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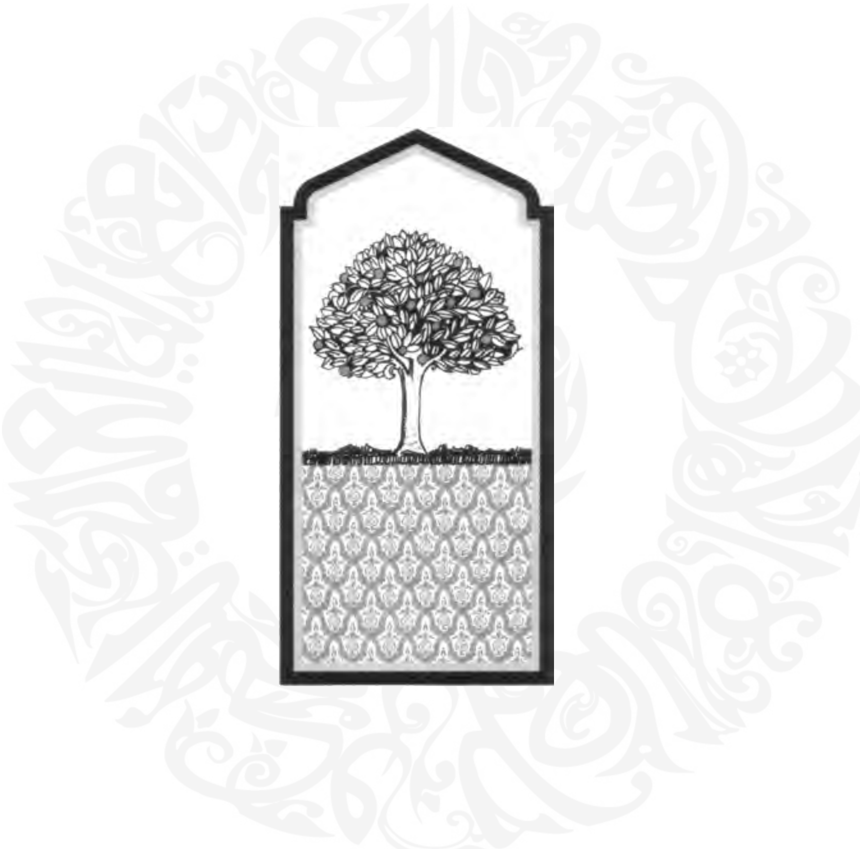

DEMOCRACY AND SOCIO-ECONOMIC INCLUSION IN NIGERIA: REDUCING THE MUTUAL EXCLUSIVITY THROUGH ISLAMIC MICROFINANCE

Abideen Adeyemi Adewale
Razali Haron

Abstract

Nigeria's return to democratic rule about 18 years ago heralded a new beginning that was expected to promote political stability, ensure economic prosperity and build societal civility. However, Nigeria is now politically disintegrated, socially dislocated and economically unstable mainly due to many reasons but chiefly socio-economic exclusion. Notwithstanding its large Muslim population, policy recommendations from the West towards solving its myriad of political-economy issues often discounts Islamic alternatives. This has brought to the fore a challenge to the status quo as well as the philosophy that underlines Nigeria's political-economy inclinations and implications for its teeming population. The objective of this theoretical paper is to stimulate discourse on the policy directions that are in alignment with political economy reality of Nigeria as a Muslim majority country. Specifically, this paper profiles Nigeria's current socio-economic realities, and its political economy vis-à-vis the global economic order. The paper argues that the various Islamic social finance platforms especially Islamic microfinance may play a big role in mitigating the mutual exclusivity of democracy and socio-economic inclusion of Nigerians especially the Muslims.

Keywords*:* Democracy, Political-economy, Islamic microfinance, Socio-economic, Financial inclusion, Nigeria.

Introduction

Poverty as a social menace and a manifestation of socio-economic exclusion is both multidimensional and multicultural. It possesses the feature of an orchestral dance - with so many styles and rhythms all to the entertainment of a hapless and helpless audience – the poor (Adewale, 2014)[1]. From a strictly conventional viewpoint, Narayan (2000)[2] views poverty as a socio-economic phenomenon reflected in the lack of material well-being, insecurity, social isolation, psychological distress, and lack of freedom of choice and action, unpredictability, lack of long term planning horizons, low self-confidence and self-esteem. From a religious viewpoint especially Islam, such manifestations of poverty are not only viewed as socially menacing but also faith assessing. Allah (s.w.t.) says:

> *Or think you that you will enter Paradise without such (trials) as came to those who passed away before you? They were afflicted with severe poverty and ailments and were so shaken that even the Messenger and those who believed along with him said, "When (will come) the Help of Allah?" Yes! Certainly, the Help of Allah is near!*[3]

> *And We will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient.*[4]

While the absoluteness and supremacy of Allah's divine will on humans are incontrovertible, the fact that the incidence of poverty can be linked to human actions, inactions and or reactions is also true. Without prejudice to their relation to economic forces, most

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[1]_Abideen A. Adewale, "Financial Exclusion and Livelihood Assets Acquisition among Muslim Households in Ilorin, Nigeria: A Structural Invariance Analysis", *International Journal of Economics Management and Accounting* 22, no. 2 (2014), 69-94.

[2]_D. Narayan, "Poverty is Powerlessness and Voicelessness", *IMF Finance and Development*, Vol. 37(4), (2000a), 18-21.

[3]_*Al-Qur'an*, 2:214

[4]_Ibid, 2:155

theories of poverty[5] also view it in terms of social relations, property rights and power. Such consensus suggests that poverty should be viewed with a political-economy lens given due cognition to its socio-religious dimensions. In alleviating poverty therefore, it is necessary to consider both theoretical concerns and ideological complexities as having far reaching implication for policies and reforms put in place by the government of a nation (Graaf, 2006)[6]. This is because poverty is essentially a social phenomenon and only secondarily a material or physical phenomenon that persists due to distributive injustices which ideally, all religions especially Islam abhors in its entire ramifications.

Islam emphasises on distributive justice as a cornerstone of its economic system. Cognisance is given to the fact that fingers are not created equal but inbuilt injunctions are provided to ensure that wealth is earned legally and shared fairly in an economy.

> *We have distributed their livelihood among them in worldly life, and have 'raised some above others in the matter of social degrees, so that some of them may utilize the services of others in their work."*[7]

> *…….so that this wealth should not become confined only to the rich amongst you."*[8]

Islamic economic system thus mitigates against such cases where resources available to a society are used to satisfy the needs and wants of the few at the top of the economic pyramid; while the majority at the bottom of the economic pyramid that wallow in abject and persistent poverty are subjected to exclusion in its entire ramifications. Daley-Harris cited in Adewale and Hassan (2014)[9]

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[5] _Harold. R. Kerbo, World Poverty: Global Inequality and the Modern World System. New York: McGraw Hill. (2006).

[6] _J. Graaf, *Poverty and Development.* Cape Town, (South Africa: Oxford University Press Southern Africa, (2006).

[7] _Ibid., 43:32

[8] _Ibid., 59:7

[9] _Abideen .A. Adewale and Hassan M. Kabir. *Islamic Microfinancing*, in M.K. Hassan & M.K. Lewis, (Eds). *Handbook on Islam and Economic Life.* (Edward Elgar Publishing, 2014), 417-434. Accessed from http://www.elgaronline.com/abstract/9781783479818.xml

described this situation as a 'party in the penthouse- fire in the basement' [10]. Otherwise, the consequence is that wealth is concentrated in the hands of the wealthy and thus enables them to become wealthier while the already poor become poorer especially due to lack of sustainable livelihood assets (SLAs)[11] particularly financial capital.[12]

The poor's lack of financial citizenship has huge implication for their acquisition of other livelihood assets thus ultimately impairing their financial resilience, frustrating their opportunities and efforts to exit poverty trap. In this case, as argued by Adewale (2014) [13] dynastic class reproduction and intergenerational opportunity sets reflected in societal inequality are contingent upon initial dynastic wealth and capital ownership. According to Kotler et al. (2006)[14]; poverty and inequality resulting essentially from such systemic socio-economic cum political exclusion, therefore, are responsible for the poor's movement through the stages of apathy, voluntary exclusion and ultimately violence. [15] For instance, in the

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[10] _Ibid.

[11] _SLAs include financial capital, human capital, social capital, natural capital and physical capital. DFID. *Sustainable Livelihoods Guidance Sheets*. Department for International Development, United Kingdom (2001).

[12] _Dymski states that the lack of financial citizenship is reflected in the failure of the formal banking system to offer a full range of depository and credit services, at competitive prices, to all households and/or businesses, especially the poor thus compromising their ability to participate fully in the economy and to accumulate wealth. Gary A. Dymski, "Financial globalization, social exclusion and financial crisis." *International Review of Applied Economics* 19, no. 4 (2005), 439-457.

[13] Ibid.

[14] Philip, Kotler, Ned Roberto, and Tony Leisner. "Alleviating poverty: a macro/micro marketing perspective." *Journal of Macromarketing*, 26, no.2, (2006), 233-239.

[15] _*Poverty is perhaps the most serious threat to world peace, even more dangerous than terrorism, religious fundamentalism, ethnic hatred, political rivalries, or any of the other forces that often cited as promoting violence and war. Poverty leads to hopelessness, which provokes people to desperate acts. Those with practically nothing have no good reason to refrain from violence, since even acts with only a small chance of improving their conditions seem better than doing nothing and accepting their fate with passivity. Poverty also creates economic refugees, leading to clashes between populations. It leads to bitter conflicts between peoples, clans, and nations over scarce resources - water, arable land, energy supplies and any*

case of Nigeria and perhaps most Muslim majority countries, the spate of religious intolerance, ignorance, corruption, and ethnic-motivated hatred is currently at the all-time high. Nigeria today is engulfed in a plethora of violent incidences from Boko Haram insurgency in the North, to kidnap and crude oil bunkering and agitation for secession in the South etc. All these social vices and agitations may be linked to poverty and inequality of which outright exclusion from or marginal inclusion of the poor in the main stream of financial services is pivotal[16].

In order to ensure an all-inclusive finance for all, microfinance is touted as one of the suitable financial platform. In line with this reasoning, there have been efforts by the Nigerian government through the Central Bank of Nigeria (CBN) to demonstrate its compliance with global practices in particular relation to micro-financing. A notable, yet unfortunate trend in the economic reforms is the insufficient attention paid to Islamic social finance alternatives such as *zakat*, *waqf* and Islamic microfinance due to a combination of political, religious, and ethnic sentiments. This is notwithstanding the fact that such Islamic alternative's inherent theological philosophy underlines both the spirit and mechanics of finance on the one hand and its compatibility with the religious tenets of the Muslim poor on the other.[17]

The thesis articulated in this paper is that while the prescribed policy medicine (political systems and socio-economic policies) of the West have been taken as prescribed, the ailment (poverty, inequality and socio-economic exclusion) persists. This may either be

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saleable commodity."
Yunus, Muhammad. with Weber, K. Creating a World without Poverty: Social Business and the Future of Capitalism. (New-York: Public Affairs, 2007), 105.

[16]_Abideen. A. Adewale, Ataul. H, Pramanik, and Ahmed Kameel M. Meera, (2014). "Financial Citizenship Barriers Among Muslim Micro-Entrepreneurs in Ilorin, Nigeria: A Factorial Invariance Analysis", in N.S. Shirazi, A. Elzahi and I. Khattab (Eds) *Islamic Microfinance for Sustainable Development*, (Jeddah, Saudi Arabia, Islamic Research and Training Institute, 2014), 249-265.

[17]_Obaidullah and Shirazi noted that the introduction of Islamic banking in Nigeria is faced with a stiff protests from various ethno-religious groups who view it as an attempt to Islamize Nigeria. M. Obaidullah, and N.S Shirazi, *Islamic Social Finance Report*, (Jeddah, Saudi Arabia: Islamic Research and Training Institute, 2016).

due to wrong diagnosis of the ailment or the systemic resistance to the prescribed policy medication. As such, in concord with Obaidullah and Shirazi (2016)[18] and Stirk (2015)[19] this paper argues that other alternative policy medicines such as the Islamic social finance platforms especially Islamic microfinance have been under-leveraged to solving the myriad of humanitarian and social issues facing the world today. The objective of this theoretical paper therefore, is to stimulate discourse on the policy directions that are in alignment with political economy reality of Nigeria as a Muslim majority country. The remaining parts of this theoretical paper X-ray Nigeria's current socio-economic realities, and its political economy vis-à-vis the global economic order. The paper also discusses the role of Islamic microfinance in mitigating the mutual exclusivity of democracy and socio-economic inclusion of Muslims in Nigeria.

Nigeria Socio-Economic Realities

It presents a huge paradox that notwithstanding Nigeria's enormous resource endowments and potentials for sustainable growth, most Nigerians still suffer in the midst of plenty (Birdsall et al, 2004[20]; Okonjo-Iweala and Osafo Kwaako[21], 2006; Pramanik, 2007)[22]. The systemic failure prevalent in virtually all aspects of its national life is well captured by Abati (2008)[23]. He stated that Nigeria is deep rooted in one spot, gyrating on its axis where nothing absolutely appears

[18] _M. Obaidullah, and N.S Shirazi, *Islamic Social Finance Report*, Islamic Research and Training Institute, Jeddah, Saudi Arabia (2016).

[19] _Chloe Stirk. *An Act of Faith: Humanitarian Financing and Zakat*. Global Humanitarian Assistance. London, United Kingdom (2015).

[20] _N. Birdsall, T. Pickeney & R. Sabot, Natural Resources, Human Capital, and Growth. In M. Auty (ed) *Resource Abundance and Economic Development.* Oxford, UK: Oxford University Press. (2004): 56-73.

[21] _Ngozi Okonjo-Iweala & P. Osafo-Kwaako,. Nigeria's Economic Reforms: Progress and Challenges. *Working Paper No. 6,* Brookings Global Economy and Development, (2006).

[22] _Ataul H. Pramanik, Political Economy of Development: A Comparative Study of Regime Performance. Singapore: Thomson (2007).

[23] _Reuben Abati, When Will Nigeria Ever Make It? [Editorial and Opinion]. *The Guardian.* (2008, January 13)

working. Statistics available from, and pronouncements made by the Nigerian government and its agencies indicate improvements; albeit at a slow rate in the development and economic indices of Nigeria. Notwithstanding, it is incontrovertible that most Nigerians still live in abject poverty.[24]

Since its independence from the British in 1960, Nigeria, arguably witnessed one of the longest military intervention in governance in Africa. Following the unpopular annulment of what was adjudged its freest and fairest election in 1993, the return to civil rule in 1999 came with huge expectations. At least, there was another opportunity for Nigeria to retrace its steps towards taking its rightful place in the comity of nations. As stated in Yahaya (2007:598)[25], in 2001, the newly democratically elected Nigerian Government made a declaration of its vision in Kuru, Plateau State, Nigeria:

> *To build a truly African democratic country, politically united, integrated and stable, economically prosperous, socially organised, with equal opportunities for all, and responsibility from all, to become the catalyst of (African) renaissance, and making adequate and all-embracing contributions, sub-regionally, regionally, and globally.*

The above vision is not an exaggeration by Nigeria standards. Quite apparently, Nigeria is endowed with the requisite resources to achieve its restated vision upon return to civil rule. Nigeria is blessed with vast arable land for agriculture, tropical savannah, commercial deposits of precious metals, abundance of agricultural and industrial cash crops, and colossal deposits of petroleum resources. Ordinarily, this should have had a positive transformation on the lives of

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[24] As stated in Obaidullah and Shirazi (2016) the headcount of the 'very poor' in Nigeria was 63.1 percent and that of 'poor' was 83.1 percent in 2004. These headcounts increased to 68 percent and 84.5 percent respectively in 2010. Based on national poverty thresholds, the headcount of the 'very poor' in Nigeria was 48.4 percent and that of 'poor' was 56.6 percent in 2004 under rural poverty line in the same year.

[25] H. Yahaya. The Reform Agenda. How far, So far? In H. Saliu, E. Amali, & R. Olawepo, (eds) *Nigeria's Reform Programme: Issues and Challenges*. Ibadan, Nigeria: Vantage Publishers (2007), 597-607.

Nigerians, but for a plethora of reasons, which are pivoted by corrupt state leadership and followership (Pramanik, 2007). No thanks to Western countries, where the loots are also deposited, Nigeria has consistently been on the lowest rung of the ladder of Transparency International's corruption ranking. Such situations, according to Okonjo-Iweala and Osafo-Kwaako (2006) have been the bane of Nigeria's growth as a nation in its entire ramifications. This is so given that resources needed for human capital development and other infrastructural development are siphoned. Consequently, Okonjo-Iweala and Osafo-Kwaako[26] posited that:

> *Poor households are often likely to be excluded from public services which require grease payments as their burden of corruption (i.e. the cost of a bribe as a share of income) is larger; in addition where public service delivery is weak due to corruption, the poor are severely disadvantaged as they often lack resources to purchase private services (e.g. in private clinics or private schools).*

The situation today has not changed for the better. Rather, it presents an apparently huge paradox of the Kuru declaration cited above. Not only is Nigeria politically disintegrated, it is socially dislocated and economically unstable[27]. The expected dividend of democracy promised has not trickled down neither is the economic prosperity expected. Rather exclusion from political, social, economic, cultural, and social activities of the society has apparently exacerbated dynastic poverty and inequality in Nigeria (Adeyemi, 2007)[28]. In such a situation; according to Demirguc-Kunt and Levine (2007)[29], it is next to impossible to achieve the desired economic

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[26] Ibid., 27.

[27] Nigeria's high susceptibility to global economic volatility as a mono-product economy is advertised by the current slump in oil prices and the unprecedented depreciation of its national currency – Naira.

[28] B.L. Adeyemi, "Democracy and Free markets", in H.A. Saliu, A.A. Ogunsanya, J.O. Olujide, & J.O. Olaniyi (eds), *Democracy and Development in Nigeria: Economic and Environmental Issues*. (Lagos: Concept Publishers, 2007), 192-207.

[29] A. Demirguc-Kunt & R. Levine, *Finance and Opportunity: Financial Systems and Intergenerational Persistence of Relative Income* (2007). Retrieved May 2, 2008

growth through optimum resource allocation.

Political Economy of Nigeria

Doctrinally, the appositeness of authentic democratic ideals advertises its relative importance in modern day political-economy milieu. The underlying political-economy philosophy that underlines authentic democracy as a system of government, is reflected in its expected, albeit seemingly unattainable, compatibility with economic inclusivity[30]. This is well-echoed in the statement originating from the cradle of democracy – United States of America - and credited to the 32nd American President, Franklin Roosevelt that: "The pace of our (America) progress is not whether we add more to the abundance of those who have much, it is whether we provide enough to those who have too little.

Therefore, the ideals of democratic governance that are hinged on civic participation and inclusion across economic, social, and political divides are incontrovertibly desirable even from theologically communitarian philosophy of Islam. Other attributes like the rule of law, protection of human and property rights of all regardless of socioeconomic status, and acceptance of majority rule perhaps explains the universal appeal and dominance of democracy as a system of government today.

Although not necessarily but apparently conjoined, democracy may also imply the prevalence of capitalism based on free but not essentially fair markets. In such markets, the resource allocation is based on the forces of demand and supply while means of production and ownership are private. Essentially, the state plays a passive role, at best as regulators of the economy. This according to its proponents and as manifests until the recent pervasive economic turmoil in Europe and the United States; enhances operational efficiency and effectiveness of the economy. This is in a way that promotes political stability; ensures economic prosperity; and builds societal civility. However, the spate of economic failures in these hitherto burgeoning

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from www.worldbank.org.

[30]_Similarly, as cited in Mattern (2005:1) Supreme Court Justice Louis B. Brandeis is quoted to have said: "We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both."

neoliberal economies has not only brought to the fore a challenge to the status quo, but also the philosophy that underlines its political-economy inclinations and implications for the adopting developing countries.

The structure of global capitalism today as the other side of the same coin of democracy, therefore, appears to have taken a detour. This is such that its conceptualization needs to be moderated by the contextualization of its generic application. Todaro (2009:88) [31] stated that the problem is that many Less Developed Countries like Nigeria differ in structure and organization from their Western counterparts. Hence, the behavioural assumptions and policy precepts of traditional neo-classical theory are sometimes questionable and often incorrect. There are even studies that suggest that attempts at fostering democratic governance in developing countries is laden with an ulterior motive to propagate the politico-economic hegemony of the developed nations as a modern day guise of colonialism. As succinctly stated by Druschel (2002)[32] socio-economic globalization championed by the West is another attempt to colonize developing countries so that the west can be supplied cheap resources and labour. Druschel (2002) stated further:

> *While the West attempts to foster democracy in these developing countries, it is largely organized around elite with access to information that is not then disseminated to the majority poor of the country. This is all done under the guise of globalization, and the belief that free trade and democracy are good for all. It has been pointed out by many, however, that globalization policies lead, generally, to increased inequality within and between countries, especially as both poor countries within the international arena and poor people in a national arena are kept from decision-making processes.*

[31] M.P. Todaro, *Economic Development* (Fifth edn). Boston: Addison Wesley. (2009).
[32] K. Druschel, "Microfinance in China: Building Sustainable Institutions and Strong Industry", A Master of Arts in International Development Dissertation, submitted to the School of International Service of American University, (2002).

Therefore, it seems the compatibility of democracy and economic inclusion is moderated by a country's level of development. This perhaps, explains why Leyland (2004) noted the incompatibility between democracy and free market in Latin America given the high rate of socioeconomic inequality. This trend is also similar in the case of Nigeria where uninterrupted democracy for 18 years has witnessed more of what may be described as an apparent manifestation of 'corporatism' or what Tan Sri Muhammad Ali Hashim[33] severally termed 'westoxication' and Adeyemi (2007) described as 'political opening' due to democracy and 'economic closure' due to free market[34]. In the case of Nigeria, notwithstanding its potentials for economic growth, its return to democratic rule in 1999 has not translated into prosperity for its citizens.

The unfortunate outcomes that Nigerians have had to grapple with since Nigeria's transition to civil rule or 'evil' rule as some like to describe it included but not limited to various manifestations of extreme poverty and economic inequality. The variability in the vulnerability of the poor competes with the intensity of the severity of poverty they are trapped in. Unfortunately, this trend has assumed an intergenerational dimension in which the children of the poor inherit poverty, just as the cohorts from rich homes inherit property. This rather pitiable state of the nation has not abated as noted by Pramanik (2007), Morales-Pita and Flynn (2014) and Obaidullah and Shirazi (2016) that linked the situation to both systemic and governance failures. Obviously, there is a need to have a rejigging of various policy options that ensures that Nigerians enjoy the dividends of democracy via socio-economic inclusion. Over the years various policy reforms have been implemented in this regard.

According to Saliu (2007)[35], the likelihood of situating

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[33]_President, Malaysia Islamic Chamber of Commerce and Founder, Waqaf An-Nur Corporation Berhad

[34]_These terms succinctly describes the new guise of neoliberalism in which the power of the corporations is protected in an environment where the labour unions are marginalized, middle class is shrinking, media is either suppressed or controlled, cronyism and corruption are rampant and elections are fraudulent etc.

[35]_Hassan A. Saliu, "Facing the Challenges of Reform", in H. Saliu, E. Amali, & R. Olawepo (Eds) *Nigeria's Reform Programme: Issues and Challenges*. (Ibadan, Nigeria: Vantage Publishers, 2007), 569-596.

reforms within an economic context is always very high even though reforms in other aspects of national life are also relatively important. Bearing in mind this likely bias, and without being prejudicial to the relative indispensability of reforms in other sectors, this paper focuses on Nigeria's reform efforts towards ensuring economic inclusion as a manifestation of its democratic renaissance.

Notwithstanding the apparent and incipient pessimism among most Nigerians about the sincerity of the governments' intents, the latter has never been bereft of novel policy framework and reforms towards addressing Nigeria's myriad of macroeconomic issues cum political problems. Most of these reform efforts failed apparently due to bad implementation, corruption, bureaucracies, programmes overlapping, political instability etc. (Elumilade, Asaolu and Adereti, 2006)[36].

Following a thorough review and wide consultation on the reasons for the failure of numerous earlier laudable policy frameworks the civilian government in 2003 introduced a number of policy reforms chief among which is the National Economic Empowerment and Development Strategy (NEEDS). As a long term economic blueprint to deliver democratic dividends to Nigerians, NEEDS which has since been abandoned in its second phase in 2007 was supposed to be a key strategy via among other means the strengthening of the private sector and create a new social charter. Interestingly, under the same ruling party, successive governments have also introduced the seven-point agenda of the Late President Umaru YarAdua, and the transformation agenda of the immediate past President Goodluck Jonathan. The change mantra of the hitherto opposition and current regime of President Muhammadu Buhari is hinged on three agenda of ensuring security, reviving economy, and fighting corruption. In all agenda, the government have tried to replicate world best practices. While it may be worthwhile replicating some of these practices, reforms to make such practices effective must be based on local realities (Van Horen et al, 2004[37]; Adewale,

[36]_T. O. Asaolu, D. O. Elumilade and S. A. Adereti. "Appraising the Institutional framework for poverty alleviation programme in Nigeria." *International Research Journal of finance and economics* 3 (2006), 67-77.

[37]_Basil,van Horen, Michael Leaf, and Sisira Pinnawala. "Localizing a global

2007). [38] Unfortunately, the current development paradigm championed by the Washington Consensus (WC) and apparently adopted in Nigeria makes certain unrealistic assumptions. For instance, the WC treats the poor countries as a homogeneous lot having similar development aspirations, whereas the converse is also a fact (Misra, 2005)[39].

Among the present options of socio-economic inclusion that the international development agencies, the Washington Consensus (WC)[40] and the developed countries are recommending to the developing countries is the strengthening of the microfinance sector (Mueller, 2006[41]; Flynn, 2007[42]). This is often with the intention to empowering the financially repressed poor who are either viewed as neither bankable nor credit-worthy by the mainstream financial institutions. Therefore, the new financing paradigm favours the establishment of NGOs, civil societies and private firms who either often acts as profit oriented microfinance institutions, or the conduit through which donor funds can be channelled to the poor. The Nigerian government seems to have bought into this idea and the Central Bank of Nigeria (CBN) has taken recognition of this trend, especially when it stated that robust economic growth cannot be achieved without putting in place well-focused programmes to reduce

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discipline: designing new planning programs in Sri Lanka." *Journal of Planning Education and Research* 23, no.3, (2004), 255-268.

[38]_In this context, a study made by Porter (2003:134) in Ghana reiterated the importance of local realities, "…local confidence in home-grown perceptions and ideas about poverty and ways to tackle it are undermined by external ideas about development, causing grounded knowledge about poverty to be devalued and distorted."

[39]_A. Misra, "Why Microfinance needs Participatory Impact Assessment: Case Analysis of SHG-Bank Linkage programme in India". Paper presented at the Asia Workshop on Next Generation Participatory Monitoring and Evaluation, PRIA, New-Delhi, India. (2005, November).

[40]The agreement between the West especially Britain and the United States, and the multilateral organizations such as the World Bank and IMF circa 1980s to promote capitalism and neo-liberalism (Graaf, 2006).

[41]_S.D. Mueller, "Rural Development, Environmental Sustainability, and Poverty Alleviation: A Critique of Current Paradigms", *Desa working paper no.11*, (2006).

[42]_Patrice Flynn, "Microfinance: the newest financial technology of the Washington Consensus." *Challenge* 50, no.2, (2007), 110-121.

poverty through empowering the people.[43] This is possible by increasing their access to factors of production, especially financial services.

Conversely, most of the economic inclusion programmes in most developing economies like Nigeria are mostly influenced by orthodox economic theories that are often at variance with local realities. For instance, according to Duursma (2004)[44], the frontier of service of the microfinance institutions hardly extends beyond the urban areas. While it is incontrovertible that there exists some urban poor, poverty in most developing countries is essentially a rural phenomenon. Porter (2003:139)[45] found that usually, officers of these so called socially inclined institutions belong to the urban-based educated elite. Therefore, they find it difficult residing in the rural areas or slums where the poorest of the poor lives. Hence, these officers are often far away from understanding the realities of poverty and as such have the tendency of viewing their clients as 'supplicants rather than equals' (Bret, 1993:292 cited in Porter, 2003:139). In such situation, the efficacy of socio-economic inclusion platforms like microfinance for instance may be infringed. This is not necessarily due to the programme itself but rather, the underlying economic inclusion paradigm that drives programme implementation. Two prominent orthodox socio-economic paradigms and a relatively newer hybrid paradigm are briefly discussed in the Nigerian context in the next section.

Orthodox Socio-Economic Paradigms

There are basically three prominent orthodox economic paradigms. While the neo-classical and the Keynesians have been the two most popular, a third paradigm – eclectic or pro-poor – has since the last

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[43] _Without a pro-poor macro-environment, microcredit programmes cannot be successful for poverty reduction. As such, microfinance programmes need to be located within a broader sustainable livelihood framework. N., Burra, J. Deshmukh-Ranadive, & R.K. Murthy, (Eds). *Micro-Credit, Poverty and Empowerment: Linking the Triad.* (New-Delhi: Sage Publications, 2007).

[44] _M. Duursma, Community-Based Financing Models in East Africa. Netherlands, FACET BV, (2004).

[45] _Gina Porter, "NGOs and poverty reduction in a globalizing world: perspectives from Ghana." *Progress in Development Studies* 3, no.2, (2003), 131-145.

score of the last century gained prominence. Interestingly, what researchers and proponents of these paradigms have been able to produce is nothing more than a virtual cacophony of protests and acclaims, which further exposes several latent conflicts, gaps and uncertainties in the analyses and conception of the mutual exclusivity or otherwise of democracy and economic inclusion.

Most current economic growth and poverty alleviation paradigms are neo-classical in nature. They emphasize on the need for the state to be passive and allow market forces to allocate resources (Priest, 2005[46]; Sarker and Rahman, 2007[47]). Some other economists, who are largely Keynesian and state centric, hold dissenting views (Sachs, 2005[48]; Mueller, 2006). Holding a midway view are the post-Washington consensus economists and development scholars championed by Stieglitz (1998)[49]; Kimenyi (2006)[50] etc. The foregoing demonstrates the fact that paradigms within the global development issues have been changing overtime. Each of the paradigms has been strongly argued for by their proponents as being imperative for socio-economic and political empowerment. This is especially via microfinance, which is thought out as the newest financial technology to ensure socio-economic inclusion.

The literature on strategy for promoting economic inclusion demonstrates a convergence of opinion among scholars on the need for such strategy to have significant impact on poverty alleviation and socio-economic inclusion. However, a sharp divide exists among the scholars on the trade-off between sustainability and outreach.

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[46]_G.L. Priest, Reducing Global Poverty-Theory, Practice, and Reform. *SELA 2005 Panel 5: Poverty and International Order,* (2005)

[47]_Abu Elias Sarker, and Mohammad Habibur Rahman. "The emerging perspective of governance and poverty alleviation: a case of Bangladesh." *Public Organization Review* 7, no.2, (2007), 93-112.

[48]_J. Sachs, The End of Poverty: Economic Possibilities for Our Time. (Penguin, 2005).

[49] _J. Stiglitz, More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus, 1998 WIDER Annual Lecture, Helsinki, Finland (1998, January).

[50]_S.M. Kimenyi, Economic Reform and Pro-Poor Growth: Lessons for Africa and Developing Regions in Transition. *Department of Economic Working Papers 2006-02* University of Connecticut, United States of America, (2006).

Fatukasi (2004)[51] noted further that there are different schools of thought as per the approaches to such economic inclusion. According to Crossgroves (2002)[52], the first two and arguably the most prominent are the welfarist and institutionalist schools of thought.[53]

The Keynesian or state centric economists championed earlier by Rostow, Myrdal etc and much more lately by Sachs (2005); Mueller (2006), etc. hold a contrary view from the neo-classical economists. They opine that the attempt to either bypass, relegate, ignore, or find substitutes for badly functioning states with micro level and local initiatives is contradictory. They argued further that such effort is faulty given that it is the state that still set the policy guidelines and frameworks upon which the other actors operate (Crossgroves, 2002). First, they argue against the decentralization of development activities based on the view that the state is corrupt and bureaucratic. But then there are ample evidences that a decentralized state is no less corrupt. Mueller (2006) argued that it was corruption among autonomous unaccountable authorities in Britain that led to subsequent centralization. Moreover, decentralization only produces the states in another guise (Porter, 2003)[54]. This is so, given the immutability of the informal rules upon which decisions are taken, unlike the formal rules that are easily changeable. Therefore, attitudinal inclinations of the person in charge matters more than the intrinsic characteristic of the nation state.

Furthermore, it is argued that the proliferation of NGOs in developing countries in some instances may just be to attract foreign aids and grants (Stieglitz, 2008; Porter, 2003). These NGOs have been accused of being low on advocacy, lack innovation as they try to fill a gap uncovered by the government, rarely come up with new

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[51]_A.F. Fatukasi, "Microfinance as a Policy Tool for Poverty Alleviation: A Study of the Performances of Ten Microfinance Institutions in Nigeria", a Masters of Arts Degree Dissertation submitted to the Morgan State University, (2005).

[52]_Serena Cosgrove, "Levels of empowerment: Marketers and microenterprise-lending NGOs in Apopa and Nejapa, El Salvador." *Latin American Perspectives* 29, no.5, (2002), 48-65.

[53]_While the former emphasize outreach in terms of depth, the later accentuate on the need to have outreach in terms of breadth thus enhancing the sustainability of the microfinance institutions.

[54]_Ibid.

ideas, and often allow their allegiance to their donor becloud their sense of judgment. For instance, Urbina (2004:17)[55] stated that:

> *The British donor agency, Department for International Development (DFID) is committed to only working with microfinance institutions that share its long term vision of sustainability and independence from donor support. This donor pressure and endogeneous circumstances (for example, increased competition among microfinance institutions) in some countries where microfinance institutions operated led to a transformation of many of these into commercial entities operating on a business-like model and with focus on profitability-commercialization of microfinance.*

Contrarily, the proponents of the neoclassical paradigm like Sarker and Mohammed (2007), Osborne and McLaughlin (2002)[56] view governance from a different perspective. They view economic inclusion and empowerment as something that has to be negotiated among the government, civil societies, and the Non-Governmental Organizations (NGOs). According to Chandhoke (2003)[57], this shared responsibility should ideally be horizontal and devoid of bureaucracies. The civil societies are expected to mediate between the public and private sector in this current paradigm. They will serve as watchdog to curb the excesses of the other actors through enhancing people's participation in economic and social programmes.

The need for the civil societies and NGOs according to Tsai

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[55] _M. Urbina, "An Evaluation of Microfinance as a Tool for Poverty Alleviation", Case Study of SEPAS/FONCRESOL, Potosi, Bolivia. A Practicum Report submitted for a Master of Arts in International Development at Saint Mary's University, Halifax, Nova-Scotia, (2004).

[56] _S.P. Osborne, & K. McLaughlin, From Public Administration to Public Governance: Public Management and Public Services in the Twenty-first century. In S.P. Osborne, and K. McLaughlin, (Eds.), *Public Management: Critical Perspectives* (Vol.1), (London: Routledge, 2002), 1-10.

[57] _Neera Chandhoke, "Governance and the pluralisation of the state: implications for democratic citizenship." *Economic and Political Weekly*, (2003), 2957-2968.

(2003)[58] is pertinent. The state centric arrangement in terms of credit extension and economic inclusion is highly prone to leakages of benefits to unintended beneficiaries. This is because more often than not, such arrangement is treated as political patronage. In this case, officers charged with disbursement may bow to sentimental pressures and incentives thus acting in contrary to programme objectives. This trend was the bane of most of the pro-poor policy efforts in Nigeria in its experimentation with the People's Bank in the late 1980s. It was such that those who had access to the funds apparently did due to favouritism, tribalism or even religious sentiments (Elumilade, Asaolu and Adereti, 2006).

The third school – eclectics, according to Gutierez-Nieto and Serrano-Cinca (2007)[59], though less relatively prominent appears to be getting some attention. The eclectic school of thought reflects the thinking of the proponents of the pro-poor growth paradigm by taking a middle-way position that leverages on the synergistic strength of both the classical and Keynesian schools towards ensuring the best approach to economic inclusion. This model, which was developed by Stieglitz (1998), is also referred to as the post Washington consensus. It evolved out of the inefficiencies of the neo-classical paradigm of development. Basically, the proponents of this paradigm acknowledge their convergence with the other two models but argued that both were too extreme in a direction at the expense of the other. Thus, the pro-poor growth paradigm may be said to be a balanced view of development issues in the context of the arguments of the neo-classical and Keynesian economists. As Kimenyi (2006:8) aptly puts it:

> *"the post Washington Consensus recognizes the important role of the government in complementing markets. While accepting the importance of markets, recent policy focus also recognizes the importance of investing in the poor in areas such as health, education*

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[58] _Kellee S. Tsai, "Segmented Markets: Grassroots Finance in Rural China and India", *China report* 39, no.4, (2003), 511-535.

[59] _Begoña Gutiérrez-Nieto and Carlos Serrano-Cinca. "Factors explaining the rating of microfinance institutions." *Nonprofit and Voluntary Sector Quarterly*36, no.3, (2007), 439-464.

> *and good governance so that the people can be able to take advantage of economic opportunities."*

Primarily, the pro-poor growth paradigm emphasizes the need for economic growth to be viewed from the perspective of how much of such growth disproportionately accrues to the socio-economically excluded in the society. There is an antithesis that the economy may grow while the poor's situation is either same or even worse off. Enough evidences exist to demonstrate the inverse relationship between economic growth and inequality which constrains the 'functioning' and 'capability' of the poor. These two concepts of functioning and capability underline the philosophy behind the pro-poor growth paradigm and are considered as conjoined (Kimenyi, 2006). Hence, beyond stimulating the activities that the poor, due to their capital endowments engage in, their ability to take up opportunities when they identify such should not be impeded by institutional, socio-demographic and economic factors. This is most realizable and sustainable in a collaborating arrangement involving the state and the market, and with necessary balance between the two by the civic society as may be necessary given the dynamism of the development process itself.

It is quite discernible, therefore, that the differences in the paradigms are in their service delivery, funding and target clients. In the case of Nigeria, the present microfinance policy guidelines appear to have a leaning towards the neo-classical' minimalists approach. This is more so since most of the microfinance institutions only transformed from community banks that were hitherto established based on commercial orientation. The argument, therefore, is that with these transformed microfinance institutions and the venturing into the microfinance business by some of the big banks in Nigeria, there would be increased competition. There would be more funds but at a commercial going rate thus further discriminating against the core poor. The tendency of what Hishigsuren (2007)[60] called a 'mission drift' is therefore, imminent. The implication of this is that the socio-political philosophy that underlines micro-financing may

[60] _Gaamaa Hishigsuren, "Evaluating mission drift in microfinance: lessons for programs with social mission." *Evaluation Review* 31, no.3, (2007), 203-260.

just have been relegated right from inception of these microfinance institutions. In such a situation, the core poor are usually not the target clients, and as such the scourge of poverty and indeed its intergenerational transmission may conveniently retain its perennial status.

The Imperative for Islamic Microfinance in Nigeria

The imperatives for having Islamic microfinance institutions in Nigeria derives from the concern that the conventional micro-financing as being presently practiced has lived up to its billing as a prelude to another platform to perpetuate another round of 'green washing' or 'charity washing'.[61] Flynn (2007) stated that while the technology adopted in offering these services is new, the rhetoric is familiar with the intention of tapping on the potentials and profitability of the microfinance market.[62]

Sinclair (2012)[63] in his "Confessions of a Microfinance Heretic" dedicated a chapter to how powerless poor in Nigeria are further disempowered from overpowering their state of socio-economic powerlessness by one of the foremost and powerful microfinance service providers in Nigeria. Interestingly, this Nigerian MFI (NMFI) is financed by Grameen Foundation USA, which according to Sinclair (2012) was aware of the unwholesome practices at the Nigerian MFI but was, as many of the foreign investors[64] interested in the NMFIs ability to repay the 750,000 Euros invested in it.

Although Smart Campaign is often criticised for its client protection assessment not including social impact assessment, it is likely that most MFIs in Nigeria run afoul of the six dimensions of

[61]_Making misleading claims about the efficacy and effectiveness of a product, technology or practice

[62]_Flynn (2007:7) cited Sapp (2006) to validate his assertion: "Funds from the March 2006 sale of Morgan Stanley's $106 million bond was to be distributed to sixty-five microfinance institutions that loan to poor people in increments of $100 to $500 at 15 to 35 percent interest rates."

[63]_H. Sinclair, Confessions of a Microfinance Heretic. How Micro-lending Lost Its Way and Betrayed the Poor. San Francisco, Berret-Khoeler, (2012).

[64]_These include Citibank, Standard Chartered Bank, Kiva, Oxfam Novib, and Triple Jump.

the client protection assessment[65]. For instance, Sinclair (2012) noted that the NMFI he engaged with had no transparent pricing mechanism and as such charges its clients in excess of 100 per cent interest rates. That it recorded impressive repayment rate is not a reflection of clients' success. Rather, it may be due to stringent collection practices, forced non-withdraw-able 20 per cent of the loan application as well as forced weekly savings. While peanuts are paid on such savings, clients are charged flat interest rates of 3percent per month on the full loan amount (inclusive of the 20 per cent savings deposit) over a 31 week period without recourse to the diminishing principal amount since payment is regular.

Other notable sharp practices mentioned by Sinclair (2012) include the fact that the NMFI does not take client retention as a priority given that its profit is mainly from the new desperate clients who wanted financial access badly. Little wonder why the average balance of amount provided to new clients is not significantly different from the average balance for all clients. Moreover, aid agencies like Oxfam Novia provided consistent donations to the NMFI which unlike loans does not have to be repaid to the donor agency.

The Islamic microfinance industry in Nigeria is still nascent. Perhaps, it seems as it stands, only one is fully functional as a full-fledged Islamic microfinance institution (IMFI). Nonetheless, a profile of its activities suggest that on the basis of the core triangle of micro-financing[66] adopted in Adewale and Hassan (2014)[67], it is not doing badly.

Unlike the most MFIs in Nigeria, this IMFI's outreach is commendable especially when viewed from the point of view of the width of its market penetration. The basis for its outreach is reaching out to as many as possible clients who hitherto voluntarily-excluded themselves from availing the existing access to conventional finance

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[65]_These include protection against over-indebtedness, unfair collection practices, providing transparent pricing, dispute resolution, privacy of data.

[66]_Outreach, sustainability, and impact.

[67]_Abideen. A. Adewale & M. Kabir Hassan. *Islamic Microfinancing.* In M.K. Hassan & M.K. Lewis (Eds). *Handbook on Islam and Economic Life.* Edward Elgar Publishing, UK. (2014):417-434. Available online at: http://www.elgaronline.com/ abstract/9781783479818.xml

due to either or both religious and ethical considerations. As noted in Adewale, Mustafa, and Salami (2013)[68], religious consideration is a statistically significant indicator of voluntary financial exclusion in Nigeria. The outreach of this IMFI can also be gauged on the basis of its geographical coverage, which cut across the South-Western part of Nigeria.

Moreover, all its financial products are non-debt based allowing clients to benefit from the risk-sharing mechanism of Islamic finance unlike the risk-shifting arrangement in the NMFIs. As argued in Adewale et al (2013), focus of most NMFIs on female clients may not be followed strictly in an African setting where male dominance is still very much pronounced. The argument of feminisation of poverty is also countered by the fact that masculinisation of wealth may not also hold. As such, rather than the focus of NMFIs on women empowerment, focus of IMFIs is on household empowerment.

Regardless of whether it is conventional or Islamic, sustainability MFIs remain a very serious issue. Often, they have to rely on funds from governments, donor agencies etc. Otherwise, it is argued that such sustainability challenge may impede outreach to the core poor thus exacerbating the incidence of financial exclusion. For the IMFIs, their underlying social orientation is reflected in the fact most of its financing provided is based on Qard Hassan (benevolent loan).

As noted in Sieble (2008) this portends serious sustainability threat especially where such IMFI is highly susceptible to moral hazard and adverse selection due to information asymmetry. A way around this is the suggestion in Adewale and Hassan (2014) that rather than using the group collateral mechanism an effective credit assessment method that combines both the individual and group peculiarities as done in Tazkia in Bogor, Indonesia is suggested. Moreover, going by the experience of Akhuwat Foundation in

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[68]_A.A. Adewale, and D. Mustafa, "Poverty Alleviation and Microfinance in Nigeria: The Relevance of a Maqasid al-Shariah Based (MSB) Model", in K.I. Dandago, A.D. Muhammad and U.A. Oseni (Eds), *Essentials of Islamic Banking and Finance in Nigeria*, (Lagos, Nigeria: Benchmark Publishers Limited, 2013), 314-330.

Pakistan, the repayment rate based on Qard financing is relatively high. Moreover, the possibility of mobilising and integrating other Islamic social finance platform like *waqf*, *zakat*, etc may provide a veritable source of funding that through which the IMFIs can carry out their social financing activities.

The third core triangle of microfinance, and arguably the most important is the impact. While there are claims and counter claims on whether or not microfinance has any positive impact whatsoever on the poor. A consensus in recent times is however, that rather than proving impact, efforts should be directed at improving impact. In the case of the NMFIs, focus is usually on how much improvement is recorded by participating clients involving income, expenditure and quality of asset acquisition or a combination of the three. Against the fact that contentment might be mistaken for poverty, Adewale (2014)[69] also added subjective poverty in his assessment as a measure of overall self-perception of level of wellbeing.

The impact of IMFI in Nigeria is noted in the fact that it helps enhance the financial resilience of the poor especially when they are faced with financial stress and shocks. The psychological coping strategy that the poor adopt to mitigate outcomes consequential to their financial stress or shock is enhanced (Cohen and Young, 2007)[70]. It is envisaged that the ability of a poor to keep his psyche intact even in the event of being poverty stricken may just be appropriate for alleviating poverty.

Other than hope, other indicators of psychological capital noted in Avey et al. (2008)[71] include efficacy, optimism and resilience. Although each is a broad concept in the realm of psychology, they are used in simple terms in this study. For instance,

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[69]_Abideen A. Adewale, "Financial Exclusion and Livelihood Assets Acquisition among Muslim Households in Ilorin, Nigeria: A Structural Invariance Analysis", op. cit.

[70]_Monique Cohen, and Pamela Young, "Using microinsurance and financial education to protect and accumulate assets." *Reducing Global Poverty,* (Washington, DC: Brookings Institution, 2007).

[71]_ James B. Avey, Tara S. Wernsing and Fred Luthans. "Can positive employees help positive organizational change? Impact of psychological capital and emotions on relevant attitudes and behaviors", *The journal of applied behavioral science*, 44, no.1, (2008), 48-70.

efficacy meant the ability of a respondent to maximize access to and use of financial resources. This is in a manner that suggests he possesses the requisite knowledge and skills in the endeavour upon which the finance is channelled.

Viewing that hope may just be a wish without conviction, it was necessary to seek for the optimism that clients of IMFIs have for the future vis-à-vis the situation they are in now. In other words, without being prejudicial to their efficacious efforts to exit poverty, optimism here extends to mean the positive feeling IMFI clients have about possible positive changed socio-economic status. Finally, the resilience that a poor person demonstrates may be very crucial to surviving financial shock or stress in their entire ramifications.

Conclusion and Proposed Policy Direction

The envisaged economic transformation in Nigeria via microfinance is yet to work even till today going by various statistics from numerous credible sources. The reason is not far-fetched. According to Isern et al. (2009:13)[72], "the motivation of most Nigerian MFBs investors has to do with opportunism and regulatory arbitrage given that banking has long been perceived as a lucrative business in Nigeria. The banking sector reform and the requirements for establishing a bank in Nigeria somewhat impeded investments in the sector. For some investors, the microfinance bank license was the more accessible option. The performance of the microfinance banks suggests that few of these investors entered the business with the interest or capacity for developing financial services for poorer income segments.

In addition, the MFBs rent very expensive buildings in highbrow areas in the urban areas, and use very expensive cars in an apparent manifestation of their commercial orientation, whereas, the rural areas have the largest percentage of the unbanked poor. It is improbable that they transact their business with the core poor, if at all any poor (Isern et al., 2009)[73].

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[72]_J. Isern, , A. Agbakoba, M. Flaming, J. Mantilla, G. Pellegrini, and M. Tarazi. "Access to Finance in Nigeria: Microfinance, Branchless Banking, and SME Finance. CGAP." *Journal of Small business management*, 2, no.3, (2009).

[73]_Hugh Sinclair (2012) in his "Confession of a Microfinance Heretic" gave a

Sequel to the foregoing, this paper will, therefore, argue that an all-inclusive economic system is a sine-qua-non for the development efforts in Nigeria. This is, however, not prejudicial to the fact that 'economic levers of development can never substitute for the noneconomic alternatives' (Zekeri, 2006:327)[74]. Hence, discerning the non-economic needs of the people entails their active participation to achieve a sustainable development and socio-economic inclusion in Nigeria.

Nobel Laureate, Amartya Sen (1999) argued that development should ideally be viewed as the process of expanding the real freedom that people can enjoy. As such, Karnani (2007)[75] opined that adequate provision of the basic things of life like housing, healthcare, education, security, water, environmental protection, and other infrastructures combine to enhance the employability and productivity of the people. Without these basic provisions, as argued by Burra et al. (2007)[76] it is unlikely that Islamic microfinance, for instance would be sufficient to alleviate intergenerational poverty and socio-economic exclusion.

Basically, in the case where the government plays its role effectively by providing an enabling environment for private sector participation and sound pro-poor policies, the objectives of economic growth and reduced inequality on the one hand and democracy on the other hand may not be mutually exclusive after all. In such circumstance, Nigerian government pronouncements like that made in Kuru, Plateau State of Nigeria in 2001 will not be taken as mere rhetorical propaganda. Rather; a commitment by a nation and its

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comprehensive and first hand details about how a foremost and Grameen USA funded microfinance institution in Nigeria, Live Above Poverty (LAPO) extorts the microfinance clients with excessive interest rates, forced savings, etc.

[74] A. A. Zekeri, "Toward a Sustainable Rural Development in Africa: A Sociological Case Study of a World Bank Agricultural Development Project in Nigeria." *Public Administration and Public Policy-New York*-118, (2006), 311.

[75] A. Karnani, "Microfinance Misses Its Mark". *Stanford Social Innovation Review*. (2007). Retrieved on February2, 2010 from www.ssireview.org/site/printer/ microfinance_misses_its_mark/

[76] N. Burra, J. Deshmukh-Ranadive & R.K. Murthy (Eds). *Micro-Credit, Poverty and Empowerment: Linking theTriad*, (New-Delhi: Sage Publications, 2007).

people to put their destiny in their own hands; and to work to ensure an all-inclusive political and socioeconomic environment.

The implication of the above for Nigeria and indeed the developing countries is that reform measures are a major global phenomenon. The cost implication and its attendant economic hardship on the citizen are quite substantial at least in the short run. Empirical findings between the neoclassical and the Keynesian state centric economists suggest that developing countries should tread softly (Kimenyi, 2006). Consequently, when reforms are needed as often is the case, it should be home grown, tailor- made, and basically a response to the real conditions on the ground rather than being overwhelmingly influenced by orthodox economic theories.