfinance in Nigeria serves less than 1 million people out of 40 million potential people that need the service (CBN 2005). Osuala (2008) observed that majority of the rural active poor in Nigeria reject most of the conventional micro-financing measures because they are not tailored in line with their peculiar need. The question that arises then is how can the Nigerian rural poor be best served? And what model is considered suitable for them?

The main objective of this study is to explore the reason why the various micro-financing approaches have rarely reached, and affected the poorest of the poor in Nigeria; and to investigate the prospect of reaching them via the Coca-cola and Haier model.

2 CONCEPTUAL ISSUES

2.1 Poverty.

The definition of what is meant by poverty and how it is measured and who constitute the poor are fiercely contested issues. In the poverty debate stands the question whether poverty is largely about material needs or whether it is about a much broader set of needs that permit well-being. Ravallion and Bidani (1994) refer to poverty as a lack of command over basic consumption needs, that is, a situation of inadequate level of consumption; giving rise to insufficient food, clothing and shelter. Aluko (1975) and Sen (1987) defined poverty as lack of certain capabilities, such as being able to participate with dignity in societal endeavours.

Chambers (1983:112) insisted that the poor are poor because they are poor. 'Their poverty conditions interlock like a web to trap people in their deprivation. Poverty is a strong determinant of others. The causes of poverty are many and must be attacked from all fronts to save the poor from the poverty trap'.

According to Meyer (2001), historically poverty was viewed largely as a problem of the poor earning too little income, consuming too little to attain a socially acceptable standard of living, and possessing too few assets to protect themselves against unforeseen problems. Poverty alleviation strategies, therefore, have usually focused on employment creation, sometimes skill acquisition and, occasionally, redistribution of assets from the rich to the poor. Technological change for small farmers has been a part of most rural poverty programmes. Improving access to credit has often been viewed as an important weapon in the arsenal to fight rural poverty. However, during the past couple of decades, poverty analysts have argued that this traditional view of poverty is too narrow and simplistic. A recent example of the expanded view involving multiple dimensions of poverty is found in the Asia Development Bank's Poverty Reduction Strategy and World Development Report 2000/2001 of the World Bank. These documents noted that not only do *the poor lack income; they lack adequate food, shelter, education and health. They face extreme vulnerability to ill health, economic dislocation, and natural disasters. They are often exposed to ill treatment by the institutions of the state and are powerless to influence many decisions that affect their lives.* Paralleling this evolution in perceptions about poverty has been an evolution in understanding the roles of finance in development. Improved access can have a far greater and more comprehensive impact on poor households than previously assumed. *It is now believed that having access to credit has such multiple results as creating a virtuous circle of investment, production, income, consumption, savings, investment consumption smoothing (food security), capacity to bear risk, empowerment, better education, health, and nutrition.*

Poverty Profile in Nigeria

In Nigeria, there are glaring indices that clearly indicate that rural poverty is not only a reality, but quite on the high side. As Wilham (2003) noted, 70 percent of Nigerians live below poverty line and survive on less than universal minimum standard of $1 per day. When the scope is extended to less than $2 a day, 90.8% of the population was categorized as being poor. Tables 1-4 show the poverty situation in Nigeria from the period 1980-2004 as reported by the National Bureau of Statistics. The tables obviously show rural poverty level to be on the increase on the country. Besides, the poverty assessment study commissioned and sponsored by the World Bank in 1999 equally established the fact that poverty is indeed increasing in Nigeria. It puts Nigeria Human Development Index (HDI) at only 0.416. The movement of the Per Capita household Expenditure (PCE) over the period underlined this pattern of poverty. It could be seen from Table 4 that after normalizing for inflation, the figures revealed that PCE for 1996 was not only lower than for other previous years, but also was less than half of 1980 PCE. Tables 1-4 shows the poverty situation in Nigeria

Table 1: Poverty Level in Nigeria 1980-2004

Year	Estimated total population(millions)	Population in poverty (millions)	Poverty level (%)
1980	65	17.7	27.2
1985	75	34.7	46.3
1992	91.5	39.7	42.9
1994	102.3	67.1	65.6
2004	-	-	54.4

Source: National Bureau of Statistics.

Table 2: The Poor and Core Poor in Nigeria

Year	Non-poor (%)	Moderately poor(%)	Core poor (%)
1980	72.8	21.0	6.2
1985	53.7	34.2	12.1
1992	57.2	28.9	13.9
1996/97	34.4	36.3	29.3

Source: National Bureau of Statistics

Table 3: Poverty by Size of Household

Size of household	Poverty head count			
	1980 (%)	1985(%)	1992%	1996(%)
1	0.2	0.7	2.9	13.1
2-4	8.8	19.3	19.5	51.5
5-9	10.0	50.5	45.4	74.8
10-20	51.0	71.3	66.1	88.5
20+	80.9	74.9	93.3	93.6
All Nigeria	27.2	46.3	42.7	65.6

Source: National Bureau of Statistics

Table 4: The per Capita household Expenditure in Nigeria (1980-1999)

Year	PCE (₦)
1980	2,400
1985	1,270
1992	1,780
1996	1,050
1999	1,163

Source: CBN Economic and financial Reviews, Vol. 39 No.4

The estimate for 1999 rose by 10.8% due to improved workers remuneration which enhanced the purchasing power of the citizenry

2.2 MICROFINANCE

Microfinance is the provision of a broad range of financial services to low-income micro-enterprises and households. The range of financial services usually includes savings and loans. However other products might also include insurance, leasing and money transfers (Cornford: 2001). Thus microfinance is clearly different from, and more than micro-credit since the later is essentially about making small loans for micro-enterprises and households. According to Karlan (2006), microfinance by its name clearly is about more than just credit, otherwise we should always call it micro-credit. The peculiar nature and broader view of microfinance is aptly captured by Ehigiamusoe (2005) when he stressed that microfinance refers to "flexible processes and structures by which financial services are delivered to owners of micro enterprises on a sustainable basis".
More narrowly, micro-credit emphasizes the provision of credit services to low-income clients, usually in the form of small loans for micro-enterprises and income-generating activities. Hulme (2000) urges that micro-credit should really be called micro-debt because the term micro-credit is often associated with an inadequate appreciation of the value of saving services to the poor. It is therefore evident that micro-credit is only an integral part of microfinance.

3 A REVIEW OF MICROFINANCE POLICY MEASURES AND INSTITUTIONS IN NIGERIA, AND WHY THEY HAVED NOT FARED SO WELL.

In order to enhance the flow of financial services to the nation's rural areas, successive governments in Nigeria have in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes are:
1. *Rural Banking programme*, which was introduced by the Central Bank of Nigeria (CBN) in 1977 allocated rural branches of banks to be opened by the existing banks. Phases 1 and 2 of the scheme

resulted in the opening of 766 rural branches of banks, some of which were later closed as the sponsoring banks became distressed. Thus, this measure taken in an attempt to increase access to credit by the rural active poor was not as successful as intended.

2. *Sectoral Allocation of Credits, Concessionary Interest Rate, and the Agricultural Credit Guarantee Schemes (ACGS)* in 1977. The financial repression that resulted from the sectoral allocation of credits and concessionary interest rates designed to increase the access to credit by disadvantaged sectors and individuals led to their abolition in 1987 with the banking sector deregulation. The ACGS which was designed to reduce the risk faced by deposit money banks in lending to Agriculture has survived since 1977 but has not ensured the right level of commercial lending to agriculture and the rural sector. Besides, this measure missed its intended target clienteles.

3. Establishment of the Nigerian Agricultural and Cooperative Bank Limited (NACB), in 1973. The bank was established to promote agricultural production and rural development, and to assist in the improvement of the income and quality of life of the rural dwellers through the granting of small and medium term loans at concessionary interest rates. The programme ran aground between 1995-1999 as most of its loans remained unpaid, which warranted its merger with the People's Bank and FEAP in 2000 to form the Nigeria Agricultural, Cooperative and Rural Development Bank (NACRDB).

4. *Introduction of National Directorate of Employment (NDE)*. This agency was established in 1987 to tackle the unemployment problem through a combination of skills acquisition and microcredit extended to the unemployed youths. Inadequate funding is one of the primary reasons for the agency's ineffectiveness.

5. *Establishment of the Nigerian Agricultural Insurance corporation (NAIC)* in 1988. This is a further attempt to lessen the risks of agricultural lending to financial institutions, thereby increasing the flow of financing to the sector. To the extent that there still exists shortage of funding to agriculture, this agency has had limited success.

6. *People's Bank of Nigeria (PBN), and Community Banks* (now Microfinance Banks) were established in 1989 and 1990 respectively. The fact that PBN was merged with other agencies to form a new one in 2000 is a pointer to its inability to fulfill the purpose of its establishment. Community Banks on the other hand were hijacked by the people that mattered in Nigeria who converted such banks into their own personal enterprises.

7. *Family Economic Advancement Programme (FEAP)* was initiated in 1995. This was another microcredit programme channeled through the banks to qualifying projects and entrepreneurs. After an initial set of disbursements, the scheme was discontinued and some of the loans are still outstanding.

8. *The Nigerian Bank for Commerce and Industry (NBCI)* was established in 1973.

9. In year 2000, NACB and PBN and FEAP were merged to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) as earlier mentioned. The programme too is yet to justify its existence.

10. National Poverty Eradication Programme (NAPEP) was launched in 2003. This is like the successor agency/programme to NDE, as it involves skills acquisition and microcredit. This programme has not fared so well in achieving the purpose for its establishment which warranted the

call by the Senate on February 17, 2009 for a probe into its activities since inception, considering the fact that poverty has blossomed in the country despite of the huge sum of money committed into the programme.

11. Small and Medium Enterprises Equity Investment Scheme (SMEEIs) was initiated in 2001. The initial arrangement required banks to set aside 10% of their profit before tax for equity investments in Small and Medium-scale Enterprises (SMEs). The banks, it has been noted, has accumulated substantial resources here but disbursement is still problematic.

Microfinance Services, particularly, those sponsored by government, have adopted the traditional supply-led subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement, the gains in terms of eradication of abject poverty in Nigeria is yet to be seen. In general, these programmes could be said to be largely ineffective as poverty has blossomed even the more. One major reason for their failure was that the campaigns were largely carried out within the media and little efforts were targeted on those who were meant to benefit from them. Furthermore, most of the programmes created rooms for political patronage in contracts and image making. Some too were poorly funded and sabotaged by pervasive level of high level official corruption.

4 Micro-financing Challenges in Nigeria:

Many authors have articulated a number of challenges micro-financing faces in Nigeria as:

(i) *Rates Of Interest Charged By MFIs*

Anyanwu (2004), and Muhammed and Hasan (2008) opined that high interest rates is one of the major obstacles or challenges facing micro financing activities in Nigeria. They stated that at the time the conventional banks were changing between 19.5% and 21.6%, the microfinance outfits charged between 32-48%, while money lenders at informal sector charged interest rates of 100% or more. This development leaves the microfinance clients in a vicious cycle of poverty.

(ii) *Outreaching the Poor:*

In the study conducted by Osuala (2008) to determine the impact of microfinance on poverty alleviation, it was observed that although microfinance made positive impact on the Nigeria economy during the period studied, the impact was however not statistically significant at 5% levels because of the declining spread in outreach of the MFIs. And according to Central Bank of Nigeria's 2004 report, over 65% (approximately 80 millions) of Nigeria's active population are yet not served in terms of credit, savings and other financial services. It further estimated the yet un-reached potential clients of microfinance in Nigeria to be about 40 million. (CBN: 2004). It is therefore clear that despite the plethora of poverty alleviation programmes, many of Nigeria's active poor, especially those at the base of the economic pyramid, are yet to feel the impact. The question that arises at this point is, how can the poorest of the poor in Nigeria be reached to affect there economic fortune? What model can be adopted to make the micro-financing services available, affordable and acceptable?

5 RURAL POVERTY ALLEVIATION IN NIGERIA USING THE COCA-COLA AND HAIER MODEL

The Coca-cola and Haier model is based on the development of an approach that delivers the 4As – availability, affordability, acceptability and awareness.

In the mid 1990s Haier Group, China's leading home appliance manufacturers discovered that poorer customers in rural areas believed that the purchase of a washing machine used for washing clothes only was somewhat frivolous. Indeed, many rural customers used their washing machines not to launder clothes, but also to do other tasks such as cleaning vegetables. Some companies might have told customers to stop such practice and voided warranties for clogged drainpipes, but instead Haier product mangers asked the company's engineers to modify existing products by installing wider pipes that would not clog with vegetable peels. The company then affixed instructions on the modified washers, with easy to understand directions on how to clean potatoes and other vegetables using the machine. This innovation increased the acceptability of washing machines especially among the low-income customers and helped Haier to win market leadership in China's rural provinces. This made Haier the first mainland Chinese company to be featured in a Harvard Business School case study.

Coca-cola, on its part, found that there is a need to offer products and services that are adapted to the unique needs of both its customers and distributors. Thus, it went ahead to develop products that customers could buy and consume at their convenience such as canned drinks and other forms of containers. Besides, because of lack of electricity and refrigerators in many of its markets in the developing world, it provides simple ice boxes to help distributors keep products cool. The Coca-cola and Haier model is therefore all about making micro-finance serves available, acceptable and affordable after due creation of awareness, to the rural poor.

Some of the major barriers for the rural poor to the use of the services of the formal microfinance institutions include:

(a) The high cost of those services (or unaffordability)

(b) The unacceptability of the services, especially where and when they appear exotic and too synthetic or "white washed" to suit their convenience and taste.

(c) Lack of awareness of the existence and/or the services and benefits of the MFIs.

(d) Unavailability or inaccessibility of the services of the MFIs.

We shall now discuss in details how each of the A in the 4As Coca-cola and Haier model can impact on microfinance to alleviate rural poverty in Nigeria.

Availability:

Availability refers to the extent to which the rural poor are able to readily access and use the services of the microfinance institutions. There are clear indices pointing to the extent to which the MFI services are available to the rural poor. One major indicator is the nearness of the services to the people. In a survey conducted in Isiala-Ngwa North LGA Abia State – a very large local government in terms of size and land mass, by Osuala (2008), it was discovered that there was only one community bank that served the entire LGA which could not recapitalize to convert to a microfinance bank at the wake of the transformation, thus leaving the entire local government without any formal banking institution. Out of about 100 rural entrepreneurs interviewed, only few used bank services which they had to travel several kilometres to access in Osisioma LGA. The others made use of Rotating Savings and Credit Associations (ROSCAS) and were indeed quite happy and comfortable with them. This development could of course be one of the reasons why Karnani (2007) said "Despite the hoopla over microfinance, it does not cure poverty". It is equally true that in Nigeria, most of the MFIs serve other purposes other than outreaching and assisting the poor households and micro enterprises. Like Akindutire (2008) questioned, 'what would a microfinance bank be doing at Adeola Odeku or Ikoyi in Lagos? Why are they not at Okokomaiko, mile 2, or all other places where you can find an akara, plantain, and recharge card seller? And should we not agree with Karnani (2008) that microfinance has missed its mark in Nigeria? If not, why should many of them be in a state capitals competing for corporate accounts with conventional banks? The people at the base of the economic pyramid (BOP) need them, but they are far without their reach. And with the recapitalization requirement for the community banks to transform to MFIs, they are further drawn farther away from the rural poor as those that could not transform had to 'transit to the great beyond'. It is evident that the micro-financing model that will work in

Nigeria and bring about robust economic growth is only that which is available to the rural poor; that which they can access with ease.

Acceptability: A second issue in the 4As model is acceptability. This refers to the extent to which the rural poor and others in the value chain are willing to receive or distribute a service or 'product'. Among the rural poor, there is often a need to offer products and services that are adapted to the unique needs of the people. For instance, the rural poor may not have the money, but they do know the worth of their time; they may not have formal education but they would readily resist any programme that would make their lack of education an issue of contempt. Micro-financing system, in its present form is rather too costly for the rural active poor both in terms of the time requirement for the services and the effective cost of the fund. According to Aderibigbe (2001) the problem with most of the government's micro-credit schemes is that they were in many instances incompatible with existing traditional savings and loans schemes operated by the local communities, and worst still, they are highly politicized. The primary reason behind the success of Coca-cola and Haier companies in the rural areas especially among the rural poor is that they were careful to package their products in such a way that they were readily acceptable to the people both in terms of cost and accessibility. Therefore, the micro-financing scheme that will work among the Nigerian poor is a home grown user-friendly scheme founded upon existing traditional savings and loans schemes. I strongly believe that they are mainly the informal Self Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAS) types. Although Iganiga (2007) have argued that these types of informal financial institutions generally have limited outreach due primarily to paucity of loanable funds, I believe that this is where the government can come in. This, they can do, by financially empowering these institutions in their natural form by establishing a scheme from which they can borrow without the usually bottle-necks and government red tapeism. This definitely will positively impact on households and micro enterprises in the rural areas.

Affordability: The next hurdle to overcome in serving the rural poor is to ensure that products or services on offer are affordable. Although we have partly discussed this issue of affordability as we discussed the second of the 4As – acceptability, it needs to be stressed at this point that most of the government poverty alleviation schemes recorded low successes primarily because they were not affordable for reasons of corruption in the high places. For instances, for a poor rural entrepreneur to benefit from most of these programmes, they would need to bribe their way through. And this they cannot do most of the time because of their low income base. Thus, these programmes may exist in principle but are practically useless to those that need them. These "kick backs and kick front" make the effective cost of such services too high relative to the SHGs and ROSCAS. Affordability may also be looked at from the angle of the time it takes to access the services of the MFIs. Where the time required is too long, the poor may not be able to afford such because they attach so much value to their time. They prefer the "cash and carry" system of the money-lenders, although their rates are rather high.

Awareness:
This is the crux of the matter. For there is no how these rural poor can benefit from most of the microfinance programmes except they are well informed of their existence. That is why I emphasize the adoption of a home-grown user-friendly traditional savings and loans schemes. These schemes are as old as the villages where these rural poor are found, and are as popular as the four market days – Eke, Orie, Afor and Nkwo that they are used to.
Microfinance schemes or programmes founded upon these Coca-cola and Haier 4As can never fail. This is what the Nigerian poor needs and not the white elephant projects. It was this same thinking that made the mega billionaire and founder of Microsoft incorporated, Mr Bill Gates, to make a

donation of $12.5 million on 17 February 2009 to the Global system of mobile communications Association (GSMA) to enable its members develop services that will allow persons who have no or limited access to banks to have financial services through their handsets.

6 CONCLUSION

That poverty exists in Nigeria is not an exaggeration. Its dimensions are rather alarming considering some major indices such as Human Development Index (HDI), Private Consumption Expenditure (PCE), and Poverty Incidence (PI). And realising the fact that robust economic growth cannot be achieved without putting in place well focused programme to reduce poverty through empowering the people by increasing their access to factors of production, especially credit, the successive government of our country have at various times initiated and implemented various poverty alleviation programmes.

However, and regrettably too, from analysis, it could be observed that most institutions and programmes put in place for the purposes of rural poverty alleviation (through microfinancing) by government, individuals and groups have at best recorded limited success in securing wide access to sustainable micro-financial services for growth and poverty reduction.

The study emphasized the adoption of the Coca-cola and Haier 4As model built upon existing traditional savings and loans scheme as a way out of the quagmire.

Such existing traditional savings and loans schemes as SHGs and ROSCAS have been in existence with the rural poor for quite a long time. Thus, the awareness which the 4As model emphasizes is guaranteed. It is also acceptable to the people since it was formed by them to meet their unique needs. It is not only available to them being domiciled with them, but the operational cost, and time cost are quite affordable. All that needs to be done to give it a new impetus is to have it properly funded by the government through a rural based disbursement and monitoring body.

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