CSCanada
Canadian Social Science
Vol. 10, No. 2, 2014, pp. 98-107
DOI:10.3968/4260

ISSN 1712-8056[Print]
ISSN 1923-6697[Online]
www.cscanada.net
www.cscanada.org

Islamic Development Bank's Microfinance Support Programme and the Growth of Small Scale Enterprises in Nigeria

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Received 3 November 2013; accepted 16 January 2014
Pulished online 15 April 2014

Abstract

It is obvious that poverty is endemic in Nigeria. One of the reasons contributing to this uncomplimentary situation is lack of employment for the majority of Nigerians. Several attempts aimed at creating employment have been embarked upon at governmental and non-governmental levels, with little effect. On the other side, the Islamic Development Bank (IDB), to which Nigeria is a key member, has been actively involved in the support of Small Scale Enterprises in some member countries through skilfully carved sustainable non-interest-based microfinance programme. Most studies on microfinance in Nigeria have not paid attention to the application of the IDB's Microfinance Support Programme to Nigeria. Hence, this paper fills the gap through examining some of the past and present attempts of the government at providing microcredit and microfinance to Nigerians. It also considers the operational strategy utilised by the IDB at bringing sustainable microfinance scheme to the doorsteps of the poor in member countries. Consequently, it advocates this laudable microfinance scheme for Nigeria, arguing that if this is done, mass employment accompanied by best practices capable of reducing poverty would be injected into Nigeria.

Key words: Nigeria; Islamic Development Bank; Microfinance Support Programme; Non-interest

Mubarak Ademola Noibi (2014). Islamic Development Bank's Microfinance Support Programme and the Growth of Small Scale Enterprises in Nigeria. *Canadian Social Science, 10*(2), 98-107. Available from: http://www.cscanada.net/index.php/css/article/view/4260
DOI: http://dx.doi.org/10.3968/4260

INTRODUCTION

Nigeria, one of the Least Developed Countries (LDCs), is confronted with cyclical unemployment in which the number of the unemployed far outweighs the vacancies available. Although unemployment could engender a number of social and psychological challenges, it is obviously most felt in the area of paucity of funds, which is a feature of poverty. The International Monetary Fund (IMF) in its 2007 report, claimed that, although the Nigerian government targeted the provision of seven million (7,000,000) jobs, this was not met. Further, the period between 2005 and 2006 witnessed the growth of employment rate at an average of 3.4% as against 3.2% in 2003. In addition, 2006 witnessed the reduction of unemployment rate to 10% from 17% in 2004 with youths within the age range of 15-30 mostly affected (IMF, 2007).

In 2004, the Federal Ministry of Labour and Productivity declared that graduate unemployment was 25%, while youth unemployment stood at 60%. This development has led to youth restiveness and various crimes (FMLP, 2004), some of which are quite sophisticated, displaying high level of education and exposure of their perpetrators. Since there is a confluence of unemployment and poverty, it is normal that the rate of poverty will be high in Nigeria.

Nigeria is in support of the Copenhagen Declaration which decided to end global poverty "through decisive national actions and International Cooperation (Salih, 1999)" and the Millennium Declaration which dwells much on the eradication of poverty and injustice in the world (CDD, 2008). Microcredit and microfinance are some of the mechanisms expected to assist in meeting these declarations. This is expected to jump-start the informal sector which accounted for 90% of low wage employment and underemployment in 2004, just as it contributed 70% of non-oil exports in Nigeria (Adebowale, 2011).

Whereas microcredit and microfinance had reached six hundred thousand (600,000) clients in 2001, by 2003, forty million (40,000,000) potential clients were excluded from this outreach. Bamisile (2006) claims that, by 2006, eighty million (80,000,000) people, representing 65% of the active population of Nigeria, were excluded from accessing credit facilities. In view of that, it is taken that this sector, with great potential, has been greatly under-utilised, as it could create employment, boost the economy and alleviate poverty in Nigeria, just as was done by the Asian Tigers, if properly funded and managed.

In 2005, the average-banking density in Nigeria was one (1) financial institution to thirty-two thousand seven hundred (32,700) people. A worse scenario was found in the sub-urban areas, where the banking density was one (1) bank to fifty-seven thousand (57,000) individuals. This means that only 2% of this poverty-prone population have access to financial services where they may access loans to establish income-generating ventures (CBN, 2005). The outreach of microcredit and microfinance in Nigeria is very low. This implies that the un-served populace is quite large. In 2008, Enhancing Financial Innovation and Access (EFInA) revealed that 79% of the total population was unbanked. This includes 86% of the sub-urban dwellers. In 2010, EFInA also revealed that about 39.2 million or 46.3% of the adult population of Nigeria were excluded from financial services. It also noted that, of the 53.7% that had access to financial services, only 17.4% patronised the formal sector, while 36.3% patronised the informal sector. The banking density of Nigeria falls below that of Kenya (32.7%), South Africa (26%) and Botswana (33%) (CBN, 2011).

Governments at all levels and private organisations have, on several occasions, put in place measures and programmes to establish and adequately sustain Small and Medium Enterprises (SMEs) thereby alleviating poverty. However, despite all these initiatives in Nigeria, poverty has worsened in number and intensity. In fact, observers have noted that Nigeria is not totally on course towards meeting MDGs in the most critical areas, which include eradication of extreme poverty and hunger (CDD, 2008). The purpose of this paper is to present the opportunities open to the Nigerian microfinance sector through collaboration with the IDB with a view to engendering long-term sustainable interest-free microfinance delivery which would contribute to the development of the small and very small enterprises. This is expected to increase employment opportunities and reduce poverty tremendously in the country.

This paper is divided into eight parts. The introduction gives a general description of the deplorable state of SME financing in Nigeria. The next section sheds light on the meaning of microcredit and microfinance and gives a concise description of their general operational strategies. This is followed by detailed expatiation on past and present governmental microcredit and microfinance programmes in Nigeria. What follows is discussion on the IDB's microfinance support programme and case studies on it in Africa. Nigeria, an active player in the IDB, is then viewed as a prospective beneficiary of the microfinance support programme. The paper then concludes with the recommendation that Nigeria partner with the IDB for its microfinance support programme in order to develop her small scale industries.

1. MICROCREDIT AND MICROFINANCE IN NIGERIA

Microcredit is the provision of financial services, including credit, to the poor to enhance income or procure a necessary bundle of goods and services. Microfinance entails Self Help Groups (SHGs) which comprise few homogeneous individuals who engage in thrifts which are, in turn, lent to members for consumption enhancement and boosting of productive activities. With the passage of time, each of these SHGs gets affiliated to a microfinance institution for non-material collateral credit facilities which are jointly guaranteed by all the personalities in a group. These loans are, however, in small amounts with no bureaucratic bottlenecks attached to them.

According to Vatta and Singh (2001), the provision of micro-loans to the poor helps them to improve their income levels. In addition, microfinance provides credit-plus services, such as family planning and personal hygiene, to clients as part of best practices. Microfinance is often viewed as a crucial initiative for the development of semi-micro and micro aspects of the global economy. The Central Bank of Nigeria (CBN) views microfinance a means of not only achieving the Millennium Development Goals (MDGs) but also the National Economic Empowerment and Development Strategy (NEEDS) just as it could create the much needed jobs and alleviate poverty (Lemo, 2007).

There are three kinds of microfinance operators in Nigeria. These are the informal, semi-formal and formal sectors. The informal sector includes African Rotational Savings and Credit Associations (AROSCA) wherein members take their turns in accessing contributions made by them over a specific period within a specific group until the circle ends, money lenders, daily contributions and kith and kin borrowings. The semi-formal sector consists of Non-Governmental Organisations (NGOs), credit unions, savings and credit cooperative associations and multipurpose societies. The formal sector comprises commercial banks, microfinance banks, development banks and government's policy initiatives on the provision of microfinance services.

The semi-formal sector, through some NGOs, has benefitted from the micro-start programme of the United Nations Development Programme (UNDP) (Marx, 2004). Savings and cooperative investment associations have also benefitted from the magnanimity of the government. These gestures are usually accessed through Development Finance Institutions (DFIs), Better Life Programme, the Peoples' Bank and other similar programmes of the government. These programmes, which adopted the traditional supply-led approach in granting start-up and development capital to entrepreneurs was, in 2010, discovered to have covered only 17.4% of productive adults in the country. The CBN has noted that these programmes suffer from paucity of lendable funds arising from their inability to attract commercial capital and non-establishment of microfinance development fund (CBN, 2011).

Governments at all levels in Nigeria have since the 1960s realised the need to stem the tide of poverty despite the fact that it was not as widespread and entrenched in the country as it is now. They, therefore, established programmes to reduce this endemic phenomenon. Some of these programmes have been scraped while new ones have been established. In line with that, these programmes have been grouped into two parts, namely the past and the present. These are discussed below.

2. PAST MICROCREDIT AND MICROFINANCE PROGRAMMES

2.1 Industrial Development Centres

Industrial Development Centres (IDCs) were established to provide extension services to small entrepreneurs in various areas with the aim of not only empowering them, but also enhancing their productive capabilities. These centres assisted small entrepreneurs to overcome non-availability of essential social wages, such as electricity and water, which are necessary for production to take place. Industrial estates and layouts were concentrated in various locations where these social amenities were made available. Spaces within these industrial estates were then rented out to entrepreneurs by the government (Olaniyan et al., 2001). The first of these was established by the former Eastern Nigerian Government in 1962 before its eventual take-over by the Federal Government in 1970 (Sanusi, 2003).

Consequently, five (5) major sub-sectors were highlighted for concentration. These sub-sectors were woodwork, automobile repairs, textiles, metal and leather works. There were four (4) major industrial estates in Nigeria, with satellite branches in each state of the federation. These four (4) major branches were located at Oshogbo, Bauchi, Zaria and Owweri. This project, which suffered setback as a result of inadequate staffing, poor staff welfare and uncooperative attitude of some state governors, had, by 1995, produced eight hundred (800) strong firms and another five thousand (5,000) weak ones (Olaniyan et al., 2001).

2.2 The Nigerian Industrial Development Bank

The Nigerian Industrial Development Bank (NIDB) was established in 1964 as an offshoot of the re-organisation of the Investment Corporation of Nigeria which was incorporated in 1959. With the initial capital of four million five hundred thousand naira (₦4,500,000), the Federal Government advanced a non-interest-bearing loan of four million naira (₦4,000,000) to it, thereby making a total capital of eight million five hundred thousand naira (₦8,500,000) (Adekanye, 1986). This points to the early realisation of the evils of interest-bearing loans by the Nigerian government and, by extension, the masses, especially the conscientious Muslims.

Although the development financial institution was initially programmed to finance large-scale industries, it established special units to focus on small-scale industries and, by extension, micro-enterprises. Between 1980 and 1988, it had disbursed one hundred and seventy-four million six hundred thousand naira (₦174,600,000) to small and micro-enterprises. In addition, it is responsible for the major disbursements of the World Bank's SME phase II loan scheme. It also had the policy of equity participation in some of the projects it financed. This is in line with a part of the Islamic financing technique in which projects are carried out as joint ventures and without interest on loans. This bank has now been merged with similar organisations to form Bank of Industry.

2.3 Micro-Credit Delivery by Commercial and Merchant Banks

The CBN, in 1971, started a scheme to assist in the development of SMEs, which included the micro-enterprises. In implementing it, the CBN's credit guidelines required commercial and merchant banks to dedicate a particular minimum portion of credit allocation to important sectors of the economy, which included the small, medium and micro enterprises. In 1979, this credit allocation was 10%; in 1980, it was 16%; and by 1990, it was raised to 20%. Failure to comply with the CBN's directives attracted its sanctions. Such sanction included the forfeiture of the shortfall on loans to such firms. The programme, which was not initially successful, later started gaining success, in the sense that banks that formerly failed to comply adequately started responding. The compliance rate which stood at 1.8% in 1980 increased to 8.6% in 1990. Furthermore, many banks preferred to pay the stipulated penalty rather than taking the enormous risk which it was not programmed to confront. After a long period of inefficiency and non-compliance, the programme was scraped in 1996 (Olaniyan et al., 2001).

2.4 The Nigerian Bank for Commerce and Industry

The Nigerian Bank for Commerce and Industry (NBCI) was established in 1973 with the sole aim of advancing medium and long-term loans to Nigerian enterprises and firms for acquisition of inputs, expansion of old businesses and the establishment of viable ventures (CBN, 1999). It was also to provide institutional financing to small borrowers, such as SMEs and micro enterprises, in the area of commerce and industrial production. Large-scale entrepreneurs and businesses were not eligible to access loans from this institution (Aderibigbe, 2001). The bank financed one hundred and twenty-six (126) projects, although some were later cancelled owing to funding challenges from counterpart sponsors. In 1984, CBN and the Federal Ministry of Finance undertook an agreement with the World Bank to fund phase 1 of the SME loan scheme under the administration of NCBI (Olaniyan et al., 2001).

Further, SME Phase II Loan Scheme started its operation in 1990 using selected commercial banks. This scheme, as at June 1996, had financed one hundred and eighty-seven (187) projects. This SME II Loan Project was eventually suspended in 1997 because of the financial distress which affected twenty-seven (27) of the participating banks (Olaniyan et al., 2001). The bank ran into financial crisis in 1989 and was absorbed into the newly established Bank of Industry in 2002 (Sanusi, 2003).

2.5 The Nigerian Agricultural and Cooperative Bank

In 1973, the Federal Government of Nigeria established the Nigerian Agricultural and Cooperative Bank (NACB) with the sole objective of improving the output in agricultural production (Adekanye, 1986). It assisted small scale farmers through the utilisation of cooperative societies as channels for loan disbursement and repayment. In addition, the Agricultural Credit Guarantee Fund (ACGF), which is another micro-credit scheme from the CBN, was, in some proportion, channelled through this bank (Sanusi, 2003). The Nigerian Agricultural and Cooperative Bank have been merged with the Nigerian Agricultural, Cooperative and Rural Development Bank.

2.6 Working for Yourself Programme

The Nigerian Federal Ministry of Industry, in collaboration with the International Labour Organisation (ILO) and the British Council, in 1987, mounted a programme known as Working for Yourself Programme (WFYP). This programme was aimed at reducing high mortality rate of SMEs, minimising loan default due to lack of managerial skills and inculcating the tradition of self-employment into educated Nigerian youths. This programme entailed six (6) weeks of training to assist individuals in identifying their talents. Ideas developed by participants were carefully scrutinised by the trainers. If the ideas presented by trainees were found worthy, they were recommended for loan from selected participating banks. This programme was, in 1986, merged with a similar one organised by the NBCI. In 1992, the programme was able to produce six hundred and thirteen (613) trainees with the establishment of only ninety-nine (99) projects, as funds were not available to lend to the remaining five hundred and fourteen (514) trained individuals. A major constraint of this programme was that banks were weary of providing funds to participants as they were considered as high risk (Olaniyan et al., 2001).

This is a distinguishing point between conventional banks that were only ready to advance loans and wait for the return of principal and interest accruable and Islamic interest-free banks that would assist in the successful implementation of identified projects through joint participation. There is, therefore, no need of considering already trained partners as high risk. Lack of this God-given initiative will only increase the army of potentially economically active but unemployed adults in Nigeria.

2.7 The People's Bank of Nigeria

In 1986, after the introduction of the Structural Adjustment Programme (SAP), which engendered some economic challenges to Nigerians, some commercial banks became distressed, while the few sound ones withdrew their services from the sub-urban areas. This development made the Federal Government to establish the Peoples' Bank of Nigeria (PBN) (Ayadi et al., 2008). This bank was to complement government's effort at upgrading the productive capacity of the economy and providing productive capital to the poor who were excluded from the conventional banking system with emphasis on micro and small-scale firms. Loans were advanced to recognised craft unions with at least fifteen (15) members at zero rate of interest but with 5% service charge. The redemption of loans by clients had a gestation period of one calendar year with two (2) weeks' moratorium. The pattern of its loan portfolio followed the typical microfinance model which utilises the SHGs (Olaniyan et al., 2001). This bank failed to recover most of its loans, which consequently led to its decapitalisation. It has since been merged with similar institutions to form the Nigerian Agricultural and Rural Development Bank.

2.8 Community Banks

A Community Bank (CB) is a financial institution that is not only self-sustaining, but also owned by one or more communities with the objective of providing credit, banking and other financial services to its members putting into consideration self-recognition and credit trustworthiness (Olaniyan et al., 2001). In view of the operational strategies involved in conventional banking, such as collateral security and lack of banking in sub-urban areas in Nigeria, the Federal Government deviated from the normal supply–led credit approach to banking by passing decree forty-six (46) of 1992, which allows for the establishment of CBs in both urban and sub-urban areas. In 2003, only seven hundred and seventy-four (774) of one thousand three hundred and fifty-five (1,355) CBs that were licensed in 1995 by the National Board for Community Banks (NBCB) were functional (Marx et al., 2004).

Studies have shown that the Northern part of Nigeria had a comparatively low number of CBs when compared to other areas of the country. One of the reasons advanced for this development, according to analysts, is the abhorrence of the notion of charging of interest on transactions owing to Islamic teachings (Q3:130) (Marx et al., 2004). To redress the problem of interest, a number of these banks set up Islamic windows which not only accept deposits, but also grant loans without interest and following the principles of the *Sharī'ah* (Islamic law). Most CBs are now converted into Microfinance Banks (MFBs).

3. PRESENT MICROCREDIT AND MICROFINANCE INITIATIVES

3.1 National Directorate of Employment

The National Directorate of Employment (NDE) is a government department established in 1986 with the aim of moving Nigeria to development given its capitalist inclination and the need to introduce graduates of tertiary institutions to techniques that would make them dynamic and develop their spirit of entrepreneurship. The strategies utilised by the NDE in providing employment include skill acquisition and provision of credit facilities. There are two dimensions to the NDE's skill acquisition programme. They are vocational and entrepreneurial strategies. Either of these two techniques is imparted into students, depending on the peculiarity of their socio-economic groups. The NDE's Vocational Skills Development (VSD) Programme has four different schemes. They are the National Open Apprenticeship Scheme (NOAS), School-On-Wheels (SOW) Scheme, Waste to Wealth (WOW) Scheme, and Resettlement Scheme (RS) (Adelodun, 2000).

The NDE has also put in place two (2) -Credit Guarantee Schemes (CGS). These are Graduate Job Creation Scheme (GJCS) and Mature Peoples' Scheme (MPS) (Sanusi, 2003). Credit Guarantee Schemes started with twenty (20) participating banks and fifty-five million naira (₦55,000,000) deposited in their accounts by the NDE as collateral for its trained beneficiaries. Under the GJCS, a maximum of seventy-five thousand naira (₦75,000) loan is granted to beneficiaries with 9% annual rate of interest after drawing up a feasibility study. A moratorium of one (1) year and payment period of five (5) years is also given. The MPS, on its part, serves the retired workers. Beneficiaries receive a maximum of two hundred and fifty thousand naira (₦250,000) loan with 13% annual rate of interest. Like the young graduates, they enjoy one (1) year moratorium and five (5) years of repayment period (Olaniyan et al., 2001).

3.2 The Nigerian Agricultural, Cooperative and Rural Development Bank

The Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) came into existence in May 2001 owing to the merger of NACB, PBN and the risk assets of the Family Economic Advancement Programme (FEAP). The Federal Government mandated that 70% of its loan portfolio should be channelled to micro-firms or entrepreneurs. In addition, the interest rate to be charged should be a single digit one (Marx et al., 2004). This gives an idea that the unpalatable effects of interest-bearing loans were recognised by the Federal Government of Nigeria but there seemed to be no bold way of declaring interest on commercial transactions as unlawful. Therefore, the only thing the government could do was to mitigate its effects by reducing its rate to a digit, as experienced by the NACRDB.

The NACRDB, in its *modus operandi*, requests 30% worth of collateral security on micro and production loans that does not exceed one hundred thousand naira (₦100,000) and 20% of security for other loans. In addition, it charges 1.5% of principal amount as service charge which includes its administrative, processing and legal fees (Marx et al, 2004). The demand for collateral from the poor does not help them because if that had been available it could have been turned into a viable means of income to alleviate their poverty. This is one of the disadvantages in government's micro-credit programmes.

3.3 National Poverty Eradication Programme

The National Poverty Eradication Programme (NAPEP) was inaugurated in 2001 with the sole aim of eradicating absolute poverty in Nigeria by 2010. Part of its objectives is providing for Nigerians among other things: Stable source of income, enhanced purchasing power, food security, environment conducive to production and trade, cheap and affordable consumer goods and social wages (Oluwo, 2005). The poverty eradication strategy of this programme is designed to be implemented in three stages. The first entails the restoration of hope to the poor through the lowering of the poverty line on them, therefore, making them live above absolute poverty. The second stage is concerned with the restoration of economic independence and confidence in them by facilitating self-employment programmes, especially in the sub-urban areas where there is little presence of the government, leading to increased incidence of poverty. Thirdly, the programme is to create wealth through empowerment of the poor, thereby making them afford the necessities of life (Oluwo, 2005). These are in line with the Islamic spirit of poverty alleviation.

At the wake of 2005, at least one hundred and twenty-six thousand, one hundred and twenty-eight (126,128) youths have been trained under its Capacity Acquisition Programme (CAP) and seventy-six thousand, three hundred and thirty-two (76,332) graduates under their Mandatory Acquisition Programme (MAP) both of which are under NDE's Youth Empowerment Scheme (YES). Four (4) youth centres were built in each state of the federation, while two (2) were in the Federal Capital Territory, Abuja (Oluwo, 2005).

3.4 Small and Medium Enterprise Equity Investment Scheme

The Small and Medium Enterprise Equity Investment Scheme (SMEEIS) was launched in August 2001 by the Nigerian government as an initiative of the Bankers Committee that suggested the setting aside of 10% of banks' profit before tax for investment in the Small and Medium Scale Industries (Anyanwu, 2007). This equity investment that could be in form of conversion of a loan portfolio of the investment of fresh capital has been revised to 5% after five (5) years of a bank's participation (Ayadi et al., 2008).

This initiative has the objectives of facilitating the funding of the establishment, mobilisation, reactivation and reconstruction of ongoing projects, stimulating economic growth, developing indigenous technologies and facilitating employment. This scheme, through equity-based investments, is intended to eliminate the various challenges associated with interest and other bank charges. Services provided by the bank are not limited to finance; they include advice and managerial support (Sanusi, 2003). This is again a realisation of the evils inherent in interest on financial transactions. As at 31 May, 2005, of the total amount of thirty billion, nine hundred and ninety-seven million naira (₦30,997,000,000) set aside for the SMEEIS, nine billion, three hundred and seventy-nine million naira (₦9,379,000,000) was invested in one hundred and eighty-seven (187) projects. However, it has been noted that SMEs face the challenge of easily accessing fund set aside for them under this scheme (Ayadi et al., 2008).

3.5 Bank of Industry

Bank of Industry (BOI) is a merger of NBCI, NIDB, and the Nigerian Economic Reconstruction Fund (NAREFUND), an outreach established in 1989 to advance loans to SMEs through participating commercial banks. This merger engendered a reconstruction which led to the establishment of another bank under the name Bank of Industry. The bank is considered as the most successful development financial institution in Nigeria. Although it principally finances large-scale industries, it commands special units focusing on SMEs. It also finances some projects through equity participation. In the same vein, financing through equity participation is the pillar of Islamic financial system which effectively serves as a formidable and pragmatic replacement for the charging of interest on financial services.

3.6 Microfinance Banks

Following the launch of microfinance policy framework for Nigeria in 2007, several MFBs were established and many interested CBs converted to MFBs after fulfilling the CBN guidelines. These included the increase of the minimum share capital of each CB from five million naira (₦5,000,000) to twenty million naira (₦20,000,000). According to the CBN, there are three (3) categories of MFBs. These are the Unit, State and National MFBs. The Unit MFB is to, with a minimum capital of twenty million naira (₦20,000,000), operate in a single location. The State MFB is to operate in any local government within a state or the Federal Capital Territory (FCT) with a minimum capital of one hundred million naira (₦100,000,000). The National MFB could, with a capital of two billion naira (₦2,000,000,000), operate in any state of Nigeria after obtaining due permission from the CBN. By March, 2013, a total of eight hundred and seventy (870) MFBs had been registered with the CBN (Noibi, 2011).

However, these MFBs are not evenly distributed in the country, as they are found more in areas of high business volume and profits. These banks faced a number of challenges ranging from dearth of lines of finance to lack of adequate knowledge of microfinance techniques by operators (CBN, 2011). Nevertheless, the CBN has been trying to find solutions to some of these challenges. It is worthy of note that, as a result of increasing demand for an interest-free financial system in Nigeria coupled with favourable government policy, 2009 witnessed the licensing of the first Islamic interest-free MFB in Nigeria. This MFB, set up by an Islamic group called The Muslim Congress (TMC), is located at Shomolu, Lagos State, Nigeria.

4. AN OVERVIEW OF ISLAMIC DEVELOPMENT BANK

The Islamic Development Bank (IDB) came into existence in pursuance of the Declaration of Intent (DI) which was initially issued by the Finance Ministers of some Muslim countries at a conference held in Jeddah in December 18, 1973. This was followed by a second conference of Finance Ministers held in Jeddah in August 1974, where they approved the Articles of Agreement establishing the bank. The bank has a Board of Governors, which is its highest ruling body. This board comprises countries' representatives who are usually Finance Ministers or their representatives in each member state. The Board of Governors held its inaugural meeting in July 1975, after which financial operations commenced in October 1976. To qualify as a member, a country must first be a member of the Organisation of the Islamic Conference (OIC) (Khan, 1985).

Apart from joining the OIC, a prospective member country would need to pay her dues to the IDB as part of the bank's authorised capital. The country would also have to accept the terms and conditions set by IDB's Board of Governors. The objectives of the IDB include fostering economic growth and social development of member countries and various Muslim communities in non-member countries, whether individually or collectively, in line with the dictates of Allah as contained under the *Sharī'ah* (IDB, 2006).

The IDB provides various forms of development assistance such, as trade financing, poverty alleviation through human development and enhancement of the role of Islamic finance in the social and economic development. It also operates special funds for specific purposes, including those meant for Muslim communities within non-Muslim territories. In addition to these is the mobilisation of financial resources through Islamic financial techniques, promotion of foreign trade, technical assistance and training facilities to personnel engaged in developmental activities which conform with the *Sharī'ah* (IDB, 2006). Currently, the IDB has fifty-six (56) member countries, twenty-seven (27) of which are countries in Sub-Saharan Africa (SSA).

On the scope the IDB's intervention through the instrumentality of microfinance is its involvement in the setting up of micro-enterprises. This entails its advancement of non-interest-bearing revolving loan, establishment of project implementation unit and management information system in interested member countries. It also launches micro-enterprise development programmes within the milieu of social fund for financing. This intervention includes setting up micro-financing repayment recovery mechanism to promote project sustainability. It is also to put impetus into project implementation agencies' capacity to utilise Islamic financial techniques and training their staff in this respect. Finally, it is to fortify the administration and monitoring mechanisms for target microfinance intermediaries and coordinating institutions (IDB, 2006). Several countries have benefited from IDB's Microfinance Support Programme's (MSP's) loans to developing countries. Sudan and Benin Republic are two (2) of such countries.

5. CASE STUDIES OF IDB'S MICROFINANCE SUPPORT PROGRAMME

5.1 Sudan

Sequel to receipt of her Letter of Intent (LOI), IDB's Microfinance Support Programme (MFSDP/SU) planned to start in Sudan in 2009. Islamic Development Bank's Microfinance support to Sudan entails a revolving loan of twelve million US dollars ($12,000,000) to be repaid in thirty (30) years with ten (10) years gestation period and a service fee not exceeding 0.75% when calculated annually. Also, a Technical Assistance (TA) loan of two million US Dollar ($2,000,000) meant for Business Development Institutions is to be paid in sixteen (16) years with a gestation period of four (4) years moratorium and service charge not exceeding 1.5% when calculated annually. Added, is a grant of three hundred thousand US Dollars ($300,000) to support the programme (IDB, 2009).

Other collaborators in Sudan and IDB's microfinance programme are the Bank of Khartoum, Savings and Social Development Bank and the Bank of al-Usra. The training aspect of the programme is handled by Sudan University of Technology and a host of other vocational training partners affiliated to Sudan's Vocational Literacy Programme. An expected outcome of this laudable programme is having forty thousand (40,000) beneficiaries, generation of ten thousand (10,000) micro-enterprises, twenty thousand (20,000) Survival Income-Generating Activities and one hundred thousand (100,000) jobs annually (IDB, 2009).

5.2 Benin Republic

In 2009, Benin Republic applied for IDB's support in her Integrated Microfinance Support Program, which aims at improving the livelihood of low-income population through improved access to microfinance facilities, market-oriented training and business opportunities. Groups benefitting from this gesture include micro and small entrepreneurs, woman head of households, unemployed graduates, skilled labour, small traders, craftsmen, seed capital for micro entrepreneurs, deprived rural families and potentially active handicapped individuals. The overwhelming majority (70%) of the target group in this programme are women (IDB, 2010). Components of the program are generally similar to those of Sudan.

The Islamic Solidarity Fund for Development, a body of the OIC, was to provide five million US Dollars ($5,000,000) with thirty (30) years repayment period and ten (10) years' moratorium and service charge of 0.75% if calculated annually. The IDB was also to provide another five million US Dollars ($5,000,000) to be repaid in twenty-five (25) years after seven (7) years' moratorium and a service charge not exceeding 2.5% if calculated annually. This is in addition to it providing a T A grant of four hundred and fifty thousand US Dollars ($450,000) (IDB, 2010).

6. NIGERIA AND THE ISLAMIC DEVELOPMENT BANK

Nigeria joined the IDB in 2007 by acquiring 0.03% of the bank's share wherein it became represented in its Board of Governors by the Minister of Finance who serves as Governor and the Minister of State for Finance as the Alternate Governor. A substantial improvement was recorded in Nigeria's status when it increased its capital subscription to the Bank by six hundred million US Dollars ($600,000,000). This move jerked up her share capital in the Bank to 7.69%. Consequent upon that, the county produces one (1) of the nine (9) permanent members of the bank's Board of Executive Directors (Idris, 2012). Nigeria's umbrella body for Development

Financial Institution, some of which have been discussed in this paper, named Association of Nigerian Development Financial Institutions (ANDFI) is a member of Association of Development Financial Institutions in member countries of IDB (ADFIMI) (Adesoye and Atanda, 2012). The ANDFI is, therefore, expected to cooperate with the Development Financial Institutions in financing SMEs and other issues of common interest.

Under the IDB Member Country Partnership Strategy (MCPS), the bank is to concentrate on infrastructure, balancing of nexus of dam, irrigation networks, hydro-power, agricultural development and the foundation for small and medium agro-industrial enterprises in member countries. The IDB group is also to replicate landmark achievements in member countries to sister member countries and expand them in a manner to stimulate local market response to opportunities. As such, IDB is proactive in financing developmental projects in Nigeria. As at 2012, a cumulative amount of four hundred and sixty-six million US Dollars ($466,000,000) had been approved for fourteen projects by IDB in Nigeria. These projects include Zungeru Dam Project in Niger State, Mambilla Dam Project in Plateau State, Lagos-Ibadan Expressway, National Railway Project and Shagamu Road Rehabilitation Project (Leadership Newspapers, 2012).

The IDB's MSP can also be mounted in Nigeria if the Federal Government officially requests, through its Minister of Finance, that IDB partner with it in its empowerment of the masses through microfinance. Prospective strategic partners to the IDB microfinance support programme are cooperative societies, NGOs, MFBs and Community Development Organisations (CDOs) that comply with IDB criteria. Taking lessons from Sudan and Benin Republic, eligibility and selection of strategic partners would take into consideration registration with appropriate government agencies and license to conduct financial transactions and microcredit. They must also have at least three to five years' experience in running microfinance schemes with record of good performances and incorporation of best practices. The ownership and governance structures must demonstrate efficiency, competency and transparency in their managerial practices (IDB, 2002).

Moreover, the secondary strategic partners are expected to have smooth processes of operation and delivery of services while guided by policies and manuals spelling out their operational strategies. To avoid plunging funds in corrupt institutions, IDB would want these strategic partners to have had their accounts audited for three previous years by registered and reputable audit firms. The prospective strategic partners have to show evidences that they maintain good working relationships with their clients, government agencies, and other development collaborators. In addition, they must display sound business plan aimed at sustainability and also be prepared to accept and comply with IDB's microfinance guidelines aimed at financing only microenterprises that are *Sharī'ah* compliant (IDB, 2002).

The IDB bases its microfinance approach on the identification and segregating of two kinds of enterprises. These enterprises are Micro Enterprises (MEs) or Very Small Enterprises (VSEs) and SMEs. The MEs or VSEs, by IDB's standard, are characterised by investments between one hundred U.S Dollars ($100) to twenty-five thousand U.S Dollars ($25,000), localised market and employers between one (1) to twenty (20) individuals. However, SMEs are characterised by initial investments of between twenty-five thousand U.S Dollars ($25,000) and fifty thousand U.S Dollars ($50,000) greater local market opportunities and more employees (IDB, 2002). The programme of concern to this paper is growth and development of MEs or VSEs. The financing of micro-enterprises (MEs) will be through IDB's revolving and T.A loans to the Federal Government of Nigeria, which are guaranteed by its (country's) corporate existence and as a member of IDB. These are in addition to IDB's grant for the support of the programme. The revolving loan would be extended to accredited and qualified strategic partners while the T.A loan would be channelled to Human Capital Development and capacity-building.

To optimise performance and compliance with the *Sharī'ah* and IDB's policy, it is necessary that capacity-building programmes be put in place for IDB's strategic partners. This would be done through the training of these partners on the operational mode and application of Islamic microfinance using the Islamic Research and Training Institute (IRTI) which is a sister organisation under the IDB. It would be necessary for IDB and Nigeria to employ the services of Islamic microfinance consultants to draft a standard contract of financing and upgrading management information and accounting systems to comply with Islamic strategic and operational planning procedures. Additionally, it needs to prepare manuals that adopt Islamic financial techniques. The TA aspect of this microfinance programme could utilise the training programmes of the NDE and NAPEP, which aim at generating self-employment. Here, prospective beneficiaries of loans would be trained in skill acquisition and business management strategies. This is to ensure judicious utilisation of funds and proper management of enterprise while utilising best practices.

CONCLUSION

It is obvious that Nigeria is confronted with serious challenge of gross employment which has, in no small way, engendered poverty in the country. As a way out of this problem, the Federal Government and NGOs have resulted to microfinance and microcredit. This study has examined some of the programmes mounted by the government aimed at providing credit facilities and Human Capital Development to generate employment and reduce poverty in the country. It was discovered that some of these programmes failed, while others are still far from reducing unemployment and poverty to a bearable level.

This paper has identified indiscipline, dearth of best practices, and paucity of sustainable wholesale capital, inadequate capacity-building mechanism and technical knowledge of dealing with the poor as some of the challenges of microfinance in Nigeria. The IDB aims at reducing poverty in member countries by supporting MEs or VSE through microfinance initiatives. This programme is being successfully carried out in Sudan and the Republic of Benin.

Since IDB replicates landmark achievements in member countries and supports the development of microfinance in member countries, of which Nigeria is a major one, it is high time Nigeria also benefited from IDB's MSP. This programme, which mainly supports the real sector of the economy of member states would, if implemented, not only develop the real sector of the Nigerian economy, but also reduce the army of able and talented but unemployed population of the country and, by extension, alleviate their poverty. The first step to be taken by the country is for it to declare its interest in the MSP. Nigeria has a good platform for this laudable microfinance partnership, as it now has the regulatory framework guiding Islamic interest-free financial banking. It has recorded the establishment of full-fledged Islamic interest-free commercial and microfinance banks together with the opening of Islamic interest-free windows in some conventional banks.

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