The Impact of Microfinance on poverty reduction and Economic development in Nigeria.

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Abstract

The study presented empirical findings on the impact of Microfinance on poverty reduction and Economic development in Nigeria. It also examined Microfinance as key to poverty alleviation and economic development. It assessed the extent to which Microfinance Institutions had successfully helped the poor to improve their standard of living and social status. The study employed multiple regression analysis of the Ordinary Least Square (OLS) technique of estimation in order to make tentative predictions concerning outcome variable. The Linear Probability Model was also adopted in the study. This study establishes that Microfinance Programme have impacted the businesses and lives of the beneficiaries (Microfinance Clients) in several positive ways particularly in their economic circumstances. It also gave them access to essential life-enhancing facilities and services. It suggested that Microfinance Institutions in Nigeria should seek long- term capital from the Pensions and Insurance companies so that they can grant larger volumes of loans to greater number of their clients. They should also strive to put in place procedures, policies and products that would ensure gender responsiveness and equity. In order to enhance healthy competition among the Microfinance Institutions, there should be a mandatory policy for the Microfinance Institutions to publish their interest rates and other charges at frequent intervals. This would improve the levels of efficiency of the Microfinance Institutions.

Keywords: Microfinance, Poverty, Economic Development, Economic Growth, Financial Services, Gross Domestic Product

JEL Classification: G21, I38, O17, O43

Background to the Study

The study presents empirical findings on the impact of Microfinance (MF) on poverty reduction in and economic development in Nigeria. As indicated in the literature, poverty is number one problem in the world today as depicted by the following startling statistics: three billion people live below US$2 per day (World Bank, 2001); one and half billion people live below US$1 per day; 70-90 per cent of people in the developing world are poor; poverty is number one of the eight Millennium Development Goals (MDGs); and 75 per cent of the world poor are women. It seems as if all the strategies applied in the past to fight poverty have proved ineffective, but the world seems to have found a most promising strategy. From the historical literature, informal saving and credit unions have operated for centuries across the world. In the middle Ages, for example, the Italian monks had created the first official pawn shop (1462 AD) to counter usury practices. In 1515 Pope Leon X authorized pawn shops to charge interest to cover their operating costs. In the 1700s, Jonathan Swift initiated the Irish Loan Fund System, which provided small loans to poor farmers who had no securities. It is on record that the fund gave credit to about 20 per cent of all Irish households annually. In the 1800s, the concept of the financial cooperative was developed by Friedric Wilhelm in Germany. By 1865, the Cooperative movement had expanded rapidly within Germany and other European countries, North America and some developing countries (Bright, Helms, 2006).

In early 1900s, adaptations of the models developed in the preceding century appeared in some parts of rural Latin America (Bright and Helms, 2006). Efforts to expand access to agricultural credit, in Bolivia for example were made unsuccessfully as the rate charged was too low and banks failed. By early 1950 – 1970, experimental programs were on stream to extend small loans to groups of poor women to enable them invest in micro business. Microfinance is the provision of financial services, such as loans, savings, insurance, money transfers, and payments facilities to low income groups. It could also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it could be used to provide for immediate family expenditure on food, education, housing and health. Microfinance is an effective way for poor people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income (Robinson, 2001).

It has become clear that the ultimate strategy for the World to meet the needs of the poor is through microfinance which gives them access to financial services to enable them make everyday decision on: payment of children school fees; payment for food and shelter; meet health bills and meet unforeseen finance needs resulting from flood, fire, earthquake, etcetera. Microfinance may not be able to solve all the problems of the poor, but it certainly puts resources in their hands in order for them to live an enhanced standard of life. However, the following challenges, among others, face Microfinance institutions: They need to increase the scale of financial services to the poor; they need to reach out and seek the poor wherever they are and give them access to finance. The Grameen Bank of Bangladesh has set a good example in this direction by allowing credit and other services to cost less for the poor and train staff to be uniquely suitable to Microfinance business. The latter enhances efficiency and sustainability of the sector; and develops and tailors products to meet the needs of the clients – the poor. This study presents empirical findings on the impact of microfinance on welfare and poverty reduction in Nigeria.

1.1 Statement of the Research Problem

Before the 1970s, the Nigerian experience in Microfinance was limited to Self Help Groups, Rotating Savings and Credit Associations, Cooperative Unions Community, Savings Collectors and Local Money Lenders. They were all informal and largely unregulated. They were mainly Micro-Credit savings mechanisms. Their strengths were associated with good repayment records due to peer pressure and other cultural mechanisms. However, their weaknesses lay in low level access to capital and limited range due to informal non-structured frame work. In the 1990s, the Federal Government of Nigeria embarked on important initiatives, such as the Peoples Bank, (1990-2002), Community Banks, Nigerian Agricultural Insurance Corporation and National Poverty Eradication Programmes and the Family Economic Advancement Programme. These were focused on rural and community small-scale financing. They were all short lived and unsustainable as a result of poor government policies and corporate governance. Between 2000 to date, there have been other initiatives such as the merger of the Peoples Bank (PB), Family Economic Advancement Program (FEAP), and NACB into the National Agricultural, Cooperative and Rural Development Bank (NACRDB), the National Economic Empowerment and Development Strategy (NEEDS), and the launch of Microfinance Policy in 2005. These are more interactive initiatives resulting from wider consultations with Stakeholders with the hope of better success than their predecessors.

The fact of the matter is that there are too many poor in Nigeria who require micro/small financial services such as Credit, Insurance, Money transfer etcetera in order to engage actively in productive activities and improve their standard of living. Paradoxically, governments across the world, particularly in Nigeria over the years, have not been able to adequately help the poor in spite of all the rhetorics and several failed poverty-alleviation project. Since the discovery that Microfinance can help the poor to access credit and other financial services that will ensure better life for them, a lot of works have been carried out. It is this new strategy that this research intends to explore to establish the developmental relationship between microfinance and poverty alleviation, taking a queue from jurisdictions of the world. MFIs are recent phenomenon in the Nigerian economy. It came to light in 2005 when it replaced the Community Banks. Although many studies have examined the issue of poverty alleviation in Nigeria, not many of them have assessed the impact of MFIs on poverty alleviation. This study seeks to fill this gap.

1.2 Research Questions.

The issues of poverty alleviation, economic development and Microfinance have become major policy discourse globally. To this extent the research work has generated a set of questions which include the following:

i. To what extent has the MFBs served as instruments of credit mobilization and dispersion among the working poor in Nigeria?
ii. How can Microfinance really get the poor out of their poverty?
iii. How has Microfinance enhanced the growth of micro and small scale enterprises in Nigeria?

These are the research questions which the study attempts to provide answers.

1.3 Objectives of the Study

The main objective of this study is to examine the impact of Microfinance on the welfare of the poor and poverty alleviation in Nigeria. The specific objectives include the following:

1. To examine the roles of microfinance towards the dispersion of credit among the working poor in Nigeria.
2. To assess the extent to which microfinance institutions have successfully helped the poor to improve their standard of living.
3. To assess the impact of microfinance on the growth of small and medium scale enterprises in Nigeria.

1.4 Statement of Research Hypotheses

The main and specific objectives of this study have been specified in the preceding section. The associated research hypotheses are as follow:

(a) Ho: MFBs have not been potent instruments in the dispersion of credit among the working poor in Nigeria

Hi: MFBs have been potent instruments in the mobilization and dispersion of credit among the working poor in Nigeria

(b) Ho: Microfinance Institutions have not successfully helped the poor to improve their standard of living.

Hi: Microfinance Institutions have successfully helped the poor to improve their standard of living.

(c) Ho: Microfinance Institutions have not impacted on the growth of small and medium scale enterprises in Nigeria

Hi: Microfinance Institutions have impacted on the growth of small and medium scale enterprises in Nigeria

1.5 Significance of the Study

The significance of this study cannot be over emphasized. Poverty is pervasive in our economy and attempts to alleviate it have not yielded the desired results. Therefore, it is necessary to review the severity of poverty in the country with a view to assessing how microfinance institutions could help to reduce the incidence. It is also necessary to understand how microfinance institutions could contribute to economic development of the nation, by enhancing the productive capabilities and welfare of a largely distressed/vulnerable segment of the society.

1.6 Scope of the Study

The study examined the impact of microfinance institutions on poverty alleviation among the entrepreneurs of SMEs in Nigeria. It used cross-sectional data collected from selected respondents in selected areas of both the Lagos and Ogun States of Nigeria respectively. The study highlighted how certain countries such as India, Bangladesh, Nepal, Bolivia and the Philippines have used microfinance strategy to reduce poverty.

The cross-sectional data obtained from questionnaires administered enabled the researcher to assess the impact and effectiveness of microfinance institutions alleviating poverty in Nigeria. It is known that children and women are among the poorest of the earth. The study targets the customers of MFIs between the ages of 18 and 60 who are gainfully employed and can repay loans. It has been discovered that the ability of women to borrow, save and earn income has enhanced their confidence and they are more able to confront other systemic inequalities (Little Field, Morduch and Hashemi, 2004). Therefore, this study examined the impact of Microfinance on women and other vulnerable groups particularly. In Indonesia, for example, women customers of Bank of Rakayat (Microfinance) partake more in family decisions on children education, use of contraceptives, etc. than women with little or no access to finance.

This study is not unaware of the role of international donors to the Microfinance sector and how it can boost domestic growth. However, the study is limited to local Microfinance institutions and how they constitute effective strategies for poverty alleviation and economic development.

1.7 Method of Data Collection and Analysis

This section of the study details the various data collected and how the data were analyzed. This study relied on the use of primary data collected directly from respondents to the structured questionnaires and interviews. The questionnaire method was used in this study and administered by well-trained interviewers in the study area which is Lagos and Ogun States of Nigeria.

The data analysis for this study was by the use of descriptive statistics such as frequency distributions, means, percentages and cross tabulations between the variables identified. The multiple regression analysis was employed to make tentative predictions concerning the outcome of variables. The outputs of the analysis were presented in tables and figures. The statistical tool used was the Statistical Package for the Social Sciences (SPSS).

LITERATURE REVIEW

2.1 Introduction

This section covers both the theoretical and empirical literature on microfinance poverty and their relevance to poverty reduction. It begins with a brief review of the historical background of Microfinance in the context of poverty reduction all over the world and particularly in Nigeria. It then reviews the methods of operation of Microfinance Institutions, empirical studies on the impact of Microfinance on micro, small and medium scale enterprises (MSMEs). The experience of microfinance in different nations of the world and how it has helped to alleviate poverty in these nations are also reviewed. The roles, performance and successes of Microfinance institutions in alleviating poverty are also enunciated in this section. This section also discusses various challenges confronting Microfinance Institutions.

2.2 Microfinance: A Review of Background, Operations and Structure/Models

2.2.1 Brief Historical Background

Societies the world over have different ways of addressing the financial needs of the poor. In Nigeria, the thrift or *Esusu* system is well known. It provides instruments for small savings, revolving loans and credit facilities. However, the pioneering work of Prof. Yunus has opened a new dimension to micro credit financing. He introduced the practice that has come to be known as microfinance in which small scale loans are made available mainly to women with little or no access to traditional sources of financial capital. According to Hennessey (2006), Yunus founded the Gramen Bank in 1983, now widely popular and seen as a model being replicated by many including leaders, NGOs, and advocacy groups in dozens of countries.

By challenging traditional banking system about the credit worthiness of borrowers and often giving uncollaterised loans, Microfinance has unlocked the entrepreneurial ambitions of some of the world's poorest people. In addition, it is responsible for creating and sustaining new income-generating activities in poor areas traditionally dependent on subsistence farming. Over the last three decades, the popularity of microfinance has steadily increase**d.** Women in the developing world whether due to cultural factors or pure poverty are frequently excluded from participating in economic activity outside of the home. But in the case of microfinance, they tend to be more financially responsible than men, and more integrated with the peer groups that mutually borrow and re-enforce loan repayment. It is on record that Grameen bank boasts of a repayment rate on loans that often carry high interest rates, indicating that microfinance is not a form of charity. The borrowers use their loans to produce marketable products and make enough profit on the sale to payback their lender in full. From Hennessey (2006) study, it is certain that microfinance, in its various adaptable models can assist the world to reduce and alleviate poverty and enhance economic development, particularly in developing economies. Pollinger and Cordero-Guzman (2007) submitted that micro- entrepreneurs have considerable difficulty in accessing capital from mainstream financial institutions. In their view, this is because the costs of information about the characteristics and risk levels of borrowers are high. In order to understand the implications for providers of microfinance in pursuing the strategy of relationship based financing of micro-entrepreneurs the authors study the relationship based financing as practiced by microfinance institutions (MFIs) in the United States and the lending process. In the process, they were able to determine the break- even price of a microcredit product. When they compared the results obtained with the actual prices offered by existing institutions, they came to the conclusion that "credit is generally being offered at a range of subsidized rates to microenterprises".

In particular Hulme (2000) observed that 21 per cent of borrowers managed to lift their families out of poverty within four years of participation in microfinance and extremely poor conditions declined from 33 per cent to 10 per cent among participants. However, he contends that there is the need for a much careful monitoring of these programmes by microfinance institutions and the donors, with awareness that micro credit could have both positive and negative impacts on loan recipients. These observations are a guide for improved performance in the future but do confirm that the poor can and should benefit from the services of microfinance.

TABLE 2.1: TOTAL COST OF ADMINISTERING LOAN

	Big Lenders (Commercial Banks) (%)	Microfinance Institutions. (%)
Cost of capital	10	10
Loan loss	10	10
Total cost of capital	11	11
Total amount of loan disbursed	$1,000,000	$1,000,000
Loan size	$1,000,000	
Number of loans	1	10,000
Cost of administering loan	3	20
Total cost to Institution	14	31

Source: Unitus, Innovative, Solutions to Global Poverty. Year 2007

The author further submitted that though price regulators may desire that ceiling to interest rates is observed for microcredit loans, in reality such ceilings can cause a fatal blow to the MFIs. As a result, those whom the MFIs would have served are left without access to any financial services. That type of regulation, often is a disservice to the very people it is meant to protect. The relevance of this data to our research study is that it takes many transactions for microfinance institutions compared to the large banks to secure enough turnover for profitable operations and each transaction has its separate administrative cost. Hence the needs for high interest charge.

2.5.1 Challenges Confronting Microfinance Institutions: Remarkably, microfinance has brought substantial relief to the poor and has enhanced social and economic development globally since the last twenty years. However, several challenges confront its total success in alleviating poverty, and several authors have made contributions in identifying the challenges confronting microfinance institutions.

Vazquez (2005) observes that one of the most important challenges is achieving financial sustainability. He also listed integrating the microfinance industry into the formal financial sector as a challenge. According to him, studies indicate that only one per cent of existing microfinance institutions worldwide are financially stable. He further observed that despite high loan recovery

2.3 Review of Microfinance Models

The Grameen Bank Model: This model emerged from the work of Prof. Muhammad Yunus in Bangladesh in 1976. It focused on the poor and low-income households. The bank operates as a unit set up with a Field Manager and bank workers covering a designated area of about 15 to 22 villages. Manager and workers visit villages in order to familiarize themselves with the environment and identify clientele and explain purpose, functions and mode of operation. Groups of five prospective borrowers are formed from which only two receive a loan in the first instance while others take their turns later. The Group is then observed for a month to see if members are conforming to the rules of the bank. If the two beneficiaries of a loan facility repay principal plus interest over a period of 52 weeks, others become eligible. As it is, there is substantial group pressure to make individual conform to the rules and regulations governing the operations of the bank, particularly with respect to repayment of loans. In the Grameen bank model, group formation is also used for other purposes such as educating the members, awareness building, and collective bargaining.

Adaju (2006) presents very clear cut model of microfinance**.** This is a model of credit lending position of a “90-between” organization: between lenders and borrowers. Intermediary plays a critical role in generating credit awareness and education among the borrowers including starting savings. In this model, activities are geared towards raising “credit worthiness of the borrowers to a level that is sufficient to attract borrowers”. Links developed by the intermediaries could cover funding, programme links, training, and education and research. These activities can take place at individual, local, regional, national and international levels.

Cooperative Associations model of microfinance operation. They are autonomous associations of persons that are voluntarily united with the desire to meet their common economic, social and cultural needs as well as their aspirations. The model is a jointly owned and democratically, controlled enterprise which treats the whole community as one unit. In some cases financing and savings activities are included in their mandate. Cooperatives are very common in Nigeria. Finally, there is the Credit Union. This is a unique member driven, self-help financial institution usually organized by and comprised of members of a particular group or organization who agree to save their money together and make loans to members from the savings at reasonable rates of interest. Usually members have common bonds either by virtue of common workplace, labour union or living in the same community. Membership of credit unit is open to all who belong to the group, regardless of race, religion, colour or creed. It may be a non-profit financial cooperative.

2.4 Review of Empirical Studies

The popularity of microfinance institutions is not limited to Bangladesh only. All over the world, the experience of MFIs are being propagated. This is seen in Asia, Latin-America and Africa.

2.4.1 Microfinance Experience in the United States of America.

America has shown little interest in the Grameen type of microfinance and contributed to it as donors only initially. In general, early reaction to microcredit was rather negative. There was doubt as well as pessimism about whether anything would actually raise people out of their poverty, rather than merely alleviating it. Many Americans argue that their welfare state has created a lazy under class of dysfunctional individuals who would never be interested or be capable of starting their own business or supporting themselves (Ynus, 2003:176).

By 1985, when Bill Clinton was Governor of Arkansas State, he sought ways to create new economic opportunities for the low-income people of the state. A group of bankers in Chicago area advised Bill Clinton to adopt a Grameen type programme as answer to the poverty problem in the state. This advice gave birth to the Grameen Pilot project in Pin Bluff, Arkansas, manned by Julia Vindasius. The Project was originally named Grameen Fund but later renamed Good Faith Fund (GFF), suggesting that the bank does not rely on collateral but rather on the good faith of its borrowers. The bank in Arkansas slowly grew and reached hundreds of low-income people.

The Arkansas experience according Yunus (2003) has been repeated in many parts of the USA, examples are in South Dakata where Lakota fund was created. Lakota Fund is a leading Micro-Credit project which has assisted Native Americans. Other microfinance projects are in Oklahoma and Chicago, both of which have assisted Native Americans who hitherto had no economic opportunities. Typically the project – Women Self Employment Project (WSEP), a non-profit organization has implemented a variety of innovative anti-poverty programmes. Another project, Full Circle Fund (FCF), since 1988 has offered low-income women access to investment capital of between $300 and $500, provided such women are able to join a group of five peers and are able to present sound business plans and proposals.

2.4.2 Microfinance Experience in Europe.

Like in the USA, the following are the initial challenges as observed by Yunus (2003) to the take-off of microfinance in both the wealthy Western Europe and the poor Eastern Europe:

(i) Grameen, as a non-European idea upset many Europeans;

(ii) the social welfare system does not actually encourage self-development. People go on monthly basis to collect money from government for their minimum up keep;

(iii) many cannot reconcile the amount of welfare money and insurance coverage they would lose, to what may accrue to them in self-employment; and

(iv) self-employed poor must file documents, keep books of account etc. These are too much for their poor, and uneducated who ordinarily should embrace the microfinance system in order to help themselves. The situation is changing in Europe presently as many of them now look up to the private sector initiative as answer to poverty alleviation rather than the little bits they receive from government as social welfare.

Rosalind Copisarow, a Polish graduate of Oxford University left a high profile employment in J.P. Morgan Bank to establish the Fundusz Mikro in Poland. The microfinance institution has a record of 98.5 per cent loan repayment. It is a Grameen bank prototype project, and its success has encouraged hundreds of other microfinance initiatives in Poland. The story of Bodil Maal (1997) who set up the Micro-Credit Project in Lofoten Island of Norway with the collaboration of Norwagian Government is ever told. It is primarily targeted at the young women (girls) of the islands in order for them to remove boredom and encourage them to stay on the islands so as not to depopulate them. The Finnish Micro Credit Ltd was set up to meet similar needs as in Norway. A similar depopulation problem was also occurring in Northern Finland and the nearby region of

Northern Russia.

Asia/Latin America

Swain and Wallentin (2007) in a journal titled “Empowering Women through Microfinance evidence from India”, submit that microfinance programmes have been increasingly promoted in India because of their positive economic impact and the belief that they empower women. According to them, within the South Asian context, women empowerment is a process in which women challenge the existing norms and culture to effectively improve their well-being. The paper investigates the impact of microfinance on women empowerment, using 2000 and 2003 Indian Household Survey data. The authors found that most microfinance institutions targetwomen with the explicit goal of empowering them. Rahman (1999) observes that microfinance borrowers have had to sell household assets or their own food supplies, or have to leave their homes in search of wage labour in urban areas to repay their loans. Marr (2002) examines the impacts of microfinance on poverty reduction with application to Peru. It is found that the Marr Group dynamics engendered by the joint-liability microcredit programme had negative impacts on the well-being of participants.

2.4.3 Africa

The microfinance sector in Africa is expanding rapidly and the institutions have increased their activities. African MFIs are among the most productive globally as measured by the number of borrowers and savers. It is also reported that MFIs in Africa also demonstrate higher levels of portfolio quality with an average portfolio at risk of over 30 days of only 4.0 per cent. According to a Poverty Reduction Strategy Paper (PRSP) produced in 1999, a large number of Kenyans derive their livelihood from the MSEs. The development of that sector, therefore, represents an important means of creating employment, promoting growth and reducing poverty in the long term. As the Report notes, “In spite of the importance of the sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions such as commercial banks has been below expectation. It has, therefore, according to the author become difficult for the poor to climb out of poverty due to lack of finance for their productive activities. New, innovative and pro-poor modes of financing low-income households and MSEs based on sound operating principles have become imperative if Kenya is to get out of the woods of poverty. In the past, microfinance institutions (MFIs) that were established using NGOs or savings and credit co-operative societies framework have contributed to a large number of low-income households and MSEs in rural and Urban areas of Kenya without appropriate policy and legal framework. Nana (2008) observes the growing competition in the financial services sector in Ghana, hence the need for innovative financial products with emphasis on sale of funds in order to succeed in the dynamic operating financial environment. She further observed that Microfinance Instutions (MFIs) are playing a pivotal role in microfinance service delivery, through innovative product development, and that they render useful financial services to the rural, semi-urban, urban and the informal sectors in the Ghanaian economy due to the increased demand for the microfinance service.

2.4.5 Nigeria

Several researchers have turned their attention to the operations of MFIs in Nigeria. Akintoye and Owoyori (2009) opined that micro-financing has been accepted as a major subsector in the finance sector of the Nigeria economy. The authors are concerned with the performance of the microfinance banks in order that both the clients (the poor of the society) and the owners (shareholders) may attain the objectives of the banks. “Ultimately, satisfactory performance of microfinance banks will lead to poverty alleviation and economic development”. The above contribution by the authors lay emphasis on corporate governance, training of operators, satisfactory regulatory framework and monitoring on the part of policy makers. This contribution is considered as extremely relevant as poor corporate governance, poor training and inconsistent policies were the bane of earlier programmes aimed at alleviating poverty and enhanced economic development. If microfinance will succeed in poverty alleviation and enhance economic development, all the issues raised above must accompany microfinance operations. In a paper on "Microfinance and Developing the Nigerian economy", Onwumere (2009)

Appraised Nigeria's current microfinance policy within the context of the country's aspiration to join the league of twenty largest economies of the world by the year 2020. After reviewing the number of microfinance banks relative to the population of the country, the author concluded that more microfinance banks and branches would have to be put in place and be more widely spread across the country in order to ensure that their services reach more clients and in more places.

According to Kimotho (2007), there has been a high level of mushrooming of microfinance institutions (MFIs) worldwide. The author observes further that despite the growth of the sector over the last couple of years the overall outreach of MFIs remains relatively low. In effect, the entire microfinance activity in Nigeria contributes a meager 0.2 per cent to the Gross Domestic Product (GDP) and account for only 0.9 per cent of the total credit, compared with about 22 per cent in South Africa. Current efforts are geared towards making micro enterprise activities the engine of growth and economic development in Nigeria. , where vibrant microfinance sector and SME programmes have led to significant, noticeable and measurable improvement in the financial well- being of the lives of the poor and has also resulted in sustainable increase in employment generation. Kefas (2006) submitted that Microfinance was often considered one of the most effective and flexible strategies in the fight against global poverty by performing the following functions; Provision of Seed Money, Business traning, social rehabilitation, Start Up Funding and Training in Business Practices, Promotion of Socio-Economic Conditions and General Welfare, Literacy Campaigns.

2.7 Funding Sources for Microfinance Banks.

Olaitan (2007) asserted that the market for microfinance in Nigeria is enormous as confirmed by UNDP (2005). Over 98.3 million of the populations live on less than $1 a day. Also, 65 per cent (91.0 million) have no access to financial services. The funding options available for the activities of MFBs under the Central Bank policy are numerous and are briefly examined as follows:

[a] Equity Capital

To raise funds, the promoter can sell partial interest in the MFB to investors. The equity investors become part-owners and partners. In exchange, the investor will receive stocks for their ownership position in the microfinance bank.

[b] Debt Financing

This involves borrowing money from commercial sources with the full understanding that the amount will be repaid in the future with interest within a specified period. Generally, "debt financing does not involve any provision for ownership of the company".

[c] Partnering

Deposit money banks (DMBs) have started to partner with MFBs and MFIs in different forms. This includes the provision of credit facilities, and mutual outsourcing arrangements. In mutual outsourcing arrangement, the microfinance institution does the actual lending on behalf of the commercial bank which only books the risk portfolio on its balance sheet.

[d] Finance Company

This simply means borrowing the startup fund from finance companies. This is not advisable as interest rate charged by finance companies is usually high – much higher than what deposit money banks or cooperatives charge. This funding source is not attractive.

[e] Private Placement of Securities

This funding strategy involves the microfinance institution offering security (shares or bonds) not to the public but to individuals or a small group of investors. This type of funds raising is not required to be registered with the Securities and Exchange Commission.

[f] Selling Assets

The sponsors of a microfinance institution may elect to sell some of their personal effects to raise the initial capital for the bank. However, well established and already viable MFBs or MFIs which require funds for expansion of branch network may not have to sell assets to raise capital because their track records and goodwill will enable them to secure funding from other sources.

[g] Capital Markets

This is raising funds directly from investors. In order to deliver on their potential to reduce poverty, MFBs or MFIs can explore the capital market as it is the largest source of financing.

[h] Private or Commercial Capital

This refers to all private sectors financial resources available for use. In the case of investment, this includes monetary capital that is privately owned and invested directly by its owners or via intermediaries. Commercial capital expects to make positive rates of return relative to risk.

[i] Guarantee

This is not a funding source per-se, but it reduces the risk exposure of lenders. Loan guarantee reduces the amount of capital required by the lender on outstanding loans. It is a fall-back position for lenders and increases their liquidity.

[j] Microfinance Development Fund (MDF)

The Central Bank in its policy pronouncement (2005) plans to set up a Microfinance Development Fund (MDF). When established it will provide dependable and sustainable source of funding for microfinance banks. Section 11.9 of the microfinance policy of the Central Bank makes provision for such funding arrangement.

Theoretical/Conceptual Framework

3.1. Theoretical Framework

Theories of Poverty

Bradshaw (2006) opined that theories of poverty may originate from five sources including 1) individual deficiencies, 2) cultural belief systems that support subcultures in poverty, 3) political-economic distortions 4) geographical disparities or 5) cumulative and circumstantial origins. However, this study examines another strand of poverty classification/theories. There are two poverty and two finance theories that are germane to this study. These are vicious cycle theory of poverty, power theory of poverty, demand following and supply leading hypothesis and financial liberalization or repression hypothesis. In the following paragraphs, the study looks in these theories.

The Vicious Cycle of Poverty

The vicious cycle of poverty states that the poor man is poor because he is poor or a country is underdeveloped because it is underdeveloped. According to Jhingan (2003), the basic vicious cycle stems from the facts that in LDCs total productivity is low due to deficiency of capital, market perfections, economic backwardness and underdevelopment. Jhingan stressed that vicious cycle operates both on the demand side and supply side. On the demand side of the vicious cycle, the low level of real income leads to a low level of demand which in turn leads to a low rate of investment and hence back to deficiency of capital, low productivity and low income. On the supply side, low productivity is reflected in low real income. The low level of savings leads to low investment and to deficiency of capital. The deficiency of capital in turn leads to a low level of productivity and back to a low income. Accordingly, this theory views poverty as being self-perpetuating.

Power Theory of Poverty

The power theory of poverty is similar to the Maxists theory of poverty. This theory sees power in terms of who controls what and how in the political and economic structures of the system. In this context, the structure of political and economic power in the society is the determinant of the extent of poverty among the populace. According to the proponents of this theory, the individual‟s position in the society depends on whether he owns the means of production or work for someone else. They held religion responsible for sustaining this power structure between the rich and the poor by denying the poor of any initiative to fight to improve their condition which prevails and subject them to poverty Nyong (1995). Thus, an effective poverty reduction programme should have exploitative property that could be addressed and dislodged.

The Demand-Following and Supply-Leading Hypothesis

The demand following financial theory refers to a kind of finance development that reacts positively to economic activities. The demand-following finance theory is a situation where financial institutions establish in urban centers where the demand for their service is already intact or exist. In the supply-leading finance theory, the challenges are to identify nascent firms, promote and support same to maturity in order to boost grassroots entrepreneurship. Financial institutions here stimulate effective entrepreneurial response for positive economic development. This position is anchored on the assumption that the growth of the financial sector is dependent on the growth and commercialization of other sectors. It does not encourage savings, hence it impedes development. Critics of the supply-leading finance theory posited that there are lots of idle funds lying waste when there are viable projects in the urban centers that need such funds to establish leading to the under-utilization of potentials/resources.

However, the theoretical background of this study is rooted in the demand-following hypothesis and the vicious cycle of poverty. This is because most microfinance banks are sited in the urban areas or semi-urban areas where there already exists the demand for financial services. Thus, for these MFIs to function efficiently and effectively to break the poverty cycle, they are demand driven and not supply leading.

3.2 Conceptual Framework.

Understanding how to alleviate poverty is a central concern of policy makers as well as decision takers in developing economies. Bruno, Squire and Ravallion (1995) indicated that there are ample evidences that policies designed to foster economic growth significantly reduce poverty, and that policies aimed specifically at alleviating poverty are also important. For example, programmes can have a short-run or long-run perspective. Timothy Besley (1997) took a short run perspective on programme design for alleviating poverty, assuming that income-earning abilities are fixed. He took two separate approaches to programme design, which he called the technocratic and the institutional. The technocratic approach usually associated with economists, focus on targeting, exploring the theoretical and empirical implications of trying to direct limited resources to people with the greatest need. These efforts emphasize the difficulties of identifying target groups and use creative approaches to program design that substitute for detailed information required to achieve maximum results. Central to such explorations are the incentive effects of programme design, which underscore the need to know key behavioral parameter, such as labour supply responses, in order to formulate policy. The institutional approach is more common among non-economists. For them the question of why program for the poor do and/or do not work has much more to do with social institutions than with policy design. In this view antipoverty policies fail because the poor lack political power or because administrative incompetence or corruption keeps governments from delivering services. Thus improving the lives of the poor requires developing the social institutions, improving government performance, and changing political structures and attitudes towards the poor. The gulf between these two perspectives is evident in their position on the role of non- governmental organizations (NGOs), in poverty alleviation programmes. The technocratic approach rarely refers to NGOs, while the institutional approach considers them vital in the attack on poverty in developing countries. The increasing concern with better targeting in poverty alleviation program stems from governments" desire to minimize the cost of achieving poverty alleviation. This desire is an implication of models in which tax payers, as financiers of transfer programmes, seek fiscally efficient method of helping the poor-that is, they want program to be designed in a way that minimizes the financial burden imposed. Thus the insights from the technocratic literature are legitimate concerns in a well-defined decision-making model of antipoverty-policy.

3. RESEARCH METHODOLOGY

- Research Design

This section covers the description of the type of survey adopted in the study. It is expected to define the population, the sample size as well as the sampling technique adopted in selecting the sample size. Sources of data collection, data analysis and data presentation are part of the research design. This research is designed to study the impact of microfinance banks on the small scale businesses and individual customers for which the banks provide services. The purpose is to assess the role of such services in alleviating poverty and promoting economic development. Lagos and Ogun States constitute the scope of field survey. Questionnaire was administered in a survey conducted among the microfinance banks and their customers in Lagos and Ogun States.

❖ Population and Sample Design

The target population for this study consists of the microfinance banks (MFBs) in Lagos and Ogun States as well as the micro entrepreneurs patronizing the MFBs in the two states. According to CBN (2009), there are three hundred and five (305) MFBs in the Southwest part of Nigeria. These banks are categorized into those with final licences (169) and those with Provisional Licences (136). Out of the total, Lagos State controls the lion share of 147 MFBs with 74 in the licenced category while 73 have provisional licences. Ogun State, on the other hand has a total of 51 MFBs with 29 licensed while the remaining 22 have provisional licenses. In total, the two States have 198 MFBs, with 123 of them in the licensed category while the remaining 95 have provisional licences. The rationale for the choice of the two States is that most of the MFBs in Nigeria are concentrated there. In this respect, of a total of 253 MFIs in the SouthWest, 243 are located in Lagos and Ogun States respectively. It follows that sample drawn from the States are, all things being equal, more likely to reveal the characteristics of the MFBs and their customers.

❖ Sampling Technique

The Sampling Technique is on two levels including the MFIs in the first level and the micro-entrepreneur customers in the second level. In this study, the target population is the total entrepreneur-customer base of the selected banks. From the books of the banks, a sampling frame of 10 per cent of customers was selected, using the stratified random sampling approach. The micro-entrepreneur-customers were stratified by the average size of last loan taken and divided into three categories: (a) Low loan volume, (b) Medium Loan volume, and (c) High Loan volume customers. Each of the categories (a) through (c) were translated to actual Naira value. Low loan volume was bench-marked at a ceiling of N27,579, medium loan volume at a ceiling of N35,602 and the last category at any amount above N58,227

❖ Data Collection and Source of Data.

Both secondary and primary data are being used in this research work. The primary data were collected through the use of well-structured questionnaires, and administered by well-trained enumerators in the study area. The study covers two states in Nigeria, Lagos and Ogun States. Secondary data were obtained from the records of those microfinance banks surveyed as well as the records of the micro-businesses being studied. Other secondary data were obtained from the relevant Government publications, text books and publications of the Central Bank and the Nigerian deposit insurance corporation.

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- Reliability of Instrument.

The questionnaire employed for the primary data in this study was pilot-tested and found very reliable. It led to rework before the main study was conducted. Although the respondents may be subjective, the questionnaire is still able to capture relevant and needed information based on their opinions. Using Statistical Package for Social Sciences (SPSS), the cronbach alpha reliability test provided satisfactory score.

- Model Specification

The objectives of this study as stated in section one are to examine the extent of credit dispersion of MFIs among the working poor; to determine whether microfinance has helped to improve the standard of living of customers and lastly to assess the impact of micro financing on the growth of micro and small entrepreneurs. In an attempt to address the first objective, the study draws from the data collected from the field survey and these were reported using tables, frequency counts and cross-tabulations to draw inferences. In addition, a loan demand model was specified and estimated using the Ordinary Least Squares (OLS) econometric technique. Also, a linear Probability model was specified and estimated to measure the log of odds of obtaining loans from the microfinance banks by the customers. These models are expressed as Models 1 and 2. For the second objective, data from the survey was used to analyses the impact of loan received on earnings. In addition, an analysis of determinants of earnings was done using the Mincer (1973) model and referred as Model 3. For the third objective, a growth analysis was carried out from the survey data.

Model 1 – Volume of Loan Demanded Function:

Drawing from the theory of demand in Economics, the demand for loan is a function of the rate of interest, the personal characteristics of the borrower, as well as the enterprise characteristics of the

$$D^L = f(i, \boldsymbol{B}, \boldsymbol{P}) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots .(1)$$

borrower-entrepreneur. Thus, the demand of a customer for loan volume D^L can be expressed as:

Where *i* is the rate of interest and it is expected to be negatively related to the dependent variable D^L; ***B*** is a vector or enterprise-related variables such as the year of establishment, location, nature of business, among others; while ***P*** is a vector of personal characteristics of the loanee such as age, formal educational attainment, and so on. These above variables are assumed to be related to the independent variables.

Model 2- Loan Demand Probability Function:

In considering the second objective of this study, this study has adopted the linear probability model. In this respect, we postulate a linear probability model as suggested by Ogunrinola and

Alege (2007: 100). Thus, a loan-impact probability model is specified as indicated below:

$$P(Y=1/X) = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \ldots + \alpha_k X_k \qquad \ldots\ldots\ldots$$

includes: AGEE, GENE, EDUC, BIZT, LOAF, AGEB, and BLOC

Table 3.1: List of Variables and Description

S/No.	Variable Name	Variable Description	Measurement
1.	AGEE	Age	Years
2.	GENE	Gender	Male/Female
3.	EDUC	Education	Categorical
4.	BIZT	Business Type	Categorical
5.	LOAF	Loan frequency	Categorical
6.	AGEB	Age of Business	Years
7.	BLOC	Business Location	Categorical
8.	LOAT	Loan Amount	Naira
9.	MARS	Marital status	Single, Married, Divorced, Widow
10.	TBEL	Training Before Loan	Yes/No

Model 3: Mincer's (1973) Model of Determinants of Earnings among MFI customers

It is postulated that income is influenced by the vector of variables **X, B, P** and **H.** Thus the extended Mincer Model is of the form:

$$LN\ Y = f(\boldsymbol{X}, \boldsymbol{B}, \boldsymbol{H}, \boldsymbol{P})$$

Where:

Y is the weekly earnings in Naira.

H is a vector of Human Capital variables such as education (D, measured in years of schooling), labour market experience (G, proxied by respondent‟s age), square of age, (G^2), as well as dummy variables for different age groups (G1, <30 years; G2, 30-44 years; G3, 45 years and over) and educational attainments (D0, No Schooling; D1, Primary Education; D2, Secondary

Education;

D3, Post-Secondary) to measure the differential impact of each variable group. **P** is a vector of other personal characteristics of the respondents such as Gender (N, and NM=Male; NF=Female); marital status (M, and MS=, Single, MM=Married, MS=Separated/Divorced/Widowed), Religion (RG and RG1=Islam; RG2=Christianity), region of origin (R and RN=North; RE=East; and RW=West), state of operation (S, and SL, Lagos; SG=Ogun), Nature of employment (E and ES, Self-employment; EW, Wage employment) among others. **X** is a vector of MFI variables such as Type of MFB being used (MF and MF1, LAPO; MF0, Other MFIs); Whether loan is received, and amount of first loan received (LA, and L1 respectively) by the respondent, length of banking with the MFIs (BKYR) measured by the number of years when first account was opened MFIs. **B** is a vector of business variables. These are Type of business (B); (BT, Trading; BC, Contractor/Supplier; BF, Tailoring/Fashion Designing; BO, Others).

Re-specifying equation

$$Ln\,Y = f(D, G, G^2, N, M, RG, R, S, E, MF, L1, LA, BKYR, B) \ldots\ldots\ldots\ldots\ldots\ldots$$

The equation will be run in such a way as to isolate the MFB impact on the distribution of income. At first stage, Ln Y is regressed on the traditional human capital variables together with the personal variables; the second stage includes the MFI variables, such that we have:

$$\begin{aligned} Ln\,Y = {} & \alpha_0 + \alpha_1 D + \alpha_2 G + \alpha_3 G^2 + \alpha_4 NM + \alpha_5 MS + \alpha_6 MM + \alpha_7 RG1 + \alpha_8 RE + \alpha_9 RW \\ & + \alpha_{10} SL + \alpha_{11} ES + \mu_1 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \end{aligned}$$

The second stage includes the MFI and Enterprises variables, such that we have:

$$\begin{aligned} Ln\,Y = {} & \beta_0 + \beta_1 D + \beta_2 G + \beta_3 G^2 + \beta_4 NM + \beta_5 MS + \beta_6 MM + \beta_7 RG1 + \beta_8 RE + \beta_9 RW \\ & + \beta_{10} SL + \beta_{11} ES + \beta_{12} MF1 + \beta_{13} L1 + \beta_{14} LA + \beta_{15} BKYR + \beta_{16} BT + \beta_{17} BC \\ & + \beta_{18} BF + \mu_2 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \end{aligned}$$

A priori, the coefficient estimates of D, G and BKYR are expected to be positive, while that of G^2 is expected to be negative. The coefficient of other variables cannot be determined *a priori.*

3.10 Analytical Technique

The method of analysis for this study to achieve the first objective is through the use of descriptive statistics. The statistical technique adopting is descriptive, such as frequency distributions, means, percentages and cross tabulations between the identified variables. With respect to the second and third objective we use the Ordinary Least Squares technique of estimation. In this case, multiple regression analysis employed to make tentative predictions concerning the outcome variable. The outputs of the analysis are presented in tables and figures. The analytical tool used is the Statistical Package for Social Sciences (SPSS). However, the use of linear probability model poses some econometric problems. These include non-normality of the disturbance e_j ; heteroscedasticity of the variances, and the possible non- fulfillment of the

restriction $0 \leq E(Y / X) \leq 1$. These econometric problems will be solved through the solution

method proposed by Gujarati (1995: 543) and Ogunrinola and Alege (2007: 101).

4.1. DATA ANALYSIS AND DISCUSSION OF RESULTS

This study examined the contribution of microfinance institutions to poverty reduction in Southwestern Nigeria. As stated in the preceding section, the study relied on the use of primary data collected between the months of August and November, 2010 from microfinance institutions (MFIs) and randomly selected customers of the same institutions.

4.1.1 Microfinance Institutions (MFIs) and their Characteristics in the Study Area

A total of forty-one banks were covered in this study and majority of them (75.6%) operate in Lagos State while the remaining 24.4% operate in Ogun State. Twelve of these banks, representing 29.3% of the total sampled operate as Unit banks, that is, community-based banks. Such banks can only operate branches and/or cash centers within a prescribed local government area subject to meeting the prescribed prudential requirements and availability of funds for opening branches/cash centres. Twenty seven of the banks which represent 65.9% of all banks surveyed are state Banks that are permitted to operate in all parts of the State in which they are registered, subject to meeting the prescribed prudential requirements and availability of funds for opening branches. Only two of the banks (2.49%) did not declare their scope of operation (whether unit or state banks) in the survey questionnaire.

The survey of the MFIs also tried to find out the status of the Bank surveyed in terms of whether they are head office branch, or cash office. The findings reveal that four of the banks representing 9.8% are Head office of their various banks, nineteen of them (46.3%) are branch offices, while 8 (19.5%) are cash offices. The remaining 10 (24.4%) did not report the status of their banks. Table 1 gives the summary statistics of the frequency distribution of the selected variables.

The Central Bank of Nigeria in 2005 launched the micro-finance banks to replace the then existing community banks in order to provide better micro-financing opportunities for micro-entrepreneurs and other savers. The age of establishment of the sampled banks shows that some of them have been in operation before the 2005 Central Bank‟s Guideline on Microfinance Bank (CBN, 2005) was issued.

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TABLE 4.1
SOME CHARACTERISTICS OF SAMPLED MICROFINANCE BANKS

MAIN CHARACTERISTICS	DERIVED CHARACTERISTICS	FREQUENCY	PER CENTAGE
STATE OF OPERATION	Lagos	31	75.6
	Ogun	10	24.4
	TOTAL	**41**	**100.0**
SCOPE OF OPERATION	Unit Bank	12	29.3
	State (Branch) Bank	27	65.9
	Others (Unclassified)	2	4.9
	TOTAL	**41**	**100.0**
STATUS OF BRANCH	Head office	4	9.8
	Branch Office	19	46.3
	Cash Office	8	19.5
	Others (Unclassified)	10	24.4
	TOTAL	**41**	**100.0**
YEAR ESTABLISHED	Before 2005	8	26.7
	2005-2007	6	20.0
	2008-2010	16	53.3
	TOTAL	**30**	**100.0**
NO. OF EMPLOYEES AT INCEPTION	1-9	4	12.5
	10-19	22	68.8
	20-29	2	6.2
	30-39	0	0
	40-49	2	6.2
	50 AND OVER	2	6.2
	TOTAL	**32**	**100.0**
CURRENT NO. OF EMPLOYEES	1-9	0	0
	10-19	4	11.4
	20-29	9	25.7
	30-39	2	5.7
	40-49	2	5.7
	50 AND OVER	18	51.7
	TOTAL	**35**	**100.0**

Source: Field Survey, 2010

The oldest of the banks was established in 1987, while the total number in existence before 2005 was eight in number and this represents about 27% of the total number of 30 banks that reported year of establishment. Six of the banks (representing 20% of the responding banks) were established between 2005 and 2007 while the remaining 16 (53.3%) came into existence between 2008 and 2010. This shows that majority of the banks are young.

In terms of the number of employees, the responding microfinance banks reported an average number of about 72 at inception but as at 2010 when the data collection for this study was carried out, the number employed has grown to an average of about 373.

TABLE 4.2

NAME OF THE MICROFINANCE BANK PATRONISED BY RESPONDENTS

	Frequency	Valid Per cent
LAPO	193	64.3
CMFB	22	7.3
GATEWAY	18	6.0
Classic	1	.3
Uba	7	2.3
Imfb	7	2.3
OJOKORO	14	4.7
Powa	3	1.0
Phb	11	3.7
Vining	4	1.3
Mic	2	.7
Lasu	5	1.7
Groomoing	1	.3
Olive	5	1.7
Firstbank	1	.3
Foresight	1	.3
Nacredeb	1	.3
Newlife	1	.3
Zenith	1	.3
Ewutuntun	1	.3
Unaab	1	.3
Total	300	100.0
N	321	

Source: Field Survey, 2010

TABLE 4.3
DESCRIPTIVE STATISTICS OF THE VARIABLES USED IN THE MODELS

	Mean	Std. Deviation	N
Log (natural) of income after loan	9.1908	.91402	126
No schooling dummy	.0794	.27139	126

Primary educ dummy	.2222	.41740	126
Secondary educ dummy	.4841	.50174	126
NCEond educ dummy	.1825	.38783	126
Gender_Male=1	.2540	.43702	126
Married =1, others zero	.7857	.41196	126
Amount approved & paid on 1st loan	34,422.22	66,118.426	126
Lapo=1, others zero	.8095	.39424	126
Number of years account opened with MFB	2.5556	1.35974	126
Trading=1, others zero	.6111	.48944	126
Contractor=1, others zero	.1667	.37417	126
Farming=1, others zero	.0397	.19599	126
Fashion=1, others zero	.1190	.32514	126
age group dummy for 30-44 years	.5714	.49685	126
age group dummy for 45+ years	.2302	.42261	126
Christianity=1, others zero	.7381	.44143	126
Location Lagos=1, 0 otherwise	.8413	.36688	126
Self empt =1 zero otherwise	.9365	.24482	126

Source: Computed from Survey data

TABLE 4.3 (a)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.317(a)	.100	.044	.98707

1. Predictors: (Constant), West=1, others zero, Married =1, others zero, Number of years of formal education, Gender_Male=1, Christianity=1, others zero, Location Lagos=1, 0 otherwise, Age of Respondents, Self empt =1 zero otherwise, Single =1, others zero, East=1, others zero, Square of age of the respondents.

TABLE 4.3 (b)
REGRESSION COEFICIENTS OF THE DISTRIBUTION OF INCOME
(H AND P VARIABLES ONLY)

Variables and Constant	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	8.420	1.404		5.999	.000
Number of years of formal education	.040	.017	.179	2.394	.018
Age of Respondents	.108	.067	.888	1.606	.110
Square of age of the respondents	-.001	.001	-.774	-1.402	.163
Gender_Male=1	.301	.171	.129	1.763	.080
Married =1, others zero	-.307	.271	-.120	-1.132	.259
Single =1, others zero	.072	.365	.022	.198	.844
Christianity=1, others zero	.091	.172	.039	.530	.597
Location Lagos=1, 0 otherwise	-.006	.191	-.002	-.031	.976
Self empt =1 zero otherwise	-.173	.359	-.037	-.482	.631
East=1, others zero	-.492	.262	-.209	-1.875	.062
West=1, others zero	-.442	.230	-.210	-1.924	.056

a Dependent Variable: Log of average weekly income after loan

TABLE 4.4.
ANOVA TABLE FOR THE REGRESSION ESTIMATE [IN TABLE 4.3(b)]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.125	11	1.739	1.784	.060(a)
	Residual	171.478	176	.974		
	Total	190.603	187			

a. Predictors: (Constant), West=1, others zero, Married =1, others zero, Number of years of formal education, Gender_Male=1, Christianity=1, others zero, Location Lagos=1, 0 otherwise, Age of Respondents, Self empt =1 zero otherwise, Single =1, others zero, East=1, others zero, Square of age of the respondents

b Dependent Variable: Log of average weekly income after loan

In line with the *a priori* expectation, the coefficient estimate of age and education variables are positive on their effects on the log of weekly earning, while that of the square of age is negative thus capturing the predicted non-linearity in the age-earning profiles. All other variables are binary (0,1), with one of the sub-categories excluded from the regression analysis to avoid perfect linearity and hence, a situation of dummy-variable trap in the model. From Table 4.3 (a) which gives the summary of the first model, the R^2 (which is the coefficient of multiple determination) is 10% while the Adjusted R^2 is 4% showing that only 4% of the variations in the log of income is explained by the included explanatory variables. In terms of statistical significance only education (measured by the number of years of formal education), gender, and region of origin (East, West) are significant at the 5%, 10%, and 10% levels respectively for each of the three variables. This means that as formal education level increases, weekly income increases for MFI customers, while the males earn more than their female counterparts and finally, those MFI customers who are of Northern origin earn more than their counterparts who are origins of Eastern and Western parts of Nigeria (since the slope coefficients of „East‟ and „West‟ variables have negative signs). The F-statistic (shown in Table 4.4) is statistically significant at 10% level and thus shows that the model has an acceptable fit.

TABLE 4.4 DISTRIBUTION OF EMPLOYMENT LEVEL AND ITS GROWTH RATE BY SOME SELECTED CHARACTERISTICS OF ENTERPRISES AND ENTREPRENEURS

MAIN VARIABLE	DERIVED VARIABLE	LEVEL OF EMPLOYMENT			
		Year Before Micro- Credit*	Year of Survey (2010)	% Change**	Annual Compd. Growth Rate*+
TYPE OF ENTERPRISE	Trading	3.29 (31)	3.40 (43)	3.34	1.10
	Contractor/Supplier	3.70 (10)	4.29 (14)	15.95	5.06
	Tailoring/Fashion Design	3.92 (13)	4.33 (15)	10.46	3.37
	Others (Unclassified)	3.18 (11)	4.36 (11)	37.11	11.09
	ALL ENTERPRISES	3.46 (65)	3.84 (83)	10.98	3.53
TYPE OF MFI	LPAO	3.41 (54)	3.71 (70)	8.80	2.85
	Other MFIs	3.71 (7)	4.22 (9)	13.75	4.39
LOCATION	Lagos	3.31 (51)	3.79 (61)	14.50	4.62
	Ogun	4.00 (14)	4.00 (22)	0.00	0.00
REGION OF ORIGIN OF OWNERS	North	4.60 (5)	4.38 (8)	-4.78	-1.62
	East	3.50 (20)	4.00 (20)	14.29	4.55
	West	3.34 (38)	3.72 (54)	11.38	3.66
AGE	< 30 Years	2.36 (14)	3.53 (17)	49.58	14.36
	30-44 Years	3.29 (35)	3.52 (46)	6.99	2.28
	45 Years and over	4.81 (16)	4.85 (20)	0.83	0.28

EDUCATION	No Schooling	3.91 (11)	3.73 (15)	-4.60	-1.56
	Primary	4.90 (20)	4.96 (25)	1.22	0.41
	Secondary School	1.94 (18)	2.79 (24)	43.81	12.88
	Post Secondary	3.18 (17)	4.00 (20)	25.79	7.95
GENDER	Male	3.92 (24)	4.73 (26)	20.66	6.46
	Female	3.20 (41)	3.44 (57)	7.50	2.44

*Note: * Figures in parentheses represent the number of responding enterprises or entrepreneurs*

*** This is calculated as* $((F_n - F_0)/F_0) * 100$

**+ This is calculated as* $\{(\frac{F_n}{F_0})^{\frac{1}{n}} - 1\}$ **100; Where* F_n *is the value in current period,* F_0 *is the value at the initial period and n is the number of years between current and initial period.*

Source: Computed from Field Survey data.

In terms of the region of origin of the entrepreneurs, employment growth was highest among enterprises owned by the Easterners followed by those owned by micro-entrepreneurs from the Western part of Nigeria. Employment declined in the enterprises owned by entrepreneurs from the Northern part of Nigeria. Entrepreneurs financed by Other MFIs relative to those financed by LAPO, contribute more to employment generation.

TABLE 4.5
DISTRIBUTION OF EMPLOYMENT LEVEL AND ITS GROWTH RATE BY SOME SELECTED CHARACTERISTICS OF ENTERPRISES AND ENTREPRENEURS

MAIN VARIABLE	DERIVED VARIABLE	LEVEL OF EMPLOYMENT			
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	ALL ENTERPRISES	3.46 (65)	3.84 (83)	10.98	3.53
TYPE OF MFI	LPAO	3.41 (54)	3.71 (70)	8.80	2.85
	Other MFIs	3.71 (7)	4.22 (9)	13.75	4.39
LOCATION	Lagos	3.31 (51)	3.79 (61)	14.50	4.62
	Ogun	4.00 (14)	4.00 (22)	0.00	0.00
REGION OF	North	4.60 (5)	4.38 (8)	-4.78	-1.62

ORIGIN OF OWNERS	East	3.50 (20)	4.00 (20)	14.29	4.55
	West	3.34 (38)	3.72 (54)	11.38	3.66
AGE	< 30 Years	2.36 (14)	3.53 (17)	49.58	14.36
	30-44 Years	3.29 (35)	3.52 (46)	6.99	2.28
	45 Years and over	4.81 (16)	4.85 (20)	0.83	0.28
EDUCATION	No Schooling	3.91 (11)	3.73 (15)	-4.60	-1.56
	Primary	4.90 (20)	4.96 (25)	1.22	0.41
	Secondary School	1.94 (18)	2.79 (24)	43.81	12.88
	Post Secondary	3.18 (17)	4.00 (20)	25.79	7.95
GENDER	Male	3.92 (24)	4.73 (26)	20.66	6.46
	Female	3.20 (41)	3.44 (57)	7.50	2.44

*Note: * Figures in parentheses represent the number of responding enterprises or entrepreneurs*

*** This is calculated as* $((F_n - F_0)/F_0) * 100$

**+ This is calculated as* $\{(\frac{F_n}{F_0})^{\frac{1}{n}} - 1\}$ **100; Where* F_n *is the value in current period,* F_0 *is the value at the initial period and n is the number of years between current and initial period.*

Source: Computed from Field Survey data.

In terms of the region of origin of the entrepreneurs, employment growth was highest among enterprises owned by the Easterners followed by those owned by micro-entrepreneurs from the Western part of Nigeria. Employment declined in the enterprises owned by entrepreneurs from the Northern part of Nigeria. Entrepreneurs financed by Other MFIs relative to those financed by LAPO, contribute more to employment generation.

With respect to personal characteristics of micro-entrepreneurs, three variables were examined: age, gender and formal educational attainment. In terms of age, enterprises owned by micro- entrepreneurs in the age-cohort <30 years contribute more to employment than the remaining age groups. While employment declined in the enterprises owned by those with no formal education, it rose by about 13% per annum in those enterprises owned by those with secondary education. With respect to gender, the enterprises owned by male micro-entrepreneurs generate more employment than those owned by their female counterparts.

TABLE 4.6
DISTRIBUTION OF RESPONDENTS BY THEIR PERCEPTION ON MICROFINANCING AND POVERTY REDUCTION

		Frequency	Valid Per cent
Valid	MFIs helped in Poverty Reduction	279	91.2
	MFIs did not reduce Poverty	4	1.3
	Don‟t know	23	7.5
	Total	306	100.0
N		321	

Source: Computed from field survey data

4.6. Main Summary of the Analysis

In general, the analysis of the data collected from the customers of microfinance banks in Ogun and Lagos states of Nigeria shows that micro financing has improved the welfare of the enterprises and the individuals in terms of improved savings, earnings (both for individual wage earners and the self-employed), facilitated access to loan facilities, improved sales revenue as well as the level of employment and growth in the micro-enterprises examined. In sum, it can be concluded that microfinancing has been a potent weapon in poverty reduction as shown by the data reported in Table 4.6 While 91% of the respondents agreed that micro financing has helped towards poverty reduction through the availability of microfinance facilities (saving, loans, overdraft, etc at affordable rates), only 1% disagreed. The remaining did not either respond to the question or did not know.

5. Summary of Findings, Conclusion and Recommendations

Summary

Microfinance is a key strategy for poverty alleviation. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty. Microfinance's achievements in poverty reduction have been celebrated worldwide. Since the last decade in Nigeria, Microfinance schemes have proved to be a successful adaptation to the domestic credit markets. Microfinance institutions have helped to relax the constraints on the poor‟s access to productive capital, and consequently, contributed to break the various circles of poverty caused by low income and low investments.

This study examined the contributions of Microfinance institutions to poverty reduction in Nigeria, using both primary and secondary data collected from Microfinance institutions (MFIs) and randomly selected customers (micro, small and medium enterprises) of the same Institutions. The study tries to contribute to the existing literature by investigating the impact of Microfinance on welfare and the success of micro, small and medium enterprises (MSMEs) and subsequent reduction in poverty. In analyzing the impact of MFIs on enterprise performance, the study posited economic relationship between enterprise performance and some relevant explanatory variables. The study employed different performance indicators such as levels of profit (LOP), employment (EMPL) and return on assets (ROA). Other explainable variables depicting enterprise characteristics of the Micro-entrepreneurs were also used. These include age of enterprise, the gender, the educational qualification, the business type, loan frequency, age of business, business location, loan amount, marital status and training before loan. A total of 41 banks in Nigeria were covered in the study. Twelve (12) of the banks sampled operate the unit model of MFB i.e. Community-based banks while 27 of the banks surveyed are state-wide banks which are permitted to operate in all parts of the state in which they are registered. Two out of the 41 banks surveyed, however, did not declare their scope of operations. The banks were randomly selected and 10% of the entrepreneurs-customers of the banks were selected through the stratified random sampling approach yielding 321 respondents. Assessing the loan demand probability function, the results showed that the number of years an account has been opened by a customer does not affect the probability of credit demand by the respondents.

Findings

The study found out that most of the Microfinance Institutions in Nigeria are rather too young to have made a very remarkable long term impact. Most of the micro-entrepreneur-customers are in their prime age of life which falls in the economic activity group. Furthermore, about 73% of the customers are women, which validate the general belief that we have more women engaged in Microfinance activities in Nigeria than men. The study confirmed that majority of the Micro- entrepreneur-customers have only primary and secondary education with only few having post- secondary education. It also confirmed that most of the Microfinance banks in Nigeria are tailored after the Grameen Bank which focuses on the poor and people with basic, little or no education.

- Operators started to open accounts in 2005 when CBN introduced Microfinance Policy

The study also discovered that the account operators began in the year 2005 when the Central Bank of Nigeria introduced the Microfinance Policy and have consistently been on the increase till date.

- Regulatory Search-light by CBN in 2009 adversely affected numbers of accounts opened

The study also established that the CBN supervision shifting from CAMELS to Risk-based approach on activities of the Microfinance Banks in Nigeria by the apex bank in 2009 affected the number of customers that opened accounts with the banks. Loan demand is interest rate insensitive. It was also established, while assessing the determinants of loans received by customers, that loan demand is interest rate insensitive. Hence, it is the availability rather the cost of loan (as measured by the magnitude of interest rate) that influences the volume of loan demanded and received by the customers of MFIs.

- Business location does not affect credit demands

Business location does not also affect the probability of micro-credit demand. Over 80% of those in Lagos receive microcredit while the majority of respondents in Ogun State (67%) have never applied for credit.

- Supplier-Contractor enjoys more credit from MFIs.

It was also established that entrepreneurs in supplier-contractor business have higher probability of securing micro-credit from MFI relative to other businesses in the reference category. The results further showed that business expansion dominated the frequency of loan request by customers followed by children education and then land/asset acquisition and consumer-durables.

- Savings Habits

The results of this study further confirm some findings by other scholars and earlier researchers and the research work has been able to find answers to the research questions raised in the introductory chapter in the following ways:

- ✓ Microfinance is an effective poverty alleviation strategy as it reaches the target customers more effectively and helps to a large extent in improving their standard of living and social status.
- ✓ Microfinance institutions loans are more readily available for development related purposes.
- ✓ Microfinance institutions can really get people out of their poverty level with consistent utilization of loans for developmental activities by their customers
- Determinants of Loan Demand

The outcome of the study on the determinants of loan demand showed that the kind of business the entrepreneur engaged in, the level of education attained, gender, marital status, age and state of origin are the determinants of loan demand. Looking at the result critically, it was revealed that the following kinds of business variables; trading, supplier/contractor, fashion designing and small scale manufacturing, all have negative impact on loan demand. This implies that units increase in all these variables decrease the level of loan demand and each of them is statistically significant.

Conclusion and Recommendation

Microfinance has not be seen as a universal remedy for poverty and related development challenges, but rather as an important tool in the mission of poverty reduction. Poverty is a multidimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system. Owing to poverty's large scope and multiplicity of actors, there is no single guaranteed approach to its eradication. The major findings noted earlier showed that the determinants of loan demand are the type of businesses which the entrepreneurs engage in, and the level of education attained by the entrepreneurs. Male gender has higher propensity to demand for loan. The results also show that MFIs: (i) increase entrepreneurial activities through loan granted, utilized for business development, (ii) raise income of MFI clients, (iii) increase consumption of all durable commodities, (iv) increase children education, (v) enhance acquisition of land/asset and, (v) enhance social welfare in the community. The following recommendation has been made from our studies;

i. In a country where poverty is prevalent like Nigeria, government can use MFIs as a tool for poverty alleviation.

ii. MFIs can foster employment generation through development of entrepreneurial activities in particular for the poor**.**

iii. In countries with formal financial markets like we have in Nigeria, MFI can be used as a way to reach the huge un-served markets which mainly consists of the poor.

- For Microfinance Banks

i. Higher education, having been found to increase the income of the MFI clients: The MFIs clients should therefore, be encouraged by the MFIs to improve on their current level of education by engaging in adult education or life-long learning as this will have the potency to increase their level of income;

ii. MFBs should seek long term capital from the Pensions and Insurance Companies in the country. This will enable them grant larger volume of loan and to greater number of people who will improve their outreach level;

iii. MFIs should ensure and strive to put in place procedures, policies and products that will enhance the participation of both men and women in their various programmes in order to achieve gender responsiveness and equity; and

iv. The MFIs should design appropriate products that are flexible enough to meet the different needs of the poor for both production and consumption purposes

- For Government

i. Government should urgently tackle the problems of infrastructural development and maintenance. These include electricity, water and efficient transportation system which impact greatly on the standard of living of the people;

ii. There should be provision of incentives by government to sustain MFIs in order to further extend their services to the rural areas;

iii. Capacity building of MFIs in Nigeria should be mandatory so as to develop appropriate policies that will enhance sustainability and stability.

Contributions to Knowledge

This study contributes to the body of knowledge on the field of microfinance and poverty alleviation. The study will be of help to Microfinance Institutions which provide financial services to their clients, policy makers and the academia.

The following are the specific contributions of our study:

1. One of the major contributions of the study is that loan demand is interest rate insensitive;
2. The study provided evidence of the impact of microfinance on the welfare of MFI clients and income growth in the country;
3. It was found that MFIs is a potent instrument in the mobilization and dispersion of credit to the working poor in Nigeria;
4. The study also showed evidence that MFIs are major contributors to SME growth and
5. The study added literature to the features of Microfinance Institutions (MFIs) in Nigeria compared to microfinance practice elsewhere in the world.

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