

## **An Alternative Approach to Ending Economic Insecurity in Nigeria: the Role of Revolving Credit Association**

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**ABSTRACT:** Sustainable development is not possible when significant numbers of labour force are economically paralysed. Several policies were implemented to augment the disadvantaged populace to pave way for enable them to take the advantage of market opportunities. The major obstacles impeded government policies to recorded very little success arises from the failure to incorporate the targeted beneficiary in the design and implementation of such programme. Broader provision of financial support through credit and savings for acquisition of capital goods is crucial for effective economic management, the aim of which is to increase prosperity, equity and sustainability. The study proposed that rural dwellers should organise themselves into Credit Cooperative Societies, which could be used as Informal Financial Unit for Linkage Banking arrangement. The government (at all level) can also use these associations to channel their agricultural credit. The Credit Cooperative Societies will be used as a conduit for extending banking services to their members. This arrangement has worked in other places like Ghana and it is hoped to also work in Nigeria.

**Keywords:** Economic insecurity; Revolving credit association; Poverty; Access to finance

**JEL Classifications:** I390; P460

### **I - Introduction**

Though economic insecurity has now come to characterize life in developed countries too, the chronic insecurity rooted in poverty spread in across the developing countries that is more damaging from the viewpoint of the overall human welfare. Because of their interconnections, economic insecurity and poverty form a vicious circle which could only be broken by implementing strong fiscal, physical and monetary measures (Islam, 2009). Recognizing the foregoing, Successive Nigerian governments implemented several development plans aimed at serving as a catalyst for expanding the country's production possibility frontier. However, it turns out that population explosion and abject poverty which appears to be undisputed features of developing economy predominates in Nigeria (Ibrahim, 2011) Unsurprisingly, the poor are disproportionately located in rural areas, primarily engaged in agricultural and associated activities and are mostly women and children than adult males (Todaro, 2000). It is clear that the poor are poor only because they have no assets like land, livestock, fish ponds or skills for working in the secondary or tertiary sectors. They are often also illiterate or semi-literate and have to survive on daily wages (Swaminathan, 2000). Nevertheless, rural poor need only a little money to set up a business that can make a dramatic difference in the quality of their lives (Yunus, 2006).

Credit allocation to private sector has a first order influence of enhancing the performance of an economy more especially in countries with the developed financial system (Anthony, 2012). Sound and efficient financial system has the capacity to enable the country to achieve economic growth. However, if repressed, the economy would be prone to suffer from economic problems like unemployment, persistence slide in industrial production and decrease in consumers' real income (Shabbir *et al*, 2012). Enhancing access to financial service has become a major concern for policymakers in developing countries (Beck and De la Torre, 2006). This concurred with the fact that inadequate access to finance has a significant positive link with rural poverty in developing countries (Beck, Demirgüç-kunt, and Levine, 2004; Garba *et al.*, 2007). Like all economic agents, rural household can benefit from credit, savings, and insurance services and thus contribute immensely to the development of their community (Basu, 2006). Rural farmers' savings is their insurance,

protecting them against periods of droughts or crop failure. Savings also provide a vehicle for future expenditure needs, whether expected or unexpected. As such, provision of financial services to the rural population at affordable prices has remained a very important component in the development agenda of both developed and developing countries for a long time (Aliero and Abdullahi, 2007).

This study set to propose revolving credit association as an alternative approach of redressing the prevalence of economic insecurity in the country. The paper is divided into five sections. Second section discusses the conceptual and theoretical framework, section three presents the various approaches implemented to address economic insecurity, section four analyses the roles revolving credit association in promoting economic security while the last section concludes the paper.

## **2. Conceptual and Theoretical Framework**

There is no unanimity among scholars on the concept of financial deepening as a remedy to economic insecurity; in fact there are as many definitions of the concept as there are scholars. For instance, Egwuatu (2008) defined access to finance as a sustainable financial services that will enable the poor to increase income, build assets and reduce their vulnerability to external shocks. Put differently, Godwin (2008) viewed financial access as ability of community based financial institutions to extend credit to low-income clients who are usually excluded from mainstream financial systems. He further argued that, it is a form of financial intermediation, which primarily focuses on alleviating poverty through provision of financial services to the poor.

Access to formal financial services is the governmental and monetary authorities' programmes designed for countries facing the challenges of increasing provision of banking facilities to firms and households alike. While the use of financial service measured as having deposit account with banks reaches over 90% in most high-income countries, in many low and even middle income countries, the use of formal financial services is still restricted to a small number of firms and households (Peachy and Roe, 2004). Access to financial services can be seen as a public good that is essential to enable participation in the benefits of a market-based economy, in the analogous way, as is the access to safe water, basic health services, and primary education (Peachey and Roe, 2004). Access to finance therefore, is provision of financial services to knocks and crannies of a country to enables every economic agent accesses finance and hence contribute their quota toward economic growth of their country.

The induced poverty reduction and economic development theory lend itself to the micro-credit delivery model. According to this theory every country that embarks on the course of economic development necessarily encounters a set of constraints imposed by inelasticity on the supply of strategy inputs (Umoh and Ibanga, 1997). Unless efforts are directed towards the loose reduction of these constraints by producing substitutes for these factors with inelastic supply, the whole process of economic development is bound to be greatly depressed (Hayami and Ruttam, 1971). Promoting access to finance to rural poor has been identified as an indispensable tool in development. A poorly developed financial system is an obstacle to the wealth creation, enhancement of socio-economic welfare and promotion of human dignity (Iniudu, and Upak, 1996). The provision of financial support through credit and savings for acquisition of capital goods is crucial for effective economic management, the aims of which are to increase prosperity, equity and sustainability. Economic management goals like provision of full employment, eradicating poverty, enhancing economic growth and alike are consistent with the primary objectives of the provision of rural finance. All these are based on the assumptions that additional money, either in form of loan or savings will result in an increase in overall liquidity available to the households. This additional liquidity can be used to expand any of the households' production, consumption and investment activities as enunciated in savings-investment gap model which is used to justify borrowing for economic development (Ibrahim, 2011).

Theory of matching presumes that a match occur when the endowment of certain characteristics allow a borrower to engage in the transaction at a low cost on the one hand and at the same time, certain characteristics of the of the lending technology allow the lender to screen this borrower at low cost on the other hand (Milde and Riley, 1988). Rural poor do not have securitized collateral needed for a match with an institutional lender. Similarly, it is very expensive for formal lender to absorb all the cost of evaluating such potential borrowers (Sanchez-Schwarz, 1996). The underlying assumption is that formal sources of credit can offer more attractive contract terms and

conditions, such as lower interest rates, larger loans sizes and longer term maturity. However, the transaction costs involved may make these contracts unattractive for the rural poor that attempt to borrow from formal lenders (Joshi, 2005). The model predicts a positive matching between borrowers and lenders, given borrowers possession of traditional collateral, low transaction cost and affordable interest rate. Conversely, with the absence of collateral and technical backstopping requisite to secure credit, such intermediation could not hold. Thus necessitate the involvement of revolving credit cooperation which could be used as a conduit for group lending. This type of arrangement is expected to give minimal default rate since the lending is based on character assessment.

### **3. Efforts to Address Economic Insecurity in Nigeria**

Recognising the existence of vicious circles of poverty emanated from low savings, small markets and population explosion. It was believed that the removal of these vicious circles would set free the natural forces which would lead to higher growth (Jhingan, 2007). The initial post-World War II development efforts were inspired by the ideas of Unbalanced Growth, Big Push, Critical Minimum Effort, and Take-off which focused on raising aggregate growth rate through increased investment in physical capital. Neither poverty nor insecurity appeared as separate objectives in these ideas. The belief was that aggregate growth would create employment, which would in turn address problems of poverty and insecurity indirectly. Unfortunately, this Trickle Down Benefits (TDB), as the approach later came to be called, did not prove that effective, because, first, the expected high aggregate growth rates did not materialize, and, second, whatever growth was achieved did not create employment sufficient enough to outpace the growth in labour force the distribution system was faulty resulted to skewed income distribution (concentration of income in the hand of few minority) and to make a significant dent into the problems of poverty and insecurity (Islam, 2009; Ibrahim, 2011).

In light of the inefficiencies that characterizes Nigeria's rural financial markets and the relative lack of success of formal rural financial institutions to remedy economic insecurity manifested in the country, Non Governmental Organisations (NGOs), financial institutions, and government have made efforts, in partnership to develop new financial delivery approaches. Nigerian Agricultural and Co-operative Bank (NACB) were introduced in 1976 to provide loans to rural farmers but it failed to impact positively on agricultural finance. Rural banking scheme was inaugurated in 1977 with the aim of allocating the identified rural centre with banks on the basis of a formula which relate the number of each bank's rural branches to its total branch network throughout the country (Anyanwu et al., 1997). In a ranges programmes like the Rural Banking Scheme (1977-1990), the People's Bank and Community Bank, among them, Rural Banking Scheme appears to be more comprehensive. The scheme was implemented in three phases before its final termination. In the scheme commercial banks were required to open 765 rural bank branches and utilise a stipulated percentage (50% as in 1982) of its deposits mobilized from rural areas as credit to rural borrowers (Umoh and Ibanga, 1997). Rural Banking Scheme records little success because it suffers from many pitfalls, the most widely cited in literature (see for instance Anyanwu, *et al.*, 1997; Umoh and Ibanga, 1997; Aliero and Abubakar, 2007) includes inadequacy of personnel in banking industry hence the extension of banking services to rural areas had further stretched the capacity of the banks thus hampering full compliance as at when due. Apart from the problem of inadequacy of infrastructural facilities in the rural area, other problems are poor security, low rural income and high cost of establishing rural branches.

Agricultural Credit Guarantee Scheme Fund (ACGSF) came into being in 1978, established by Central Bank of Nigeria (CBN) in partnership with Federal Government of Nigeria (FGN), with 60:40 shareholding ratios respectively. The main objective of the scheme was to guarantee all agricultural loans created by banks in the country. However, like other programmes, this also did not achieve much, as the large-scale farmers are the major beneficiaries of most the loans, denied small farmers access to the programme (Aliero and Abubakar, 2007). Another initiative is Small and Medium Industries Equity Investment Scheme (SMIEIS) which was introduced by the CBN and Bankers Committee in 2001, with the twin objectives of providing both finance and managerial expertise to the Small and Medium Industries (SMI) in the Nigerian economy. Worried by the slow pace of investment, CBN (2005a) reports that the major constraints to SMIEIS includes, the desire of banks to acquire controlling shares in the funded enterprises, poor state of infrastructure, and limitation of funding to only investment among others.

Apart from CBN's effort in financial intermediation through Non-governmental organization (NGOs), following the bank consolidation, Micro-Finance Institutions (MFIs) were established in 2005 on the ground that formal financial system is providing services to about 35% of the economically active population in Nigeria, while the remaining 65% are excluded from access to formal financial services. The bulk of the active population will thus be provided with financial services via microfinance arrangements (CBN, 2005b).

In last decade Nigeria witnesses the new development agenda on the eve of new millennium aim at reduction of poverty and insecurity as a separate and independent goal. Observing these, Ibrahim (2008) contends that the Millennium Development Goals (MDGs) were adopted in the year 2000 by the entire world government as a blueprint for building a better world in the 21<sup>st</sup> century. The MDGs consist of eight goals, the first of which is to reduce poverty by half come year 2015 and to some extent to alleviate suffering in rural areas particularly by improving their financial condition. In order to fast track the process, series of interrelated programmes like National Poverty Eradication Programme (NAPEP), National Economic Empowerment and Development Strategy (NEEDS) and Seven Point Agenda were implemented. These policies recorded very little success as the issue of economic insecurity is still a source of concern especially now that federal government unconditionally removed fuel subsidy via deregulating down stream sub-sector of premium motor spirit. The need to develop new approach that could ensure economic security becomes paramount.

#### **4. Revolving Credit Association (RECA) and Economic Security**

Given that over two-third of Nigerians are poor and 80% of whom are found in rural areas (Badayi, 2002), and these people in rural areas are hardly affected by policies relating to banking and credit facilities (Aliero, 2008), and also in line with the finding of Ibrahim, 2011 which revealed that over 75% of the rural populace have no access to financial and banking services, we proposed that rural dwellers should organise themselves into Credit Cooperative Societies, which could be used as Informal Financial Unit for Linkage Banking arrangement. The government (at all level) can also use these associations to channel their agricultural credit. Moreover, members of this association should also be making contributions on weekly or monthly basis - depending on their mutual consent. The credit should be revolving in such a way that every member will benefit. If a member that benefits from credit is found defaulting, then he or she should be brought to justice and be withdrawn from the association. The choice of who will collect first should be determined through balloting. The association is hoped to work well given the fact that it is managed by its member. The Credit Cooperative Societies, or any similar formation, will be used as a conduit for extending banking services to their members. This arrangement has worked in other places like Ghana and it is hoped to also work in Nigeria.

Therefore, RECA could be used to break the vicious circles of poverty thereby given the disadvantaged youth opportunity to participate in market economy thus enable them to achieve a reasonable economic security. An efficient financial sector that responds to the needs of the private sector increases investment, enhances economic growth, and creates a job which is one of the major challenges for developing economies (Nasr, 2006). Improving households' access to financial services will also help to reduce poverty and improve income equality while financial exclusion can retard economic growth and increase poverty and inequality (Butler and Cornaggia, 2008). Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit and thus enhance economic security (CBN, 2005a). The capacity of poor for entrepreneurship would be significantly enhanced through the provision of financial services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income thereby leading to the economic growth.

#### **5. Conclusion**

Economic insecurity is a menace that every responsible government must strive to eradicate. Several policies and programmes implemented in Nigeria failed as results of so many reasons; principally lack of involvement of targeted beneficiaries in the design and implementation of such policies aimed at enhancing economic security. It has been argued that lack of market information and therefore, inadequate access to credit by the poor, is one of the main reasons why they remain poor.

Along this line, it could therefore be concluded that channelling credit through revolving credit association would be critical to enable the poor to transform their production systems and thus exit poverty. Albeit, it would assist the poor not only to smooth their consumption but also to build their assets, which enhance their productive capacity while financial exclusion could retard, cause unemployment and trigger insecurity.

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