



REVIEW ARTICLE

POVERTY REDUCTION STRATEGIES IN NIGERIA: RESCUING THE YOUTH THROUGH MICROFINANCE LOANS

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ARTICLE INFO

Article History:

Received 23<sup>rd</sup> January, 2016  
Received in revised form  
15<sup>th</sup> February, 2016  
Accepted 27<sup>th</sup> March, 2016  
Published online 26<sup>th</sup> April, 2016

Key words:

Poverty, Deprivation, Government,  
Youth, Microfinance.

ABSTRACT

Nigeria has experienced a spiraled rise in income, increased inequality and poverty levels in the last couple of years. It was not surprising that Nigeria missed the 2015 Millennium Development Goals (MDG) poverty target by a wide margin. Available statistics from recent surveys by the Nigerian Bureau of Statistics indicates that about 70% of Nigerians live in poverty. This is in spite of the insistence by publicists who keep shouting that the economy is growing. This paper agrees that the economy is growing only that it is doing so in reverse gear. The paper reviews poverty alleviation strategies of the past that were poorly targeted and concentrated more on tricycles, hair palming and sewing machines and why they failed to reduce poverty. The paper therefore suggests that a realistic, poverty reduction strategy should target the youths and do so anchoring on inclusive, redistributive nature using microfinance loans.

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Citation: Amin Zaigi Ngharen and Christiana Enubi Akogwu, 2016. Poverty reduction strategies in Nigeria: Rescuing the youth through microfinance loans", *International Journal of Current Research*, 8, (04), 30095-30099.

INTRODUCTION

From 1960, when Nigeria gained constitutional independence from Britain, the goal of national economic programs as reflected in the development plans has targeted poverty reduction, bridging inequality gaps and the achievement of economic development that would guarantee good life for Nigerians. These programs have not achieved the desired results. Statistics published by the Nigerian Central Bank (CBN, 2011) suggests that between 1961-1970, the average growth rate of real GDP was 5.1% and between 1971-1980 average real GDP growth rate was 5%. Interestingly the apex bank indicates that between 1981-1990, the average rate of real GDP was only 1%, however for the next ten years, (1991-2000) it rose again to 5%. Though growth performance has improved with the dawn of civil rule, it has however not resulted in appreciable poverty reduction, nor has it curtailed unemployment and inequality prevalence. UNDP (2004) has suggested that eradicating poverty must be seen as a necessity in policy formulation and implementation which is the only recipe for human emancipation. It is against this backdrop that we fault the previous policies on poverty alleviation because they did not consider these dimensions and did not ultimately target the emancipation of the poor and that explains why they

failed (Idahosa, 2002). Recent statistics and the reality of existence in Nigeria today suggest that poverty has reached intolerable proportions. The Nigerian story is a paradox. While over 70% of the population is suffocating in mass poverty, a tiny minority has amassed most of the fortunes of the nation (Kanayo, 2014). The present regime in the course of their war on corruption has claimed to have recovered millions in foreign currencies from soaked away pits and sewage tanks in the homes of some past leaders. The news media is awash incredible but unverified stories of monies stolen and what is been recovered. In a face saving gesture, the government has just promised to declare the total of recovered loot so far. This however only infuriated the suffering masses some of who are owed salary areas of the upward of 6-7 months. Nigeria is richly endowed and the nation's wealth potentials manifest in the forms of natural, human and environmental factors. These however, have not translated into economic prosperity for the majority of the Nigerians who are ensnared in the vicious net of deprivation, inequality, hunger and increasing frustration. Because of the monumental wealth and avarice of a the affluent minority, poverty has been on the rise eclipsing the middle class and creating only two classes in the society, the rich and the poor, 'the haves and the have not's'. Poverty of leadership and a reckless culture of corruption has created mass poverty and thus generated negative feedback through insurgency, kidnaping, quest for secession and many other criminal vices (Daron and Robinson, 2013). Both the Human Development Index 2010 and the Multidimensional Index

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2010 rated Nigeria so embarrassingly low in development and expectedly so high in poverty. Apart from that the incidence of poverty has kept rising every day subjecting to affecting men, women and the young who constitute the largest segment of the poor. Poverty in Nigeria has been on the increase. For example, at independence in 1960, the poverty incidence was just 15% of the population (Garba, 2006) but 20 years later i.e. by 1980, it had risen to 28.1% (Okpe and Abu, 2003) and 43.6% by 1985 (Alayande and Alayande, 2004) 67% in 1996, 74.2% in 2000 and 92.5% by 2010 (NBS, 2010).

Not only is poverty a curse to the bulk of the masses, it is now evidently clear that the rich cannot live in peace when there are people who have no hope of a meal no matter its quality. Poverty and feelings of deprivation with their attendant consequences have become grave challenges to the Nigerian government. The Nigerian people have responded with apathy, feelings of hopelessness, beastie behaviours, arson, acts of terrorism, dropping out of school, and return to undesirable pagan practices such as orgies etc. This situation and the general uncertainty that hangs over the horizon of a large number of Nigerians and particularly the young people and the others that have been forcefully conscripted into the ever increasing army of the poor can be attributed to a number of factors that have persisted as important policy challenges. Some of the major factors responsible for the uncertainty and the low response of poverty can be located in the very structure of production and nature of growth which unfortunately seem to be left more to chance rather than strategic planning. Importantly too, is the burgeoning corruption that has come to characterize every fabric of our national life. That Nigeria continues to occupy a leading position as one of world's most corrupt countries is not news at all.

### Conceptual Issues

Poverty refers to the lack of basic human needs faced by people in society. Nigeria, despite its wealth in natural and human resources continues to rate as one of the poorest countries in the world. In 2009, 22 out of 24 nations identified as having 'Low Human Development' on the United Nations (UN) Human Development index were in sub-Saharan Africa (Narayana, 2010). The UNDP has noted that while the highest income bracket which constitutes only 10% of the population shares 32% of total national income, the poorest 10% has only 1.5%. Similarly, 50% of total national income is owned by 18% of the highest income group. This leaves the poorest 20% of the population with only 4% of total national income. In many of these countries including Nigeria, GDP per capita is less than USD\$200 with the vast majority of the population living in rural areas. Poverty in Nigeria is predominantly rural and absolute. According to World Bank, It means people whose income is less than 75p-1.50pounds a day. A larger percentage of the poor live in the rural areas and depend on subsistence agriculture and don't always attain it. Yet government intervention in agriculture at all levels is decreasing. The much talked about agricultural revolution remains a television talk and has not trickled down to the ordinary people. Fertilizers and other farm inputs imported are essentially for mechanized farmers who are retired military, custom, police officers and traditional rulers. Rural farmers

still employing the technologies handed over to them by their ancestors, farmers still buy fertilizer in small measures like grains (UNDP/ Nigeria, 2001). Generally, the rural poor are disorganized and often isolated beyond the reach of social safety nets and so called poverty in Nigeria Ethnic feuds which are largely over dwindling resources, water sources, land and grazing fields and also importantly the scourge of HIV/Aids is changing the profile of poverty in Nigeria (Samuel, 1998). Stable government and democracy, which are generally believed in capitalist ideology as critical to eliminating poverty are very slowly developing with critical deformity in Nigeria. Corruption and severe inequality abounds everywhere. Poverty alleviation programs in Nigeria are more about how money is shared out than how much money there is overall.

It is taking rather too long for stable government, economic stability and the rule of law to be established in Nigeria. When there are no strong democratic institutions, there can be no stability. Without an independent and matured legal system, corruption and bribery will make it impossible for businesses to establish and without industry, prosperity is elusive. Living in conflict-torn regions such as the North East and North Central Nigeria, which is also the result of the failure of government, has drastically reduced the capacity of rural people to make a living as no one is safe enough to go to his/her farm or pursue any form of business. These conflicts have taken a greater toll on the youth who cannot attend school or raise support to take care of themselves. These conflicts have further disrupted rural settlements and aggravated poverty especially among the youth.

Expectedly, Nigeria has so many internal refugees who are displaced through ethnic or religious conflicts. These conflicts have the result of totally shutting down all manner of services. They disrupt trade and economy. Apart from that, land the only asset the people have is so degraded, a consequence of extensive agriculture, deforestation, overgrazing and environmental pollution. This has further compounded the already bad situation with its attendant social consequences. Nigeria's economic problems are self-inflicted and self-perpetuating as it engenders more of the disease, conflicts, misgovernment and corruption which is the undying cause of all the troubles (Kanayo, 2014).

### Youths

The saying that the youth are the future leaders or hope of tomorrow has remained mere soothing word on the lips of those who say such things. Over the years, words or such pronouncements have not been matched with actions. It will seem those that made such statements never meant what they said. Despite very huge investments in this direction, a very large army of Nigerian youths are still excluded from any services with supposedly targeted at them. Most of those policies on our youth either died still born or became opportunities to steal, loot, impoverish and further enslave the poor. This was and remains so because the poor were neither identified, consulted nor carried along in all the so called poverty alleviation programs of the past.

## Microfinance and Youth Empowerment

Microfinance by definition and practice means the provision of services to the economically active poor who are either underserved or under banked by conventional banking system. Microfinance is the provision of financial services to people living in poverty. Microfinance predated colonialism in Nigeria and existed in traditional settings as thrift and rotational savings and variously known as 'Esusu', 'Adashi', shar etc. These services are not limited to credit alone but include insurance, fund transfer, payments services and savings (CBN, 2008).

It is one of the great success stories in the developing world in the last 30 years and is widely recognized as a just and sustainable solution in alleviating global poverty. Such stories like that of Greameen Bank in Bangladesh that at some point had about three million clients has continued to serve as an example of how microfinance can strongly impact a country's financial system. The ability of its operators in Bangladesh to experiment and innovate on non-collateralized lending and group based approach to providing micro-credit inspired the development of the 2005 Microfinance Policy, Regulatory and Supervisory Framework for Nigeria which has attempted to build on and strengthen the traditional systems.

As it is, Microfinance institutions provide small or microloans to emerging entrepreneurs to start or expand their businesses. Over the years, the Microfinance sector has expanded its financial service offerings to better meet client needs. Along with providing more flexible loan products, savings and micro insurance, MFI's also offer business and personal development training to help clients effectively navigate the daily hardships they face. Without these services, clients are continually at risk of slipping back into poverty because of unforeseen circumstances. Microfinance institutions must prioritize youths and women, since a staggering 70 percent of all those living in extreme poverty are believe to be females. Women including the young ones are often excluded from education, the workplace, owning property and equal participation in politics and decision making (Ngharen and Akogwu, 2016). Often they are forced into arranged marriages and compelled to bear children they are ill prepare to carter for. Microfinance is recognized as an enabling development resource for both men and women to escape the poverty cycle. The microfinance sector operates in a multi-faceted manner and involves a multiplicity of actors, including the Government, NGOs and the private sector.

## The State and Parameters of Youth Empowerment in Nigeria

Since the majority of the poor in Nigeria live in rural areas, and in order to avoid the mistakes of the past, the state must ensure youth empowerment and rural development in two perspectives.

- The state must approach youth development in form of provision of critical infrastructural facilities such as roads, hospitals, schools, markets and power supply. The state must invest in human capital development and

- Have a more diverse agenda such as empowerment of the poor and the other vulnerable groups through microcredit schemes in order to improve their economic activities and make them self-reliant.

Both approaches are possible and necessary. It is now clear that infrastructural development alone does not amount to development. People cannot be developed but can be empowered to develop themselves. It is true that a large number of the urban poor are rural in origin. However, they are escaping the dullness of the rural areas and moving to the urban areas to find opportunities and thereby adding to the social and demographic problems of the urban centers.

## Microcredit as panacea

It is a known fact that youth unemployment and restiveness is a huge challenge in Nigeria today. The security challenges facing Nigeria have a lot to do with deprivation, poverty and feelings of frustration. Micro credit, both in the conditions of lending and in the nature of the borrowers and the institutions, is a hybrid of development tool and financial service. This must target the youths to enable them work for themselves since there are no opportunities out there.

Micro Finance Institutions are more flexible in their terms of lending and repayment than many formal institutions. Microcredit as a matter of urgency and priority:

- Should reach potentially creditworthy borrowers who do not meet lenders' normal screening criteria. The Nigerian youth with all the industry and capabilities cannot approach formal financial institutions for facilities to start their own businesses. The conditions given by the banks are extremely difficult if not out rightly impossible.
- Reach potentially creditworthy borrowers who are geographically isolated; and
- Offer related services such as basic financial management to increase borrowers' income-generation capacity;
- Use financial services as a development tool at the household level.

The provision of a typical microcredit loan involves the following modus operandi of the microfinance schemes. The issue is often not the absence of laws or guidelines but the enforcement of such. Over the years, those in charge doled out cash to undeserving members of their families, friends and concubines and rules were simply waived and when there were cases of default, such could not be handled. The same beneficiaries kept borrowing or receiving without intentions to repay. This paper suggests that these simple rules among others should be strictly adhered to this ensure that only those eligible for the microcredits get them.

- Eligible poor borrowers must be identified according to the target criteria and procedures.
- A small group (five to eight people of common gender) of eligible borrowers is formed and rules are explained and agreed to.
- Each member carries out compulsory savings in a designated bank which should be monitored weekly.

- iv. One or two group members borrow the initial maximum amount.
- The group meets weekly with other groups to discuss business and make installment payments.
- Financial management and other training is provided on a voluntary or mandatory basis to all members of the group.
- When the initial loans are repaid, the next members of the group may borrow.
- If a loan is not repaid on schedule, no member of the group may borrow until the loan is repaid by the borrower, or by other members of the group.
- Eventually the repaid loans and group savings provide sufficient capital to maintain the revolving loan pool for all members.

### Credit Resources Distribution

A review of the Micro Finance Institutions in Nigeria reveals that:

- Most of the microcredit clients are rural poor, 70 percent of whom are women and youth;
- An estimated 90 percent of microfinance goes to women, owners of small enterprises; women in Nigeria also are the poorest of the poor and the most vulnerable in every sense.
- Women and the youth generally need to be given the loans because the rates are commendable. For example, repayment rates of the loans are believed to be in the range of 80 to 90 per cent, indicating that loans to small borrowers with little collateral assets can still be successfully managed with the right institutional setting.

While the figures or amount spent on the past on poverty reduction indicate massive investments, it is however very doubtful if the monies actually went to those that needed it most. For example, the Agricultural Credit Guarantee Scheme 2009 Annual Report indicated that it guaranteed a total of 53,639 (77.68% of 2009 target of 69,050 loans valued N8.35 billion (CBN, 2008). One is left with the question of who the beneficiaries were and how they were selected. This paper suggests that the youths who have become ready army for insurgent groups and secessionists are driven into the hands of these predators because they are idle and unemployed. They can be supported to start their own businesses and even become employers of labour.

However, information on microfinance as a sector is difficult to access as much of the available information is project-based and reporting is mainly in financial terms rather than on the overall development impact and outcome of microfinance. Credit to the agricultural sector is heavily dependent on commercial banks, which provide approximately two-thirds of the total credit to the sector. However, commercial banks mostly limit their exposure to large, short-term loans for general commodity trading. Microfinance Institutions (MFIs) provide the remaining third of the formal credit to the rural sector, 90 percent to small enterprises. Approximately only 30 percent of the rural population receives credit, and it is estimated that the rural credit supply will have to increase by up to 60 percent to cover unmet demand. MFIs are expected to play a significant role in meeting this demand. Nearly 70

percent of loan clients are women. While they extend loans to men, many MFI's believe the greatest opportunity for interrupting cycles of extreme poverty come from microfinance programs that target female entrepreneurs (Eguatu, 2008). The argument is that when women improve their circumstances, they also improve the lives of their children and by implication their families. By investing in nutrition and education, they help to create a better future for their children and their communities. This thinking has largely left out the youth who already outnumber the adults. It is true that the youth depend on the adults but only to the extent that the adults themselves can help the young people themselves. There is at present a large colony of these unemployed young people who can be gainfully self-employed if resourced. All of them can invest their energies in what they know best. For lack of credit facilities they are easily harvested by politicians and people with extreme ideas and ideologies for almost no fee. Targeting this group with microfinance loans will go a long way to solve some of the social and security problems facing confronting Nigeria.

### Managing Credit Default / Recovery

Poverty reduction requires more than just dishing out money and giving some pieces of advice. The poor are almost always vulnerable in all ways. Part of poverty is attitudinal in nature. The main causes of default are poor business performance, diversion of funds to solve domestic problems such as addition of more wives, health needs of usually large families etc. They have no voice nor courage to demand for their rights which are often infringed upon by the rich and powerful. Similarly, they are often linked with high risk due to weak collateral and fluctuating incomes; hence it is argued that the crucial challenge to microcredit is in the loan repayment. Because of this, the Federal Government established funds such as the Agricultural Credit Guarantee Scheme for the purposes of providing guarantees in respect of loans granted for agricultural purposes by any bank with a view to encouraging banks to make advances to the agricultural sub sector of the economy. However, a 2009 loan analysis report by the Accountant General of the Federation indicated that a total of 34,300 loans valued N3.81 billion (41.10% of loan repayment target of N9.27 billion was recovered during that year.

The report stopped short of revealing that the other 59% of unpaid loan perhaps was not meant to be paid probably because it was not disbursed to those that needed it. The report further indicates that between 1978 and 2009, N34.41 billion loans have been given supposedly to indigent Nigerians. It is because of this type of uncertainty and lack of transparency in the operations of government agencies that some have argued that facilities be granted more to cooperative groups under close supervision.

### Conclusion

This paper assumes a very vital and strategically different approach to the question of poverty and provides the opportunity for critical examination of what poverty is and why the Nigerian youth are poor. It suggests that with proper organization, microfinance loans can go a long way to reduce poverty and therefore improve security on a broader scale. The

paper argues further that the gap between the rich and the poor is ever widening. The security challenges are so obvious. Government either fights the war against poverty or will be compelled to fight against extremism. Micro finance facilities for the youths will reduce poverty, unemployment and inequality. Targeting the youth makes more sense because they will not only be helped, they could become entrepreneurs, stay away from drugs, prostitution and its health risks, radicalization and extremism etc. The paper concludes that thus far, there is no any impact or evidence that suggests that so much money has been spent so far by the government to address the issues of poverty.

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