IMPROVING THE INSTITUTIONAL AND LEGAL FRAMEWORKS FOR CONSUMER CREDIT IN NIGERIA FOR THE BENEFIT OF INDIVIDUALS AND SMALL & MEDIUM ENTERPRISES.

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Abstract

Consumer credit which allows people to purchase goods or services before earning the money to pay for them, is a practice that has long been recognised as an essential tool for stimulating demand and providing comfort to people worldwide. It plays a vital role in developed economies by enabling individuals to access funds for consumption, education and emergencies, thus driving demand, production and economic growth. In Nigeria, the consumer credit landscape has expanded in recent years with increased participation from banks, microfinance institutions and financial technology (fintech) companies. However, the growth in Nigeria is hindered by structural challenges such as high interest rates, fragmented credit information systems, and limited consumer protection. Notably, Nigeria lacks a comprehensive legislative framework specifically addressing consumer credit unlike countries such as the United Kingdom. This article conducts a critical evaluation of the institutional and legal frameworks applicable to consumer credit in Nigeria with a view to addressing the shortcomings forestalling an effective consumer credit system, making recommendations for the improvement of the institutional and legal framework. The study adopts a doctrinal research approach, drawing on texts in primary and secondary materials, with appropriate references to experience on the subject in some jurisdictions where the consumer credit system has been developed to the benefits of economies and the people. The study finds that while multiple institutions are involved in the provision of credit to individuals and small and medium enterprises, the absence of unified regulation or legislation hampers effectiveness. The paper concludes that a consolidated consumer credit law, improved credit infrastructure and expanded access to credit are required to foster financial inclusion and economic resilience in Nigeria.

Keywords: Consumer Credit, Financial Inclusion, Financial Institutions, Non-Bank Financial Institutions, Nigeria, SMEs.

1 Introduction

Since President Bola Ahmed Tinubu resumed office, he has been working tirelessly towards improving the state of consumer credit in Nigeria. On December 21, 2023, a Technical Working Committee was established by the Presidential Council on Industrial Revatalisation, comprising key stakeholder members from the Central Bank of Nigeria (CBN), the National Identity Management Commission (NIMC), and the Federal Competition and Consumer Protection Commission (FCCPC)

[1] to evaluate the existing institutional framework for consumer credit, and make recommendations to make it effective.[2] The committee's mandate was a timely and strategic initiative aimed at investigating the present state of consumer credit, identifying the multifaceted challenges faced by both consumers and financial institutions alike, and proposing a comprehensive regulatory framework that can significantly improve the consumer credit landscape.[3]

During the inaugural meeting of the Technical Working Group for Consumer Finance, Dr. Doris Uzoka-Anite reportedly pointed out that -

> ... an efficient consumer credit system works to improve market efficiencies and fill gaps in consumption and productivity by providing consumers immediate access to credit, allowing them to purchase ahead of ability. The absence of a well-structured consumer credit system has been a significant impediment to financial inclusion and economic prosperity. Nigeria has numerous financial institutions and credit schemes, but many Nigerians still face substantial hurdles in accessing credit due to stringent eligibility criteria, high interest rates, identity-

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[1] Sami Tunji, 'FG introduces N100 billion Consumer Credit Fund in 2024 Budget' (2024) <https://nairametrics.com/2024/01/02/fg-introduces-n100-billion-consumer-credit-fund-in-2024-budget> accessed 21 April 2024.

[2] Business Day, 'FG moves to improve Consumer Credit in Nigeria' *Business Day* (21 December 2023) <https://businessday.ng/news/article/fg-moves-to-improve-consumer-credit-in-nigeria/> accessed 21 April 2024.

[3] ibid.

> related challenges, fragmented data sources for proof of livelihood and financial worth, lack of awareness or understanding of credit processes and inadequate credit available for lending.[4]

To kick start the process of improvement, the Federal Government (FG) further included a 100 billion Naira consumer credit fund in the 2024 budget in response to the growing cost of living and increasing borrowing trends among Nigerians.[5] The move was made by the FG as statistics revealed that Nigerians borrowed approximately 740 billion Naira from banks between January and September 2023, reflecting the economic challenges posed by persistent inflation and the dwindling purchasing power of the Naira.[6] These figures indicate that banks hardly scratch the surface in meeting the credit finance needs of individuals and small and medium enterprises (SMEs), especially when the amount advanced to that segment is compared with the total volume of credits provided by Deposit Money Banks (DMBs), which stood at 71.7 trillion Naira at the end of the first quarter in 2023.[7] The realignment of consumer credit to the needs of people and businesses as envisaged by the credit fund is therefore a necessity to drive the government's effort to stimulate economic growth and alleviate financial challenges faced by individuals in the country.[8]

In a move similar to the establishment of a credit fund for consumer credit discussed above, President Bola Ahmed Tinubu, on April 3, 2024, signed into law the *Student Loans (Access to Higher Education) Act* 2024[9] to provide timely and essential interest free loans to students in need, through the Nigerian Education Loan Fund (NELFUND) enabling them to pursue their educational goals without undue financial stress.[10] It was

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[4] ibid.
[5] Tunji (n 1).
[6] ibid.
[7] See 'Nigerian Deposit Insurance Corporation (NDIC) Financial Performance3 and Condition of Deposit Money Banks in the First Quarter 2023' <https://ndic.gov.ng/wp-content/uploads/2024/02/NDIC-Quarterly-Vol-38-No-12-2023-Financial-Performance-and-Condition-of-Deposit-Money-Banks-in-the-First-Quarter-2023.pdf> accessed 16 August 2025.
[8] ibid.
[9] See <https://statehouse.gov.ng/news/in-detail-the-student-loan-access-to-higher-education-act-2024/> accessed 16 August 2025.
[10] See 'Simple Steps to Secure Your Student Loan' available at <https://nelf.gov.ng https://nelf.gov.ng> accessed on 16 August 2025; See also Tosin Oyediran, 'NELFUND approves student loan disbursement'

estimated that the beneficiaries of the first batch of NELFUND would be about 1.2 million Nigerian students in tertiary institutions and government-recognised skill acquisition centres.[11]

Notwithstanding these initiatives, access to credit by individuals and SMEs remain an intractable challenge. It is against this backdrop that this article undertakes a critical examination of the issues involved, with a view to ultimately recommend panacea that will provide workable solutions to plug the gaps identified in the course of the study thereby improving the law in this important area of development. The article is in five parts. In addition to this introduction, parts 2 and 3 consider the legal and institutional frameworks for consumer credit in Nigeria respectively each pointing out the bane of the effectiveness of each. Part 4 is an extensive consideration of the challenges forestalling the effective provision of credit to individuals and SMEs in Nigeria. Part 5 contains a conclusion based on the previous discussion of issues, and recommendations to improve the law applicable to consumer credit to individuals and SMEs in Nigeria.

2 Legal Frameworks for Consumer Credit in Nigeria

The legal framework regulating consumer credit services in Nigeria comprises constitutional, legislative and regulatory provisions designed to promote a stable lending environment and protect consumers. The need to facilitate a stable lending environment arises because operators in the credit industry lend money others have saved; therefore, it is essential to ensure that lenders can recover the money lent. The Constitution is the source from which the legislative and regulatory provisions derive their authority. Its relevance is discussed in the next section.

Punch (27 June 2024) <https://punchng.com/just-in-nelfund-approves-student-loan-disbursement/> accessed 15 July 2024.

[11] Vanguard, 'Student loan: 1.2m beneficiaries to be in first batch' *Vanguard (*18 April 2024) <https://www.vanguardngr.com/2024/04/students-loan-1-2m-beneficiaries-to-be-in-first-batch/> accessed 16 July 2024.

2.1 The Constitution of the Federal Republic of Nigeria 1999

The *Constitution of the Federal Republic of Nigeria* 1999,[12] is the foundation upon which every law in Nigeria derives its validity. This was encapsulated in section 1(1) of the CFRN, providing that -

> This Constitution is supreme, and its provisions shall have binding force on all authorities and persons throughout the Federal Republic of Nigeria.

Although the CFRN does not explicitly address the issue of consumer credit, it is still the ultimate legal authority that validates the creation and enforcement of laws and policies addressing consumer credit and more broadly, access to credit. The CFRN is however not completely silent on the issues affecting the economic and social interest of the people. Although not justiciable,[13] sections 16 and 17 of the CFRN imposes obligations on the governments at federal, state and local levels to *inter alia* –

> ...control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity;[14] [and] without prejudice to the right of any person to participate in areas of the economy within the major sectors of the economy, protect the right of every citizen to engage in any economic activities outside the major sectors of the economy.[15]

Similarly, section 17(3) (a) of the CFRN in providing for the social objectives of the government requires the government to direct its policy towards ensuring that "all citizens, without discrimination on any group whatsoever, have the opportunity for securing adequate means of livelihood as well as adequate opportunity to secure suitable employment."

[12] Herein after referred to as the CFRN.
[13] See section 6(6)(c) CFRN.
[14] See section 16(1)(b) CFRN.
[15] See section 16(1)(d) 1999 Constitution.

The provisions therefore justify that the legislature and government agencies should put in place appropriate regulations and policies which will facilitate access to credit to all persons as that is one of the means by which people could participate in economic activities as required by the CFRN. Specific laws like the *Credit Reporting Act 2017*[16]and the *Banks and Other Financial Institutions Act 2020*[17] complement these constitutional provisions by regulating the collection and sharing of credit information, ensuring that consumers have rights regarding their credit data. The relevant statutes are discussed in the next succeeding paragraphs.

2.2 The Banks and other Financial Institutions Act 2020

The *Banks and Other Financial Institutions Act* 2020[18] is a legal instrument applicable to banking and financial services in Nigeria including consumer credit provided by licensed institutions. BOFIA bestows on the Central Bank of Nigeria (CBN) powers to grant[19] and revoke licenses to commercial banks and other financial institutions operating in Nigeria and regulation of lending activities.[20] While not exclusively a consumer credit law, BOFIA contains provisions that protect consumers and promote responsible lending practices. BOFIA aims to ensure that financial institutions operate transparently, fairly and responsibly safeguarding consumers' rights and interests in credit transactions.[21] Section 2 of BOFIA 2020 defines "banking business" to include providing loans, advances and credit facilities. This section sets the scope for activities regulated under BOFIA directly impacting consumer credit products offered by banks. Section 30 of BOFIA empowers the CBN to issue regulations, guidelines, and policies aimed at promoting competition within the Nigerian financial system. This affects consumer banking by ensuring a competitive market environment that can lead to better loan terms and protection for consumers. Section 102 of BOFIA establishes a Special Tribunal to enforce and recover eligible loans from banks and financial institutions. This Tribunal

[16] Herein after referred to as CRA 2017.
[17] Herein after referred to as BOFIA 2020.
[18] BOFIA 2020 Act No 5 LFN 2020.
[19] See BOFIA 2020, s 3.
[20] See BOFIA 2020, s 5.
[21] See BOFIA 2020, s 30.

streamlines and speeds up loan recovery processes, reducing delays typical of regular courts. It helps protect lenders' interests, encourages timely loan repayments, and promotes financial stability by ensuring expert handling of credit enforcement cases in consumer banking and credit.

2.3 Credit Reporting Act (CRA) 2017

The *Credit Reporting Act*[22] provides a legal framework for credit reporting and promotes financial discipline in the Nigerian economy. The Act sets standards and conditions for the establishment, regulation and operations of credit bureaus in Nigeria.[23] One of the objectives of the CRA 2017 as covered by section 1(e) is to promote responsibility in the credit market by encouraging responsible borrowing, avoidance of over-indebtedness and fulfilment of financial obligations by consumers and discouraging reckless credit granting by credit providers and contractual default by consumers. Any person or organisation desirous of establishing, operating or conducting business as a credit bureau must be duly incorporated as a company limited by shares under the relevant laws of Nigeria. Upon being licensed, a credit bureau may perform all or any of the functions set out in section 3 of the Act. The CRA 2017 safeguards both borrowers and lenders in the credit market. The CRA 2017 protects borrowers by ensuring their credit information is accurate, confidential, and accessible for correction while promoting responsible lending to prevent over-indebtedness.[24] For lenders, it provides reliable access to borrowers' credit histories, legal safeguards against fraud and improved market transparency.[25]

2.4 The Secured Transactions in Movable Asset Act (STMA) 2017

The *Secured Transactions in Movable Assets Act* (STMA) 2017 was enacted by the National Assembly to fulfill the following objectives set out in section 1 of the STMA, one of which is facilitating access to credit secured with movable assets.[26] The STMA is a legal framework for consumer credit in Nigeria especially in relation to improving

[22] (2017) Act No 3 LFN 2017.
[23] See the CRA 2017, s 1(1).
[24] See the CRA 2017, s 9.
[25] See the CRA 2017, s 12.
[26] See the STMA 2017, 1(e).

access to credit by enabling borrowers/consumers to use movable assets, including tangible and intangible property other than real property as collateral.[27] The STMA was enacted to enable individuals particularly MSMEs who do not readily have immovable assets preferred by financial institutions to easily access credit by entering into secured transactions using their movable assets such as their machinery, vehicles etc. as collateral to secure loans.[28] To achieve this purpose, a National Collateral Registry headed by a Registrar was established by section 10 of the STMA to supervise and administer the operational provisions of the STMA, and to manage the Collateral Registry.[29] The Collateral Registry serves as an information storehouse about security interests in movable assets used by individuals.[30]

2.5 Assessment of the Legal Framework for Consumer Credit

The absence of a direct and specific provision in the 1999 Constitution in relation to consumer credit may be a reason why the sector is not so developed in the financial services industry. The absence of a constitutional provision exacerbates the potential for credit discrimination, exploitation and financial exclusion in the long run. Hence, there is a need for a justiciable constitutional provision recognising access to credit or at minimum, its protection as a socio-economic right as a matter of economic justice like what is obtainable in South Africa's Constitution where socio-economic rights are not only justiciable but well protected.[31] This could be achieved by making the relevant sub-sections of sections 16 and 17 of the 1999 Constitution justiciable.

Although the *Central Bank of Nigeria (CBN) Act* 2007 does not contain any explicit provision focused on consumer credit, it remains impossible to meaningfully discuss consumer credit in Nigeria without reference to the CBN as the apex financial regulator.

[27] See the STMA 2017, s 63(1).
[28] Merit Okafor, 'Secured Transactions in Movable Assets Act 2017: Impact on finance transactions' *Business Day* (13 April 2023) <https://businessday.ng/news/legal-business/article/secured-transactions-in-movable-assets-act-2017-impact-on-finance-transactions/> accessed 22 July 2025.
[29] See the STMA 2017, s 10(3).
[30] See the STMA 2017, s 11.
[31] See the 1996 South African Constitution, ss 26, 27, 7(2); Although, there is no explicit mention of access to credit in the South African Constitution, it is recognised as part of the broader socio-economic right structure that is justiciable and protected.

The Bank plays a central role in shaping monetary policy, setting interest rate guidelines and supervising credit reporting systems all of which directly affect consumer credit access. For instance, section 57 of the *CBN Act*[32] allows banks to request credit information only when loan amounts exceed one million Naira, effectively excluding many low-income borrowers from the benefits of credit data-driven risk assessment and reducing the incentive for banks to report smaller consumer loans. This undermines the inclusiveness and comprehensiveness of Nigeria's credit reporting ecosystem. Furthermore, despite the existence of licensed private credit bureaus, there is no centralised and publicly managed credit information system in the financial services industry within the CBN. While section 35 mandates that the CBN disclose the Monetary Policy Rate (MPR), the absence of a consumer lending rate monitored across financial institutions leads to volatility and uncertainty, as interest rates vary depending on lenders' discretion.

Meanwhile, BOFIA 2020 primarily reinforces the regulatory powers of the Central Bank of Nigeria (CBN) but lacks explicit provisions addressing consumer credit protection or facilitation thus leaving consumer credit largely unregulated and consumers exposed to potential unfair lending practices. Although section 102 of BOFIA 2020 provides for the establishment of a tribunal for the enforcement and recovery of eligible loans,[33] the Act fails to provide clear procedural guidelines on how this tribunal will operate, who qualifies as an eligible borrower. This lack of details undermines an effective enforceability of the provision.

Furthermore, BOFIA 2020 does not set specific standards for fair lending practices which are critical for protecting consumers from exploitative lending. The implication is that the BOFIA 2020 impact on consumer credit is limited and highlights the need for a consolidated legal framework specifically addressing consumer lending practices.

The Credit Reporting Act 2017 plays a vital role in Nigeria's consumer credit landscape by establishing the legal basis for credit information sharing aimed at enhancing

[32] (2007) CAP C4, LFN 2007.
[33] See BOFIA 2020, s 102.

transparency, improving risk assessment and facilitating access to credit. However, while the CRA 2017 mandates that credit bureaus must obtain the consent of the data subject, a critical implementation gap lies in the practical verification of consent because the law lacks clear guidelines on what constitutes a satisfactory form of consent. This creates ambiguity for credit bureaus and users in validating and enforcing consent. Moreover, given the large volume of data subjects handled by credit information users like financial institutions, obtaining individual written consent for every transaction is impractical.

Equally important, it remains unclear how credit bureaus are to ensure that entities requesting data genuinely intend to use the information for lawful, permissible purposes, especially given the growing number of fintech lenders and informal financial actors operating with minimal oversight. For a law that touches directly on privacy, financial inclusion and borrower rights, stronger regulatory enforcement, digital safeguards and consumer redress mechanisms are essential to ensure that its objectives are not just theoretical nut genuinely achieved in practice.

Although the STMA 2017 is not explicitly focused on consumer credit, it plays a pivotal role in facilitating credit by allowing security interests over movable assets. However, the STMA raises critical concerns one of which is extending security interests to proceeds of collateral without requiring that these proceeds be specifically described in the security agreement, which presents overreaching borrowers' rights and reducing clarity on what is encumbered. In addition, section 13(3) of the STMA presumes that the mere existence of a security agreement suffices to establish consent from the grantor for such interests, potentially compromising genuine informed consent, especially for ordinary consumers who may not fully understand the implications.

The effectiveness of consumer credit in Nigeria depends on coordinated institutional frameworks which will be discussed in the next part.

3 Institutional Frameworks for Consumer Credit

The institutional framework for consumer credit must be considered from two perspectives. First, there are institutions saddled with the regulation of the operators, and secondly, there are different classes of operators to provide consumer lending services to different segments of the population. The operating institutions are often financial institutions providing credit facilities to individuals for personal consumption purposes such as purchasing goods, paying for services or covering expenses, and to SMEs for business purposes. These institutions typically offer various types of loans, including personal loans, auto loans and credit cards tailored to meet the needs of consumers in Nigeria. These institutions are considered in the following sections of this part.

3.1 The Central Bank of Nigeria

The Central Bank of Nigeria (CBN) was established by the Central Bank Act 2007, as the apex regulatory authority for the financial sector in Nigeria.[34] The CBN oversees and regulates the operations of banks and other financial institutions, including those offering consumer credit services.[35] The CBN sets policies, regulations[36] and guidelines aimed at promoting financial stability, fostering economic growth and protecting consumers' interests in the credit market.[37] This includes supervising credit bureaus,[38] setting lending guidelines and enforcing compliance with consumer protection laws. The CBN Act 2007 empowers the CBN to regulate money lending activities, and to provide guide for setting the applicable interest rates for commercial banks, financial companies and microfinance banks.[39] As the apex financial sector regulator, the CBN plays a crucial role in facilitating the provision of consumer credit through various channels by promoting financial inclusion and supporting economic growth. By regulating and supervising financial institutions, the CBN facilitates access to credit for individuals and small businesses, thereby enhancing financial stability and development in Nigeria.

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[34] See the CBN Act 2007, s 1(1) and s 1 (3).
[35] See the CBN Act, s 1(3).
[36] An example of such regulation is the CBN Consumer Protection Framework 2016.
[37] See the CBN Act 2007, s 33(1)(b).
[38] See the CBN Act 2007, s 57.
[39] See the CBN Act 2007, s 33(1)(b) which covers the regulatory authority of the CBN which includes money lending practices, loan classifications, risk managements and interest rate policy.

3.2 The Nigerian Consumer Credit Corporation (Credicorp)

The Nigerian Consumer Credit Corporation (Credicorp) is a Development Finance Institution established by the Federal Government of Nigeria,[40] whose sole mission is to accelerate consumer credit access to 50% of working Nigerians by 2030.[41] Credicorp plans to achieve this objective by addressing cultural barriers to accessing consumer credit in Nigeria, and catalysing the market with capital, guarantees and policy.[42]

Credicorp including its consumer credit guarantee fund, will be working closely with the Central Bank of Nigeria (CBN), which provides liquidity to banks and other financial institutions, enabling them to lend more to consumers. The CBN issues guidelines and regulations to ensure consumer credit is granted responsibly, with considerations for borrowers' income, debt-to-income ratios and credit history. It sets the Monetary Policy Rate and issues guidelines including interest rate caps to ensure affordable and responsible lending practices.[43] Additionally, Credicorp collaborates with other players in the financial services sector, including those serving as identity management organisations, credit registries, fintechs, consumer protection agencies, and policy makers regarding the actualisation of its objectives.

As indicated above, the second aspect of the institutional framework for consumer credit is the various categories of the operators. These are discussed in the next section of this part.

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[40] Oluwakemi Abimbola, 'CREDICORP wins Credit Access Company of the Year award' *Punch Newspaper* (17 October 2025) <https://www.google.com/amp/s/punching.com/credicorp-wins-credit-access-company-of-the-year-award> accessed 17 October 2025.
[41] Credicorp, 'Nigerian Consumer Credit Corporation' (2024) <https://www.credicorp.ng/about> accessed 6 May 2024.
[42] ibid.
[43] CBN Act 2007 s 12; See As of March 2024, the CBN interest rates are as follows: Monetary Policy Rate (MPR) IS 24.75%; Prime Lending rate-15.70%; Maximum Lending Rate-29.38%.

3.3 Commercial Banks

A commercial bank is a financial institution that carries out the operations related to the deposit and withdrawal of money for the general public, providing loans for investment and other such activities.[44] Lending and borrowing are the two major characteristics of commercial banks.[45] The bank receives the deposits, constituting borrowing from their customers and gives money to customers for various projects on which the banks earn interest which constitutes lending.[46]

Commercial banks[47] offer consumer products like personal loans and credit cards to consumers. These loans in turn, allow individuals to make large purchases or cover expenses that they may not be able to afford immediately.

Lending, by commercial banks is predicated upon their customers having satisfied what the industry regard as the "critical 5 Cs of credit,"[48] comprising 'character,' which represents the borrower's good credit history and reputation; 'capacity,' which represents a demonstration of both the borrower's ability to borrow money and judiciously use the fund for the purpose for which it is lent, and the ability to repay the loan at the agreed time; 'capital,' which stands for the borrower's net worth and financial stability underlying the borrower's continued credit worthiness; and 'collateral,' which is provided by the borrower in the form of asset owned by the borrower, the quality and value of which exceeds the loan value. The collateral is required from the borrower as a secondary source of payment in the event that the loan could not be repaid from the asset or project for which the loan is given. The fifth 'C' represents the 'conditions' both precedent and subsequent, imposed on the borrower and which must be satisfied throughout the tenor of the credit facility. The conditions represent factors peculiar to the borrower and some external factors which enables the lender to continue to monitor the

[44] BYJU's, 'Functions of Commercial Banks: Primary and Secondary Functions' <https://byjus.com/commerce/functions-of-commercial-banks/> accessed 12 October 2024.
[45] Geeksforgeek, 'Functions of Commercial Bank: Primary and Secondary Functions' (15 April 2025) <https://www.geeksforgeeks.org/functions-of-commercial-bank-primary-functions-and-secondary-functions/> accessed 15 June 2025.
[46] BYJU's (n 44).
[47] Access Bank, Zenith Bank and First Bank are examples of commercial banks.
[48] Titilola Falaiye, 'Banking and Finance Industry Credit Risk in Nigeria' (19 June 2024) <https://www.icanigeria.net/banking-and-finace-industry-credit-risk/> accessed 25 November 2024.

borrower's ability to repay the loan.[49] Commercial banks play a crucial role in providing consumer credit to individuals and SMEs thereby facilitating the growth of the economy. The benefits of the activities of commercial banks to their customers, and the economy in the long run are discussed in the following sections of this part.

3.3.1 Credit evaluation

Credit evaluation is the process of assessing a borrower's creditworthiness to determine the likelihood of repaying a loan.[50] Banks assess the creditworthiness of consumers before granting loans. They analyse factors such as credit history, income, employment status and debt-to-income ratio to determine the risk of lending to a particular individual.[51] The 5 Cs of credit comes in handy at this point.

3.3.2 Disbursing funds

Upon the approval of a credit application from a customer, the commercial bank disburses the funds directly into the borrower's bank account or through various means, such as issuance of debit card or through Electronic Funds Transfer (EFT), by which the funds are transferred electronically to the borrower's account or to other accounts for the purpose for which the loan is granted.[52] Financial institutions provide the loan amount to consumers either as a lump sum or via credit limits depending on the nature of the transaction and the agreement between the parties. Disbursement is the final step of the lending process, as it marks the completion of the loan origination process.[53] Thereafter, the bank continues to monitor the performance of the borrower in satisfying the conditions imposed, the most important of which is the repayment either in whole or in part until the loan is fully liquidated.

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[49] ibid.
[50] Fintrak, 'Credit Evaluation: Overview and its Importance in Financial Institutions' (20 February 2024) <https://www.fintraksoftware.com/importance-of-credit-evaluation/> accessed 15 June 2025.
[51] ibid.
[52] Jaivinder Bhandari, 'Personal Loan Disbursement Process: A Complete Guide' (15 May 2025) <https://lendingplate.com/blog/personal-loan-disbursement> accessed 15 June 2025.
[53] Apoorva Kumar, 'Loan Disbursement Process: What is it. What are the steps' (11 December 2024) <https://decentro.tech/blog/loan-disbursement-process/> accessed 15 June 2025.

3.3.3 Interest rates

Banks set interest rates on consumer loans based on factors such as policies set by the CBN market conditions and industry competition. Other relevant factors include the borrower's creditworthiness and the type of credit facility. The monetary policy rate set by the CBN directly affects banks' funding costs and consequently, the interest rates they offer to their customers.[54]

The issues discussed above collectively shape the economic landscape in which commercial banks' operate, and largely determine whether or not their loan transactions succeed. It is however important to evaluate the role of commercial banks in facilitating the credit finance process for the benefit of their customers on the one part, and the economy on the other.

3.3.4 Assessment of the effectiveness of commercial banks as credit providers in Nigeria

While commercial banks in Nigeria remain central to consumer credit delivery, their effectiveness in expanding credit remains limited due to several systemic barriers. Interest rates on consumer loans are often prohibitively high, with maximum lending rates reaching nearly 30% as of late 2024.[55] The maximum lending rate remains high as of 2025, averaging 27% reflecting persistent monetary policy tightening.[56] As indicated above, interest rates are driven by monetary policy conditions and high default risk. The ever-present high interest rates thus make it difficult for individuals to borrow for non-investment purposes like healthcare, education or personal emergencies. The implication is that commercial banks prefer extending credit to the elite and high net-worth individuals who they believe could repay loans thereby excluding the low, and middle-

[54] See the CBN Act 2007, s 35.

[55] Kayode Tokede, 'Banks' Customers Growl as Maximum Lending Rate Hits 30.28%, 22-Month High' (2025) <https://www.thisdaylive.com/2024/11/25/banks-customers-growl-as-maximum-lending-rate-hits-30-28-22-month-high> accessed 19 August 2025.

[56] Central Bank of Nigeria, ‚Weekly Interest Rates as at February 21 2025' (2025) <https://www.cbn.gov.ng/Out/2025/BSD/WEEKLY%20INTEREST%20RATES%20AS%20AT%20FEBRUARY%2021,%202025.pdf> accessed 17 October 2025.

income segments of the population. Regrettably, that segment of the population is also in need of consumer credit facilities if they are to thrive in society.

Even in present circumstances and time, many Nigerians find it difficult to access consumer loans from commercial banks due to collateral demands usually in the form of real property which the customers do not have, and where they have real property, such is largely unregistered thereby unfit as collateral.[57] There are other strict eligibility criteria which have been discussed above. As a result, many consumers rely on micro lenders and technology-driven quasi financial institutions colloquially referred to as 'fintechs', who are able offer faster and less onerous but more expensive credit.

Commercial banks when compared to fintechs, have longer and more complex loan processing times, which have the potential to discourage many would-be borrowers from seeking loans through formal banking channels. In practice, commercial banks appear more motivated by profit and risk minimisation than by financial inclusion. Until consumer credit becomes more inclusive, the role of commercial banks in meaningfully improving access to credit for average Nigerians is likely to remain limited and uneven. It is important to note that the provision of credit facilities to individuals and SMEs is not restricted to commercial banks and given their limited reach or ability to serve the individuals and SME segments of the market effectively, it is obvious that other operators will attempt to fill the vacuum. The vacuum is one of the underlying reasons for the emergence of the non-bank financial institutions discussed in the next section.

3.4 Non-Bank Financial Institutions (NBFIs) Providing Consumer Credit

Non-Bank Financial institutions (NBFIs) are financial institutions that do not have a full banking license and as such, cannot accept deposits from the public.[58] Notwithstanding, NBFIs play a significant role in the financial services sector by offering specialised

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[57] See Kolapo Omidire '*Prospects for the Law in Resolving the Challenges of Retail Banking in Nigeria*' (ISBN 978-978-60337-2-3 Horizon Prints and Publishing 2024) 22.

[58] World Bank, 'Global Financial Development Report: Non-banking Financial Institution' (2016) <www.worldbank.org/en/publication/gfdr-2016/background/nonbank-financial-institution> accessed 21 May 2024.

services, especially to individuals and SMEs. Microfinance banks, cooperative societies and fintech companies are selected examples of NBFIs which are discussed below.

3.4.1 Microfinance Banks (MFBs)

Microfinance banks (MFBs) are specialised financial institutions that provide financial services to low-income individuals or groups, who are typically excluded from traditional banking.[59] The aim of microfinance institutions is to improve financial services for marginalised groups comprising individuals and SMEs including women and the rural poor to promote self-sufficiency.[60] They play a significant role in providing consumer credit to individuals and small businesses, especially in developing economies like Nigeria.[61]

The role of MFBs in financial intermediation and facilitation of consumer credit is very important. They typically offer relatively affordable interest rates when compared to commercial banks.[62] By providing affordable interest rates MFBs make it easier for individuals and small businesses, who wouldn't stand a chance in conventional banks due to stringent conditions, to obtain loans to meet their financial needs without incurring excessive costs, thereby promoting financial inclusion and economic empowerment. It is however important to note that rates vary based on loan amount, term and client risk profile. For instance, LAPO[63] Microfinance Bank a leading microfinance institution has provided financial services to millions of Nigerians with its considerable loan portfolio. Other microfinance institutions in this category have fared reasonably well in relation to consumer credit and the promotion of financial inclusion.

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[59] Finca, 'Microfinance' (2024) <https://finca.org/ourwork/microfinance#:~:text=Microfinance%20refers%20to%20the%20fnancial,sometimes%20called%microloans%20or%20microcredit.> accessed 24 July 2024.

[60] ibid.

[61] Olufemi Aladejebi, 'The Impact of Microfinance Banks on the Growth of Small and Medium Enterprises in Lagos Metropolis' (2019) *European Journal of Sustainable Development* 8(3) 261-274 <https://ecsdev.org/ojs/index.php/ejsd/article/download/871/866/> accessed 19 October 2025.

[62] Credit Nigeria, 'Interests Rates for Personal Loans in Nigeria' <https://creditnigeria.com/interests-rates-for-personal-loans-in-nigeria/> accessed 15 June 2025.

[63] LAPO stands for Lift Above Poverty Organisation; 'LAPO Microfinance Bank' <https://www.lapo-nigeria.org/about> accessed 17 October 2025.

Microfinance banks attempt to solve a seemingly intractable problem which commercial banks are not able to solve, which is how to originate loans not necessarily backed by collateral. MFBs offer loans to individuals and small businesses that may not have access to traditional banking services.[64] They typically offer collateral-free loans, in that there is no requirement for traditional collateral such as assets or necessarily in the form of real property, which a major bane in the lending process of commercial banks. Rather, alternative forms of collateral such as group guarantees or cash deposits are required.[65] These collateral-free loans are in turn repaid in a flexible tenor which could be daily, weekly, or bi-weekly instalments to accommodate the borrowers' cash flow. MFBs are known to have granted temporary suspension of repayments during financial difficulties of their credit obligors.[66]

3.4.2 Cooperative Societies

Cooperative societies, also known as 'co-ops,'[67] can be rightly regarded as consumer credit institutions in Nigeria. They provide financial services to their members, including loans and credit facilities. Most times, they operate on a not-for-profit basis, aiming to serve the financial needs of their members.[68] In Nigeria, cooperative societies are regulated by the National Assembly under the *Cooperative Societies Act* 2004.[69] As a consumer credit institution, a cooperative society may offer various financial services, including loans (which could be for personal, agricultural or business purposes); credit facilities in the form of overdrafts and credit cards, microfinance services etc. The first

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[64] CFI Team, 'Microfinance' <https://corporatefinanceinstitute.com/resources/commercial-lending/microfinance/> accessed 15 June 2025.
[65] CGAP, 'Microfinance Consensus Guidelines: Developing Deposit Services for the Poor' (October 2003) <https://www.cgap.org/sites/default/files/CGAP-Consensus-Guidelines-Developing-Deposit-Services-for-the-Poor-Feb-2005.pdf> accessed 15 June 2025.
[66] MicroBank, 'Grace period for a loan: what it is, how it works and the types' <https://www.microbank.com/en/blog/p/grace-period-loan.html> accessed 15 June 2025.
[67] National Cooperative Business Association Clusta International (NCBA CLUSTA), 'What is a Co-op?' <https:ncbaclusta.coop/resources/what-is-a-co-op/> accessed 19 October 2025.
[68] Damilola Olaniyan, 'How Cooperative Societies foster Financial Inclusion' (17 August 2024) <https://creditprosme.com/how-cooperative-societies-foster-financial-inclusion/> accessed 15 June 2025.
[69] The Nigerian Cooperative Societies Act CAP 98 LFN 2004 (formerly Decree No. 90 of 1993); The Cooperative Societies Regulations (2007) provide detailed guidelines for the operation of cooperative societies including their financial services and lending activities. Cooperative societies are in turn regulated by the Central Bank of Nigeria.

legal step is registration. The cooperative society must be registered with the State Director appointed by the State Governor at the designated Ministry responsible for cooperatives[70] or the Federal Director appointed by the President of the Federal Republic at the Federal Ministry of Employment, Labour and Productivity.[71] Upon registration, the cooperative society becomes a body corporate with perpetual succession and a common seal.[72] The required information for documentation includes the proposed name and address of the society; objectives and purposes for fund application; and membership rules and by-laws.[73] The requisite documents to be submitted for registration include: a certified copy of the resolution from the first meeting; feasibility study report; letter of intent from prospective members and payment proof for registration fees.[74] The second legal step to be taken is adherence to laws. The cooperative society must adhere to the Nigerian *Cooperative Societies Act* and must also obtain a licence from the state or the federal department of cooperatives now (under the umbrella of the Federal Ministry of Employment, Labour and Productivity)[75] if engaging in banking and financial services). The third legal step to be taken is around loan policies. The cooperative society must grant loans primarily to members and comply with CBN regulations on consumer lending. The fourth legal step concerns capital requirements. The cooperative society must maintain adequate capital and reserve requirements. The fifth legal step to be taken

[70] This ministry differs from state to state for instance in Nasarawa state, the ministry in charge of cooperatives is the Ministry of Trade, Industry and Investment while in Oyo state, the Ministry of Trade, Investment and Cooperatives in charge of cooperative societies.

[71] Barinor Paul Kue, 'What you need to know about Cooperative Societies in Nigeria' (26 January 2024) <https://linkedin.com/pulse/what-you-need-know-co-operative-societies-nigeria-kue-barinor-paul-tudrf/> accessed 18 December 2024.

[72] See the Nigerian Co-Operative Societies Act 2004, s 6(1)(a).

[73] Resolution Law Firm, 'Procedure for The Establishment of a Cooperative Society in Nigeria' <https://www.resolutionlawng.com/procedure-for-the-establishment-of-a-cooperative-society-in-nigeria> accessed 17 December 2024.

[74] Emmanuel Ekpenyong, 'Procedure for Registration of Cooperative Society in Nigeria' (4 April 2017) <https://www.mondaq.com/nigeria/industry-updates-analysis/582630/procedure-forregistration-of-cooperative-society-in-nigeria?> accessed 17 December 2024.

[75] Eseose Animhiaga, 'Can I use a Cooperative License to Lend in Nigeria' (8 February 2024) <https://blog.lendsqr.com/can-i-use-a-cooperative-license-to-lend-in-nigeria/> accessed 19 October 2025.

is in the area of compliance regulations. The cooperative society must adhere to the AML/CTF[76] regulations.

3.4.3 Technology-Driven Financial Institutions (Fintechs)

Technology-driven financial institutions commonly referred to as 'Fintechs'[77] are alternative credit providers or lenders. They have successfully developed business models based on innovative use of the internet, mobile devices and data analysis technologies.[78] These lenders use technology designed to meet customer expectations for increased speed and convenience (e.g. online applications, documentation transfer, quick decisions on loan approval); provide more clarity and convenience on loan extensions (e.g, pricing, terms, borrower identification); broaden customer sourcing and automate loan funding.[79] They provide a wide range of financial solutions such as online payments, digital wallets, peer-to-peer lending, crowdfunding, blockchain and mobile banking. Examples of fintech companies that provide consumer credit in Nigeria include Opay, Palmpay, Interswitch, Paga,[80] etc.

Fintechs facilitate consumer credit by offering short-term loans for online purchases;[81] providing consumers with poor or no credit score a way to secure credit and build their credit history; offering consumers in the developing world microloans by analysing their smartphone transaction history, providing automated investment advice to lower costs and increase accessibility; and giving consumers better options than local banks, unregulated lenders and microfinance institutions.

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[76] AML/CTF stands for Anti-Money Laundering while CTF stands for Combating the Financing of Terrorism. Together, AML/CFT regulations aim to prevent the financial system from being used for illicit activities including: money laundering, terrorist financing and proliferation financing.

[77] Central Bank of Nigeria, 'FinTech Evolution and Department in Nigeria: Lessons from other Jurisdiction' (December 2022) <https://www.cbn.gov.ng/Out/2023/RSD/OCCASIONAL%20PAPER%2076%20-%Fintech%20Evolution%20and%20Development%20in%20Nigeria.pdf> accessed 18 October 2025.

[78] Tim Marder, 'Fintech for the Consumer Market: An Overview' (2016) <https://www.consumercomplianceoutlook.org/2016/third-issue/fintech-for-the-consumer-market-an-overview/> accessed 16 June 2025.

[79] ibid.

[80] FinTech news Africa, 'Top FinTech in Nigeria of 2025' (14 September 2025) <https:Fintech news.africa/45002/fintech-nigeria/> accessed 16 October 2025.

[81] Julia Kagan, 'Financial Technology (Fintech): Its Uses and Impact on our lives' (25 March 2024). <https://www.investopedia.com/terms/f/fintech.asp> accessed 21 May 2024.

4 Challenges Forestalling Effective Provision of Consumer Credit to Individuals, and SMEs

From the foregoing discussion, it would appear that necessary legal and institutional frameworks have been put in place coupled with recent government initiatives to kick start consumer credit to individuals and SMEs. However, the fact that the segment of the population and businesses affected still face challenges in accessing credit is a pointer to the fact that the problems have not been solved. The succeeding paragraphs consider the issues which continue to constitute stumbling blocks to effective consumer credit to individuals and SMEs in Nigeria.

4.1 Licensing of Credit Bureaus

Upon assuming office as the Governor of the Central Bank of Nigeria (CBN) in May 2009, the current Emir of Kano State, Sanusi Lamido, adopted the creation of a credit reporting system as one of his key strategies.[82] This led to the establishment of three credit bureau firms[83] to assist in the effective management of credit risk within the financial system, promote credit reporting and enhance credit-decision making.[84] The credit bureaus are licensed to establish a credible database of aggregated information on the credit status and behavior of borrowers.[85] The move was also aimed at facilitating access to finance by providing relevant credit information that enables lending institutions to make sound decisions.[86] The CBN licenses and regulates credit bureaus, which collect and share credit information on borrowers, enabling lenders to assess creditworthiness. The CBN requires financial institutions to report credit information to credit bureaus.

Despite this laudable initiative, there are reports of several loan obligors escaping the radar of credit bureaus and still able to obtain loans which eventually become non-performing. Other instances of failure include incomplete and outdated histories of

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[82] Abiola Odutola, 'The Hurdles before Credit Bureaus' (2013) 25 *Tell Magazine* 28.
[83] XDS Credit Bureau, CR Services Credit Bureau and CRC Credit Bureau.
[84] Odutola (n 82).
[85] ibid.
[86] ibid.

obligors, as well as mismatched credit records.[87] If credit financing is to become optimal the challenges associated with the operations of credit bureaus must be addressed.

4.2 Interest Rate Regulation

The Central Bank of Nigeria (CBN) aims to balance economic growth, inflation and financial stability by collaborating with financial institutions to implement interest rate policies. The CBN sets interest rate caps or guidelines to ensure affordable lending rates for consumers. As of early 2025, the CBN interest rates were as follows: Monetary Policy Rate (MPR)[88] is 27.5%; Prime Lending rate[89]-18.19%; Maximum Lending Rate[90] is 30.50%. The CBN also reviews and adjusts interest rates periodically to respond to economic changes.

High interest rate is a challenge to consumer lending. Rates could be as high as 30% for loans to individuals and SMEs.[91] It is unlikely that any SME business endeavour can profitably do business at such rates, especially when other operational costs are added to expenses.

4.3 Consumer Protection Framework

The CBN's Consumer Protection Framework, issued on 7 November 2016 to enhance consumer confidence in the financial services industry, protects lenders from misrepresentation, hidden or excessive fees, unfair contract terms, borrower fraud and other unfair practices.[92] The CBN has put in place specific initiatives to protect lenders, some of which include the Credit Bureau System, which provides lenders with access to credit history and risk management tools to make informed lending decisions; the National Collateral Registry, which allows lenders to register and search for collateral to

[87] See '5 Issues that Lenders have with Nigerian Credit Bureaus' <https://blog.lendsqr.com/5-issues-that-lenders-have-with-nigerian-credit-bureaus/> accessed 17 August 2025.
[88] MPR is the rate at which CBN lends to commercial banks.
[89] Prime Lending Rate is the rate at which commercial banks lend to their best customers.
[90] Maximum Lending Rate is the highest rate at which commercial banks can lend.
[91] See 'Credit Nigeria Interest Rates for Personal Loans in Nigeria' <https://creditnigeria.com/interests-rates-for-personal-loans-in-nigeria/> accessed 17 August 2025.
[92] Citi Group, 'Central Bank of Nigeria Consumer Protection Regulation' (2016) <https://www.citigroup.com/rcs/citigpa/akpublic/storage/public/central-bank-of-nigeria-consumer-protection-regulation.pdf> accessed 5 December 2024.

reduce risk and prevent multiple lending on the same collateral;[93] and the Loan Recovery Framework through the Global Standing Instruction, which provides guidelines for lenders to recover loans in a fair and transparent manner.[94] By protecting lenders from unfair lending practices, the CBN aims to promote a stable and sound financial system and protect the interest of both lenders and borrowers. The foregoing discussion indicates that the consumer protection framework can only work if the other issues impacting effective consumer credit are effectively addressed.

4.4 Liquidity Support

Although the Central Bank of Nigeria (CBN) provides liquidity to banks and other financial institutions to enable them lend more to consumers for productive purposes such as education, health care and entrepreneurship. The instruments used by CBN include Open Market Operations (OMO), Standing Facilities (SF), Loan Guarantee Scheme, Targeted Credit Facilities (TCF) and others. However, the benefit of such support to banks does not appear to have been effectively passed down to individuals and SMEs.

The CBN's Loan Guarantee Scheme is a liquidity mechanism whereby the CBN acts a third party and guarantees the repayment of loans issued, especially to small and medium-sized enterprises (SMEs) that often lack sufficient collateral and credit history, thereby removing barriers to their growth.[95] Furthermore, in response to the COVID-19 pandemic, the CBN introduced the N50 billion Targeted Credit Facility as a stimulus package to support households and micro, small and medium enterprises (MSMEs).[96] The scheme was open to households with verifiable of livelihood adversely impacted by COVID-19; existing enterprises with verifiable evidence of business activities adversely

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93 National Collateral Registry, 'About the Registry' <https://www.ncr.gov.ng/home/about> accessed 5 December 2024.

94 Gbemi Oladunjoye, 'Global Standing Instruction (GSI) so far' (8 May 2024) <https://oystr.hashnode.dev/global-standing-instruction> accessed 5 December 2024.

95 Jeremiah Ifeanyi Ubah, 'Credit Guarantee Scheme: How to become a CBN credit guarantor' (2021) <https://nairametrics.com/2022/03/31/credit-guarantee-scheme-how-to-become-a-cbn-credit-guarantor/> accessed 6 December 2024.

96 Central Bank of Nigeria, 'Guidelines for the Implementation of the N50 Billion Targeted Credit Facility' (March 2020) <https://www.cbn.gov.ng/out/2020/fprd/n50%20billion%20combined.pdf> accessed 8 December 2024.

affected by the pandemic; and enterprises with bankable plans to take advantage of opportunities arising from the COVID-19 pandemic.[97]

Recommendations to address the challenges and provide solutions to the problems enumerated are proffered in the next part of this article.

5. Conclusion

Consumer credit institutions play a vital role in fostering financial inclusion, empowering individuals, and stimulating economic development in Nigeria. This paper has demonstrated the breadth of Nigeria's consumer credit ecosystem, encompassing both banks and non-bank financial institutions. However, despite these developments, significant structural challenges persist—including fragmented legal frameworks, high interest rates, underdeveloped credit reporting systems. Ultimately, strengthening consumer credit institutions and frameworks will not only improve individual financial resilience but also contribute to national economic stability and growth. It is imperative that policymakers, regulators and financial service providers collaborate to build a more inclusive, transparent and efficient consumer credit system in Nigeria.

The issues highlighted above point to the fact that more could still be done to improve consumer credit availability to individuals and SMEs.

For instance, the Credicorp's claim that every economically active Nigerian has a dependable credit score stands in sharp contrast to its practice of offering consumer credit primarily to federal and state government employees. This selective provision contradicts the notion of universal credit access, effectively excluding a large segment of economically active citizens—particularly informal sector workers despite their supposed credit worthiness. Credicorp's stance reveals the need for more inclusive lending strategies that genuinely reflect the financial realities of the majority.

Furthermore, despite the grass root appeal of microfinance banks (MFBs), their overall effectiveness in delivering consumer credit is hampered by some structural limitations.

[97] ibid.

Loan sizes offered by microfinance banks remain small and often insufficient to meet broader consumer needs such as housing, healthcare or education. Additionally, while interest rates are often described as affordable, in practice, many MFBs charge relatively high interest rates due to short loan tenures and high default risks—making repayment burdensome for borrowers.

On the part of cooporative societies, their effectiveness is hampered by challenges such as limited capitalisation, weak regulatory oversight and occasional issues with transparency and governance. These factors limit their capacity to manage credit risks effectively. However, despite these shortcomings, cooperative societies remain vital for extending consumer credit to underserved communities, but improvements in regulation, capacity building and financial discipline are necessary to enhance their role in Nigeria's consumer credit market.

Meanwhile, although fintechs have emerged as dynamic NBFIs that significantly enhance consumer credit provision in Nigeria by leveraging technology to offer more flexible lending solutions than traditional banks. They face challenges including regulatory uncertainty, high operational risks, data privacy concerns and limited integration with existing credit infrastructure. Despite these hurdles, fintechs are increasingly pivotal in diversifying Nigeria's consumer credit landscape and driving innovation, but their long-term effectiveness depends on stronger regulatory frameworks and improved consumer protections.

The following recommendations can help improve consumer credit institutions in Nigeria. They include:

1) Enactment of a comprehensive Consumer Credit Act modeled on the UK's Consumer Credit Act 1974 to consolidate existing provisions, regulate consumer credit transactions holistically, and enhance consumer protection.
2) Strengthening and expanding the operations of credit bureaus to ensure greater coverage, reliability and accuracy of credit data, while encouraging broader participation of financial institutions in data sharing.

3) Introduction of statutory interest rate caps tailored to borrower risk profiles to prevent exploitation and make credit more affordable.
4) Implementation of a nationwide, harmonised identity verification framework by integrating systems such as the NIN (National Identity Number) and BVN (Bank Verification Number) to enhance KYC (Know Your Customer) compliance and improve credit access.
5) Promotion of financial literacy initiatives aimed at improving consumer understanding of credit products, responsibilities and rights especially in underserved and rural communities.