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MICROFINANCE INSTITUTIONS' PRODUCTS AND MICROFINANCE POLICY FRAMEWORK IN NIGERIA: AN ADDENDUM.

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ABSTRACT

The desire to attract more customers to enhance the sustainability of the Microfinance Institutions (MFIs) financial viability and growth calls for the inclusion of non-financial products in the Microfinance Policy Framework of Central Bank of Nigeria. Findings from some developing countries show that MFIs' non-financial products have played significant role in disaster management, business development, support HIV/AIDS victims, civic education and vocation skill training. Thus, this paper argues for the inclusion of non-financial products in the Microfinance Policy Framework of Central Bank of Nigeria given their role in disasters management, HIV/AIDS support, civic education, vocation and skills acquisition, and capacity building of members and non- members. This will enhance the growth and sustainability of the institution in Nigeria..

Keywords: Microfinance, Financial, Non-Financial, Products, Marketing, Sustainability, Nigeria

INTRODUCTION

Microfinance institutions (henceforth MFIs) traditional product is credit provision and their main objective was traditionally to reach more people and become financially viable and sustainable through credit provision. This thus makes the MFIs to enjoy near monopolies in the provision of financial services most especially small credits to the very poor entrepreneurs (Rhyne, 2001).

However, the improvement in the institutions' financial viability attracted more institutions into the microfinance industry market and this changed the landscape of the institution's competition. Therefore there is need to attract more customers to enhance the sustainability of the institutions' financial viability and growth; as new customers cannot be attracted through provision of credit facilities only. The institution then needs to look for new financial products that would not only attract more customers but also sustain their growth. Given this scenario, Yaron (1994) observed drawing from the World Bank that proposed two criteria for judging the success of MFIs which are degree of outreach and self sustainability. The degree of outreach is attained through the provision of variety of financial services/products the institution offers. The degree of self sustainability is attained by providing funds to match the variety of financial services/products the institution offers.

In Nigeria, the Microfinance Policy Framework introduced by the Central Bank of Nigeria in 2005 only emphasize on the provision of financial services to entrepreneurs and low-income households with little or no attention paid to the non-financial products. However, it is important to note that MFIs worldwide are now promoting non-financial products because of their significant role in meeting the needs of the very poor and local communities in alleviating poverty on one hand, and in improving their outreach, sustainability and growth on the other hand. (Poverty Outreach Working Group, 2006). This, then call for the inclusion of non- financial products in the Microfinance Policy Framework of Central Bank of Nigeria in order to strengthen their outreach, improve poverty alleviation and enhance their sustainability.

Given the above, the questions this study sought answers for are: What are Microfinance Institutions and financial and non financial products? What are the types of the financial and non financial products marketed by the institutions? What is the significance of these products to the growth of Microfinance Institutions?

MICROFINANCE INSTITUTIONS AND FINANCIAL AND NON FINANCIAL PRODUCTS: MEANING, TYPES AND SIGNIFICANCE

Meaning of Microfinance Institutions and Microfinance Products

Microfinance Institutions are referred to as organizations that provide financial services (such as savings, credit, funds transfer, insurance, pension remittances, etc) that are targeted at low -income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self – employed (Rosengard, 2000; Muiruri,2014). Microfinance is also seen as the provision of thrift, credit and other financial services or products in very small amounts that can enable the poor to raise their income levels and improve their standard of living. Such credits are repaid within a short period of time. (See Eluhaiwe, 2005; Ukeje, 2005). Thus, MFIs can be likened to an economic strategy developed to rebuild the economies of the poor through the provision of financial services in small quantities that would meet their needs and sustain their development. (Wilson, 2001; Ijaiya & Afolabi, 2012).

However, within the microfinance industry, the term microfinance refers to a wide range of organizations dedicated to the mobilization of small savings and provision of small loans. The organizations that provides these services include non-governmental organizations, credit unions, cooperatives, microfinance banks, self help groups, etc. (See the Microfinance Gateway (n.d.); Aderibigbe 2001; Akanji, 2001; Wilson, 2001; World Bank, 2004; Ijaiya, 2010; Ojo, 2010). Microfinance products are services offered by MFIs to satisfy the needs of their customers such as credit, savings, leasing, standing order, bills payment, fund transfer, management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer, business linkage promotion as well as social services like support for HIV/AIDS patients and disasters victims, etc. (See Ijaiya, 2010; Ijaiya & Afolabi, 2012; Muiruri, 2014). Microfinance products market in MFIs is categorized into three different levels: namely new markets; developing or growth markets and developed or matured markets. The new market is characterized by few or limited available financial services with little effective demand for financial services. The focus of the institution in this market is to develop appropriate products and create a market for microfinance products. The developing or growth market on the other hand is where financial services are generally available to the population but the microfinance institution is not enough to meet the demand of the market. The focus is here is to develop the institution and system to meet their clients demand. While the developed or matured market is where financial services are readily available to the population and competition is developing among service providers. The focus of the MFIs is to improve their responsiveness in order to meet clients' interest as well as diversify their products in order to enhance the sustainability of the institution. (See Grant, 2000). The marketing of MFIs products can be defined as the advertising and promotion of financial (such as payment services like credits, savings, standing order, bills payment, leasing, etc) and non- financial services (like economic and social services, the economic services are management and vocational skills training, consultancy and advisory services, marketing assistance, provision of information, technological development and transfer, and business linkage promotion, etc., the social services includes public health and civic education, support for disasters victims and HIV/AIDS, patients etc) provided by the MFIs to meet the needs of their clients, and attract more customers to their fold in order to enhance their growth and sustainability. The marketing of these products most especially non – financial products is important because of the increasing competition in the microfinance markets; the slowing growth rates in some MFIs; increasing chant desertion and growing recognition of other MFIs that wants to be named clients led MFIs. Besides, another importance could be the need to meet the needs of the ever increasing livelihoods of the very poor in the World. (See Grant, 1999; Grant, 2000; Poverty Outreach Working Group, 2006). These factors spurred the MFIs to introduce non-financial products to improve their outreach and enhance their growth and sustainability.

Types of Microfinance Institution Products

The MFIs products are broadly classified into two namely financial products and non-financial products. The financial products includes loan, savings, leasing, insurance, fund transfer, pension remittance, etc. (Ijaiya, 2006; Ijaiya, 2010; Ijaiya & Afolabi, 2012; Muiruri, 2014). The non- financial services includes capacity building services to poor entrepreneurs, management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer, and business linkage promotion. They also include other social services like literacy training and in innumeracy training, nutrition and self esteem classes, public health, civic education and support for people with HIV/AIDS and disasters victims. (Poverty Outreach Working Group, 2006; Asiama & Osei, 2007; Ahiabor, 2013; Paul, Insah and Nanagpiire, 2014).

The traditional microfinance institution product is the financial product most especially the microlending provided in form of short term working capital with repayment period between three months and one year. This product is easy to deliver, monitor and multiply (See Ryne, 2001).The short term working capital also known as microcredit comes in different forms such as Income Generation Loan (IGL) used for income generation and asset development with a repayment fund of 50weeks paid in weekly; Mid Term Loan, the same as Income Generation Loan which is available at the middle (week 25) of IGL with 50weeks repayment but paid weekly. The other type of short term loan is the emergency loan for health, funerals, hospitalization, education, etc. and repayment is between 20weeks and 40weeks. The individual loan with repayment of 1 to 2 years is also used for income generation and asset development. All these loans carry different degree of interest rates. The microfinance institution used the microlending/microcredit product to reach large numbers of poor through the group based lending model and this has enhanced the growth and sustainability of the MFIs. For instance, Christen, Rhye, Vogel and Mckean (1995) findings showed that BancoSol, Bolivia; Badan Kredit Desa (BKD), Lembagan Perkreditan Desas (LPD) and Bank Rakyat Indonesia (BRI), Indonesia; Corposol, Columbia; FINCA, Costa Rica; Grameen Bank, Bangladesh, and KREP, Kenyan improved their outreach through the group-based lending model. Besides, they also reported that using this lending model, the MFIs were able to recover all their non-financial expenses (including salaries and administrative costs, depreciation of fixed assets, and cost of loan principal lost to default) and it also enhanced their sustainability.

The other financial products common to the microfinance institutions include microsaving, microinsurance, microleasing, money transfer, etc. The microsaving products allow the poor entrepreneurs to save and retain money in the institution for future use or for unexpected costs or as a guarantee against their outstanding loan. This product allows their client to borrow from the institution for a variety of purposes such as meeting health challenges, business, education and other household emergencies. For instance, Edgcomb and Barton (1998) observed that microsaving in MFIs provide four purposes first, as a demonstration of discipline and commitment to the institution; secondly, as a guarantee against outstanding loans; thirdly as a financial asset the poor can accumulate against emergencies and long-term needs; and fourthly, as a source of loan capital for the institution directly or indirectly. (See also Ijaiya & Afolabi, 2012). Infact, some MFIs like the Federation of Thrift and Credit Cooperatives in Sri Lanka and Cooperative Development Foundation in Andhra Pradesh, India according to Edgcomb and Barton (1998) depend exclusively on internally generated savings which enhanced their growth and sustainability. Brown and Nagarajan (2000) opined that microsaving products play a potential role in helping clients to manage the impacts of disaster in Bangladesh. Through their savings, the clients were able to borrow to mitigate the risks posed by the disaster. Clients that have access to microsaving product did not resort to distress sales of assets after disaster strikes. (Parker & Nagarajan, 2000)

Microinsurance on the other hand, allows their clients to pool risk by collecting relatively small premiums from a large population and funding relatively large payment to the small portion of that population that suffered losses from specific risk events (Ryne, 2001). These events are common causes of decline in the poor enterpreneur business and this includes death, health challenges, property and disability. The microinsurance product provide succor to clients since they can draw from their premium to mitigate these calamities and focus on their core businesses. Studies showed that the poor enterpreneur that are around the poverty line are vulnerable to shocks such as illness of a wage earner, health, theft or other natural disasters. These disasters provide huge claim on the financial resources of the family, and absence of microinsurance may drive the family much deeper into poverty that it can take years to recover. (See Brown & Churchill, 1999, 2000; Churchill, 2000; The Microfinance Gateway (n.d.); Brown, Green & Lindgwist, 2000). However, the marketing of microinsurance product requires intensive staff training in terms of educating their clients on the benefits of the product, cost and how to utilize it. The common types of insurance products provided by the MFIs especially credit unions are life insurance that provides coverage against death of the insured for a specified term; permanent life insurance that provides similar coverage but has no specific term and also a cash value that be drawn down or borrowed against like a savings account; endowment life insurance that carries a cash value but provides protection for a fixed term; and life saving insurance, where the credit union purchases a group policy for their member's beneficiaries, with a multiple of the member's deposit balance in the event of the member's death. (See Brown & Churchill, 1999, 2000; Brown, Green & Lindgwist, 2000; Churchill, 2000). These insurance policies will not only provide succor in period of calamities, but it will also enhance the growth and sustainability of the institutions. However, MFIs clients are often reluctant to use this product because their daily income is not enough to satisfy their basic needs but could use it if it is through friends and relatives rather than from insurance agents.

Microleasing is another financial product on the menu list of MFIs. The institution uses this product to raise fund for clients that want finance for capital equipment. This product allows the institution to go into long-term finance and also provide finance for short and medium term capital for fixed assets (like equipment, agricultural machinery or vehicles) especially for those that cannot pay at full costs or even meet down payment and lease terms. There are three types of lease namely: capital or finance lease (or full payer lease), operating lease and hire-purchase lease. The finance lease is a medium – term lease agreement between the leasee (user of the asset) and the leasor (owner of the asset or provider of the finance i.e. the microfinance institution). The leasee ensures that the lease payment during the primary period covers the full cost of the asset and a finance charge (to give the leasee a suitable return on the investment). Finance leases are also known as full-payment leases, since payment term amortize the leasee's total purchase costs. The client (leasee) makes a down payment up to 30percent of the cost of the assets to the institution (leasor), and the institution buys the asset for the clients. The operating lease is a short-term cancelable lease between the leasor and the leasee. The lease term does not cover most of the useful economic life of the asset. The leasee is responsible for the upkeep, insurance, servicing and maintenance of the asset (See Olowe, 1997). The hire-purchase lease is a credit sale agreement and used for retail or individual training of items like motorcycle, sewing machine, refrigerators, etc. Under the three lease arrangement, most especially the finance and hire-purchase leases, the clients must have established a credit history with the MFIs, and the institution will spread the cost of the assets, the interest charges and risk over the lease term. (See Amenbal & Halladayi, 1991; Amenbal, Halladayi & Meyers, 1991; Olowe, 1997). At the request of United State Agency for International Development (USAID), The Peoples Group

Team visited three Bulgarian Microfinance institutions assisted by USAID in 2002. Their findings showed that the USAID piloted microleasing programme under the United Nation Development Programme (UNDP)-supported leasing project in Vidin yielded positive results and sustain their programmes. This made the UNDP to expand the pilot to 24 businesses centers throughout Bulgaria. (Naylor, Bielen & Burkens, 2002).

The non-financial products of MFIs have also been effective in improving the MFIs outreach and growth. For instance, social services like the support for HIV/AIDS and disasters victims, vocational skills trainings, and economic services like capacity building for poor entrepreneurs, business development services, etc have all strengthened and sustained the organization. For instance, the business development services provided by MFIs in Ghana boost the growth of their MSEs in terms of the competitiveness of the enterprises, financial services and ability of clients to repay loans. (See Asiama & Osei, 2007). Besides, Poverty Outreach Working Group (2006) also pointed out that some MFIs provide non- financial products to the very poor members to strengthen their livelihoods. Thus, non-financial products have enhanced the growth and sustainability of their institutions. These non – financial products include enterprise and financial management, functional literacy, gender sensitization, capacity building, social empowerments, health care services, advocacy and local governance, etc.

Significance of MFIs Products

Discussing the importance of loan Product to MFIs, Grant et.al (2000) argues that the products improve the sustainability and efficiency of the institution by retaining clients and identifying new clients interested in the financial services they offered. Beside, since the MFIs are into making profit, the finance products not only enable the institution to maximize their own return but also those of their clients. For instance, the loans advanced by microfinance institutions in Ghana are use for farming and non- farming activities like dairy, poultry farming, farm inputs like rice seeds and fertilizers as well as housing, petty trade, pottery manufacture, weaving, cloth trading, etc. Specifically, microloan assisted clients of the MFIs in the Ledzorkuku- Krowor Municipality of Greater Accra Region of Ghana to expand their operations in services, manufacturing and agricultural sectors. (See Asiama and Osei, 2007; Ahiabor, 2013).

SafeSave in the Bangladesh has attracted extremely very poor households because they allow them to deposit small amount of money which they fall on in time of need. This product is thus importance to the needs of the very poor population of Bangladesh. (See Matin, Rutherford & Maniruzzaman, 2000).

Besides, Foundation for International Community Assistance (FINCA), a Uganda based MFI offered microinsurance product to its clients, and families of the clients receive a substantial benefit when a death occurs. This development has increased the loyalty of clients and reduced default rate and gains low-cost access to new customers (See Brown & Churchill, 1999).

In Kenya, MFIs promote a hire-purchase methodology through leasing by financing the acquisition of solar power –based energy system or house photovoltaic system to small and micro business. Besides, in Madagascar, CECAM a MFI developed a leasing product to help farmer in Madagascar obtain capital assets. CECAM is a network of more than 250,000 members that provides financial services for agriculture production in rural Madagascar. This product enhances the institutions' and clients' sustainable development in terms of loyalty, access to new members and business development.

Report also shows that Grameen Bank's leasing programme that began in 1992 operates in all 14 zones of Bangladesh. This programme allow clients to gain immediate use of products from power loom to livestock which help them build capital assets and increase enterprises productivity. This programme allows the bank to increase its outreach and sustainability of their clients'. (See Amenbal & Halladayi, 1995, Bass, 2000; Bass & Henderson, 2000).

Moreover, the MFIs non-financial services also play major role in attracting new members to the institutions which contribute to its growth. For instance, Brown and Nagarajan (2000) observed that the role of the MFIs in disaster management through distribution of relief materials like food, clothing, clean water and medicine enable them to reach many victims and sustain their membership. Besides, members of the MFIs help non- members to repair and replaced their damaged homes and property without additional costs. This rehabilitation assistance is seen by members and non-members as a crucial role of MFIs. Studies also show that MFIs provide disaster awareness, alertness and communication. These findings referred to disasters where the MFIs played significant role in the 1998 Hurricane Mitch in Central America; the 1997 floods in Poland; the 1998 Bangladesh floods which the World Bank described as the worst in living memory, and the 2008 flood disasters in Kalutara District in Sri Lanka. (Huda & Prabin, 1999; Zaman, 1999; Brown & Nagarajan, 2000; Mathison, 2003; Fernando, 2008; Ijaiya, 2010). In another study by Paul, Insah and Nanagpiire (2014), five selected MFIs in the Upper West Region of Ghana also played significant role in the region disaster where the MFIs distributed relief materials to 40 per cent of victims affected by the disasters in the region.

Moreover, the MFIs have provided support services to clients with HIV/AIDS. The MFIs use group based methodology that brings poor people predominantly women (HIV infection rate is much higher among women than men in Sub-Saharan Africa, ICAD, 2001) together. The institution provides information and other services like counseling on HIV/AIDS members and some communities. Parker (2000) reported that about 45 per cent MFIs in Burkina Faso, Ghana, Kenya, Mozambique, Namibia, Rwanda, Somalia, South Africa, Tanzania, Togo, Uganda, Zambia and Uganda participated in HIV/AIDS education and preventive information through partnership with health organizations. (See Parker, Singh & Hattel, 2000). This service has enhanced the sustainable development of the institutions in terms of their outreach and growth.

MICROFINANCE INSTITUTION AND FINANCIAL AND NON FINANCIAL PRODUCTS IN NIGERIA

In Nigeria, the Microfinance Policy Framework introduced by the CBN in December 2005 was based on the provision of financial services (such as loans, deposits, insurance, fund transfer) and other ancillary non-financial products to poor entrepreneurs and low-income households. Little effort was paid to the importance of non-financial products in the Microfinance Policy Framework. However, in other climes, the importance of the non-financial products is highly recognized especially in the areas of social and economic services provided by the institution. Such services includes support for HIV/AIDS and disasters victims, business development, management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer, and business linkage promotion. Thus, in order to improve the sustainability of the MFIs in terms of growth and outreach in Nigeria, this paper argues that non-financial products such as capacity building services like management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer, and business linkage promotion. Social services like literacy training and in innumeracy training, nutrition and self esteem classes, public health, civic education and support for people with HIV/AIDS and disasters should be given equal recognition in the Microfinance Framework Policy Central Bank of Nigeria. This position is better illustrated with a conceptual framework that explains the importance of these products to the growth of the MFIs in particular and Nigeria in general.

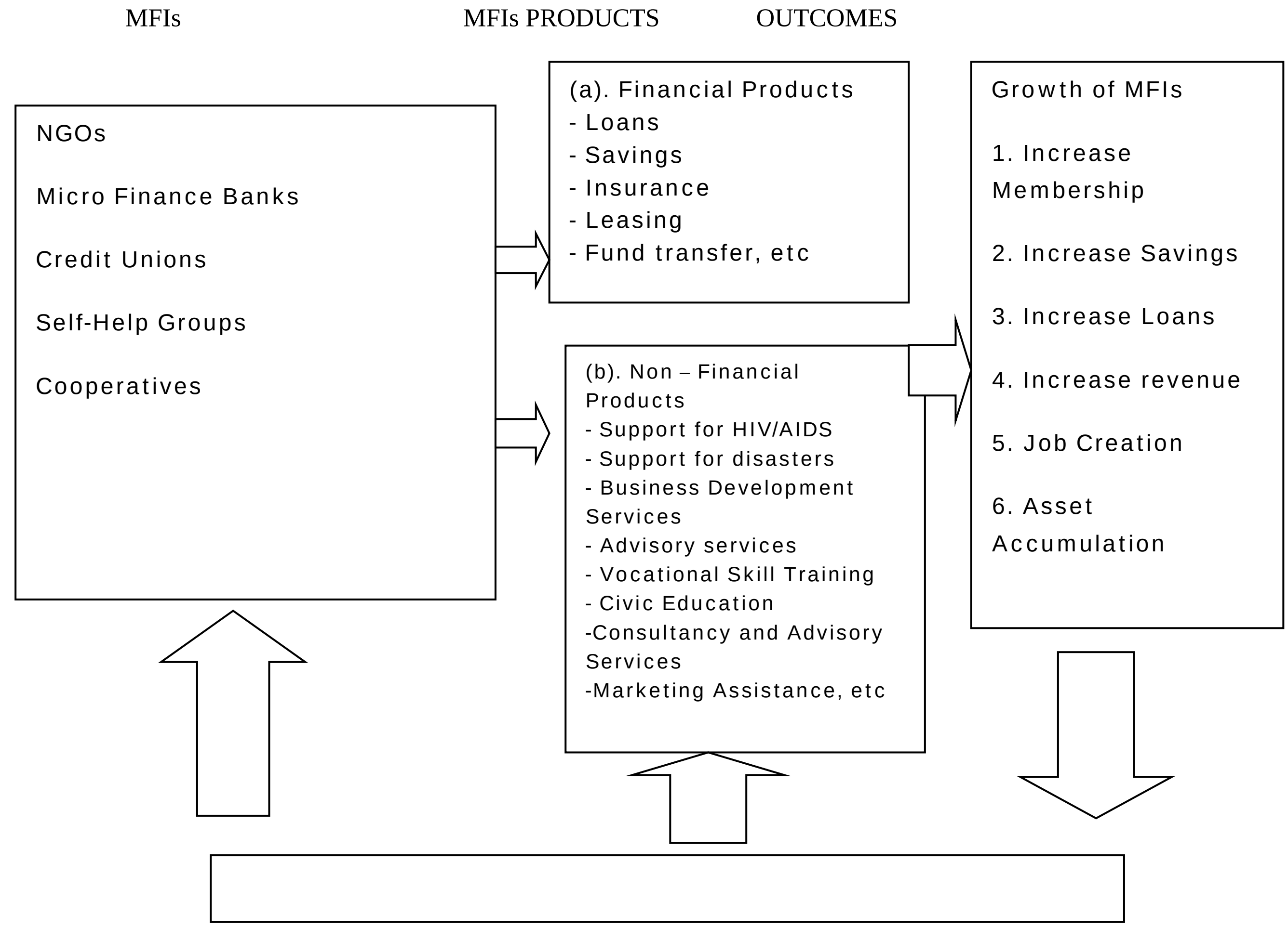

Fig. 1 Schematic Link between Microfinance Institutions' Products and MFIs Growth in Nigeria

As illustrated, Fig 1 shows the link between the products provided by microfinance institutions and the growth of the institutions in one hand and Nigeria in general. That is, it shows how the financial products (loans, savings, insurance, leasing, fund transfer, etc) and non-financial products (drugs for HIV/AIDS patients, relief materials for disaster victims, support for business development, advisory services, vocational skill training and civic education) could enhance the sustainability and growth of microfinance institutions in terms of increase in their membership, savings, loans, revenue, job creation and asset accumulation. The diagram also shows a feedback loop from the outcomes (growth of microfinance institutions) back to the microfinance institutions and the financial and non financial products. The argument here is that as the microfinance institutions introduced the financial and non-financial products, it will boost/lead to increase in their membership; increase loans provision, increase savings, increase revenue and job, and improve asset accumulated by their customers which in long run would enhance the sustainability and growth of the MFIs.

However, for this process to continue and be sustained depended on the following assumptions:

(i) that the microfinance institutions will not use concessional interest rate (often negative in real terms);

(ii) that the services provided by the microfinance institution would not be skewed towards financial products alone,

(iii) that the institutions will not implement costly and insufficient service delivery mechanism. (See also Ijaiya, 2006), and

(iv) that the institutions would not negate on the principles of good corporate governance, such as abiding with rules, process and procedures that guides the operations of the institutions.

CONCLUSION AND RECOMMENDATIONS

The place of non - financial products in MFIs is enormous judging from their role on the sustainability and growth of the institutions as pointed out in the body of the study. The importance is seen in the areas of economic and social services they provided their clients and communities where they are located. In the area of economic services the institutions provided vocational skills training, advisory and consultancy services on business development services. The social services include provision of civic education, counseling and support for disaster victims and HIV/AIDS and other related patients. All these activities helped enhanced the sustainability and growth of the institutions in terms of increase in membership, increase in lending and savings; revenue generation, job creation and asset accumulation of participating members and non members alike.

Based on the above, this research thus recommended the inclusion of non-financial products in the Microfinance Policy Framework of the Central Bank of Nigeria in order to deepen the sustainability and growth of MFIs.

Besides, judging from the role of MFIs in other developing countries in disaster management, it is recommended that the National Emergency Management Agency (NEMA) should collaborate with the existing MFIs in Nigeria. This if done is expected to improve the efficiency of the agency in distributing relief materials to victims affected by various disasters in the country.

The MFIs in Nigeria should also learn from other countries such as India, Sri Lanka, Bangladesh, Ghana, Togo, Zambia, Uganda, Kenya, etc. where services provided to members and communities by MFIs also include counseling on HIV/AIDS, support for disasters victims, provision of information on risk mitigation in disaster prone areas, civic education, vocational skills training, business development services, social empowerment and nutrition talk. All these services will not only attract more members to their hold, sustain their programmes and growth but also assist in reducing the level of poverty and unemployment, thus leading to sustainable development in the country.

On the part of government, provision of infrastructural facilities such as good roads network, power supply and improved telecommunication system, among others will enhance the sustainability and growth of the institutions in the country. The provision of these facilities will also assist the clients of the institutions make proper use of the services provided by the institutions, which in the long run will improve their wellbeing.

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