THE IMPACT OF MICROFINANCE ON WELFARE AND POVERTY ALLEVIATION IN SOUTHWEST NIGERIA

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DECLARATION

It is hereby declared that this research work titled "The Impact of Microfinance on Welfare and Poverty Alleviation in Southwest Nigeria" was undertaken by Mr. Joseph Niyan Taiwo and it was based on his original study in the Department of Banking and Finance, School of Business, College of Development Studies, Covenant University, Ota, under the supervision of Distinguished Professor, J.A.T. Ojo and Dr. P. O. Alege. The ideas and views expressed in this research work are those of the researcher, and the views of other researchers have been duly acknowledged.

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CERTIFICATION

This is to certify that this thesis titled, “The Impact of Microfinance on Welfare and Poverty Alleviation in Southwest Nigeria” is the original work of Mr. J. N. Taiwo and is hereby submitted for the award of the Degree of Doctor of Philosophy (Ph.D) in Banking and Finance. We also certify that this work has not been submitted for the award of the Ph.D or any other degree in this or any other University.

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DEDICATION

This work is dedicated to God Almighty for enabling me to complete the study and to my beloved Bishop, Dr. David Olaniyi Oyedepo and his wife, Pastor (Mrs) Faith Abiola Oyedepo for their wonderful and invaluable support.

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List of Abbreviations and Acronyms

ACGS – Agricultural Credit and Grant Scheme

ADB – African Development Bank

ASHO – Anambra Self Help Organization

BOI – Bank of Industry

BIDS – Bangladesh Institute of Development Studies

CAMELS

(C) Capital Adequacy
(A) Asset Quality
(M) Management
(E) Earnings
(L) Liquidity
(S) Sensitivity to Market Risk

CB – Community Banks

CBN – Central Bank of Nigeria

CGAP – Consultative Group to Assist the Poorest

CMFB – Covenant Micro Finance Bank

COWAD – Community Women and Development

DEC – Development Exchange Centre

EEC – European Economic Commission

EMPL – Employment

FADU – Farmers Development Union

FCF – Full Cycle Fund

GDP – Gross Domestic Product

GFF – Good Faith Fund

GPP – Global Poverty Publication

HND – Higher National Diploma

IFAD – International Fund for Agricultural Development

JD – Jordanian Dollar

LAPO – Lifting Above Poverty Organization

LOP – Levels of Profit

MAIN – Microfinance African Institutions Network

MDGs – Millennium Development Goals

MFBs – Microfinance Banks

MFIs – Microfinance Institutions

MSMEs – Micro Small and Medium Scale Entreprises

NACB – Nigerian Agricultural and Cooperative Bank

NACRDB – National Agricultural Cooperative and Rural Development Bank

NDE – National Directorate of Employment

NDIC – Nigerian Deposit Insurance Corporation

NEEDS – National Economic Empowerment and Development Strategy

NGO – Non Governmental Organization

OSI – Open Society Institute

PAR – Portfolio At Risk

PB – Peoples Bank

PRSP – Poverty Reduction Strategy Paper

RBP – Rural Banking Programme

ROA – Return On Asset

SEAP – Self Reliance Economic Advancement Programme

SHG – Self Help Group

SMEs – Small and Medium Scale Entreprises

TEACH – Training, Education And Credit Health

VEF – Village Entreprise Fund

WDI – Women Development Initiative

WSEP – Women Self Employment Project

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The study presents empirical findings on the impact of Microfinance (MF) on the welfare and poverty alleviation in Southwest 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 programmes were on stream to extend small loans to groups of poor women to enable them invest in micro business. These experiments were initiated by the Grameen Bank of Bangladesh, ACCION International in Latin America and the Self-Employed Women's Association Bank in India (Little Field, Morduch and Hashemi, 2004). The term Microcredit began to be replaced by microfinance in the early 1990. By that time the term had started to include savings, and other services such as insurance and money transfers (Basu et al, 2000).

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).

Microfinance is no longer an experiment or a wish, it is a proven success. It has worked successfully in many parts of the World – Africa, Asia, Latin-America, Europe and North America. It is safe and profitable; indeed it is the oldest and most resilient financial system in history. The key issues in Microfinance include the realization that poor people need a variety of financial services, including loans, savings, money transfer and insurance which Microfinance provides. It is a powerful tool to fight poverty through building of assets and serving as an absorber against external ties and financial shocks. Microfinance involves building of financial sub-system which serve the poor and its architecture could be easily integrated into the financial system of the nation.

The other key issues of Microfinance are the fact that it can pay for itself and should do so if it is to reach a large number of poor people. Microfinance is not limited to only micro-credit; it is inclusive of other financial services, such as micro-insurance, money transfer and savings.

Furthermore, donor funds are meant only to support and assist Microfinance institutions and not compete with them.

In the developed world, leaders talk about the poor and how to alleviate poverty. One hears this often at political and conferences across Europe and other parts of the World. There are also talks of strategies of equitable trade, debt relief, subsidies and aid flows etc. 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.

Microfinance has globally achieved great accomplishments over the last 30 years. It has shown that poor people can be viable customers and that microfinance can create strong institutions which focus on them. No doubt Microfinance has strongly attracted the interest of private sector investors. 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 alleviation in Southwest Nigeria.

1.2 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.

Between 1970 and 1990, there were several government initiatives in the form of Rural Banking Programme (RBP); Sectoral Allocation of credit by Central Bank; Agricultural Credit Guarantee Scheme (ACGS); Nigerian Agricultural and Co-operative Bank (NACB) and the National Directorate of Employment (NDE) etc. These efforts were largely incoherent, and mainly targeted towards enhancing subsidized credit in agriculture and a few other sectors of the economy. They were not sustainable as a result of poor repayment records and inefficient administrative structures.

In the 1990s, the Federal Government embarked on other 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 Programmesme (FEAP), and NACB into the National Agricultural, Cooperative and Rural Development Bank (NACRDB). Then came 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 SouthWest 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.

1.3 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.

1.4 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.

1.5 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

1.6 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.

1.7 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 alleviate 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.

1.8 Outline of the Thesis

The study is divided into five parts. Chapter One presents the background to the study, the objectives of the study, the statement of the research problem, research questions, the hypotheses to be tested, the significance of the study, the scope and limitation of the study. Chapter two reviews the existing literature on Microfinance, Poverty and strategy to alleviate poverty in developed and developing countries. It also reviewed the historical background of Microfinance, the method of operation, the roles of Microfinance in the success of micro, small and medium enterprises, the challenges confronting Microfinance Institutions and the global perspective of Microfinance. Chapter three examines the theoretical framework and methodology adopted for the study in terms of the model specification, methods of estimation, data collection and instrument, data description, study population and sample size. Chapter four presents the data analysis and interpretation of results. The descriptive analysis results and the regression results are presented in qualitative form and were fully discussed so that meaningful conclusion could be drawn. In this chapter formulated hypotheses are to establish the relationship which exists among the variables. Chapter five which is the last part deals with the summary of the study, conclusion, recommendations for policy, and contributions to knowledge and suggestions for further research.

1.9 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, per centages 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).

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter 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 increased. Many in the West saw microfinance as a pivotal innovation in the fight against poverty in the developing world.

One reason for this upsurge in popularity is that in Bangladesh, as in other places where microfinance has taken root, the overwhelming majority of borrowers have been women. This gender policy is by design. 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".

The question implied from the conclusion in the preceding paragraph is: will MFIs have to raise additional resources from grants or other funds each year in order to sustain their operations, as few are able to survive on the income generated from their lending and related operations? The authors finally observed that such subsidization of credit to microenterprises by microfinance institutions has implications for the long term sustainability of the institutions. What has come out clearly in this review by the authors is that it is costly for microfinance institutions to finance micro-enterprises. They are unable to do so profitably relying only on their normal operations, and they need to subsidize by additional funding raised from donors in the form of grants and other sources. This explains why many microfinance institutions have not been able to assist the microenterprises as much as it is desirable.

United Nations Secretary General's Report (1998) on the "role of microcredit in the eradication of poverty" suggests the need to strengthen their operations and also makes particular plea for ensuring that microcredit projects are established in a broader context in order to support the small enterprise sector of the economy. The report highlights the activities of the United Nations system and NGOs in support of microcredit, giving special emphasis to the World Bank-led consultative Group to assist the poorest.

The specific detail relating to micro-credit practice mentioned in the report is the prominence given to the matter, as it relates the recent success of small scale lending programmes such as the Grameen Bank of Bangladesh. These rely on lending (usually a few hundred dollars) to small enterprises in agriculture, distribution, crafts, trading and similar activities. The participatory nature of these projects, "together with the emphasis on women entrepreneurs and employment creation have raised hopes of reducing poverty through this approach".

Hulme and Mosley (1996) examine the impact of microfinance programmes on income, and poverty via the effects on productivity and employment. Other researchers who made similar observations are Khandker (1998), Cohen and Sebstd (2000). These other researchers include the effects on seasonality of consumption, labour, children's nutrition, schooling, fertility and contraception. The result of these research efforts show that microfinance can have the potentials to help the poor improve their lives. 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.

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.

It is also possible to borrow as an individual. This is a direct credit facility to the borrower without formation of groups or generating peer pressure in order to ensure repayment. However, it is always emphasized that the lender should know his customers well enough before loans are granted. There is also the Village Banking. This is community-based credit and savings arrangement which consists of 25-50 low income individuals that seek to improve standard of living through self-employment activities. Initial loan capital may be externally sourced but members run the bank themselves by choosing members, elect officers and establish own by-laws, distribute loans to individuals, collect repayment and savings by themselves through the officers. Loans are backed by moral collateral and the promise that the group stands behind each loan by way of guarantee.

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.

A target community can form an association through which various microfinance activities are initiated. The association can be composed of youth only or women only. The association may be a savings group, religious group, political, cultural or professional. The important thing is that the group should have something similar in common in order to foster smooth interrelationship. Credits are usually arranged in such a manner that some members of the association or group take loan facilities in turn such that while some members enjoy loan facilities the other members of the group provides security for the loan by standing as guarantors.

Another method of operation is through bank guarantees. Bank guarantee is used to obtain a loan from a bank and may be arranged externally through donors, government agency or internally that is within members of a savings group. Using guarantee is a credit collateral, loans obtained may be given directly to an individual beneficiary or to a self-formed group. Several international and UN organizations have created international guaranteed funds which banks and NGOs can subscribe to for onward lending or to commence microcredit programmes.

The Community Banking methodology treats the whole community as one unit. It establishes semi-formal or formal institutions through which microfinance is dispensed. It is formed by the help of NGOs and other organizations who train community members in various financial activities of the community banks. Often community banks are also part of larger community development programmes which use finance as an inducement for action. However community banking has been phased out in Nigeria giving way to microfinance banks. Quite a significant number of microfinance banks in Nigeria today, transmutated from community banking.

Cooperative Associations. These constitute another 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.

As further noted in the above work, other places where Grameen Foundation USA (GF-USA) operates are Washington DC, Tulsa, Oklahoma, Dallas, Texas and Harlem in New York City. Also, there are other programmes in the USA which have adopted Micro-Credit ideas, some do not require borrowers to form groups, others do not target the poor but focus on women only. "Some offer business training as opposed to credit". There are over 250 of these organizations which have formed a network called Association of Enterprises Opportunity (AEO) in order to coordinate their activities (Yunus 2003: 189)

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. The Finnish Microcredit Ltd has started operations in the Helsinki district, the co-operative Eho-Osuusraha gives Microloans to people for ecological and social needs, while four other Micro-Credit organizations operate in rural Finland. The Finnish Microfinance Organizations mainly finance production of the following items: Sweaters, Paper Weights, Post cards, Wooden troll statues. They also serve in the area of social integration, (Yunus, 2003: 189-192).

2.4.3 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 target women with the explicit goal of empowering them.

Given the fact that a few studies have successfully investigated the impact of microfinance on women's empowerment, the authors examined a few methods of measuring the impact used by other researchers including, construction of an index/indicator of women empowerment. They conclude that measuring women empowerment by constructing indices is not an appropriate technique as it allows the use of arbitrary weights.

Finally, the authors settle on a technique which estimates empowerment as a latent rather than an observed variable. Their model estimates the mean level of women's empowerment for 2000 and 2003, measuring the impact of the Self Help Group (SHG) programme on women's empowerment. The analysis indicated that on average, there was a significant increase in women's empowerment of the SHG members group. The result of the measurement using the technique showed that the group of SHG members experienced a significant and higher empowerment.

Brewer (2007) observes that lending to small firms is difficult because of the problems of information asymmetry. However, innovative ways to address the problems have the potential to increase credit availability to the firms. The two different innovations in small business financing are: increased usage of credit scoring technology and the introduction of microfinance lending institutions. Though these two approaches make use of different technologies, they provide a valuable picture of how lending to small firms is evolving over time.

Berger and Frame (2007) provide an excellent analysis and discussion of the usage of credit scoring technology by large banks in lending to small businesses. "The technology is changing the relationship between the small business borrower and his bank, relying more on easy verifiable and quantifiable financial data rather than on information obtained via long-term relationships". The credit scoring Technology briefly discussed in this paper simply consist of scores awarded to the prospective borrower with respect to various character traits as may be determined by the lendor, such as age, type of work, period of relationship with the bank etc. a bench mark score is determined and decision made to lend or not to score compared to the bench mark score. The technique is not biased and non emotional. It is highly recommended in microfinance credit operations as it will ensure less of credit failure and ensure higher rate of loan repayment.

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. There are other cases to the effect that delinquent borrowers of microfinance institutions are ostracized by joint liability groups and communities while they become destitutes in their communities. One would observe that these are extreme cases. If a beneficiary of microfinance loan misapplies the proceeds of the loan, then he has himself to blame. That does not mean that the system has failed. This, of course, calls for care as to who should be admitted to microfinance services. Character of the borrower should be verified by the microfinance operators. “Know your customer” guideline has a role to play as in the mainstream banking, even in microfinance practice.

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. The results show that tension was observed between financial and organization sustainability of the system to the extent that led to fracturing of the groups and the exclusion of the poor who should really benefit from the system. The author further noticed that microfinance programmes that were established and organized in haste tend to exploit existing social hierarchical structures in order to achieve their financial sustainability, resulting in the erosion of social fabric of the communities they are expected to serve. These observations prove that in order for microfinance to serve the poor properly, all factors such as social fabric of the community, capabilities of borrowers and local conditions of host communities need to be weighed and balanced so as to achieve smooth operations that will benefit both the borrower and the lender.

Mayoux (2001) observes that access to microfinance services (credit, savings, insurance and pensions) is still highly unequal between men and women. Of course there are abundant literature and empirical evidences that considerable efforts were made in the 1990s to increase women access to small loans and savings facilities. The author further observed that microfinance is being promoted as a key alleviation strategy to enable poor women and men to cope with the adverse economic and social impacts of structural adjustment policies and globalization (Mayoux 2001). While many express the opinion that microfinance is doing well for women empowerment, other researchers have questioned the benefits of microfinance for women (Goetz and Sen Gupta 1996). Some are of the view that microfinance is a diversion for women from other forms of effective strategies for empowerment (Ebdon, 1995). Such researchers also are of the view that attention and resources of donors have been drawn from possibly better alternative means of alleviating poverty (Rogally, 1996).

To Mayoux (2001), there are several views on the link between microfinance and women's empowerment. These include the view that: (1) expresses the limitations of microfinance's ability to empower women; (2) recognizes the limitations of microfinance for promoting empowerment yet agrees that it is a key ingredient in poverty alleviation; and (3) that microfinance programmes are a waste of resources. The author concludes that women's empowerment needs to be an integral part of policies. Unless empowerment is an integral part of the planning process, the rapid expansion of microfinance is unlikely to make more than a limited contribution to empowerment Mayoux (2001),

To ensure that women participation in microfinance enhances the household's 'prosperity' only and as an addition to the man's effort at obtaining a living for their household there ought not to be too much emphasis on women empowerment. There have been experiences of men feeling 'short-changed' and frictions within the family. It is wise and reasonable therefore to make the services of microfinance available to both genders without over emphasis on women empowerment.

The Asian Development Bank (ADB) Report (2000) on microfinance development observed that the interest in microfinance has increased during the last two decades with multilateral lending agencies, developing and developed nations, governments and non government organizations (NGOs), all in support of the development of microfinance. The report further observed that microfinance services have grown rapidly during the decades, "although from an initial low level, and have come to the forefront of development discussions concerning poverty reduction".

The study, however, was of the view that rural financial markets in Asia are ill-prepared for the twenty first century. About 95 per cent of the 180 million poor households in the Asian and Pacific Region still have little access to institutional financial services. Development practitioners, policy makers and multilateral and bilateral lenders, however recognize that providing efficient microfinance services for this segment of the population is important for a variety of reasons.

Among others, the (ADB) Report (2000) recognizes the use of microfinance as follows: (1) Microfinance can be a critical element of an effective poverty reduction strategy; (2) Improved access and efficient provision of savings, credit and insurance facilities (products of microfinance) can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually and develop their microenterprises; (3) Microfinance services can also contribute to the improvement of resource allocation, promotion of markets and adoption of a better technology, thus microfinance helps to promote economic growth and development; (4) Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty; (5) Microfinance can contribute to the development of the overall financial system through integration of financial markets; and; (6) Without permanent access to institutional microfinance, most poor households will continue to depend on meager self finance.

The APB (2000) Report, no doubt represents the widely accepted contribution of microfinance, the world over. Of course, in practice there may be a few hitches here and there, generally microfinance (when efficiently practiced) contributes immensely to poverty alleviation and economic development as discussed in that Report.

Lack of sustainable access to micro-finance is a key constraint faced by micro and small enterprises (MSEs) in countries emerging from armed conflict. Such countries are characterized by massive poverty and unemployment and Nagaran (2008) observed that "micro and small enterprises alone have the potential to provide income and employment for large parts of the population while at the same time laying the basis for economic development and poverty alleviation". Creating sustainable microfinance institutions, that deliver microfinance at affordable and convenient conditions, helps MSEs fulfill their potential.

As of date, microfinance programmes have been set up in a number of conflict affected countries by donor organizations, UN agencies and international NGOs. Of those set up, few are considered to be self sufficient. The types that are in operation in those areas range from village banks and solidarity group, revolving funds and guarantee funds to major on-lending schemes which involve public banks. Their out-reach and sustainability are, with a few exceptions far from satisfactory presently. It was observed that conflicts affect the financial sector severally at the macro level (disturbance of macroeconomic and financial stability), and micro level (demonetization and related phenomena as well as disruption of social bonds and relationships based on trust).

The experience in developing countries and the lessons gathered there concerning how to develop and sustain microfinance institutions may be applicable to the circumstances of countries like Cambodia, Mozambique and Somalia.

Certainly, this study has brought a completely new dimension to microfinance development. Most other studies have examined microfinance contribution to non war/conflict scenarios. Here we are considering an after conflict situation where there had been destructions of resources belonging to borrowers and lenders, demonetization, chaos and virtual capacity. No doubt, microfinance will go a long way to restore enterprises and individual households.

According to Carmichael (2008), a microfinance institution is an organization that provides financial services to low-income populations. Almost all of these offer micro-credit and only take back small amount of savings from their own borrowers, not from the general public. Within the microfinance industry, the term microfinance institution has come to offer to a wide range of organizations dedicated to providing these services: NGOs, Credit Unions, Cooperatives, Private Commercial banks and non-bank financial institutions and part of state-owned banks. He went further to differentiate between the functions of NGOs in their original form and microfinance institutions. According to him, “the image most of us have when we refer to MFIs is of a financial NGO”, an NGO that is fully and virtually exclusively dedicated to offering financial services. In most cases microcredit NGOs are not allowed to capture savings deposits from the general public. This group of a few hundred NGOs has led the development of microcredit, and subsequently microfinance, the world over. These are the groups referred to as best practice organizations – those that employ the newest lending techniques to generate efficient out reach that permits them to reach down, far into poor sectors of the economy on a sustainable basis.

Some NGOs also do many other non-financial development activities – yet from an industry perspective, since they are engaged in supplying financial services to the poor. Some commercial banks that offer microfinance services are also referred to as MFIs even though only a small portion of their assets may actually be tied up in financial services to the poor. There are other institutions that consider themselves to be in the business of microfinance – these are community based financial intermediaries, some of which are member based, such as Credit Union and Cooperative housing societies. Others are owned and managed by local enterprises or municipalities. These institutions tend to be part of the formal financial sector. All in all, these microfinance varieties of institutions certainly play a role in the reshaped and deepening financial sector.

Kiiru (2008) observes that microfinance has elicited different reactions from different stakeholders, but there seems to be a general agreement that it is useful in reducing poverty. Her opinion is that the context in which microfinance is of help to rural poor households is not well researched. This paper, therefore, attempts to contribute to the debate on what works and what does not work for microfinance and poverty reduction. She ventured to find out under what circumstances microfinance creates jobs and increases wage employment and higher incomes in the rural areas. In the study, welfare effects of microfinance on the rural households and the patterns of entry, exit, and growth of microenterprises, compared with the mainstream, theoretical and empirical work on rural development through entrepreneurship were observed.

Apparently, the author came to the conclusion that all has not been too good from the study carried out in the microfinance, enterprises and rural poor relationship. She strongly recommended regulatory framework to enhance the lot of the stakeholders particularly the rural low-income borrowers who seem to be at the receiving end.

Wome (2003) observes that excitement is building up about a set of unusual financial institutions prospering in distant corners of the world, especially Bolivia, Bangladesh and Indonesia. The hope is that much poverty can be alleviated and that economic and social structures can be transformed fundamentally by providing financial services to the low-income households. Morduch (1999) also stated that these institutions, united under the banner of microfinance, share a commitment to serving clients that have been excluded from formal banking sector. Wome observed that the aim of microfinance may have been misinterpreted by different people; while some see it as prospering the practitioners others may have seen it as a commitment to serve formal banking sector. The difference in expectations underlines the lack of clarity surrounding the term empowerment.

What has become apparent over the last two decades is that microfinance has succeeded in bringing out poor men and women all over the world, in Bolivia, Bangladesh and Indonesia as sited by this author from a state of abject poverty to a better economic status. This is achieved by giving them access to financial services from which the formal banking sector has excluded them. This is financial empowerment for better life.

2.4.4 Africa

According to Lafourcade, Isern, Mwangi and Brown (2005), microfinance institutions (MFIs) in sub-Saharan Africa include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients: non-governmental organizations (NGOs); non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks.

Overall, the prospect and process of MFIs in Africa are dynamic and growing. Africa's MFIs appear to serve the broad financial needs of their clients by offering savings as a core financial service for clients and use it as an important source of funds for lending. MFIs in Africa tend to report lower levels of profitability, as measured by return on assets, than MFIs in other regions in the world. Among the African MFIs that provide information for Lafourcade *et al*. (2005) research, 47 per cent posted positive unadjusted returns; regulated MFIs reported the highest return on assets of all MFIs types, averaging around 2.6 per cent. 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.

However, Lafourcade *et.al* (2005) observe that African MFIs face many challenges including the fact that operating and financial expenses are high on average and revenues remain lower than in other regions of the world; efficiency in terms of cost per borrower is lowest for African MFIs bringing in the need to for technical innovations, product refinements and strengthening of the capacity of African MFIs become imperative and there is a need to increase outreach in order to capture more clients so as to boost overall profitability. Overall, African MFIs are important actors in the financial sector and they are well positioned to grow and reach the millions of potential clients who do not currently have access to the main stream financial services. The authors observations and conclusions show a bright future for African microfinance institutions thus enhancing the hope that microfinance sector in Africa and indeed anywhere in the world is capable of poverty alleviation and economic development.

March, Porter and Harper (1999) define microfinance as “small scale and finance services for the poor”. The authors used the experience of a microfinance institution (SCF) as basis for their contribution. In their view, there are problems both in the attempt for self sustaining and in achieving such aims as targeting clients - the poor, especially the very poorest in microfinance sector. The problems, according to the authors are compounded when such aims as, women empowerments are added to the efforts and goals of the institution. Both sides of microfinance practice, that is provision of credit and savings facilities are covered in the discussion, as presented by the authors. The book provides a manual or guideline for field practitioners in microfinance. It also presented a list of microfinance schemes in Africa covering Mali, Sudan and Ethiopia. Mali had three programmes in 78 villages involving thousands of beneficiaries as far back as 1991, with details on all aspects of operation including interest rates, objectives, impact and cost efficiency of the schemes. The authors made an attempt to enrich knowledge of microfinance practice in some parts of Africa but the contribution seems to lack in certain ingredients that would make the work more worthwhile. Such deficiencies are lack of proper analysis of data and the evidence of the effectiveness of microfinance practice in those parts of Africa as mentioned.

Randhawa and Gallardo (2003) look at the overall regulatory framework and how it enabled the microfinance institutions to become more market oriented and integrated with the formal financial system. The study identified global best practices in microfinance which might be adapted to the local context, and incorporated in operational support programmes to institutional providers of microfinance services in order to improve their capacity to provide their clients expanded access to financial services. Areas of the sector that were affected were; liberation of interest rates, elimination of administrative credit allocation, strengthening Bank of Tanzania's role in regulation, supervision of financial institutions, restructuring state owned financial institutions and allowing entry of private banks into the market.

In spite of some progress made in financial reforms prior to 2003 in Tanzania access by large segments of the rural and urban population to financial services remained stunted. Government, in collaboration with the donor community had to act to facilitate microfinance development by initiating a microfinance policy formulation process in 1996, with a National microfinance policy document which was approved for implementation in 2001. The policy articulated the vision and strategy for the development of a sustainable microfinance industry as an integral part of the financial sector, specifying the roles of the key stake-holders i.e. the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services and the donor community. The principal providers of microfinance services are savings and credit co-operative (SACCOS) and several foreign donor-assisted NGOs.

Similar to the situation in other nations, there was really a need for Tanzania to regulate microfinance operations for obvious reasons including the need (1) to avoid abuse by operators and (2) streamline operations to ensure efficiency and better outreach to the poor in both rural and urban areas where micro financial services are required. Doing so will also encourage foreign donors to partake in microfinance development thus enhancement of poverty alleviation and economic development.

Omino (2005) defines microfinance as “the provision of financial services to the low-income households and micro and small enterprises (MSEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation”. It is Omino’s view that widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs, hence the emphasis on the sound development of microfinance institutions as vital ingredients for investment, employement and economic growth. According to Omino, the potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people .i.e. 60 per cent of the population are poor and mostly out of the scope of formal banking services. By the National Micro and Small Enterprise Baseline survey of 1999, there were close to 1.3 million MSEs employing 2.3 million people .i.e. 20 per cent of the country’s total employment, contributing to 18 per cent of overall GDP and 25 per cent of non-agricultural GDP. The author noted that only 10.4 per cent of the MSEs in Kenya receive credit and other financial services simply because the formal banking sector in Kenya regarded the informal sector as risky and not commercially viable.

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.

The government of Kenya recognized the need to make the microfinance institutions contribute more to the low-income households and the MSEs in poverty alleviation drive and economic development, hence the government introduction of appropriate policy and legal framework in order to promote a viable and sustainable system of microfinance in the country in the form of Deposit Taking Microfinance Bill. The bill aims at ensuring that licensed MFIs contribute to poverty alleviation, and at the same time comply with the requirement of financial sector safety and soundness. As has been observed by the author, it is essential that the microfinance sector of any nation be properly guided, monitored and regulated in order to avoid abuse in operations by both the lenders and borrowers. All nations do regulate the operations of their microfinance sector.

Basu, Blavy and Yulek (2004) assess that microfinance institutions, engaged in full financial intermediation complement effectively the banking sector in extending financial services and successfully draw on the rich experience of community-based development and pre-existing informal methods of financial intermediation in Africa. They also opinioned that growing linkages between microfinance institutions, the banking system, and the dissemination of good practices by non-government organizations contribute to the sound development of the sector, supported by regulation and supervision by local authorities.

The authors' view appears rather simplistic. They did not dwell on the challenges that face microfinance practice in Africa such as paucity of funds, little outreach, little training and non development of innovations, particularly, product development and repayment profile. Africa has much to do in developing its microfinance in order for it to succeed in poverty reduction, alleviation and economic development.

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 innovative microfinance services. Non Government Organizations (FNGOs) are not legally mandated to collect deposits from clients or the larger public to improve their deposit and liquidity base. For this reason, they are compelled to design loan products that will sell in order to keep them in business. “They have therefore adopted innovative approaches and developed tailor – made loan products to meet increased economic activities and to address poverty in Ghana”. The author further submit that the calls for the innovative approaches in loan product development in order to meet the increasing demands for microfinance loans in Ghana has become imperative and cannot be over emphasized.

It is the view of the author that “such micro and small business lending operations cannot realistically and successfully be undertaken by conventional banks without a known methodology”. Micro and Small business lending is a specialized activity with known and specialized methodologies which do exit for micro-enterprises finance, but may not be suitable for larger commercial banks operations. Some of these innovative products include: flexible lending mechanisms based on the group solidarity concept, the mutualist guarantee schemes and the inventory credit systems. Others are the credit with education pioneered by freedom from Hunger Ghana; the microlending and spiritual transformation programme of Sinapi Abi Trust, the food inventory credit initiated by Technoserve International and the Training, Education And Credit Health (TEACH) lending strategy by Kraham Support Foundation.

Nana's paper is actually aimed at examining some of the innovative products as mentioned above and "analyze how the some of the products have enabled the FNGO to carve a niche in the microfinance market in Ghana". One major need for microfinance development, the world over, is for the institutions to be able to develop innovative products that are peculiar to each institution's environment. In this way, breakthroughs and enhanced development will be achieved in the microfinance sector.

Murray (2005) stated that microfinance is promoted as a mechanism for triggering or sustaining social and economic development by supporting entrepreneur activities. She also was of the opinion that microfinance can have multiple spin-off benefits, including the potential to be a component of poverty reduction strategy, thus contributing to the Millennium Development Goals (MDGs). She went further to postulate that clients who use microfinance services differ according to age, income, ethnicity and whether they are able to access microfinance services as individuals or in groups. She noted that typical microfinance clientele in many parts of the world have been poor women that are resourceful entrepreneurs.

Microfinance programmes, according to her, contribute to the MDG by giving low-income rural women and men a chance to develop both their farm income generating activities. An increase in women's income has been shown to have positive effects for children's nutrition, education and well being, which also supports other MDGs. Microfinance institutions themselves are quite diverse, ranging from large commercial banks to small NGOs. Microfinance institutions also differ in terms of their methodologies, client base, numbers and range of financial products, average loan size, terms of loans, repayments incentives, savings requirements, interest rate and fees; collateral requirements, reliance on donors or other external funding, governance and management, communication capabilities and the non-financial products and training they offer.

Murray (2005) expressed the opinion that "knowledge about gender issues amongst those involved in providing microfinance services will vary depending on the type of microfinance institution”. While the staff of many NGOs involved in microfinance may have a comparative advantage of gender issues, the lack of business skills among staff within NGO sector may also limit their ability to sustainably deliver microfinance services to poor clients. The heterogeneity of microfinance institutions and their clients pose challenges for the delivery of microfinance in a manner that is gender equitable. The author submitted that gender sensitivity can be considered in two ways. First, whether the programmes, policies and services which microfinance institutions offer their male and female clients are appropriate and respond to their needs. Second, “the gender issues in the actual organizational structure and functioning of the microfinance institutions”.

Fanta (2007) provides an insight into the Ethiopia based organization with respect to its contribution to microfinance practice in Africa as contained in his presentation. The Network known as Microfinance African Institutions Network (MAIN) trains microfinance practitioners via group training and exchange visits and seminars. They are also reported to be involved in research and development which call for documentation of existing know how and practices as well as production of methodological materials. MAIN is involved in operational capacity building for African microfinance institutions so that they can provide sustained and appropriate products and services to their clients. It provides a well structured capacity building Programme containing: (1) Training workshops; (2) Training for MFI executives and Board members; (3) Thematic seminars; (4) Exchange Visits; and (5) University level training in collaboration with African Universities. Fanta’s contribution in exposing the activities of MAIN is considered invaluable, such as training of both field staff in microfinance practice. Learning opportunities make for better performance.

Pretes (2002) examines the work of the Village Enterprise Fund (VEF), a US NGO in East African region – Kenya, Uganda and Tanzania as a case study in equity-based microfinance in low-income countries. Pretes observed that many small businesses established in high-income countries rely on some form of equity capital to fund the start up phase and much of the growth of the business. The success of startup grants and equity financing in developed economies suggests that this method might also be applicable in low-income countries. Using the work of the Village Enterprise Fund as an example the paper argues that start up grants and equity finance are useful and appropriate in addition to the common loan based approaches.

A typical process of such approach includes: (1) Donor Volunteer Field Coordinator identifies potential Recipient Microfinance Institution; (2) Business plan is written and submitted for approval; (3) Business is established with first payment provided; (4) Business report submitted after an agreed period of time (three months) and second payment of the grant/donation is received; (5) Periodic assessment is done through formal and informal inspections/surveys of the project; and (6) Monitoring continues until project reaches maturity.

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. He further reasoned that the microfinance policy, till date remains the most wholesome approach ever adopted by the country to reach financially unserved segments of the economy and inject a process of poverty alleviation.

Mago and Mago (2009) stated that Africa has received billions of dollars in foreign aid for four decades but has failed to develop. He affirms that foreign aid goes with "dependency syndrome" and therefore people remain underpowered to escape poverty. Access to financial services by the poor is one strategy for increasing their incomes and productivity for poverty alleviation. This study based on rural microfinance concludes that microfinance can reduce aid dependency.

According to Mago and Mago (2009), microfinance is the provision of a broad range of financial services to poor and low income households and their enterprises. The services are provided by formal, semi-formal and informal organizations. SMEs which are contributory to economic growth and development have grown in developing countries, and they require financial support. The authors submit that SMEs lack access to capital which is detrimental to their development and that microfinance intervention could be used to develop small scale enterprises, especially in the rural areas. With the assistance of microfinance, SMEs can be made competitive and then graduate into the formal sector of the economy. They can grow from their small status into bigger organizations thereby graduating into the formal and large scale sector of the economy through access to funds which the larger financial institutions would not provide. While it is agreed that provision of finance by microfinance institutions do enhance the operations of SMEs and therefore make them profitable and relevant in the process of economic development, it may not be entirely correct to assume that SMEs may graduate into the formal and larger scale sector of the economy.

Ogunrinde, (2009) highlighted some of the teething problems in microfinance practice, including "putting the necessary infrastructure like buildings in place, non-availability of public power supply, non-payment of loans taken by the customers as well as lack of financial support from the three tiers of government". Millions of naira is being spent to provide electricity, monthly. He went on to suggest that microfinance banks should be exempted from tax payment because of the challenges enumerated above. Some of the customers see loans given to them as national cake; some absconded after collecting such loans. He also submits that the CBN has played a vital role in the process, but wonders if it can do more. The author suggested the need for firm guidelines to make microfinance banks more effective in their daily operations. However, there are some constraints that the author pointed out including: (1) non availability of adequate infrastructural development, (2) customer delinquency and; (3) inadequate and inefficient manpower and training.

According to Kimotho (2007), there has been a high level of mushrooming of microfinance institutions (MFIs) worldwide. He observes that microfinance practitioners and donors "have continued to see it as the panacea/silver bullet and the sole answer to poverty reduction, with little regard to practitioners management skills, professionalism, good governance, client's readiness, capacity and ability to undertake long-term sustainable business activities". He opines that microfinance industry is still young compared to the universal banks, and we should not readily conclude with certainly, its real contribution to poverty reduction, improvement in real purchasing power of the poor and the poor's asset accumulation.

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 activities in Nigeria contribute 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 as in Indonesia and Bolivia. , 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. In order to make microfinance more relevant to the Nigerian economy, there is the need to address issue of professionalism.

Non-Governmental Organizations are known to have taken a keen interest in microfinance in Nigeria. Some of them include, according to Agbobli, Kekar, Togo and Garba (2007) the following: Farmers Development Union (FADU) Nationwide; Community Women and Development (COWAD) in Oyo State; Lift Above Poverty Organization (LAPO) in Edo State; Women Development Initiative (WDI) in Kano State; and Anambra Self-Help Organization (ASHO) in Anambra State. In general, they provide credit facilities to members to assist them in income generating activities through general loans or emergency loans. In some cases the finances of these organizations are provided by International Institutions such as UNDP-WIP programme.

Akanji (2002), in contributing to the Economic and Financial Review of the Central Bank agreed that microfinance is indeed a strategy of poverty alleviation. She further explained that the model purveying credit to the poor is most important. He went on to propose a progressive strategy which links the institutions by merging the formal, semi-formal and informal institution that have provided credit to the poor under one umbrella such as the NACRDB.

This view, however, may not be of use for the present circumstances as the Central Bank has by 2005 microfinance policy spelt out in details how microfinance is to operate in Nigeria – mainly through microfinance banking system. Since then, formal and informal institutions that desire to provide microfinance services have been asked to convert to microfinance banks.

There are, however, evidences of success stories of microfinance in Nigeria. Kefas (2006) submitted that microfinance was often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the world's poorest people. Microfinance services provided by the Development Exchange Centre (DEC), Bauchi, Nigeria, (a microfinance institution) consists of small loans, usually less than N30,000 granted to individual women groups to establish or expand small self sustaining business. Other services include weekly savings mobilization, business management advice, counseling and entrepreneurial skill acquisition programme. "Borrowers also provide peer support for one another through solidarity groups". If a borrower encounters a failure in her ability to pay back a loan, members of the group assist in defraying the loan. This contributes substantially to the high repayment rate of loans achieved by the microfinance institution (DEC).

2.4.6. Lending Activities of Microfinance Banks in Lagos State in 2011 to Empower the Poor

Microfinance Banks operating in Lagos State have empowered more than one million low income earners by disbursing over N29 billion in spite of liquidity challenges confronting them in 2011.

Also, there are about eight million potential beneficiaries of Microfinance across the state which the Microfinance would have empowered if they are able to source financial support from the Central Bank of Nigeria (CBN) – Hope Moses-Ashike (2012)

According to Clara Oloniyi, Managing Director of Infinity Microfinance Bank, the regulatory authorities need to support the MFBs, especially in the area of funding.

The target for policy framework of Microfinance Banks include to increase access of the economically active poor in Nigeria to financial services by 10 per cent annually, thereby creating millions of jobs and reducing poverty; and to increase the share of micro-credit as per centage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and the share of microcredit as per centage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020; among other targets.

However, the CBN early this year said the microfinance development fund would be established in 2012 and will include both commercial and social components that will enhance its operations and outreach. The fund will also aim at improving access to affordable and sustainable sources of finance by microfinance institutions and microfinance banks.

The first quarter has ended but the fund is yet to be implemented. This raises concern among operators of microfinance banks who are asking when the fund will be established.

Accion Microfinance Bank Limited, said, "I think microfinance is working. The market shows total assets is growing. CBN result for the quarters shows that microfinance credit to the people is growing, whereas some commercials were on the decline. I think we are now at the stage of saying we are consolidating. Microfinance is growing," she said.

To Godwin Ehigiamusoe, managing director of Lift Above Poverty Organization (LAPO) Microfinance Bank, "after the challenges experienced in the microfinance sector some few years ago it is obvious to most stakeholders in the sector that the industry is gradually taking off. Afterwards, making more commitment to best practices we also know that a certification training programme organized by the CBN and other training centres across the country is also making a lot of contributions to the development of capacity in the sector. I hope in the next few years when there shall be adequate re-financing facilities, microfinance banks will be able to leverage the fund for on-lending to the sector. It will definitely make considerable impact on the economy and particularly on low income people.

2.5. Roles of Microfinance in Micro, Small and Medium Enterprises (MSMES)

2.5.1 Some Innovative Ideas

Microfinance has several major roles in micro, small and medium enterprises. Kefas (2006) submitted that Microfinance was often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the world's poorest people. Microfinance has also filled up certain gaps which the main stream banking has neglected in serving the people, particularly the poor. The nature of the gaps and examples of how such gaps have been filled by the microfinance institutions have been well documented.

[a] **Provision of Seed Money:** Malama Umma, a housewife from Bauchi State, Nigeria, as reported by Kefas (2006) took a first loan from the Development Exchange Centre (DEC) microfinance institution and used it to buy a spaghetti making machine. She used the profit she made to buy a sewing machine and within one year, she was able to repay the loan. This is an example of a microfinance institution providing seed money for an individual to start a successful enterprise.

[b] **Business Training and Social Rehabilitation**: As reported in Units Innovative Solutions to Global Poverty Publication (2005), Susan, aged 30, single, with two children lived in Nairobi, Kenya. She grew up in a poor area of Kenya and got married, but the husband left her when he learnt that Susan contacted HIV. She ended up in prostitution as she was not able to find work, and had to support the two children and herself. Later she learnt about Jamii Bora, a Nairobi based microfinance institution from her neighbour in the slum. The microfinance institution provided Susan with some form of business training skills and gave her a loan to start a clothes mending and sales business. Jamaii Bora's microfinance services enabled Susan to quit prostitution and moved her family away from slum into a safer house. Here is evidence of rehabilitation and business training provided by a microfinance institution.

[c] **Social Rehabilitation:** Marcelino, a Colombian was forced to flee from his village in rural Colombia as a result of warfare (guerilla) to Barrio Nelosn Mandela – a shanty town just outside of Cartagena. He took a loan of $95 from Mario Santo Domingo (microfinance) opened with the express purpose of helping migrants like Marcelino. The loan was used to open a small variety

store. After a year, Marcelino owned the most impressive store in the neighbourhood. This rehabilitation gap filling scenario was reported in the book “Access For All: Building including financial systems” (2006:19).

[d] **Start Up Funding and Training in Business Practices:** Jumba, a widow who lives in Gar, Bauchi State, Nigeria, as reported by Kefas (2006) belonged to a women’s group and took a loan of N2,000 from DEC. She said that she was not afraid because the microfinance (DEC) had taught her many things such as good farming practices and how to utilize a loan. She bought a goat and two rams fattened the rams and sold them at great profit, and repaid the loan.

This is a testimony of a widow who had access to credit from a microfinance institution which also taught her good business practices, particularly how to raise animals and provided the start up finance.

[e] **Promotion of Socio-Economic Conditions and General Welfare:** Agbobli, Kekar, Togo and Garba (2007) in their contribution to the publication “UNDP, UNCDF Mid-Term Evaluation Reports” identified Non-Governmental Organizations (NGOs) that are noted for their commitment to poverty alleviation, particularly in areas of promotion of socio-economic conditions and general welfare of the communities where they provided service. Farmers Development Union (FADU) located in Ibadan Oyo State is one of such NGOs. It provides development programmes aimed at reaching the poor and the vulnerable groups with basic and social services for improved rural income, nutrition, employment and raising the standard of living conditions. These are services which the mainstream banks hardly provide. This indeed is filling a huge gap in the financial and economic landscape of the nation and of humanity in general.

[f] **Literacy Campaigns:** Agboli (2007) also detailed out the contributions of the Anambra Self Help Organization (ASHO). The NGO, apart from providing micro-credit services to its members,

it also conducts literary campaigns within its community with emphasis on boys' school enrolment.

2.5.2 Interventions of Non-Governmental Organizations (NGOs)

Some institutions known as Non-governmental Organisations (NGOs) have been involved in microfinance basically to alleviate the suffering of the poor. Agbobli, Kekar, Togo, Garba (2007), identified the five Non Governmental Organizations (NGOs) noted for their commitment to poverty alleviation. They are:

[a] Farmers Development Union (FADU) located at Adegoke Adelabu Rd, GRA, Ibadan, Oyo State. The organization was founded in 1989 to provide development programmes aimed at reaching the poor and vulnerable groups with basic economic and social services for improved rural income, nutrition, employment and raising the standard of living conditions. FADU receives financial assistance from Eze in Germany, European Economic Commission (EEC) and Ford Foundation. Services to its members: (a) Agricultural loans (famers) (b) Working Capital loan for members in commerce sector and equipment loan to others. Currently FADU has over 500,000 members of which 65% are women and membership spans 29states in Nigeria. To date, it has 165,000 borrowers, out of which 70% are women.

[b] Community Women and Development (COWAD). COWAD is based in Ibadan, Oyo State. It is an NGO which supports rural women by improving socio-economic conditions and promotion of their general welfare. The clientele is grass root women. COWAD was nationally organized in 1982 by the Federal Government of Nigeria. Presently, its program and activities are financed by members' contributions and income from sales of its publications. Ford Foundation and Eze (Protestant Churches Development Agency) of Germany provide grants in support of its operations. COWAD provides credit facilities to its members for income generating activities, such as cottage industry, farming, food processing, livestock rearing and petty trading. It has provided its services to over 2,000 rural poor women directly or indirectly. It is presently in Oyo, Osun and Ogun States where there are over 5,000 members.

[c] Lift Above Poverty Organization (LAPO).

LAPO is Benin City, Edo State based NGO which covers Edo and Delta States. It was established in 1988 as an NGO, with the broad aim of assisting its members to break out of the grip of poverty. Membership is for poor men and women but women constitute over 90 per cent. Finances are currently provided by United Nations Development Programme with WIP, programme in the form of grants for capacity building in terms of technical assistance. Members enjoy: regular loans, emergency loans, joint project loan and Christmas Business Loan.

[d] Women Development Initiative (WDI)

WDI is based in Kano and serves rural communities. It was established in 1995 as an NGO by a group of professionals who share common interest in the development of Hausa women. Its funding is from Community Development Trust Fund and Technoserve which it operates as a revolving loan scheme for its members. Over 300 members have benefited from the revolving loan scheme. The minimum amount lent to members is N10,000 while the maximum loanable is N25,000.

[e] Anambra Self Help Organization (ASHO)

ASHO is based in Akwa, Anambra State and operates as an NGO with the poor rural indigenes as its clientele. It has covered about 50 per cent of Anambra State, having been established in 1996. ASHO receives financial and technical assistance from both local and foreign agencies. It also generates internal funds through its savings scheme and other NGO community Trust Funds. ASHO grants loans to its group members, four times the amount saved by the member and charges 36 per cent p.a. interest on its loans. Apart from their micro-credit services, they conduct literacy campaigns within their communities with emphasis on boys' school enrolment.

2.5.3 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 population live on less than $1 a day. Also, 65 per cent (91.0 million) have no access to financial services. Therefore, a huge gap exists in the provision of services to microfinance segment. The implementation of the microfinance policy by the Central Bank of Nigeria (2005) has brought to the fore, new challenges, including the need for innovations, in order to engender opportunities for the growth and development of the microfinance institutions (MFIs).

One of the critical challenges that the new policy has introduced is that of funding of the operations of microfinance banks. Funding is required to meet the capital base as stipulated in the new policy regime. 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. It is a very convenient way of raising capital because it does not involve direct obligation to repay, which gives the management some degree of control on the activities of the organization.

[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 start up 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. MFBs or MFIs that have established themselves as market leaders and innovators can access private capital by demonstrating that their portfolios are low-risk class assets. If their assets are adjudged to be truly low-risked, they could attract mainstream investors.

[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. According to Alvaro (2001) credit guarantee schemes are programmes that insure the repayment of a loan, in part or in all, in order to motivate lenders to lend to groups/individuals which would not have access to credit under normal circumstances. MFIs can use guarantee to secure funding from financial institutions.

[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.

[k] Other Sources of Funding Microfinance

A range of international development agencies (sometimes called international development partners), including the following are sources of funds for microfinance:

[l] Bilateral and Multinational Donors: These are the aid agencies of Government in industrial countries, development banks and organizations. These are agencies owned by the governments of the industrial and developed world such as World bank, UN agencies like the United Nations Development Programme (UNDP) and the International Fund for Agricultural Development (IFAD).

[m] Foundations: Privately owned nonprofit institutions through which private wealth is contributed and distributed for public and charitable purposes, such as the Ford Foundation, Argidius or the Open Society Institute (OSI). These donors spend an estimated sum of $800million to $1billion each year on microfinance and credit projects. Donor agencies support microfinance using a range of instrument such as; policy support, technical assistance (support by experts to offer technical advice), grants, loans (which can be offered at subsidized or commercial interest rates, usually low interest loans that can be converted into equity, equity investments in those institutions that can sell shares and guarantees. Different combinations of these instruments are used for a host of projects.

Several funding sources are available to microfinance institutions which they could tap into to improve their asset creation potential and the provision of other essential microfinance services. Institutions must access the appropriate funding sources, as a basis for making the right choice, taking into cognizance the regulatory environment under which they operate.

2.5.4 Key Success Factors in Microfinance

Kimotho, (2007) observes that it is necessary to learn from other countries the issues that are considered as critical and key success factors to microfinance operations as follows:

[a] Maintaining Minimum Portfolio at Risk: The organization should maintain a portfolio at Risk (PAR) of less than 3 per cent of all the portfolio or able to attain 97 per cent repayment of funds that have been lent to clients. It should also strife to achieve a wide outreach in order to enjoy economies of scale.

[b] Adequate Provisioning: There is a need for the MFIs to maintain a provision of 2 per cent of the total outstanding portfolio in order to meet future contingencies for bad and doubtful debts. Lending operations must be timely, transparent and on condition that the borrower has capacity to repay and of good character.

[c] Appropriate Entrepreneurial Spirit: Regardless of socio-economic status, there are some people who simply do not have the mind and trait for entrepreneurship and would do well as employee rather than employer. It is advised that only those who have entrepreneurial spirit and capacity that should venture into microfinance or micro-enterprises businesses.

[d] Zero Tolerance for Loan Default: There is need to introduce sanctions for loan defaulters. The organization should operate professionally and have clearly stipulated enforceable risk management strategies against loan defaulters. Borrowers are to understand that loans are not gifts and must be paid back in full.

[e] Capacity Building: There is the need for the practitioners (lenders) to support the business development skills of their customers, if they (lenders) hope to recover their facilities.

[f] Provision of Access to the Poor for Financial Services: Emphasis must be placed on the fact that the poor do not need "Hand-Outs", what they need is "a hand" to enable them become self reliant and to live in dignity and self respect. Continuous state of dependency destroys one's self esteem and undermines one's dignity.

[g] Product Packaging: Initiating new products and re-packaging old ones must be the organization's habit. If necessary a unit for research and new products should be established. These critical factors are key to the long-term survival of the MFIs.

[h] The Role of Government and Donors: Practitioners and borrowers should fully appreciate that the role of the Government, the Central Bank and Donor is that of the facilitator – "an enabler" only in the sector and not "doers".

[i] Appropriate Interest Regime: Setting interest rate ceiling and providing subsidized loans by the government or its agencies is not appropriate for the growth of long-term sustainable microfinance practice. They should determine the appropriate financial services they will provide and price the services by themselves reasonably.

[j] Apex Association: There is a need to have an Apex Association of microfinance institutions or banks made up of individual members that will develop and encourage observance of standards and achievement of internationally accepted "best standard practices in microfinance." Such organization would, also advocate for enabling environment and push for development of policies that are conducive to achieving a vibrant and long-term sustainable microfinance sector. In concluding his article, (Kimotho) observed that country experiences have shown that good corporate governance practice along with the other issues discussed above would go a long way to enhance the sustainability of microfinance practice and ensure a high degree of success.

2.5.5 Sustainability of Microfinance Institutions

In the publication "Unitus Innovative Solutions to Global Poverty" (2007) the matter of interest rate charge which sustains the microfinance institutions was aptly presented as follows "for a financial institution to scale and remain sustainable, at a bare minimum, it has to cover its costs". In the example below, a large bank (big lender) can charge interest rate of about 14 per cent to recoup its cost, whereas the microfinance institution (MFIs) has to charge a rate of at least 31 per cent to cover its cost. The details of input to sustainable interest charge are as shown in Table 2.1 below.

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 need for high interest charge.

2.5.6 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 rates, the small scale of microfinance operations, combined with the cost of reaching out to clients, pushes up operating costs and absorbs most of the interest margins.

A related challenge is the interaction of microfinance and traditional financial institutions. Vazquez (2005) observed that while there are success stories of microfinance institutions growing into formal financial institutions, as well as banks entering the microfinance niche, no clear trends have yet emerged. There also is the matter of how the microfinance industry is to be regulated. The weak approach applied to date in most countries, could be as a result of the small size of the industry and its frequent reliance on deposit funding. Adetokunbo (2006) also observed the following as challenges confronting microfinance. (i) Non Government support and ineffective legal framework; and (ii) Non conducive environment. It is the view of the author that in order for microfinance to thrive, there ought to be conditions which permit the growth of microfinance industry, where there are no legal constraints on interest rates, and where there are no distortions on the competitive framework by the presence of state-run financial entities offering subsidized interest rates or laxity in the recovery of outstanding loans.

Emuwa (2008) in his contribution to the seminar on "Institutional Reforms for Efficient Microfinance Intermediation in Nigeria" submitted the following challenges to microfinance success; low level access to capital, limited range due to informal non-structured framework and low savings. He also listed short-lived, unsustainable policies, poor repayment records, inefficient administration and large loan losses as challenges to microfinance. Adaju (2006) also observed the following challenges as militating against microfinance progress; credit risk with respect to repayment failure, inadequate monitoring of loans, not knowing the customers enough, inadequate collateral and failed guarantees. Adaju (2006) adds that capacity building in the area of training of staff is a major challenge. Corporate governance, policy changes, access to foreign donors are also considered as challenges to microfinance development by the author.

Arising from studies of microfinance operations in South Africa, Staschen (1999) catalogued the following challenges to microfinance growth; the growth of successful microfinance institutions is constrained by a lack of refinance facilities, at the same time, the standards in microfinance are generally low, such that there is shortage of efficient promotion of the sector, resulting in outflow of funds. Anne-Lucie Lafourcade (2005) in her studies of Microfinance Institutions in Africa observed that African microfinance institutions face many challenges namely; operating and financial expenses are high, and on average, revenues remain lower than in other global regions and efficiency in terms of cost per borrower is lowest for African microfinance. She further observed that technological innovations, product refinements and ongoing efforts to strengthen the capacity of African microfinance institutions are needed to reduce costs, increase outreach, and boost overall profitability.

According to Agbobli and Togo (2007) the size of Nigeria, the insecurity, especially in the Niger Delta region, diverse cross cultural issues that define "acceptable business practices" and the lack of sufficient expertise in the microfinance industry in Nigeria have been identified as challenges affecting microfinance in the region. Littlefield (2006: 113-114) listed the following as some of the challenges that are militating against microfinance: (i) The need to scale up the quality of microfinance services in order for it to serve large numbers of people (scale challenge); (ii) The need to reach increasingly poorer and more remote people (depth challenge); (iii) The need to lower costs, both to clients and financial service providers (cost challenge); (iv) Optimizing technology which will help to lower costs of operations and also expand the reach of financial services to the clients of microfinance; (v) Low level of leveraging Cross-boarder Remittances of funds and other remote rural transfers; (vi) Difficulty in reaching farmers and other remote rural clients; (vii) Inability to protect poor consumers. Many poor and vulnerable consumers fall pray to predatory lenders and many depositors are having problems accessing their deposits as a result of failure of many microfinance institutions; and (viii) Infrastructure inadequacy. Financial institutions in countries that lack strong communications and electric infrastructure may have a hard time implementing technology solutions which rely on internet connectivity.

There are other challenges confronting microfinance institutions. However, from region to region peculiar challenges and those that are global are being tackled by the day and hopefully the challenges will give way for microfinance to make its mark in poverty alleviation and economic development of nations around the globe.

2.6 A Global Perspective on Microfinance

Comprehensive impact studies have shown that microfinance helps very poor households to meet basic needs and protects them against risks. The use of financial services by low – income households is associated with improvements in household economic welfare and enterprise growth and stability. Furthermore microfinance helps to empower women, thus promoting gender equality and improving household well being. Studies in microfinance operations in the last twenty years have brought out some startling statistics about microfinance institutions operations, outreach and gaps yet unfilled if they were to make desired impact on poverty alleviation. These statistics are discussed in this section.

2.6.1 Global Status of Microfinance Worldwide

The United Nations Capital Development Fund (UNCDF) has gathered important insight and statistics about the status of microfinance Worldwide. Some of the important statistics are presented as follows:

i. Estimates of the global demand for microfinance services range from 400 and 500 million households of which only around 30million were reported to have access to sustainable microfinance services in 2002;

ii. The existing 10,000 microfinance institutions (MFIs) reach only 4 per cent of the potential market (World Bank Statistics, 2001);

iii. At least 90 per cent of eligible self-employed lack access to microcredit programmes. Unmet demand is around 270,000,000 (Units)

iv. In Africa, women account for more than 60 per cent of the rural labour force and contribute up to 80 per cent of food production, yet they receive less than 10 per cent of credit provided to farmers;

v. The World Bank estimates that there are now over 7,000 microfinance institutions serving some 16million poor people in developing countries;

vi. The microcredit summit estimates that US$21.6billion is needed to provide microfinance to 100million of the world's poorest families;

vii. The top five microfinance institutions reach almost half of the market (2001 World Bank Statistics);

viii. Under 10million of the 500million people who run micro and small enterprises have access to financial support for their business;

ix. Fewer than 2 per cent of the poor people have access to financial services (credit or savings) from sources other than money lenders;

x. Only 1 per cent of MFIs are financially stable;

xi. Indonesia borrowers increased their incomes by 12.9 per cent compared to increase at 3% in control group incomes. (Consultative Gorup to Assist the Poor (GAP, focus notes. Elizabeth Littlefield).

xii. The number of poor people with access to microcredit schemes rose from 7.6 million in 1997 to 26.8 million in 2001 of which 21milion of them are women, enabling them to control assets, make economic decisions and assume control of their lives; and

xiii. Data from the Micro Banking Bulletin reports that 63 of the world's top MFIs had an average rate of return of about 2.5% of total assets after adjusting for inflation.

The relevance of these findings about microfinance emphasises its outreach to date and the need for more in order to impact more on the lives of the low-income group and small enterprise owners globally. It is an eye opener to the amount of work which governments, all over the world, non-governmental organizations and other interested groups require to do in order to expand the reach of microfinance so that the poor of the world can obtain relief from poverty. These statistics are also relevant to this study as both the target banks, their clients (low-income group & SMEs) require more outreach as emphasis in the findings.

2.6.2 Steady Growth of Microfinance Institutions Globally.

Over the years, microfinance has made substantial progress both in number of institutions and the clients they serve. The statistics of such growth are shown in Table 2.2 below.

TABLE 2.2: NUMBER OF MFIS AND TOTAL CLIENTS REPORTING TO MICROFINANCE SUBMIT

Numbers of MFIs and Total Clients Reporting to Microcredit Submit.			
Year.	Number of MFIs	Number of Total Clients (in Million)	Number of Poorest Clients (in Million)
1997	618	13.5	7.6
1998	92.5	21	12.2
1999	1,065	23.6	13.
2000	1,567	30.7	19.3
2001	2,186	55	26.9
2002	2,572	67.6	41.6
2003	2,931	80.9	54.8
2004	3,164	92.3	66.6

Source: Unitus, Innovative, Solutions to Global Poverty (2007)

The statistics shows a steady growth both in number of microfinance institutions and the number of customers that patronize them between 1997 and 2004. They also show the number of the poorest clients that reported annually to the Summit between 1997 and 2004. The relevance of global expansion of microfinance to this study is that the more microfinance institutions that are established, the more financial services are rendered to the poor, low-income household and small and medium scale enterprises. Thus, poverty is steadily being alleviated globally.

2.6.3 Lending Portfolio of the Larger Microfinance Institutions in Africa as at 2005

Lafourcade and Isern (2005) wonder if the larger, profitable microfinance institutions still serve low-income clients as they reach their long term goal of profitability, they move-up-market and away from vulnerable populations? The authors provided an answer to their question by listing twenty large and profitable African MFIs which still serve the low income clients and yet remain profitable. Some of the microfinance institutions are: Association pour la promotion des Initiatives Locales (ASSOPIL, Benin), Bessfa Rural Bank (Ghana) and Self-Reliance Economic Advancement Program (SEAP; Nigeria). They manage the smallest average loan balances per borrower in spite of their large sizes.

TABLE 2.3: LENDING PROFILE OF SOME AFRICAN MFIS @ 2005.

Name of Microfinance	Country	Average Outstanding Loan Balance % of GNI per capital	Average Outstanding Loan (USD).
ASSOPIL	Benin	8.5	37
BessFaRB	Ghana	10.8	35
SEAP	Nigeria	13.9	44
KSF	Ghana	15.9	51
REMUCU	Senegal	19.3	106
LAPO	Nigeria	19.5	62
WAGES	Togo	20.2	63
FINCA-TZA	Tanzania	23.3	67
Sinapi Aba Trust	Ghana	23.4	75
Miselimi	Mali	31.0	90
FINGA-UGA	Uganda	31.6	76
MUSCCO	Malawi	40.7	69
TEBA	South Africa	42.5	1,117
AhantamanRB	Ghana	47.6	152
Bausa Gonofa	Ethiopia	47.7	43
Lower PraRB	Ghana	50.0	160
UWFT	Uganda	76.1	183
Kafo Jiginew	Mali	76.5	222
Eshet	Ethiopia	78.6	71
Faulu-UGA	Uganda	81.1	195

Source: Microfinance Institutions in Africa (2005)

For the purpose of our research study, therefore, it is expected that all the target microfinance banks we are studying, particularly the large ones should still provide loan and other services to the low-income group as well as small enterprise owners. Where exceptions are observed, special note shall be taken and the cause shall be investigated and reported as part of the findings of the study.

2.6.4 Activities of Borrowers Financed by Microcredit Institutions in Bangladesh

In a case study of microcredit in Bangladesh, Palli Karma – Sahayahi Foundation (PKSF) Microfinance Institution's lending activities were highlighted as reported in the Newsletter "UN Microcredit Year 2005: Bangladesh". Of the various employment activities (mainly self-employment) small scale businesses/trade is the most important, accounting for more than 40% of fund disbursed by the MFIs. On the other hand, agriculture, food processing, transport, housing and livestock sectors got relatively small portions of funding. The scenario is highlighted by the statistical position shown below:

TABLE 2.4: SUB-SECTORAL ALLOCATION OF DISBURSEMENT OF FUNDS BY MICROFINANCE INSTITUTIONS IN BANGLADESH

Sub-sector	Per centage disbursed up to June 2000 (476 MFIs)	Per centage disbursed up to December (469 MFIs)	Per centage disbursed up to June 2001 (468 MFIs)
Agriculture	12.63	12.77	12.23
Fisheries	4.74	4.48	4.91
Food Processing	6.99	7.11	3.78
Small Business	41.31	41.81	43.02
Cottage Industries	3.03	3.08	3.03
Transport	3.42	3.49	2.78
Housing	1.28	1.30	1.16
Health	0.39	0.37	0.45
Education	0.02	0.02	0.08
Livestock	20.91	20.53	18.11
Others	5.28	4.71	10.45
Total	100.00	100.00	100.00

Source: Palli Karma – Sahayak Foundation (PKSF) Statistics (2005)

The table shows that there is a transformation in the economic activities of the poor household in the rural areas in Bangladesh as the traditional sector, including fisheries and poultry had accounted for larger segments of self-employment activities of the poor in the past. An earlier survey conducted (1997-200) on PKSF, funded MFIs by Bangladesh Institute of Development Studies (BIDS) showed the predominance of agriculture, fishery, livestock etc. Lately, medium and Large scale trading have assumed prominence as confirmed in the data detailed above.

It is expected therefore that trends in the nature of business of clients to the target microfinance banks in this study would transform as their economic welfare improves. Some small traders are likely to move up to take on more sophisticated businesses as more training and more funds become available to them from the services rendered by the microfinance institutions. All this will engender poverty alleviation and economic development.

2.6.5 Microfinance Performance in Nigeria

Despite the proliferation of microfinance banks in Nigeria, 53.6 per cent of Nigeria's 150 Million population are still living below poverty line as persons earning below one US dollar per day. Of these figures about 78% of them are living in rural areas while about 67% are women (World Bank, 2005).

As at end of August, 2009, according to the Central Bank Governor, 903 microfinance banks had been licensed but with all the regulatory incentives, the policy objectives, goals and targets of the banks have not been realized (Olufemi Fabanwo – Deputy Director CBN, 2009). Fabanwo attributed the challenges of the banks to "weak internal control measures, poor risk management procedures, huge investment in non-earning fixed assets before attaining the minimum scale efficiency and level required to breakeven and wrong classification of items. Other challenges are non-performing inside credit, lack of innovation and creativity in microfinance product design and pricing".

Though the banks were well capitalized above the prescribed minimum N20 million level, the asset quality was generally poor, just as their corporate governance was also weak. Central Bank report (2008) showed that the total assets and liabilities of all the MFBs increased by 62.4 per cent to 122.8 billion in 2008. Their paid up capital increased by 152.7 per cent to N28.8 billion while their shareholders fund increased by 69.7 per cent to 37 billion. Activities of the microfinance banks in 2008 were characterized by short-term sources and application of funds (CBN Report 2008). Other statistics reported by the Central Bank (2008) are that

i. total assets of the MFBs is about N77.87 billion and (ii) total liabilities amounted to N39.57 billion

While applauding the impact of about 900 MFBs on the economy as at March, 2009, Professor C. Soludo in an interview shortly before he left office as the CBN Governor said “The impact on the rural economy, poverty reduction on the people is quite tremendous, we must mainstream microfinance in all the states and local governments in the country.”

TABLE 2.5: DISTRIBUTION OF MICROFINANCE BANKS BY GEO-POLITICAL ZONES AS AT DEC. 31ST, 2008

Geo-political zones	Number of MFBs	Total per Zone	Per centage of Total
North-West			
Jigawa	5		
Kaduna	23		
Kano	6		
Katsina	5		
Kebbi	6		
Sokoto	5		
Zamfara	6		
Sub-total	57	57	6.8
North-Central			
Abuja FCT	31		
Benue	9		
Kogi	21		
Kwara	22		
Nasarawa	4		
Niger	10		
Plateau	12		
Sub-total	109	109	13.0
North-East			
Adamawa	8		
Bauchi	12		
Borno	4		
Gombe	4		
Taraba	4		
Yobe	1		
Sub-total	33	33	3.9
South-West			
Ekiti	13		
Lagos	189		
Ogun	54		
Ondo	17		
Osun	32		
Oyo	48		
Sub-total	353	353	42.0
South-South			
Akwa-Ibom	12		
Bayelsa	3		
Cross-Rivers	15		
Delta	29		
Edo	25		
Rivers	30		
Sub-total	114	114	13.6
South-East			
Abia	24		
Anambra	79		
Ebonyi	6		
Enugu	22		
Imo	43		
Sub-total	174	174	20.7
Total	**840**	**840**	**100.0**

Source: Other Financial Institutions Department (OFID); Central Bank of Nigeria, Abuja (2009)

The relevance of the present status of microfinance (spread, operations, challenges and potentials) in Nigeria to this study is that target banks of the study have challenges as well as potentials. If the banks are to meet the objective of poverty alleviation and economic development they require to re-examine their current mode of operations with a view to identifying their weaknesses and take steps to strengthen their operations.

Microfinance has been severally defined and one of such definitions is the provision of financial services, such as loans, savings, insurance, money transfers and payment facilities to low income groups. By its nature, microfinance has existed since the beginning of time in the form of informal savings and credit groups that have been operated for centuries across the world, each region with its peculiarity.

The Grameen model of microfinance which emerged from the work of Professor Muhammed Yunus in Bangladesh in 1976 has been replicated in many parts of the world because of its success in alleviating the plight of the poor. The model focuses on the poor and low-income households. The method of operation adopted by this model has brought out some salient facts about the poor. The poor can save, the poor can borrow and repay loans, the poor uses proceeds of loans to meet the urgent needs of the household such as food, clothing, children education, repair of houses and other emergencies. Other methods of microfinance operations are (i) Intermediaries (Adaju, 2006) which is a form of credit lending position of a “go-between” lenders and borrowers. Here, the microfinance obtains funds either from Government or Commercial bank and retails lending to consumer borrowers. (ii) Target community forms an association through which various microfinance activities are initiated. (iii) Bank Guarantee is another method of operation. Here a bank guarantee is used to obtain a loan from a bank. (iv) Community banking model was used in Nigeria until 2005, when the Central Bank introduced the Microfinance Banking policy. Other methods are cooperatives and credit unions. The Grameen method of microfinance is in tandem with the objective of this research – the use of smicrofinance as tool for alleviation of poverty and economic development.

The studies carried out by Pollinger and Cordero-Guzmen (2007) and Hennessey (2006) confirmed that microfinance in its various models do assist the world to reduce and alleviate poverty and enhance economic development, particularly in developing economies. Micro-entrepreneurs have difficulty in accessing capital from mainstream financial institutions for various reasons ranging from non availability of appropriate and adequate collateral and inability of the entrepreneurs to provide acceptable accounting records of their businesses. Microfinance in many instances has bridged this gap as many small and medium size businesses have been financed by microfinance institutions. However, the implication of this process is that many microfinance institutions often have a need to source for additional funds either through grants donors, or other forms of capital. The issue of additional capital needs by microfinance raises the need to source for funds. The market for microfinance funding according to Olaitan (2007) is enormous, ranging from Equity capital to Debt finance, Partnering, Selling, Assets, funds from Finance Companies, Private Placements of Securities, Capital Market and Guarantees.

The matter of adequate funding for microfinance is important in order for the sector to have enough funds to meet the loan requests of many poor households and SMEs. The Nigerian experience is a case in point. When community banks were introduced, the capital requirement was only N5 million. It became inadequate with time and when such banks converted to microfinance banks, the capital was raised to N20 million for a branch bank while a microfinance bank which wants to operate multi branches has to commence with one billion naira. Recently the Central Bank has suggested that all operating microfinance banks may require obtaining additional capital in order for them to operate comfortably. Because microfinance banks are the method of study in this research work, the funding factor as discussed above is relevant.

All microfinance institutions operate with the objective of overall success. In other words, being able to make loans available to customers and delivery of other services are not enough. Kimotho (2007) identifies the critical and key success factors to microfinance operations and which could be summarized as follows:

(i) **Maintaining Minimum Portfolio at Risk:** A Portfolio at Risk (PAR) of less than 3 per cent of all the portfolio is ideal.

(ii) **Adequate Provisioning:** A provision of 2 per cent of the total outstanding portfolio is considered adequate to meet future contingencies for bad and doubtful debts.

(iii) **Capacity building:** This is a major success factor in all enterprises, so it is in microfinance operations. Ability of the microfinance institutions to assist their clients-borrowers to enhance their skills in business is essential if the lenders hope to recover their facilities.

(iv) **Zero tolerance for loan default:** It is a key factor for success. If borrowers do not repay part or whole of the loans extended to them, the lenders will soon liquidate. This is very true in microfinance business, and sanctions must be introduced for loan default.

(v) **Product packaging:** Initiation of new products and repackaging of old ones in order for the microfinance organization to remain relevant and be competitive is imperative. Good corporate governance practice, along with issues observed above are the ingredients for sustainability and factors of success in microfinance irrespective of what model or method is adopted, be it the Grameen, Community banking, Cooperatives, Credit union, Intermediaries model or the ones operated through NGOs.

These success factors are relevant to this study. If the microfinance banks which are the focus of this study do not adopt the key success factors as enumerated by Kithomo (2007) above they will not have a chance to provide credit and other financial services that can alleviate poverty and enhance economic development.

Omino (2005) has this to say about microfinance and provision of finance to micro and small enterprises (MSEs) “the provisions of financial services to the low-income households and MSEs provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation”. Omino went further to observe that widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs, hence the emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and economic growth. Omino’s, observations are in no doubt in tandem with the objectives of this study. This study is about research into how microfinance banks services to low-income households and Micro, and Small Enterprises can reduce and alleviate poverty and engender economic development in Nigeria, just as it has done in other parts of the world. It is particularly interesting to note what peculiar services microfinance can provide. According to the narratives of Mohammed (2003: 189-192), the Finish Micro Credit Ltd was set up to remove boredom among the young women and encourage them to stay in Northen Finland and the nearby region of Northern Russia. The microfinance institution mainly finance production of sweaters, paper weights, postcards and wooden troll statues and also serve to preserve social integration.

From the study reviewed, it has been observed that microfinance through its services to the poor and lowly has filled certain gaps which the mainstream financial institutions – the conventional banks have neglected. Such gaps include provision of start up finance, rehabilitation of the destitute, provision of business training skills etc. Examples of such gap filling services include that of Jumba, a widow who lives in Gar, Bauchi State who came in contact with Development Exchange Centre (DEC) a microfinance outfit which provided her with training in farming skills and lent her N2,000 with which she bought goats, fattened them and sold at a profit. She paid off the loan and went on with her life, fully rehabilitated, Kefas (2006).

The above examples show the unique services which microfinance has provided as gap filling in financial services to the downtrodden. There is no doubt that in the course of this research work, there will be instances where the target microfinance banks would have taken up similar gap filling services hence the issue of gap filling is relevant to this study.

Generally, the contributions of the various authors on the issues discussed in this review of literature on microfinance institutions are illuminating, profound, extremely educative and critical to the subject of this study.

2.7. Some Individual Experiences

In what follows, this study indicates some experiences of individual in MFIs.

(i) Jumba, a widow who lives in Gar, Bauchi State testified as follows; “When my husband died and left me with seven children, I had nothing to do. I had never worked, so I had no idea how to start making money to cater for my needs and that of the children. I went into petty trading to supplement my traditional farming income. Belonging to a women’s group helped and that was how I came in contact with Development Exchange Centre (DEC)”. She took a loan of N2000 from DEC. She said that she was not afraid because they had taught them many good things such as good farming practices and how to utilize a loan. She bought a goat and two rams. She fattened the rams, sold them at a great profit and repaid the loan. Since then, she never looked back. Now she has 13 goats and when “I see them I feel so proud”. She reinvested the money she made from the goats in her petty trading and crop farming activities. “I am grateful to DEC for this little help”. This is the testimony of a widow who had access to credit from a microfinance outfit and used it to improve her living standard.

(ii) Malama Umma, a house wife, from Bauchi town in Bauchi State as reported by Kefas (2006), had this to say: “The first loan I got from DEC was used to buy a local spaghetti making machine. Gradually, I used the profit I make to buy a sewing machine. Within the first year I was able to repay the loan. I took a second loan which I used to start a poultry business of 50layers. I used the money I generated to buy some turkeys and repaid the loan. When the layers were sold, I added some money and bought a deep freezer. I am now making home-made juice for sale. I use my profit to support my husband who is a retired civil servant and ten children”.

Here is another glowing testimony of a microfinance client who was able to improve her family’s livelihood through the microfinance credit services.

(iii) Mrs. Deborah Umaru (House wife from Billirim, Gombe State) narrated her experience as follows: “When I received a loan of N2,000 from DEC, I was only selling some food items on a table in front of my house. With the loan, I expanded the business which gradually led to my owing a shop". The following year, after repaying the loan, she received a second loan of N5,000; used N3,000 to buy 3 rams for fattening, the remaining N2,000 was invested into the shop business. She sold the rams and made a high profit which she used to expand her business. "I am now managing a big cosmetic shop". This is another success story of a microfinance assisted low-income household.

(iv) Godwin Ehigiamisoe, the Managing Director of Lift Above Poverty Organization (LAPO) microfinance institution in his contribution to a Central Bank workshop in 2007 via his article titled "Principles and Practices of microfinance" (2007) narrated the story of Weles Momoh, one of the customers of his bank as follows: Weles Momoh is a member of LAPO, in Jattu Branch. She is about 40years and has 8 children. Her husband who is a driver has two wives. Weles has become somewhat very solid in her business as she plans to start to build her own house. Through her friend, she became a member of Egelesor LAPO group. In December 1970 she got a loan of N6,000; 1979 – N10,000; 2001 – (Feb) N10,000; 2001 (Dec) N20,000. With these loans she diversified into selling tomatoes peppers, onions, potatoes and has increased her capital more than tenfold.

With her prosperity, Weles is able to contribute to the feeding of her family, payment of school fees and clothing. In four years, a business which had stunted for a decade suddenly grew ten fold. Before her access to LAPO credit she was perpetually sad over the poor state of her business and the misbehavior of her children was traced to her poverty. "Now things have changed for good".

Grameen Foundation in its publication (2007) stated this: "with tiny loans and financial services, we help the poor, mostly women, start up businesses and escape poverty." The Foundation global network of microfinance partners has already reached over 2.7million families in 22 countries.

(v) The publication cited the case of Fatima, client of a microfinance bank (FONDEP) in Morocco who took a loan which helped her to build her business and new horizons for her children. Her case was cited in the Foundation's article titled, "Empowering people, changing lives, innovating for the world's poor" Washington, DC 20001.

(vii) Zakiyah is 32 years old, married and has four children aged between 1 to 15. In 1999, she took a loan of Jordan Dollars of 1,500 repayable in over 8years. Monthly installment of JD25 and deducted from the salary of her husband, a driver in the ministry of Health. She used the loan to raise rabbits and pigeons. Her monthly net income from the investment is JD60. The business has prospered so well that she preferred to repay the loan within a year. This is huge success story – loan taken for eight years planned repayment prospered so well that repayment was possible in one year.

Information contributed by Seibel and Almeyda in their paper "Women and Men in Rural microfinance: The case of Jordan (2001) gave account of Zakiyah's success story. The paper also contains the stories of Najah, Bassam and Ameenah.

(viii) Najah, 31 years is a mother of five who collected JD 1,000 for a chicken farm in April 2000. Monthly repayments are deducted from her husband's salary who works for the Ministry of Water. She spent JD600 on chicken, JD 150 on a shed and JD 250 on chicken feed. Her monthly net income from selling eggs and chickens is JD80 a 100% returns. This is another big success story of microfinance.

(ix) Ameenah, 35 years old, married with eight children took a loan of JD2000 from IFAD Income Diversification Project(microfinance institution) in January 2001. She spent JD1,500 for the purchase of goats, JD400 on the shed and JD100 on feed. She produces milk, butter and cheese for the family. The husband who is a driver in the military with a monthly salary of JD170 also took a loan of JD4000 in 1996 to build a house. Total deductions from his salary amount to

JD90. Both wife and husband have no other source of income as proceeds from both loans are enough for the family to have a good standard of living despite the large size of the family. This is success story recounted by Seibal and Almeyda in their paper referred above.

(x) Bassam in the village of Subhehiat-Al Thanieh, a 64 years old retired elementary school teacher. He took a loan for JD4,000 repayable in eight years from ACC (a microfinance institution), for which JD60 are deducted from his pension. He invested JD2,150 in one male and 10 female goats and JD1,850 in a shed and fodder another JD600 in fodder from his own funds. His monthly profit from the sale of dairy is JD80. His returns are so good that he now considers the loan period too long and would prefer to repay early.

These four Jordanian success stories in microfinance have been made available by courtesy of Seibel and Almeyda, (2001) duly referenced above.

(xi) Prudence, a trader in Karatina, Kenya, belongs to several informal savings groups or "merry-go rounds" as they are called in Kenya. She uses the different merry-go rounds for different purposes: one for paying her grandchildren's school fees, another one pays out weekly which she uses to restock her market stall.

Finally, she borrows from Faulu – a Kenyan MFI, which she is using to upgrade her house in order to rent out some rooms to secure regular income in her old age. Clearly Prudence has access to and makes maximum use of credit facilities from both informal (merry-go round) micro credit institutions and formal (Faula) microfinance institution. She takes advantage of both to improve her livelihood.

(xii) Amina is a housewife in Pathrail, Bangladesh. She relies heavily on her neighbours for financial services. "Amina hides a small amount of savings in a mud bank in the thatched roof of her house for emergencies". She also borrows from BURO, in Tangail a microfinance bank for her husband's rickshaw business and for emergencies that cannot be covered through informal means. “Amina is considering using one of BURO’s contractual savings products to save for her daughter’s wedding”.

Again, here is a poor villager who has learnt how to access microcredits from both informal and formal microfinance organizations. There are millions of her type the world over, no doubt the word’s poverty level has obviously started to decrease.

The examples cited in this section are just a few of the success stories in microfinance operations in which the lives of clients changed to a measure of affluence or near it.

CHAPTER THREE

THEORETICAL FRAMEWORK AND METHODOLOGY

3.1 Introduction

The objective of his section is to examine the impact of microfinance on poverty alleviation and microenterprise development in Nigeria. Various forms of microfinance (formal, non-formal, and informal) have been adjudged to be important means of poverty reduction and growth of microenterprises. It is our main aim in this research to verify the view that formal and informal microfinance institutions are catalysts of change and poverty alleviation in Nigeria.

3.2 Theoretical/Conceptual Framework

3.2.1. Theoretical Framework

a) Introduction

In the subsection 1.1 of this study, the extent of poverty was highlighted. Poverty by definition is multifaceted. It can be described as a situation of lack of basic necessities of life including basic food, shelter, medical care and safety. It is acknowledged that poverty is an outcome with various dimensions including social, political and economic. According to Hazel and Haddad (2001), poverty consists of two interacting deprivations: physiological and social. Physiological deprivation is a state of individual's inability to meet basic material and physiological needs resulting from lack of income. Social deprivation refers to an absence of elements that are empowering such as autonomy, time, information dignity and self-esteem. In a more general term that allows international comparison, poverty can be seen as a statistical measure that indicates the annual income for a family to survive. This is commonly known as "poverty line".

Microfinance is the supply of loans, savings and other basic financial services to the poor. SMEs require a wide range of financial resources to meet working capital requirement, build assets, stabilize consumption and shield themselves against risks, Ehigiamusoe (2005). Financial resources include working capital loans, consumer credit, savings, pensions, insurance and money transfer services. In this study MFIs are seen as means for poverty alleviation. Therefore, in what follows, the study examines the various theories that shape anti-poverty strategies.

b) 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.

i) 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. The vicious cycle of poverty is a kind of curse which is feared by individuals and countries because it is said that an individual/country is poor because it is poor. The theory states that there are circular relationships known as the "vicious cycle of poverty" that tend to perpetuate the low level of development in less developed countries (LDCs). The trajectory is that poverty is caused by low income. Low income engenders low savings and this in turn leads to low investment. The latter provokes low productivity and the cycle continues.

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.

ii) 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. This is basically the Maxian theory of historical materialism. According to this theory, the system of poverty determines the basic division of the society into two classes: the have and the have-nots (i. e. the property owners and the non-property owners). This view constitutes the fundamental nature of government, religion and culture in any given society.

This theory further stated that the society has been dominated by the ruling class owners of properties who exploit the non-property owners, made possible by their ownership of the means of production. 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.

iii) 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 supply-leading finance on the other hand refers to the establishment of financial institution in some areas before the demand for their service is considered. Demand-following and supply-leading financial theory are rooted in the fact that the financial system may be simultaneously growth inducing and growth induced. They both emphasized that the most relevant issues for development is the efficiency with which the financial system provides financial institutions. They linked the supply of initiatives, enterprise and finance by financial institution to be the creation, transformation and expansion of industries and other development oriented ventures.

The direction of these finance theories may interact at a point in time and overtime, there may be changes in prominence played by each type as the economy develops. Hugh (2004) and Jhigan (2004). The creation of the rural banking scheme arising from the Pius Okigbo financial review committee in Nigeria (1976) was a direct response to the supply-leading finance theory and the scheme was adopted by government to decongest the urban centers of banks and promote the development of banking habits, culture and service in rural areas.

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.

iv) Financial Liberalization or Repression Hypothesis

In the 1960s and 1970s, government intervention in the financial sector was rampant. It was done through setting of interest rates, imposition of high reserves requirements as well as quantitative restrictions on credit allocation. Some authors including Mckinnon (1973) and Shaw (1973) and Gurley and Shaw (1961:243) observed that that position explained the low savings, credit rationing and hence low investment: the so called financial repression. These authors then proposed the financial liberalization thesis which essentially involves the freeing of financial markets from government intervention and allowing the market determine the price and allocation of credit. This theory is based on the assumptions of perfect information, profit maximizing competitive behaviour by financial institutions.

Several channels of transmission have been identified in the literature. Goldsmith (1963) proposes the marginal productivity of capital. In this case, if interest rate is lower than the equilibrium rate of interest, high quality projects are not undertaken. Mckinon and Shaw suggest two other channels. The first, financial repression affects how efficiently savings are allocated to investment and second, through its effects on the return to savings. Consequently, investment suffers not only in quantity but also in quality terms since bankers ration the available funds according to the marginal productivity of investment projects but according to their own discretion. Under this condition, the financial sector will be most likely in a state of stagnation. Savers are then forced to hold their savings in the form of unproductive assets rather than potentially productive bank deposits.

In the light of the above proposition, the policy implications of the financial liberalization theory are evident. The direction is classic: remove interest rate ceilings, reduce reserve requirements and abolish direct credit programs. Once the financial market is liberalized free market forces will determine the allocation of credit through the equilibrium real interest rate. The latter will ensure that low yielding investment projects will be eliminated so that the overall efficiency of investments would be enhanced. In addition, as the real rate of interest increases, savings and the total real supply of credit increase which will induce a higher volume of investment, hence economic growth is stimulated not only through the increase in investment but also due to an increase in the average productivity of capital.

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.

3.2.2 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 behavioural 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. A commonly accepted model of programme design, the cost-minimizing approach, addresses a number of salient features in current debates about transfers to the poor.

Moreover, it is consistent with the desire for targeting. It is also a useful first step toward developing a positive theory of transfer to the poor. The model by Besley (1992) and Coate (1995) makes no pretense at realism; the model is a useful vehicle for clarifying thinking about a number of issues relating to poverty alleviation programmes. The model views society as composed of two groups: those who make transfers (the rich) and those who receive them (the poor). The model assumptions are as follows. First, that the rich cares only about consumption of the poor and their utility. Second, the rich controls government and its objective is to design a poverty alleviation program that is financed through taxes paid by the rich. Finally, there must be voluntary participation by the poor in poverty alleviation programme, which means that the poor must be willing to take any benefits intended for them.

The literature on economic theory of credit markets and saving decision in economies characterized by incomplete markets and imperfect information is growing. The most current literatures after Stiglitz and Weiss (1981) are from Alderman and Paxson (1992) who provided a new theoretical foundation for policy interventions to correct market failure. By studying the institutional arrangements through which financial transactions take place, if they showed that credit transactions reflect the economic environment in which they occur. In Africa, the economic environment is largely characterized by risks of unpredictable variations in income as a result of weather and other exogenous processes. In the absence of competitive insurance markets, credit transactions take on a special role in allowing resource transfer in response to income shocks.

It is pertinent to bring to focus, the various breakthroughs that have made microfinance programme imperative to poverty alleviation.

First, and perhaps most important, the long standing and fundamental assumptions about the banking ability of the poor have been overturned, based on well-documented experience in banking with the poor in a selection of cases that demonstrate the ability of low-income clients to use small loans productively and pay them back fully on or before due date. When given reasons to do so, the poor can and are willing to pay high interest rates for their loans. They save and often need savings services as much if not more than credit services. These findings correct the earlier notions that the poor cannot use credit effectively, do not have capacity to repay loans, cannot afford to pay high interest rates that reflect the real cost of funds, and do not generate sufficient surplus to enable them to save.

Secondly, a shift in thinking is within the effort being made for delivering credits and savings to the poor. This is being conceptualized as extending the reach of national financial systems to include low-income customers. For example, financial sectors are being redefined to include banks and non-bank financial institutions as well as banks. This framework differs radically from long-standing practice of separating micro finance programmes from financial sector development and including it within "project" context for social welfare services for the poor. In this view, micro-finance institutions represent an essential component of an integrated financial system that serves the majority of citizens. This new paradigm has far-reaching implications:

- the need to revise banking regulations to include non-bank financial institutions, and
- a new legitimacy for financial institutions that serve the poor that represent an enormous new market for financial services.

A third breakthrough has been the development of new lending technologies that are effective both in reaching large numbers of low income borrowers and moving microfinance institutions toward financial sustainability. These technologies are designed to deliver small loans with terms and conditions that meet the needs of poor clients, lower lenders' transaction cost, and increase revenues by using full-cost interest rates and high loan repayment rates.

A fourth important change is that micro-finance institutions **are now expected to attain high levels of financial sustainability** within a reasonable period of time. The generation of credit programmes were fueled by a constant supply of donor funds and paid little attention to operating costs, loan losses and the expense of auxiliary services. Efficiency and cost recovery were not priorities for service providers or for international donors. As a result, credit programmes had minimal outreach because credit funds were limited to donor funds, repayment rates were poor, financial intermediation was stunted because cheap credit discouraged the mobilization of local deposits. And credit was concentrated in the hands of privileged and less-than-creditworthy borrowers who successfully pursued these subsidized loans. Over the past decade, a handful of pioneer micro-finance institutions have demonstrated not only the bankability of the poor but also the potential for sustainability of financial institution that serve the poor. Full financial sustainability is reached when administration, loan loss, inflation and financial cost are covered entirely by revenues from appropriate charging of interest rates.

Finally, a significant development is **the new focus on mobilizing savings among the poor**. Micro finance institutions increasingly are under pressure to mobilize savings, and there is some contention among practitioners about the wisdom of this trend. It is clear that savings services are needed urgently by large number of poor people around the world to protect their incomes and to serve as an alternative to borrowing to meet financial needs. Savings deposits also offer micro finance institutions a valuable source of sustainable local funds.

3.3 RESEARCH METHODOLOGY

3.3.1 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.

3.4 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 microentrepreneurs 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.

3.5 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 each level, the sampling is multistage. In the first level, there are two stages of selection. At the first stage, the Local Government Areas are purposively selected in which case four LGAs were selected from Lagos State (Ifako-Ijaiye, Ikeja, Mushin and Isolo LGAs) and four were also purposively selected in Ogun State (Ado-Odo Ota, Ifo, Owode and Itori/Ewekoro LGAs). At the second stage, the locations of the MFIs in each LGA were also purposively selected.

In this case, the target population is the total entrepreneur-customer base of the selected banks. From the books of the banks, a sampling frame of these classes of customers has been generated from which 10 per cent of these customers has been 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

3.6 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.

3.7 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.

3.8 Questionnaire.

Basically, the questionnaire is structured in such a manner that brings out maximum information about the lending activities of microfinance banks to the individual household and small scale business customers. The questionnaire contains a combination of closed and open ended questions. The open ended questions encourage respondents to provide detailed answers to the questions, while answers to the closed ended questions require that the researcher seeks further clarification from other sources in order to be able to use such information adequately.

The questionnaire seeks information about the personal data of respondents, volume of credit obtained from the banks, the use to which such loans are put, length of time for repayment, profit profile of small scale business borrowers etcetera. The questionnaires were administered directly to respondents and responses were collected immediately, except where the respondent asked for more time. This ensures collection of a high per centage of responses, for analysis and results presentation. The schedule of the questionnaire is attached as an annexure to this chapter.

3.9. Model Specification

The objectives of this study as stated in chapter 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 microfinancing 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 analyse 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 borrower-entrepreneur. Thus, the demand of a customer for loan volume D^L can be expressed as:

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

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. Each of these explanatory variables is assumed to be linearly related to the dependent variable.

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:

$$Y_j = f(X_i; e_j) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

and assuming a linear relation between Y_j and X_i then equation (2) can be written as :

$$Y_j = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \ldots + \alpha_k X_k + e_j \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

where Y_j : a binary variable having a value 1 if there is progress in the business and 0 otherwise

X_{ij} : value of attribute i for micro-entrepreneur j, Vi=1,…,k

Suppose that the expected value of variable Y given the X_i's is written as:

$$E(Y / X_1, X_2, \ldots, X_k) = 0 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(4)$$

Then,

$$E(Y / X) = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \ldots + \alpha_k X_k \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots(5)$$

Given the binary nature of variable Y, then

$$P(Y = 1 / X) = E(Y / X) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(6)$$

This means that the probability of "success" given X is the same as the expected value of Y so that:

$$P(Y=1/X)=\alpha_0+\alpha_1 X_1+\alpha_2 X_2+...+\alpha_k X_k \quad \text{.......................................(7)}$$

Equation (12) can be re-written more compactly as follows:

$$Y_j=\alpha_0+\sum_{i=1}^{k}\alpha_i X_{ij}+e_j \quad \text{..(8)}$$

where Y_j, α_i (i=1,2,…,k), X_{ij} and e_j are as defined above. In equation (8), the vector X_{ij} 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:

$$LN\,Y=f(\boldsymbol{X},\boldsymbol{B},\boldsymbol{H},\boldsymbol{P}) \quad \text{........................ (9)}$$

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 (9) we have:

$$Ln\,Y = f(D, G, G^2, N, M, RG, R, S, E, MF, L1, LA, BKYR, B) \dots\dots\dots\dots\dots\dots (10)$$

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:

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

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

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

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).

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 SOME CHARACTERISTICS OF THE RESPONDENTS

This study examined the contribution of microfinance institutions to poverty reduction in Southwestern Nigeria. As stated in the preceding chapter, 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. After the introductory remarks of this section, the rest of section 4.1 (in two parts, i.e. 4.1.1 and 4.2.2) discusses some salient characteristics of MFIs and their customers respectively. Section 4.2 examines the nature and significance of microfinance banking services to customers, paying particular attention to the analysis of the MFI's basic intermediatory function of credit mobilization and dispersion among customers in general, and the respondents in particular.

Section 4.3 addresses the issue of loan demand between the two major sub-divisions of MFIs in the study locations. The section is sub-divided into three sub-sections with the first and second discussing the volume as well as the determinants of loan demand while the third gives some econometric analysis of the probability of loan demand using the linear probability model. In section 4.4, the study examines the influence of microcredit on personal welfare of respondents. The section is analysed in three parts. The first discusses the issue of loan utilization among respondents; the second analyses the impact of microcredit on earnings and poverty reduction/alleviation among respondents; while the third examines, using the Mincer model, the determinants of earnings distribution among the respondents. The last section (section 4.5) analyses the effects of microfinancing on micro-enterprises development.

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 centres 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. More importantly, it was an attempt to bring savings and credit mechanisms closer to rural dwellers and urban informal entrepreneurs that were hitherto neglected in the distribution of financial intermediation (Ogunrinola, 2010). 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.

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

NUMBER OF EMPLOYEES IN MFIs AT INCEPTION AND NOW.

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
No of Employees @ Inception	32	1	1680	2297	71.78	294.938
No of Employees Now	35	10	2138	13050	372.86	662.718
Valid N (listwise)	28					

Source: Field Survey, 2010

The last two main variables in Table 4.2 show the grouped frequency distribution of employees both currently and at inception. At inception, the modal employee group is 10-19 having a frequency distribution of 68.8%, but by 2010 the modal employee group has increased to 20-29 with a frequency distribution of 25.7%.

4.1.2 Socio-economic characteristics of customers of MFIs

Demographic profile describes the basic characteristics of the sampled respondents in terms of their gender, ages, occupation, social class, educational attainment, marital status, nationality, religious affiliation, among others, in such manner that allow for easier segmentation or social grouping. While these parameters are varied on the basis of each study, those characteristics employed here are keen to banking behaviours of the respondents selected for this study.

(i) Age Distribution of the respondents

The ages of respondents were captured as actual distinct values. However it was grouped in the analysis to allow for concise understanding and presentation. The minimum and maximum ages as identified from the result are 18 and 65 while the mean age (on single-year-basis) is 36. Also, the result of the analysis shows that the modal age group of respondents is 35-39 years (Table

4.3). In addition, general observation shows that about 88 % of the total respondents are between age 25 and 49 years. This implies that most of the customers are in their prime age of life which falls in the economic activity rate group (NPC, 2010; Ghazi Mumtaz Farooq and Yaw Ofosu, 1992). However, only 7.5% of the total respondents belonging to age group 50 and above were captured. The proportion in age group 35-39 years is 23.4% and this also takes the highest proportion out of all other age groups as shown in Table 3.

TABLE 4.3
DISTRIBUTION OF RESPONDENTS BY AGE GROUP

Age Group	Frequency	Valid Per cent
15-19 years	2	.6
20-24 years	12	3.7
25-29 years	50	15.6
30-34 years	61	19.0
35-39 years	75	23.4
40-44 years	59	18.4
45-49 years	38	11.8
50-54 years	15	4.7
55-59 years	5	1.6
60-64 years	3	.9
65 year +	1	.3
Total	321	100.0

Source: Field Survey, 2010

(ii) Educational attainment

In order to assess the influence of education on poverty, respondents were asked to state their highest educational attainment among other socio-demographic variables employed, The result shown in Table 4.4 indicated that more than half of the population have attained secondary education and below as at the time of this study. Those that have attained above secondary level of education are about 36% while those that have never gone to school but are customers in these banks are about 6% as indicated in Table 4.4 Secondary level of education seems to be more popular in the study location, it comprises of about 38.9 % of the total respondents. This is immediately followed by ordinary National Diploma and National Certificate of Education (NCE) with 22% and primary education (18.7%). Respondents with bachelor and Higher National Diploma are up to 8.7% while other higher educational levels such as Masters and Doctorate degree are about 5.6% (Table 4).

TABLE 4.4
DISTRIBUTION OF RESPONDENTS BY HIGHEST EDUCATION QUALIFICATION

Education Qualification	Frequency	Valid Per cent
No Schooling	19	5.9
Primary	60	18.7
secondary	125	38.9
OND/NCE	71	22.1
B.Sc/HND	28	8.7
Masters	11	3.4
Ph.D	1	.3
Others	6	1.9
Total	321	100.0

Source: Author's Field Survey

(iii) Occupational distribution

The occupational distribution of the respondents shows that those that are in wage employment are 18.4% while majority (about 79%) are self employed or own account holders. These are individuals who own and run their separate businesses and are employers of labour in their own capacity. Other category included here are those that belong to the two groups. While they work on their own, they equally serve as employee to others (Table 5).

Table 4.5
Occupation Distribution of respondents

	Occupational Status	Frequency	Valid Per cent
Valid	Wage Employment	59	18.5
	Self-Employment	253	79.3
	Others	7	2.2
	Total	319	100.0
Missing	System	2	
Total		321	

Source: Author's Field Survey

(iv) Distribution of respondents by Gender and Marital Status

Gender distribution shows a female dominated customer base patronizing microfinance banks as indicated in Table 4.6. Since, no quota system was allocated in terms of gender, the sampling procedure categorically followed a random selection principle on a complete gender-blind basis. However, the outcome shows that more female were captured vis-à-vis male counterparts. While about 73 % female responded to the questionnaire, only 26% of male were available for the interview. The reality of this finding is validated by the high proportion of female in micro-business activities in most developing nations of the world.

In terms of marital status, more than two-third of the respondents were married as at the time of this survey. Only 17.1% are single while the separated, widowed and divorced are 0.6%, 2.8% and 3.7% respectively (Table 4.6).

TABLE 4.6
DISTRIBUTION OF RESPONDENTS BY GENDER AND MARITAL STATUS

Gender of Respondents		Frequency	Valid Per cent
Valid	Male	84	26.2
	Female	237	73.8
	Total	321	100.0
Marital Status		Frequency	Valid Per cent
Valid	Single	55	17.1
	Married	243	75.7
	Divorced	12	3.7
	Widowed	9	2.8
	Separated	2	.6
	Total	321	100.0

Source: Field Survey

(v) Respondents' Status in the Household

Respondents were also classified according to the position they occupy in their family. The result of the analysis shows that 26.2% (Table 7) of the respondents are heads of household. The wives constitute about 57.35 of the total selected for the interview while sons and daughters are up to 13% of the respondents. Finally, about 3.7% belong to other extended family members or friends.

TABLE 4.7
DISTRIBUTION OF REPONDENTS BY STATUS IN THE HOUSEHOLD

		Frequency	Valid Per cent
Valid	Head	84	26.2
	Spouse of Head	184	57.3
	Son/Daughter of Head	41	12.8
	Relation of Head	10	3.1
	Others	2	.6
	Total	321	100.0

Source: Field Survey

(vi) Nationality and State of origin

The figure on country of origin shows that virtually all respondents are Nigerian with the exception of four that constitutes only 1.2% of the total respondents. While this result is believed to be true, the issue of illegal immigrants might be adduced for why almost all the respondents claimed to be Nigerians. In addition, the result shows that 29.3% of the respondents are from Ogun State, 10.9% and 10.3% are from Ebonyi state and Osun State respectively. 8.1% are of Oyo State origin, 5.3%, 4.7% and 4.4% came from Edo, Ekiti and Lagos State respectively. The result also indicated that about 1.2% of the respondents are non-Nigerians. Overall, respondents cut across southwestern and south-south geo-political zone of the country while northern segment is sparingly represented – Kaduna State 0.6%, Kogi State 1.9% and Kwara State 2.5% (Table 8).

TABLE 4.8
DISTRIBUTION OF RESPONDENTS BY NATIONALITY AND STATE OF ORIGIN

Nationality		Frequency	Valid Per cent
Valid	Nigerian	317	98.8
	Non-Nigerian	4	1.2
	Total	321	100.0
State of Origin		Frequency	Valid Per cent
Valid	No response	19	5.9
	ABIA	5	1.6
	AKWA-IBOM	4	1.2
	ANAMBRA	2	.6
	BAYELSA	1	.3
	BENIN COTONO	4	1.2
	BENUE	1	.3
	CROSS-RIVER	1	.3
	DELTA	8	2.5
	EBONYI	35	10.9
	EDO	17	5.3
	EKITI	15	4.7
	ENUGU	2	.6
	IMO	4	1.2
	KADUNA	2	.6
	KOGI	6	1.9
	KWARA	8	2.5
	LAGOS	14	4.4
	OGUN	94	29.3
	ONDO	14	4.4
	OSUN	33	10.3
	OYO	25	8.1
	RIVERS	2	.6
	Total	321	100.0

Source: Field Survey, 2010

Religious Affiliation

Among other demographic characteristics used is the religious affiliation and only three prominent religions showed up in the study. Higher number of respondents belongs to Christian faith. They are made up of 74% of the total respondents. The Moslems are about 25% while the traditional and other religion affiliations are 1.5% (Table 4.9).

TABLE 4.9
DISTRIBUTION OF RESPONDENTS BY RELIGIOUS AFFILIATION

	Frequency	Valid Per cent
Islam	80	24.9
Christianity	236	73.5
Traditional	3	.9
Others	2	.6
Total	321	100.0

Source: Field Survey

4.2 MFIs AND MICROCREDIT DISPERSION AMONG RESPONDENTS

4.2.1 Level of Patronage of MFIs by Respondents

An analysis of data relating to the MFIs being patronized by the respondents shows that only three out of twenty-two MFIs are patronized by majority of the sampled respondents in the survey locations as shown by Table 4.10 and Table 4.11.

TABLE 4.10
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 4.11
DISTRIBUTION OF MFI CUSTOMERS BY THE TYPE OF BANKS PATRONISED

		Frequency	Valid Per cent
Valid	Lapo	193	64.3
	Other Mfis	107	35.7
	Total	300	100.0
	n	321	

Source: Field Survey, 2010

The most prominent of all the MFIs being patronized by respondents is the LAPO (Lift Above Poverty) Microfinance bank which is being patronized by 64% of the respondents, this is followed by the CMFB (Covenant University Microfinance Bank) which serves 7% of the respondents, Gateway MFB has 6% while the other customers are distributed over the remaining 19

Microfinance banks. Table 4.11 presents a concise version of Table 10, where LAPO is seen to have 64% of customers and the rest serve the remaining 36% of the respondents.

Table 4.12 shows the distribution of MFIs by some selected characteristics of the respondents. In terms of age, both Lapo and other MFIs have the largest proportion of their clients in the 25-39 years age cohort (57 for Lapo and 55 for other MFIs). In general the age group 25-54 years constitutes over 90% for both Lapo and the other MFIs. The majority of Lapo's customers are those with primary and secondary education which constitute about 70% of her total customer base, whereas the other MFIs have a greater proportion of their customers in the secondary and post-secondary education group (about 86%). This result appears plausible because Lapo is an off-shoot of Grameen Bank which focuses on the poor and the uneducated women while the others may not share the same orientation of Grameen bank and Lapo.

TABLE 4.12
DISTRIBUTION OF MFIs BY SOME SELECTED CHARACTERISTICS OF RESPONDENTS

MAIN CHARACTERISTICS	DERIVED CHARACTERISTICS	LAPO	OTHERS	TOTAL	
				NO.	%
AGE	Up to 24 Years	4.1	3.7	12	4.0
	25-39 Years	57.0	55.2	169	56.4
	40-54 Years	35.8	38.3	110	36.6
	55 Years and over	3.2	2.8	9	3.0
	Total	**64.3**	**35.7**	**300**	**100**
EDUCATION	None	6.7	3.7	17	5.7
	Primary	26.9	6.5	59	19.7
	Secondary	41.6	34.6	117	39.0
	Post-Secondary	23.8	51.5	101	33.6
	Total	**64.3**	**35.7**	**300**	**100.0**
GENDER	Male	23.3	31.8	79	26.3
	Female	76.7	68.2	221	73.7
	Total	**64.3**	**35.7**	**300**	**100.0**
MARITAL STATUS	Never Married	11.5	25.2	49	16.3
	Married	77.8	70.2	229	76.3
	Divorced/Widowed/Sp.	8.7	4.6	22	7.4
	Total	**64.3**	**35.7**	**300**	**100.0**
NATURE OF EMPLOYMENT	Wage Employment	5.2	40.0	52	17.4
	Self-Employment	93.8	56.2	240	80.5
	Others (Unclassified)	1.0	3.8	6	2.0
	Total	**64.8**	**35.2**	**298**	**100.0**
OCCUPATION	Trading	62.0	34.9	145	53.7
	Supplier/Contractor	13.9	24.1	46	17.0
	Tailoring/Fashion Desg.	14.4	13.3	38	14.1
	Others	9.2	27.3	41	15.2
	Total	**69.3**	**30.7**	**270**	**100**
RELIGION	Islam	23.3	28.0	75	25.0
	Christianity	74.6	71.0	220	73.3
	Others	2.1	1.0	5	0.7
	Total	**64.3**	**35.7**	**300**	**100.0**
STATE OF OPERATION	Lagos	66.8	44.9	177	59.0
	Ogun	33.2	55.1	123	41.0
	Total	**64.3**	**35.7**	**300**	**100.0**

Source: Field Survey, 2010

In terms of gender, both types of MFIs have high concentration on women. However, Lapo seems to concentrate more on them (77%), relative to the other MFIs (68%). Distributed by nature of employment, Lapo gives more attention to the self-employed (94%) compared to the other MFIs (56%). Traders appear to be better served by Lapo (62%), compared to other MFIs;

while those in tailoring/fashion designing occupation receive almost the same attention from both types of MFIs. In terms of religion, both Lapo and other MFIs seem to give equal attention to both Christians and the Muslims. In other words, there appears not to be a preference by the MFIs for any religion (Table 4.12).

4.2.2 Types of Account Maintained with the MFIs

The issues relating to account operations are fundamental to this study and they are thus treated with utmost care. In the questionnaire, customers were requested to state the various types of accounts they operate with their various banks. Responses ranged from personal savings accounts, personal current account, current salary account, current sole traders account, partnership account, company account and group accounts. They were also requested to specify the year, the accounts were opened, and to state whether or not they have obtained a loan on the accounts. They should comment on the accounts services rendered by the various banks, as to whether satisfactory or not.

The result of the analysis shows that banking patronage activity by the respondents started since the year 2000. At that period, the number of customers that opened accounts with microfinance banks among the respondents selected were relatively low. Only about 0.6% opened accounts with the MFBs at that time as indicated by this report. More account operations were recorded in the year 2005 and has consistently being on the increase till date. While only 2.7% of respondents interviewed have opened one account or the other with a microfinance bank, 5.4% and 10.3% respectively opened accounts in the preceding two years, i.e. year 2006 and 2007.

TABLE 4.13
YEAR SAVINGS (PERSONAL) ACCOUNT WAS OPENED

Year account was Opened		Frequency	Valid Per cent
Valid	2000	1	.4
	2002	1	.4
	2004	2	.8
	2005	7	2.7
	2006	14	5.4
	2007	27	10.3
	2008	81	31.0
	2009	88	33.7
	2010	40	15.3
	Total	261	100.0
		321	

Source: Field Survey, 2010

The number increased from 27 customers in 2007 to 81 in 2008. The proportion of respondents who opened accounts with microfinance banks in 2009 was 33.7% against 31% in the previous year (i.e. 2008). However, the figure dropped to 15.3% in the year of this survey. The reasons for this are not farfetched. The clampdown on activities of microfinance banks in Nigeria by the apex bank (CBN) cannot be unconnected with this. Many microfinance banks were closed down for certain unethical banking and financial practices. This would have by no means affected the morale of respondents in their desire to transact businesses with microfinance institutions. Beside, the general economic down-turn aggravated by global economic recession be said to be responsible for the downturn in accounts opening and general banking operations for that period of time.

4.2.3 Analysis of Loan Facilities Received

An analysis of loan received by the respondents from MFIs shows that about 64% of them have benefitted from one form of loan or the other from their respective microfinance banks. About 36% reported that they have never obtained any form of loan from the MFIs.

TABLE 4.14

DISTRIBUTION OF RESPONDENTS BY WHETHER OR NOT LOAN HAS EVER BEEN RECEIVED

		Frequency	Valid %
Valid	Yes	146	64.3
	No	81	35.7
	Total	227	100.0
	n	322	

Source: Field Survey, 2010

Table 14 and show the breakdown of the MFIs where the respondents have obtained credit facilities. Lapo appears to be in the forefront of granting loan facilities to her customers. Out of the total number of respondents that reported the name of MFIs that granted them loan facilities, Lapo accounts for 77% of the number of respondents that obtained loan, while the other twenty-one MFIs together account for 23%.

TABLE 4.15
DISTRIBUTION OF RESPONDENTS BY LOAN RECEIVED AFTER SAVING ACCOUNT WAS OPENED

			Lapo=1, others zero	
			Lapo	Other Mfbs
Ever obtained loan on the Personal Savings Account	Yes	Count	109	32
		% within Ever obtained loan on the Personal Savings Account	77.3%	22.7%
		% within Lapo=1, others zero	73.2%	45.7%
		% of Total	49.8%	14.6%
	No	Count	40	38
		% within Ever obtained loan on the Personal Savings Account	51.3%	48.7%
		% within Lapo=1, others zero	26.8%	54.3%
		% of Total	18.3%	17.4%
Total		Count	149	70
		% within Ever obtained loan on the Personal Savings Account	68.0%	32.0%
		% within Lapo=1, others zero	100.0%	100.0 %
		% of Total	68.0%	32.0%

Source: Field Survey, 2010

An assessment of the quality of service that the respondents have enjoyed from their respective MFIs shows that about 93% perceive the quality of service of MFIs to be either very good or good (Table 4.16). Only 7% of the respondents consider the services of MFIs to be poor. Distributed by different MFIs, Lapo received better rating relative to other MFIs in terms of service quality. While Lapo was scored by 73% of the respondents as being very good, only 27% scored the other

MFIs on the same rating. Those who scored Lapo as ‘Good’ are 67% while the other MFIs are scored as ‘Good’ by 33% of the respondents (Table 17).

TABLE 4.16

QUALITY OF SERVICE ON THE SAVINGS ACCOUNT

		Frequency	Valid Per cent
Valid	Poor	15	7.4
	Good	101	49.8
	Very Good	87	42.9
	Total	203	100.0
	n	321	

Source: Field Survey, 2010

In terms of the volume and outreach of loan facilities granted by the MFIs, Table 4. 18 shows that Lapo has the greatest outreach but concentrates more on micro loans relative to the others. Lapo reaches many more individuals than the remaining MFBs. For the first loan request by the sampled respondents, Lapo was able to serve 123 customers giving an average loan volume of N27, 579 while the average loan given increases with the frequency of loan request.

TABLE 4.17
DISTRIBUTION OF MFIs BY THE QUALITY OF SERVICE OFFERED ON SAVINGS ACCOUNT

			MFIs		
			LAPO	OTHERS	Total
	Poor	Count	5	9	14
		% within Quality of Service on the Savings Account	35.7%	64.3%	100.0%
	Good	Count	66	33	99
		% within Quality of Service on the Savings Account	66.7%	33.3%	100.0%
	Very Good	Count	63	23	86
		% within Quality of Service on the Savings Account	73.3%	26.7%	100.0%
Total		Count	134	65	199
		% within Quality of Service on the Savings Account	67.3%	32.7%	100.0%

Source: Field Survey, 2010

For instance the second loan request went up to an average of N35,602 and the third was as high as N58,227. This shows that the customers are better trusted and hence given higher loan with time (Table 18).

Table 4.18: Distribution of MFIs by the Average and Total Loan Advanced to Customers

Name of the Microfinance Bank patronised		Amount approved & paid on 3rd loan	Amount requested for 3rd Loan	Amount requested for 2nd Loan	Amount approved & paid on 2nd loan	Amount requested for 1st Loan	Amount approved & paid on 1st loan
LAPO	Mean	58,227.27	61,029.41	38,529.41	35,602.41	31,360.00	27,578.86
	N	66	68	85	83	125	123
	Std. Deviation	26,343.760	31,957.981	12,578.883	8,882.622	18,364.324	15,038.155
	Sum	3,843,000	4,150,000	3,275,000	2,955,000	3,920,000	3,392,200
CMFB	Mean			437,500.00	423,333.33	140,000.00	140,000.00
	N			4	3	3	3
	Std. Deviation			400,780.489	499,633.199	138,924.440	138,924.440
	Sum			1,750,000	1,270,000	420,000	420,000
GATEWAY	Mean	45,000.00	45,000.00	25,000.00	25,000.00	116,250.00	103,750.00
	N	2	2	2	2	4	4
	Std. Deviation	21,213.203	21,213.203	7,071.068	7,071.068	189,269.429	164,285.067
	Sum	90,000	90,000	50,000	50,000	465,000	415,000
UBA	Mean	250,000.00	250,000.00	200,000.00	200,000.00	475,000.00	425,000.00
	N	1	1	1	1	4	4
	Std. Deviation	.	.	.	.	386,221.008	298,607.881
	Sum	250,000	250,000	200,000	200,000	1,900,000	1,700,000
IMFB	Mean	18,000.00	18,000.00	40,000.00	40,000.00	25,000.00	25,000.00
	N	1	1	2	2	2	2
	Std. Deviation	.	.	14,142.136	14,142.136	7,071.068	7,071.068
	Sum	18,000	18,000	80,000	80,000	50,000	50,000
OJOKORO	Mean	50,000.00	50,000.00	407,500.00	405,000.00	163,750.00	147,500.00
	N	1	1	4	4	8	8
	Std. Deviation	.	.	728,348.589	730,045.661	209,621.257	190,169.098
	Sum	50,000	50,000	1,630,000	1,620,000	1,310,000	1,180,000
POWA	Mean	50,000.00	50,000.00	40,000.00	40,000.00	85,000.00	60,000.00
	N	1	1	1	1	2	2
	Std. Deviation	.	.	.	.	91,923.882	56,568.542
	Sum	50,000	50,000	40,000	40,000	170,000	120,000
PHB	Mean	47,500.00	50,000.00	42,000.00	31,000.00	26,666.67	21,333.33
	N	4	4	5	5	6	6
	Std. Deviation	5,000.000	.000	8,366.600	10,246.951	8,164.966	4,320.494
	Sum	190,000	200,000	210,000	155,000	160,000	128,000
VINING	Mean	140,000.00	200,000.00	30,000.00	30,000.00	410,000.00	385,000.00
	N	1	1	1	1	2	2
	Std. Deviation	.	.	.	.	551,543.289	516,187.950
	Sum	140,000	200,000	30,000	30,000	820,000	770,000
LASU	Mean					203,333.33	186,666.67
	N					3	3
	Std. Deviation					186,100.331	160,104.133
	Sum					610,000	560,000
GROOMING	Mean	70,000.00	70,000.00	40,000.00	30,000.00	30,000.00	20,000.00
	N	1	1	1	1	1	1
	Std. Deviation	.	.	.	.	.	.
	Sum	70,000	70,000	40,000	30,000	30,000	20,000
OLIVE	Mean	30,000.00	30,000.00			40,000.00	40,000.00

	N	1	1			2	2
	Std. Deviation	.	.			14,142.136	14,142.136
	Sum	30,000	30,000			80,000	80,000
1STBANK	Mean	40,000.00	40,000.00	30,000.00	30,000.00	15,000.00	15,000.00
	N	1	1	1	1	1	1
	Std. Deviation	.	.	.	.	.	.
	Sum	40,000	40,000	30,000	30,000	15,000	15,000
FORESIGHT	Mean					50,000.00	50,000.00
	N					1	1
	Std. Deviation					.	.
	Sum					50,000	50,000
NEWLIFE	Mean					50,000.00	40,000.00
	N					1	1
	Std. Deviation					.	.
	Sum					50,000	40,000
UNAAB	Mean					100,000.00	50,000.00
	N					1	1
	Std. Deviation					.	.
	Sum					100,000	50,000
Total	Mean	59,637.50	62,780.49	68,551.40	62,115.38	61,144.58	54,818.29
	N	80	82	107	104	166	164
	Std. Deviation	34,268.21	39,788.03	173,712.26	172,264.60	124,491.27	111,068.14
	Sum	4,771,000	5,148,000	7,335,000	6,460,000	10,150,000	8,990,200

Source: Field Survey, 2010

However, it should be noted that the number of customers that received loan facilities decreased with time. In contrast to Lapo, CMFB granted average higher volume of loan facilities (N140,000 and N423,000 for the first and second loans, respectively) but the reach was not as high. In general, the sampled customers were able to secure loan facilities from MFIs to the tune of about N9m for the first loan for an average of 164 persons, about N6.5m for the second loan for 104 persons and N4.77m for the third loan for 80 persons. The next section focuses on the factors determining the volume of loan demand by the respondents from the MFIs.

4.3 LOAN DEMAND IN MICROFINANCE INSTITUTIONS

4.3.1 Volume of Loan Demanded by Respondents Among the MFIs

The preceding section has shown evidence that the respondents receive loan facilities from their MFIs for different purposes (which is discussed in section 4.4 below). As shown in Table 4.19, one hundred and forty-six (146) respondents (representing 64.3%) of the 227 respondents that answered this question applied for, and received loans, while 81 (representing 35.7%) have never received loan facilities. There are several important features of the loan given by the MFIs. Some of these include the nature of the collateral requirement for the loan, the tenor and the size.

TABLE 4.19

DISTRIBUTION OF RESPONDENTS BY LOAN STATUS

Have you ever obtained Loan?		Frequency	Valid Per cent
Valid	Yes	146	64.3
	No	81	35.7
	Total	227	100.0
	Total	321	

Source: Field Survey, 2010

The collateral requirements differ from those required by the regular commercial banks. Rather than place emphasis on physical collateral requirement like land, real estate among others, the MFIs rely more on group and/or personal guarantee, domiciliation of the proceeds of the contract to the financing bank and so on.

TABLE 4.20
DISTRIBUTION OF RESPONDENTS BY VOLUME OF LOAN OBTAINED.

CHARACTERISTICS OF RESPONDENTS		AMOUNT OF LOAN OBTAINED < ₦20,000 (%)	₦ 20,000-39,999 (%)	₦ 40,000 & OVER (%)	AVERAGE LOAN OBTAINED (₦)	TOTAL No.	TOTAL %
AGE	<30	9.4	78.1	12.5	41,943.41	32	19.1
	30-44	9.0	74.0	17.0	57,450.00	100	59.5
	45+	11.1	69.4	19.5	56,194.44	36	21.4
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
EDUC	NONE	0.0	90.9	9.1	29,091	11	6.5
	PRIMARY	15.4	71.8	12.8	35,821	39	23.2
	SECONDARY	9.2	73.7	17.1	54,897	76	45.2
	POST SECONDARY	7.1	71.43	21.46	76,690	42	25.1
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
GENDER	MALE	10.8	75.7	13.5	59,540	37	22.0
	FEMALE	9.2	73.3	17.6	52,727	131	78.0
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
MARSTAT	SINGLE	15.0	60.0	25.0	139,750	20	11.9
	MARRIED	7.6	77.3	15.2	42,600	132	78.6
	D/W/SP	18.75	62.50	18.75	43,250	16	9.5
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
NATURE OF EMPLOYMENT	WAGE	7.1	35.7	57.1	109,643	14	8.4
	PAID	9.9	77.6	12.5	44,442	152	91.0
	OTHER	0.0	100.0	0.0	20,000	1	0.6
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
TYPE OF BUSINESS	TRADING	8.3	80.2	11.5	40,167	96	60.0
	SUPPLIER/CONTR	11.5	65.4	23.1	59,200	26	16.3
	TAILORING/FASHION	9.1	86.4	4.5	35,455	22	13.7
	OTHER	18.8	56.3	25.0	117,813	24	10.0
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
MFI	LAPO	10.6	84.6	4.9	27,579	123	73.2
	OTHERS	6.7	44.4	48.9	127,067	45	26.8
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
RELIGION	ISLAM	7.7	26.9	15.4	59,436	39	23.2
	CHRISTIANITY	9.4	73.4	17.2	52,653	129	76.8
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
STATE OF OPERATION	LAGOS	8.0	77.5	14.5	54,719	138	82.1
	OGUN	16.7	56.7	26.7	51,967	30	17.9
STATE OF ORIGIN	NORTH	4.8	52.4	42.9	106,286	21	12.6
	EAST	11.1	80.0	26.9	48,911	45	26.8
	WEST	9.9	75.2	14.9	46,012	101	60.6
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**

Source: Field Survey, 2010

With respect to size or volume of loan received, Table 4.20 shows the distribution of the volume of loan received by some selected characteristics of the respondents. In total, the mean loan received from all the MFIs by the respondents that ever received loan was about ₦54, 000.

Distributing the loan received into three groups; less than ₦20,000; ₦20,000 – ₦39,999; and ₦40, 000 and over, the modal loan received is ₦20,000 - ₦39,999 group with a frequency of about 74%. The less than ₦20,000 group and that of ₦40,000 groups have frequencies of 9.6% and 16.8% respectively.

The distribution of the volume of loan received by different age-groups shows that the modal age group is 30-44 years (59.5%), which also received the highest average loan amount of ₦57,450. The group with the next higher mean loan is the group of 45 years and above who are 21% of all age groups and having a grand mean loan of ₦56,194. The volume of loan received increases with age which suggest that the older the customers are, the more responsible they are in terms of loan repayment which makes it easier for MFIs to grant more loan facilities. With respect to formal educational attainment, the mean loan received increases with the level of education attained. In other words, the higher the level of education attained, the higher the disposition to take higher volume of loan. The males are disposed to taking higher loan volume than the females; however, the female take a higher share (78%) of all respondents in line with the practice of Grameen Bank of Bangladesh (Yunus, 2003).

In terms of marital status, the married form the modal group (78.6%), while the modal amount of loan received remains ₦20, 000 - ₦39, 999 as for all the other groups. However, the singles receive the highest average loan amount of almost ₦140, 000; followed by the Divorced/Separated/Widowed respondents who received an average amount of ₦43, 250; while the married received an average of ₦42,600. Those in wage employment (perhaps, because they are likely to be more formally educated than the self-employed) receive a higher volume of average loan (₦109,643) than the self-employed (₦ 44,442) who form the modal group (91%) as compared to those in wage employment and the Others (unclassified) categories which are made up of 8.4% and 0.6% respectively. Among the different business classifications, the traders appear to be most disposed (60%) to taking loan facilities than the other categories while the Supplier/Contractors receive the highest loan volume (₦59,200) than the others.

Among the different MFIs that are patronized by the respondents to this survey, LAPO represents the single most important one among them all as it served 73.2% of all loan receiving respondents giving an average loan amount of ₦ 27,579 while the remaining MFIs account for 26.8% of respondents. However, the others give a rather higher average loan amount of ₦127, 067 which is almost five times the one being given by LAPO. Disaggregated by religious affiliation, the Christians are more disposed to receiving loans (76.8%) relative to those in other religions (23.2%). The respondents from the Western part of Nigeria have the greatest propensity to take loans (60.6%) as compared to those from the East (26.8%) and the North (12.6%). The MFIs in Lagos State grant loans to more respondents (82.1%) than those in Ogun State (17.9%).

4.3.2 Determinants of Loan Demand

To assess, in quantitative terms, the determinants of demand for loan facilities by the respondents in the MFIs, a regression estimation of the amount of loan received was carried out on several explanatory variables as specified in chapter 3 of this study. The result of the Ordinary Least Squares regression is reported as Table 4.21. The table reports the regression estimate with intercept, meaning that the constant term was computed and thus not suppressed to be equal to zero and as such, the coefficient of each variable measures the differential impact between the variable in question and the variable in the reference category. The reference categories for each set of dummy variables are excluded in the regression computation to avoid the dummy variable trap phenomenon (Gujarati, 2009, p. 281). For the regression estimate, the reported R^2 (0.389), Adj. R^2 (0.282) and the F-statistic (3.639 with p-value of 0.000) suggested that the model achieved a fairly good fit.

As expected *apriori*, the amount of loan received is found to be negatively related to the rate of interest. However, this is not found to be statistically significant as revealed in Table 4.21. In other words, loan demand is interest rate insensitive and as such the interest rates do not influence (in a statistically significant sense) the volume of loan that is received by the customers of MFIs. This financial behavior is probably premised on the Cost versus Availability doctrine by which in Nigeria and many developing countries Availability doctrine tends to influence financial behavior more than cost doctrine, whereas it ought to be the other way round, other things being equal. Of all the education dummies, the Graduate (and its equivalent such as HND) and Post-Graduate education dummy is statistically significant in its impact on loan demand. Since the 'No-schooling' group is the reference category, the regression result shows that the respondents in the graduate and postgraduate educational category demand more loan amount than the benchmark category, since only those that are in Graduate and Post graduate categories have the differential slope coefficient being different from zero in a statistically significant sense.

TABLE 4.21

LOAN DEMAND FUNCTION						
		Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
	(Constant)	131452.930	42171.632		3.117	.002
	Interest rate on Loan	-1.563	3.909	-.032	-.400	.690
	Trading=1, others zero	-71329.548	27960.551	-.427	-2.551	.012
	Contractor=1, others zero	-66748.916	30354.350	-.304	-2.199	.030
	Fashion=1, others zero	-81457.388	33223.697	-.321	-2.452	.016
	Small mafg+others=1, others zero	-98086.096	40798.007	-.240	-2.404	.018
	Primary educ dummy	21,289.897	25565.314	.110	.833	.407
	Secondary educ dummy	273,17.840	24368.040	.166	1.121	.265
	NCE/OND educ dummy	13,40.478	27735.722	.006	.048	.962
	Graduate and PG educ dummy	123,203.638	40063.893	.301	3.075	.003
	Gender_Male=1	29119.985	14856.183	.152	1.960	.052
	Married =1, others zero	27,913.541	23371.415	.137	1.194	.235
	Single =1, others zero	103,683.863	30975.449	.387	3.347	.001
	Lapo=1, others zero	-44,904.763	15297.035	-.233	-2.936	.004
	Number of years account opened with MFB	1,936.289	4720.316	.033	.410	.682
	Age group dummy for <30 years	-53,215.227	21303.130	-.254	-2.498	.014
	Age group dummy for 30-44 years	2486.926	16182.749	.015	.154	.878
	Christianity=1, others zero	-3,825.451	14726.145	-.020	-.260	.795
	Location Lagos=1, 0 otherwise	-11,879.607	17785.534	-.050	-.668	.505
	Self empt =1 zero otherwise	4,899.688	25347.372	.017	.193	.847
	East=1, others zero	-51,426.118	22544.948	-.261	-2.281	.024
	West=1, others zero	-39,436.188	19196.178	-.231	-2.054	.042
a Dependent Variable: Amount of 1st Loan approved and received						

N= 141
R^2= 0.389
R^2 Adj. = 0.282
F = 3.639
Sig. of F = .000

With respect to the gender of respondents, being a male is positively related to the amount of loan demanded and received. More importantly the males demand higher level of loan amount relative to the females who are the benchmark category, since the differential slope coefficient associated with the variable (Gender_Male=1) is positive. There is no statistically significant difference between the self-employed and those in wage employment (even though those in self-employment have a slightly higher mean loan volume than those in paid employment), while the Christians demand less loan amount than those in other religions. When the region of origin of respondents are considered, the Northerners (the reference group) demand more loans than those from the East and the West parts of Nigeria.

Age and volume of loan received are positively related as shown by the differential slope coefficients of the age dummies. However, relative to the reference category (Age 45 years and over), those in age group 30-44 years received the greatest loan amount, followed by those in the reference group while those less than 30 years received the least. In terms of statistical significance, it is only those in age group <30 years that have their differential coefficient significantly different from those of the reference category. In other words, there is no statistically significant difference between the loan amounts received by those in age groups 30-44 years and 45 years and over. The single (never married category) get more loan amount than the reference group which is the Divorce/Separated/Widowed group, while there is no statistically significant difference between the married and the benchmark category.

Three MFI-related variables are included in the model. The first one is the interest rate that has been discussed earlier and it is found to be negatively related to loan demand as expected, but found not to be significantly different from zero in the statistical sense. The second variable is the type of MFI being used by the respondents whether it is LAPO or any other ones. Those who are customers of LAPO get less loan amount than those in other MFIs (since the differential coefficient is negative and statistically significant) even though LAPO has a wider reach than the others as shown in Table 4.20 above. The third MFI-related variable is the number of years the respondent has maintained an account with the MFI of choice. This variable was found to be non-sensitive to loan amount demanded and received, as its coefficient is not significantly different from zero.

Business-related variables included in the model are type of business engaged in, and the location of business and/or other respondents. The location of business is insensitive to loan demand since the differential coefficient is not significantly different from zero (Table 4.21) while all the slope differential coefficients of all types of business being run are statistically significant at 95% confidence level. The excluded category (others, unclassified) receive the largest loan volume, followed by the Supplier/Contractors, then the Traders, while those in Tailoring/Fashion Designing receive the least loan amount.

4.3.3 Loan Demand Probability Function

Given our findings in the foregoing section, this study examined those personal characteristics of the respondents that allow one to predict the probability of either applying for and receiving a loan from the MFI or otherwise. To this end, a two-pronged approach was adopted. First, a descriptive analysis of the factors distinguishing loan receivers from those who did not was carried out using the empirical evidence provided in Table 4.22; and second, a probability function was specified and estimated and the result is as shown in Table 4.23.

TABLE 4.22
DISTRIBUTION OF RESPONDENTS BY WHETHER OR NOT THEY HAVE EVER RECEIVED ANY LOAN FACILITIES

CHARACTERISTICS		RECEIVED LOAN?			
		YES, I DID (%)	NO, I NEVER DID (%)	TOTAL	
				Number	%
AGE	<30	70.5	29.5	44	19.4
	30-44	61.6	38.4	138	60.8
	45+	60.0	40.0	45	19.8
	ALL (No.); %	**(146) 64.3**	**(81) 35.7**	**227**	**100**
EDUCATION	NONE	70.6	29.4	17	7.5
	PRY	75.6	24.4	45	19.3
	SECONDARY	59.1	40.9	93	41.0
	POST SECONDARY	62.5	37.5	72	32.2
GENDER	MALE	58.5	41.5	65	28.6
	FEMALE	66.7	33.3	162	71.4
MARSTAT	SINGLE	56.4	43.6	39	17.2
	MARRIED	66.1	33.9	171	75.3
	DIVORCED/SEP/WID.	64.7	35.3	17	7.5
NATURE OF EMPLOY-MENT	WAGE	50.0	50.0	40	17.6
	SELF	67.4	32.6	184	81.1
	OTHER				
TYPE OF BUSINESS	TRADING	66.9	33.1	118	52.0
	SUPPLIER/CONTRACTOR	87.5	12.5	32	14.1
	TAILORING/FASHION	60.0	40.0	30	13.2
	OTHERS	56.0	44.0	47	20.7
MFI	LAPO	73.2	26.8	149	68.0
	OTHERS	47.4	52.6	70	32
RELIGION	ISLAM	62.7	37.3	63	27.8
	CHRISTIANITY	65.9	34.1	164	72.2
STATE OF OPERATION	LAGOS	82.1	17.9	145	63.9
	OGUN	32.9	67.1	82	36.1
STATE OF ORIGIN	NORTH	57.1	42.9	21	9.3
	EAST	69.8	30.2	53	23.6
	WEST	63.6	36.4	151	67.0
	ALL (No.); %	**(145) 64.4**	**(80) 35.6**	**225**	**100**

Source: Author's Field Survey

In total, one hundred and forty-six respondents which represent 64% of those that responded to the question on loan receipt have ever taken loan while the remaining 81, representing 36% have never. With respect to age, those who are the most disposed to receiving loans are the prime-aged individuals in the age range of less than 30 years which accounts for a within group per centage of 70.5%, followed by about 62% of those in age group 30-44 years while those 45 years and over that have ever received loan facilities are 60%. On the contrary, those that never have applied for loan are predominant among the 45 years and over age group (40%), followed by those in 30-44 years age cohort (38.4%) while those less than 30 years account for 29.5%. Thus age groups and having received loan facilities are positively related while there is an inverse relationship between age groups and never having applied for and received loan facilities.

With respect to formal educational qualifications, those with primary education are the most disposed to demand credit facilities from the MFIs as they constitute 75.6% of the total number in that group, while those with secondary education (40%) are the dominant group that are not disposed to using the loan facilities of microfinance banks. Women (66.7%) patronize the MFIs loan facilities better than the men; the married has a 66% patronage of MFIs loan facilities while those in self-employment have a greater disposition towards obtaining credit from MFI as compared to those in wage employment who perhaps have other means (e.g soft loan from their employers) of meeting their financial demands.

In terms of location, over 80% of those in Lagos State receive micro-credit while the majority of respondents in Ogun State (67%) have never applied for credit. The Supplier/Contractors are prominent in credit demand as 87.5% of those that have received credit are from that business group. With respect to state of origin, those from the Eastern Nigeria have the highest propensity to demand micro-credit as about 70% of them have demanded and received micro loans.

Table 4.23 reports the result of the probability function that was estimated for those that have ever received credit and those that have not. The dependent variable for the model is binary (0,1) and having ever received loan facilities from the MFI is scored 1, while those that have not, are scored zero. Ten basic variables were used in the estimation of the regression equations – but these have been expanded to twenty-eight by the use of dummy variables. For the sub-categories of the main variables, one from each of them has been excluded to prevent the usual dummy-variable trap phenomenon in regression analysis involving dummy variables. For example, among the age groupings used in the analysis, the cohort of age 45 years and over was excluded; also the North was excluded from the region of origin variable while Islamic religion was excluded from the Religious affiliation variable, among several others. The regression estimates in Table 4.23 are to be read as the probability, relative to the excluded group, that a person with some given characteristic will prefer to demand and receive micro-credit facilities from the MFI rather than otherwise. All but one of the variables entered into the regression equation are binary (that is: 0, 1) variables. The only variable that is non-binary is the number of years the respondent has been banking with the MFI. The coefficient estimates obtained for the variables in several categories (e.g. age) are the differential coefficients from the excluded categories. This is because the constant term was not constrained to be equal to zero. The effects of the excluded variables have been absorbed by the constant term.

TABLE 4.23
LINEAR PROBABILITY FUNCTION FOR LOAN REQUEST FROM MFI

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	.426	.233		1.827	.069
Age group dummy for <30 years	.174	.105	.143	1.650	.101
Age group dummy for 30-44 years	.051	.079	.052	.646	.519
East=1, others zero	.064	.109	.057	.589	.557
West=1, others zero	.087	.098	.086	.887	.376
Lapo=1, others zero	-.217	.074	-.211	-2.925	.004
Self empt =1 zero otherwise	-.038	.106	-.031	-.361	.718
Location Lagos=1, 0 otherwise	.446	.063	.443	7.086	.000
Christianity=1, others zero	-.023	.066	-.022	-.347	.729
Number of years account opened with MFB	.013	.022	.037	.580	.562
Married =1, others zero	-.019	.117	-.017	-.163	.871
Single =1, others zero	.028	.143	.022	.197	.844
Primary educ dummy	-.015	.122	-.012	-.120	.905
Secondary educ dummy	-.112	.111	-.115	-1.009	.314
NCE/OND educ dummy	.031	.122	.026	.251	.802
Graduate and PG educ dummy	.122	.152	.072	.800	.425
Trading=1, others zero	.131	.103	.136	1.271	.205
Contractor=1, others zero	.315	.124	.229	2.533	.012
Farming=1, others zero	.064	.232	.018	.278	.782
Fashion=1, others zero	.125	.124	.090	1.011	.313

a Dependent Variable: Obtained Loan=1, zero otherwise
N=212
R^2= .331
Adj R^2= .265
F = 5.032
Sig. of F. = 0.000

The nineteen explanatory variables entered into the model generated R^2 of 33% and an adjusted R^2 of 26.5% meaning that about 27% of the changes in the dependent variable are explained by the explanatory variables included in the model. At the F-level of 5.032 (p-value =0.000), a significant association exists between the dependent and the independent variables using F-statistic's criterion.

In all, only three of the variables are significantly different from zero at the 5% critical level or better, while the others are not. With respect to the different age groups, all differential coefficients are positive which shows that relative to the excluded or reference category, each of the age-cohorts included in the model has higher probability of receiving credit from the MFIs. However, none of the differential variables is statistically significant, showing that age of respondents does not affect the probability of loan demand.

The Microfinance variables (Type of MFI, and Number of years of operating an account with the MFIs) included in the model shows some interesting results. With respect to the type of institution used by the respondents, those using LAPO have lower probability of receiving loan relative to those in other MFIs. This is because the differential coefficient of the LAPO variable is negative (-0.217) and statistically significant at the 99% level of confidence. The other MFI-related variable is the number of years account is opened with the MFI whose coefficient is not statistically different from zero. This shows that the number of years account is opened does not affect the probability of credit demand by the respondents.

The Business-related variables (Type of Micro-enterprise, and Location of business) have one each of the sub-categories of the variables as being statistically significant. With respect to Business location, those in Lagos have a higher probability of micro-credit demand relative to those in Ogun state, which is the benchmark category. The Supplier/Contractor business variable which has a slope differential coefficient of 0.315 and highly statistically significant shows that those in that business have higher probability of securing microcredit from the MFIs relative to the reference category. The group of micro-entrepreneurs might have established a tradition of prompt loan repayment and thus have improved access to microcredit facilities offered by the MFIs, relative to those in other type business.

4.4 MICROFINANCE BANKS AND PERSONAL WELFARE AMONG RESPONDENTS

4.4.1. Utilization of Loan Facilities Received from MFIs

The main importance of opening an account with the Microfinance Institutions by the respondents is to be able to, among other things, benefit from microfinance opportunities available with MFIs as opposed to commercial banks which hardly lend to the poor due to the usual problems associated with adverse selection, information asymmetry, and moral hazard (de Aghion and Murdoch, 2005)[1]. A high proportion of the respondents in this study report appreciate microcredit received (in form of loans from MFIs) as discussed in the previous section. Against the backdrop of the orthodox view that the poor usually apply financial assistance (loan, aid, etc) towards unproductive ventures, this study examined the microcredit uses among the respondents in the study locations. The first set of three loans (or less for those that have not received up to the number specified) received by the respondents were investigated for the uses to which they were put as self-reported by the respondents.

[1] de Aghion, Beatrice and J. Morduch (2005): *The Economics of Microfinance*, The MIT Press, Cambridge.

TABLE 4.24
THE DISTRIBUTION OF MFIs BY THE AVERAGE AMOUNT OF LOAN GRANTED TO CUSTOMERS

MICROFINANCE INSTITUTIONS	SELECTED STATISTICS	Amount approved and paid: 1st loan (₦)	Amount approved and paid: 2nd loan (₦)	Amount approved and paid: 3rd loan (₦)
Other MFIs	Mean	127,066.67	160,681.82	65,500.00
	N	45	22	16
	Std. Deviation	194,241.345	363,777.455	56,083.271
	Sum	5,718,000	3,535,000	1,048,000
LAPO	Mean	27,578.86	35,602.41	58,227.27
	N	123	83	66
	Std. Deviation	15,038.155	8,882.622	26,343.760
	Sum	3,392,200	2,955,000	3,843,000
Total	Mean	54,227.38	61,809.52	59,646.34
	N	168	105	82
	Std. Deviation	109,811.885	171,463.054	33,879.005
	Sum	9,110,200	6,490,000	4,891,000

Source: Field Survey, 2010

Table 4.24, which is a subset of Table 4.18 above, shows the average amount of loan received by respondents in LAPO and the other MFIs covered by this study. As reported earlier, LAPO has the widest reach, covering one hundred and twenty-three customers of those receiving first loan, an average of which is ₦27,578. For the second loan 83 customers receiving an average loan amount of ₦35,602, while the third loan accrue to 66 applicants with an average amount of ₦58,227. For LAPO, the number of loanees reached decreases with the number of loans while the average amount granted increases. For the other MFIs, the average amount granted to each loanee is larger but the reach is lower compared to LAPO. On the aggregate, a total number of one hundred and sixty-eight, one hundred and sixty-five and eighty two respondents received an average loan amount of ₦109,812; ₦117,423; and ₦33, 879 for each of the three times loan was reported received respectively. In total, all the MFIs have granted a total loan volume of ₦9.1 million, ₦6.5 million, and ₦4.9 million in each of the three loans granted respectively.

The varieties of loan utilization envisaged at the planning stage of this study are as follows:

(a) The meeting of various social obligations both to self, and/or members of immediate and extended families; such as buying new dresses, financing wedding/burial; birthdays, and child-naming ceremonies;

(b) The purchase of consumer durables such as household furniture, Radio &Television sets, Radio, Telephone and other communications gadgets, and so on;

(c) The need to start a new business, finance the expansion of existing ones or to meet temporary shortfall in cash in existing businesses;

(d) For the acquisition of land and/or buildings either for own use or for hire.

(e) To obtain funds for the payment of schools fees for own or family member's children;

(f) To meet emergency situation not earlier planned for; such as the payment of hospital bill arising from road traffic accident and/or sudden illness of self, family members or close community members.

TABLE 4.25
FREQUENCY DISTRIBUTION OF RESPONDENTS BY THE PER CENTAGE UTILISATION OF FIRST LOAN RECEIVED

		Frequency	Valid Per cent
Valid	Business Expansion	234	91.8
	Children Education	4	1.6
	land/Asset acquisition	7	2.7
	Consumer durable goods	3	1.2
	Emergency needs	6	2.4
	Other usage	1	.4
	Total	255	100.0
	n	321	

Source: Field Survey, 2010

Tables 4.25 to 4.27 show the frequency distribution of Loan utilization with respect to the first three loans obtained by the respondents in this study. From Table 25, it is clearly shown that expenditure on Business development was the major item on which the first loan was utilized as 91.8% of the respondents belong to this category. The utilization of the third loan followed almost the same pattern as that of the second as Business Expansion topped the priority of responding loanees (70.2%). This is followed, though remotely by Children education priority which took the attention of 10.6% of the responding loanees; the third most important places were taken by Land/Asset acquisition (6.4%) and Consumer Durables (6.4%).

In general, business expansion dominated the loan utilization in each of the three loans received by the respondents. This usage pattern was most dominant in Loan 1, which exhibited almost 92% of all forms of loan utilization distribution, while it is least dominant in the second loan with 67% distribution. The second noticeable pattern of loan utilization was for children education which was most dominant in Loan 2 (14%) and was followed by a 10.6% utilization rate in Loan 3 while it was as low as 1.6% utilization rate in Loan 1.

TABLE 4.26
FREQUENCY DISTRIBUTION OF RESPONDENTSBY THE PER CENTAGE UTILISATION OF SECOND LOAN RECEIVED

		Frequency	Valid Per cent
Valid	Business Expansion	43	67.2
	Children Education	9	14.1
	land/Asset acquisition	4	6.3
	Consumer durable goods	2	3.1
	Medical treatment	1	1.6
	Emergency needs	5	7.8
	Total	64	100.0
Total		321	

Source: Field Survey, 2010

The next most important item of expenditure was Land/Asset acquisition (2.2%) while the last most important item was Emergency needs (1.9%). For the second loan received by the respondents, Table 4.26 shows that as it is the case with the utilization of the first loan received, business expansion was the most dominant (67%) utilization objective. This was followed by Children education (14.1%) while the third most important item was Land/Asset acquisition.

TABLE 4.27
FREQUENCY DISTRIBUTION OF RESPONDENTS BY THE UTILISATION OF THIRD LOAN RECEIVED

		Frequency	Valid Per cent
	Business Expansion	33	70.2
	Children Education	5	10.6
	land/Asset acquisition	3	6.4
	Burial/festial ceremonies	1	2.1
	Consumer durable goods	3	6.4
	Emergency needs	1	2.1
	Other usage	1	2.1
	Total	47	100.0
	n	321	

Source: Field Survey, 2010

For analytical purpose, the above loan utilization types have been sub-divided into two functional categories which are: (i) Consumption related purposes, and (ii) Development-related Purposes. The uses related to consumption are: items (a), (b) and (f); while those relating to development are items (c), (d) and (e).

TABLE 4.28
DISTRIBUTION OF LOAN USAGE PATTERN AMONG RESPONDENTS

LOAN DESCRIPTION	LOAN USAGE PATTERN (%)		NO. OF RESPONDENTS
	Development Uses	Consumption Uses	
First Loan	96.5	3.5	254
Second Loan	87.5	12.5	64
Third Loan	89.1	10.9	46
Expected (Next) Loan	92.1	7.9	39

Source: Field Survey, 2010

Table 4.28 shows the distribution of respondents by the two-way classifications of loans utilization in the survey location. The uses of loans received for development purposes predominated with a per centage utilization rate of between 87.5% (second loan) and 96.5% (first loan). The utilization of loan for consumption purposes was more dominant with the second loan (12.5%) and lowest with the first (3.5%). In addition to the loan facilities already received and expended, the survey went further to inquire of the expected utilization of the next (expected) loan facility. The response was not different from the previous use of loan. While 92.1% expected to use the next loan for development purposes, only 8% want to disburse such loan for consumption purposes.

Table 4.29 shows the pattern of loan utilization by some selected characteristics, both of the individual respondents and the micro-enterprises. Due to relatively low level of respondents, only the first two previous loans received (first and second loan facilities) as well as the next (expected) loan were analysed for utilization and expected utilization patterns respectively. With respect to the age of the respondents, those within the age-group of 45 years and above are the most committed to development utilization of loan facilities that made 98.1% and 95% of the first and second loan facilities to development uses. This contrasts with the younger age group (< 30 years) whose devotion to development utilization of loan facilities are 70% and 82.6 for the second and the first loans respectively. However, this same age-group has the highest loan utilization rate for consumption which is as high as 30% for the second loan facility received. It is noteworthy that across all groups, the first and the next (expected) loans are heavily concentrated on development uses relative to that of consumption.

For all the loan facilities, it is those with the lowest educational level that are the most committed to personal and business development 97.2%; and 94.1% of them committed their first and second loan facilities received to development uses, while all of them expected to commit the next loan facility for the same purpose. Personal and Business development for this group of respondents is considered to be important since the probability of their alternative employment in the formal sector might be dim due to their low level of formal education. In fact, a further analysis of the survey data shows that 89.9% of those with up to primary education are in self employment while only a little over 10% are in wage employment. Since micro-enterprises represent their mainstay, it is expected that personal and business development should take a prime place in the utilisation of the loan facilities available to them. It is thus not surprising to observe from Table 4.29 that the self-employed spend more of their loan facilities on development as compared to those in wage employment who have relatively higher propensity for consumption uses of the loan facilities obtained from their MFIs.

TABLE 4.29
DISTRIBUTION OF RESPONDENTS BY PATTERNS OF LOANS UTILISATION

CHARACTERISTICS	LOAN UTILISATION PATTERN								
	DEVELOPMENT PURPOSES (%)			CONSUMPTION PURPOSES (%)			TOTAL (No. of Respondents)		
	First Loan	Second Loan	Next Loan	First Loan	Second Loan	Next Loan	First Loan	Second Loan	Next Loan
AGE:	**96.5**	**87.5**	**92.3**	**3.5**	**12.5**	**7.7**	**254**	**64**	**39**
Less than 30 Years	92.0	70.0	100.0	0.8	30.0	0.0	50	10	2
30-44 Years	97.4	88.2	92.3	2.6	11.8	6.7	151	34	26
45 Years and over	98.1	95.0	90.9	1.9	5.0	9.1	53	20	11
EDUCATION:									
Up to Primary	97.2	94.1	100.0	2.8	5.9	0.0	72	17	7
Secondary	97.1	81.8	89.5	2.9	16.2	10.5	105	22	19
Post-Secondary	94.8	88.0	92.3	5.2	12.0	7.7	77	25	13
GENDER									
Male	95.1	70.6	87.5	4.9	29.4	12.5	61	17	8
Female	96.9	93.6	93.5	3.1	6.4	6.5	193	47	31
MARITAL STATUS									
Single	87.9	66.7	100.0	12.1	33.3	0.0	33	9	5
Married	97.5	90.0	90.0	2.5	10.0	10.0	200	50	30
Divorced/Sep/Wid.	100.0	100.0	100.0	0.0	0.0	0.0	21	5	4
NATURE OF EMPT.									
Self	98.6	91.3	93.9	1.4	8.7	6.1	219	46	33
Wage	82.9	77.8	83.3	17.1	22.2	16.7	35	18	6
TYPE OF BUSINESS							239	43	34
Trading	99.3	92.0	95.2	0.7	8.0	4.8	138	25	21
Supplier/Contractor	94.3	71.4	66.7	5.7	26.6	33.3	35	7	3
Tailoring/Fashion Design	100.0	100.0	100.0	0.0	0.0	0.0	32	10	5
Others	91.2	81.8	60.0	8.8	18.2	40.0	34	11	5
MFI									
Lapo	97.8	89.7	93.1	2.2	10.3	6.9	180	39	29
Others	92.2	82.6	87.5	7.8	17.4	12.5	64	33	8
RELIGION									
Islam	100.0	95.2	100.0	0.0	4.8	0.0	67	21	12
Christianity	95.2	83.7	88.9	4.8	16.3	11.1	187	43	27
STATE OF OPERATN									
Lagos	100.0	100.0	75.0	0.0	0.0	25.0	146	11	4
Ogun	91.7	84.9	94.3	8.3	15.1	5.7	108	53	35
REIGION OF ORIGIN	**96.4**	**87.1**	**92.1**	**3.6**	**12.9**	**7.9**	**251**	**62**	**38**
North	92.0	71.4	100.0	8.0	28.6	0.0	25	7	1
East	95.5	86.7	80.0	4.5	13.3	20.0	66	15	5
West	97.5	90.0	93.8	2.5	10.0	6.3	160	40	32

Source: Field Survey, 2010

In terms of gender of the respondents, the females have the greater propensity to use their loan facilities (both received and expected) for development purposes as compared to their male counterparts. For the first and second loan facilities received, the married are more focused on development issues than the singles who are more committed to consumption. Customers of LAPO are more disposed to spending loans received for developmental purposes rather than consumption as compared to customers of other microfinance institutions. In terms of religion, the adherents of the Islamic religion are more developmental oriented in the allocation of both the received and expected loan facilities from the MFIs, while respondents from the Southwest Nigeria are the most development oriented in the loan facilities received from MFIs. In general, the result from this survey shows that micro-credit to MFI customers are channeled into developmental purposes mostly, as well as consumption purposes.

4.4.2 Savings, Earnings and Personal Welfare of Respondents

4.4.2.1 Savings

One of the principal functions of the MFIs in their respective locations is the development of savings habit among the low income people that were not being reached by the conventional banking system. The provision of microfinance vehicle for the working poor is a means of encouraging the working poor to save, which is a way of promoting investment, employment, and enhanced income through the multiplier process in line with the neo-classical theory of income and employment. For instance, to access loan facilities from the MFIs, a customer must have opened an account and must have saved regularly for a given period of time, which in most cases is not less than six months in Nigeria. From the respondents to this study, as many as 97% of MFI customers interviewed saved regularly since their accounts were opened while only 3% admitted not to be saving regularly. As shown in the foregoing sections above, many of the respondents have obtained loan facilities which have been utilized for various purposes, most of which have been channeled to development purposes, through micro-enterprises for the self-employed, and investment in passive income-generation sources for those in self-employment.

Evidence from the survey data showed some improvement in nominal savings of respondents before and after opening an account and receiving loans from the MFIs. For an average of about three years for which MFI accounts were operated by the respondents, nominal average savings volume increased from N2,868 to N4,547 per week. This translates to an aggregate percentage change of 58.5% and an annual compound growth rate of 18.6% (Table 4.30).

Table 4.30 shows the volume as well as the percentage change (both total and annual) in nominal savings before and after receiving loans from the MFIs. In general, nominal savings increased for all respondents which is not unconnected with the micro-credit received from MFIs by the respondents. Disaggregated by age, Table 4.30 shows that the volume of savings declines as age increases, in other words, there is a negative relationship between age of respondents and savings. Thus, while those in age-group <30 years achieved a total percentage increase of 127.6%, those in age group 45 years and above have 5% percentage change. This result conforms to apriori expectations. In terms of education, those with secondary education had the highest percentage increases in savings relative to those in other education categories.

TABLE 4.30
MEAN AMOUNT SAVED BEFORE AND AFTER RECEIVING LOAN AND PERCENTAGE CHANGE

Main Variables	Derived Variables	Savings Before	Savings After	Total % Change	Annual % Change
ALL RESPONDENTS		2868	4547	58.54254	0.186118
Age	<30 years	2696	6138	127.6706	0.356238
	30-44 Yrs	2744	4333	57.90816	0.184358
	45 and over	3509	3698	5.38615	0.01962
Education	None	2060	3020	46.60194	0.152214
	Primary	3271	4107	25.55793	0.08795
	Secondary	2252	4374	94.22735	0.278738
	Post-Sec	3719	5691	53.02501	0.170659
Gender	Male	2615	3917	49.78967	0.161431
	Female	2961	4794	61.90476	0.195373
Marital Status	Single	1916	4808	150.9395	0.40601
	Married	3005	4576	52.27953	0.168544
	Div./W/Sep	2911	3500	20.2336	0.070629
MFI	LAPO	2991	4582	53.19291	0.171135
	Others	1966	4287	118.057	0.334739
Religion	Christianity	3172	4910	54.79193	0.175648
	Others	1966	4287	118.057	0.334739
Location	Lagos	3429	5000	45.81511	0.14992
	Ogun	855	2483	190.4094	0.484176
Nature of Empt	Self	2922	4531	55.06502	0.176415
	Wage	2264	4800	112.0141	0.320918
Region of Origin	North	3715	5142	38.41184	0.127941
	East	2146	3534	64.67847	0.202918
	West	3024	4900	62.03704	0.195735
ALL		**2868**	**4547**	**58.5425**	**0.18612**

Source: From Field Survey

The females saved more than the males both before and after joining the MFI while total and annual percentage increase in savings was also achieved by the women. While the women achieved a 61.9% increase in savings with an annual compound growth rate of 19.5%, their male counterparts had 49.8 and 16% comparable figures respectively. Thus, the female appears to be optimizing the benefits of microfinance more than the males in the study area. With respect to marital status, the single achieved the highest per centage increase of 151% and an annual growth rat of 41% as compared to the married and the Divorced/Separated/Widowed category. Respondents located in Ogun state had higher increase in savings than their Lagos State counterparts who having higher before- and after- microfinancing savings level. In terms of the region of origin, the respondents from the East saved more than the others. This conforms to expectation given the high level entrepreneurial activities among the Easterners in Nigeria.

4.4.2.2 Earnings

For those that responded to the question on the nominal weekly income, the result shows that the average weekly income prior to enjoying loan facility from MFI was as low as N8,706 per week or about N35,000 per month which is about $230 per month. After having received the loan facility, average weekly income rose to N16,534 which represents an increase of 88% within an average of about three years within when account was opened and loan facilities enjoyed by the average customer. The weekly current income level translates to about N66,000 (or USD $441) per month as shown in Table 4.31.

TABLE 4.31
DISTRIBUTION OF RESPONDENTS BY AVERAGE NOMINAL INCOME BEFORE AND AFTER LOAN FACILITY WAS RECEIVED

	N	Mean	Std. Deviation	Std. Error Mean
Average weekly Income before taking MFB loan	150	8,706.00	12,582.88	1,027.388
Average weekly Income now	151	16,354.30	29,090.076	2,367.317

Source: Field Survey, 2010

Table 4.31 shows the distribution of respondents' nominal weekly income (classified by some selected personal and business characteristics) before and after receiving credit facilities from the MFI. Income was classified into three groups: Less than N10,000; N10,000 to less than N20,000; N20,000 and above. The first classification is termed very low income group (V), the second, low income group (L) and the third, medium income group (M). With respect to income before loan facilities for all the respondents, 72.7%, 16.7% and 10.6% are in V group, L group and M group respectively. After receiving and utilizing the loan facilities, the V group dropped to 48.3%, the L group increased to 31.8% while the M group moved to 19.9%. In terms of change between the different age groups, the age group <30 years experienced the highest nominal income growth rate of 58.39%, followed by the age-group 45 years and above with 57.11%, while those in age-group 30-44 years experienced the least growth rate of 48.30% (Table 4.33). The change within groups is as presented in Table 4.34 which is derived from Table 4.32.

TABLE 4.32
DISTRIBUTION OF RESPONDENTS BY WEEKLY EARNINGS BEFORE AND AFTER RECEIVING LOAN FACILITIES FROM MFIs AND BY SOME SELECTED CHARACTERISTICS.

Main Variables (1)	Derived Variables (2)	Less than N10,000 (3)		N10,000 – N19,999 (4)		N20,000 and over (5)		Mean Income (6)		No. (and %) of Respondents (7)	
	(2)	Before (3a)	After (3b)	Before (4a)	After (4b)	Before (5a)	After (5b)	Before (6a)	After (6b)	Before (7a)	After (7b)
AGE	<30 Yrs	70.0	50.0	30.0	40.0	0.0	10.0	6,863	10,870	30 (20)	30 (19.9)
	30-44 Yrs	76.4	47.8	10.1	32.2	13.5	20.0	9,438	13,997	89 (59.3)	90 (59.6)
	> 44 Yrs.	64.5	48.4	22.6	22.6	12.9	29.1	8,387	13,177	31 (20.7)	31 (20.5)
	ALL	**72.7**	**48.3**	**16.7**	**31.8**	**10.6**	**19.9**	**8,706**	**16,354**	**150 (100)**	**151 (100)**
FORMAL EDUCATION ATTAINED	None	54.5	41.7	45.5	41.7	0.0	16.7	7,300	12,033	11 (7.3)	12 (7.9)
	Primary	51.5	26.5	24.2	29.4	24.2	44.1	11,233	19,185	33 (22.0)	34 (22.5)
	Secondary	83.6	56.7	10.4	35.8	6.0	7.5	7,043	13,651	67 (44.7)	67 (44.5)
	Post-Sec.	78.8	56.3	9.1	25.0	12.1	18.8	7,916	15,333	39 (26.0)	39 (25.1)
GENDER	Male	62.2	35.1	24.3	45.9	13.5	18.9	12,592	23,757	37 (24.7)	37 (24.5)
	Female	76.1	52.6	14.2	27.2	9.7	20.2	7,434	13,952	113 (75.3)	114 (75.5)
	ALL	**72.7**	**48.3**	**16.7**	**31.8**	**10.6**	**19.9**	**8,706**	**16,354**	**150 (100)**	**151 (100)**
MARITAL STATUS	Single	68.8	56.3	12.5	18.8	18.8	25.0	12,831	21,238	17 (10.7)	16 (10.6)
	Married	74.2	48.3	15.8	32.5	10.0	19.2	8,222	15,803	120 (80.0)	120 (79.5)
	D/S/W	66.7	50.0	22.2	30.0	11.1	20.0	8,142	15,553	14 (9.3)	15 (9.9)
	ALL	**72.7**	**48.3**	**16.7**	**31.8**	**10.6**	**19.9**	**8,706**	**16,354**	**150 (100)**	**151 (100)**
TYPE OF BUSINESS	Trading	77.2	50.0	13.0	31.9	9.8	18.1	7,378	14,295	92 (62.6)	94 (63.5)
	Supplier/Con	71.4	47.6	9.5	28.6	19.0	23.8	11,824	24,538	21 (14.3)	21 (14.2)
	Tailoring/Fas	57.9	36.8	31.6	42.1	10.5	21.1	8,821	14,095	19 (12.9)	19 (12.8)
	Others	66.7	50.0	26.7	28.6	6.7	21.4	12,613	22,250	15 (10.2)	14 (9.5)
	ALL										
MFI	LAPO	71.1	46.7	19.8	35.2	9.1	18.1	7,743	13,589	121 (83.4)	122 (83.0)
	Others	83.3	56.0	0.0	16.0	16.7	28.0	12,813	27,668	24 (16.6)	25 (17.0)
	ALL										
RELIGION	Islam	82.1	45.2	7.7	38.1	10.3	16.7	7,184	19,060	39 (26.0)	42 (27.8)
	Christianity	69.4	49.5	19.8	29.4	10.8	21.1	9,240	15,312	111 (74.0)	109 (72.2)
	ALL										
STATE OF OPERATION	Lagos	67.7	43.2	20.2	36.0	12.1	20.8	9,602	16,494	124 (82.7)	125 (82.8)
	Ogun	96.2	73.1	0.0	11.5	3.8	15.4	4,431	15,685	26 (17.3)	26 (17.2)
	ALL										
REGION OF ORIGIN	North	53.3	40.0	26.7	13.3	20.0	46.7	14,267	21,687	15 (10.1)	15 (10.1)
	East	73.7	43.2	15.8	45.9	10.5	10.8	8,187	16,666	38 (25.7)	37 (24.7)
	West	74.7	51.5	15.8	28.9	9.5	19.6	8,072	15,552	95 (64.2	97 (65.2)
	ALL	**72.3**	**48.3**	**16.9**	**31.5**	**10.8**	**20.1**	**8,076**	**16,354**	**148 (100)**	**149 (100)**
EMPLOY-MENT YPE	Self-employed	72.9	49.6	16.4	30.5	10.7	19.9	8,692	16,227	140 (93.3)	141 (93.4)
	Others	70.0	30.0	20.0	50.0	10.0	20.0	8,900	18,140	10 (6.7)	10 (6.6)
	ALL	**72.7**	**48.3**	**16.7**	**31.8**	**10.7**	**19.9**	**8,706**	**16,354**	**150 (100)**	**151 (100)**

Source: Computed from the Field Survey (2010)

TABLE 4.33
GROWTH RATE OF NOMINAL WEEKLY INCOME

MAIN VARIABLE	DERIVED VARIABLES	MEAN INCOME BEFORE LOAN	MEAN INCOME AFTER LOAN	GROWTH RATE OF INCOME IN PER CENTAGE	ANNUAL COMPOUND GROWTH RATE
AGE	<30	6,863	10,870	58.39	16.57
	30-44	9,438	13,997	48.30	14.04
	45+	8,387	13,177	57.11	16.25
	ALL	**8,706**	**16,354**	87.85	23.39
EDUCATION	None	7,300	12,033	64.84	18.13
	Pry	11,233	19,185	70.79	19.53
	Sec	7,043	13,651	93.82	24.68
	Post-Sec	7,916	15,333	93.70	24.65
GENDER	Male	12,592	23,757	88.67	23.57
	Female	7,434	13,952	87.68	23.35
	ALL	**8,706**	**16,354**	87.85	23.39
MARITAL STATUS	Single	12,831	21,238	65.52	18.29
	Married	8,222	15,803	92.20	24.33
	D/S/W	8,142	15,553	91.02	24.08
	ALL	**8,706**	**16,354**	87.85	23.39
NATURE OF BUSINESS	Trading	7,378	14,295	93.75	24.67
	Supp/Con	11,824	24,538	107.53	27.55
	Tailoring	8,821	14,095	59.79	16.91
	Others	12,613	22,250	76.41	20.83
	ALL	**8,706**	**16,354**	87.85	23.39
MFI	LAPO	7,743	13,589	75.50	20.62
	Others	12,813	27,668	115.94	29.25
	ALL	**8,706**	**16,354**	87.85	23.39
RELIGION	Islam	7,184	19,060	165.31	38.44
	Christianity	9,240	15,312	65.71	18.34
	ALL	**8,706**	**16,354**	87.85	23.39
STATE OF OPERATION	Lagos	9,602	16,494	71.78	19.76
	Ogun	4,431	15,685	253.98	52.40
	ALL	**8,706**	**16,354**	87.85	23.39
REGION OF ORIGIN	North	14,267	21,687	52.01	14.98
	East	8,187	16,666	103.57	26.74
	West	8,072	15,552	92.67	24.43
	ALL	**8,076**	**16,354**	102.50	26.52
NATURE OF EMPLOYMENT	Self	8,692	16,227	86.69	23.13
	Others	8,900	18,140	103.82	26.79
	ALL	**8,706**	**16,354**	87.85	23.39

Source: Derived from Table 4.32

TABLE 4.34
PER CENTAGE CHANGES WITHIN INCOME GROUPS

MAIN VARIABLE	DERIVED VARIABLE	CHANGES WITHIN INCOME GROUPS (%)		
		V GROUP	**L GROUP**	**M GROUP**
AGE	<30	-20.0	10.0	10.0
	30-44	-28.6	22.1	6.5
	45+	-16.1	0	16.2
	ALL	**-24.4**	**15.1**	**9.3**
EDUC	None	-12.8	-3.8	16.7
	Pry	-25	5.2	19.9
	Sec	-26.9	25.4	1.5
	Post-Sec	-22.5	15.9	6.7
GENDER	Male	-27.1	21.6	5.4
	Female	-23.5	13	10.5
	ALL	**-24.4**	**15.1**	**9.3**
MARITAL STATUS	Single	-12.5	6.3	6.2
	Married	-25.9	16.7	9.2
	D/S/W	-16.7	7.8	8.9
	ALL	**-24.4**	**15.1**	**9.3**
TYPE OF BUSINESS	Trading	-27.2	18.9	8.3
	Supp/Con	-23.8	19.1	4.8
	Tailoring	-21.1	10.5	10.6
	Others	-16.7	1.9	14.7
	ALL	**-24.4**	**15.1**	**9.3**
MFI	LAPO	-24.4	15.4	9
	Others	-27.3	16	11.3
	ALL	**-24.4**	**15.1**	**9.3**
RELIGION	Islam	-36.9	30.4	6.4
	Christianity	-19.9	9.6	10.3
	ALL	**-24.4**	**15.1**	**9.3**
STATE OF OPERATION	Lagos	-24.5	15.8	8.7
	Ogun	-23.1	11.5	11.6
	ALL	**-24.4**	**15.1**	**9.3**
REGION OF ORIGIN	North	-13.3	-13.4	26.7
	East	-30.5	30.1	0.3
	West	-23.2	13.1	10.1
	ALL	**-24**	**14.6**	**9.3**
TYPE OF EMPT	Self	-23.3	14.1	9.2
	Others	-40	30	10
	ALL	**-24.4**	**15.1**	**9.2**

SOURCE: Derived from Table 4.32

Within the age groups, the change in income among the V group after loan facilities were received and utilized was greatest among the 30-44 years group where there was a drop of 28.6%. This is closely followed by the <30 years age cohort with a drop of 20% while the over 45 years age group experienced the lowest change of 16%. In the L group, the age group 30-44 experienced the highest percentage increase of 22%, those in the <30 years group had 10% increase while the 45 years and above group experience no change in this group. The M group had the highest increase among the 45 years and over (16.5%) while the 30-44 years experience the least increase of 6.5%.

With respect to formal educational attainment, there is a positive relationship between the level of educational attainment and percentage change in nominal income up to the secondary educational level (Table 4.33, last column). However, there seems to be no difference between those with secondary education and those with post-secondary education. For change in income within group, Table 4.33 shows that the secondary educated experienced the greatest drop in V group by 26.9% and closely followed by those with primary education (25%). Within the L group, those with secondary education experienced a rise of 25% but had the least increase of 1.5% within the M group. This shows that an attainment of primary and/or secondary education helps in income growth via the use of the credit facilities of MFIs, while there appears to be much difference between those with secondary and post-secondary educational attainment.

There appears to be no significant difference between the growth rate of income of males and females as the growth figures are 88.67% and 87.68% respectively. However, the within group distribution shows that the males experienced a higher drop in the V group (27.1%) relative to the females (23.5%); this trend was replicated in the L group where the males experienced a higher rise of 21.6% relative to 13% for the females but in the M group the female had a higher income growth of 10.5% as compared to 5.4% for the males. With respect to marital status, the married respondents experienced the highest overall income growth of 92.20% (Table 4.32); while the same group had the highest within-group income growth of -25.9%, 16.7% and 9.2% in the V, L and M income groups respectively (Table 4.34). Among the different types of business enterprises, those engaged in supply/contract occupations had the highest overall income growth rate of 107.53%, followed by those in trading occupations (93.75%).

In terms of the type of MFI being used by the respondents, the other MFBs have greater impact on income growth than LAPO. Although the latter has a greater outreach (83%, Table 4.32) yet it has a 75.50% income growth effect, compared to 115.94% for other MFIs (Table 4.33). In terms of the state of operation, those in Ogun state experienced a higher income growth of about 254% relative to those in Lagos State with about 72%. However, in terms of region of origin, those from the Eastern, Western and Northern parts of Nigeria experienced 103.57%, 92.67% and 52.01% growth respectively in their nominal income levels. The following section examines the factors affecting the distribution of current income among the respondents to establish the statistical significance or otherwise of some of the variables examined in this section.

4.4.3 Determinants of Income Distribution Among MFI Customers

Table 4.35 gives the descriptive statistics of the variables used in the model. The result of the regression analysis is as reported in Table 4.36 while Table 4.37 reports the F-value and its level of significance. As stated in equation (10), the dependent variable is the logarithm of weekly earnings. Since the model is semi-logarithmic (otherwise known as log-lin model), the slope coefficients measures the constant proportional or relative change in Y for a given absolute change in the value of the regressors (Gujarati, 2009; pp.162-163).

TABLE 4.35
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 4.36 (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 4.36 (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 4.37
ANOVA TABLE FOR THE REGRESSION ESTIMATE [IN TABLE 4.36(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. For instance, in the Gender variables, the Female sub-category is excluded to serve as the reference. In the same way, the Separated/Divorced/Widowed sub-category is excluded from the marital status dummies, Islamic Religion is the reference category for Religion, Ogun State is the reference point for Location variable, The North serves as the reference for region of origin, while wage employment stands as reference for the type of employment variable.

From Table 4.36 (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 (See Tables 4.31 and 4.32), 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 4.37) is statistically significant at 10% level and thus shows that the model has an acceptable fit.

Second Model: A stepwise regression model when both the MFB and other variables are included:

The second model investigates the impact of MFIs on income distribution, using equation 4 above. In other to save computer time, the stepwise approach was adopted. The stepwise regression procedure includes in the estimated model only those explanatory variables that make important contributions to the variations in the independent variable. Table 4.38 reports the summary of the four models that came up from the stepwise procedure when the MFI and Enterprise variables were included in the model as summarized by equation (4).

TABLE 4.38
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.282(a)	.080	.072	.88045
2	.385(b)	.148	.134	.85058
3	.447(c)	.200	.180	.82768
4	.475(d)	.225	.200	.81772

a Predictors: (Constant), Amount approved & paid on 1st loan
b. Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy
c. Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy, Number of years account opened with MFB
d. Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy, Number of years account opened with MFB, No schooling dummy.

The model summary shows continuous improvement in the regression fit as the number of explanatory variables increases. The Adjusted R^2 improves from 7.2% when only one predictor variable (the most important) was included in the model to 13.4% when the second predictor variable was included as shown by the result in the model summary (Table 4.38).

TABLE 4.39
REGRESSION COEFFICIENTS OF INCOME DISTRIBUTION FUNCTION
(H, P, MFI AND ENTERPRISE VARIABLES USING STEPWISE APPROACH)

Model	Variables and (Constant)	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.057	.089		102.328	.000
	Amount approved & paid on 1st loan	3.90E-006	.000	.282	3.273	.001
2	(Constant)	8.925	.095		93.737	.000
	Amount approved & paid on 1st loan	4.02E-006	.000	.291	3.494	.001
	Primary educ dummy	.573	.182	.262	3.141	.002
3	(Constant)	8.536	.166		51.292	.000
	Amount approved & paid on 1st loan	3.92E-006	.000	.284	3.500	.001
	Primary educ dummy	.576	.177	.263	3.246	.002
	Number of years account opened with MFB	.153	.054	.228	2.811	.006
4	(Constant)	8.437	.172		49.127	.000
	Amount approved & paid on 1st loan	4.00E-006	.000	.289	3.610	.000
	Primary education dummy	.633	.178	.289	3.564	.001
	Number of years account opened with MFB	.169	.054	.251	3.103	.002
	No schooling dummy	.551	.276	.164	1.998	.048

a Dependent Variable: Log (natural) of income after loan

Finally in model 4, when four predictor variables were included in the model, the R^2 increased to 20%. As explained earlier, the R^2 measures the proportion of variation in the dependent variable explained by the regression model. In this model therefore, the explanatory variables included explained 20% of the variations in the logarithm of weekly earnings of the respondents. The details regarding the coefficients of each of the explanatory variables and the statistical significance of each are as reported in Table 4.39.

TABLE 4.40

ANOVA TABLE FOR MODELS 1 TO 4

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.304	1	8.304	10.712	.001(a)
	Residual	96.125	124	.775		
	Total	104.429	125			
2	Regression	15.440	2	7.720	10.671	.000(b)
	Residual	88.989	123	.723		
	Total	104.429	125			
3	Regression	20.852	3	6.951	10.146	.000(c)
	Residual	83.577	122	.685		
	Total	104.429	125			
4	Regression	23.520	4	5.880	8.794	.000(d)
	Residual	80.909	121	.669		
	Total	104.429	125			

a Predictors: (Constant), Amount approved & paid on 1st loan
b Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy
c Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy, Number of years account opened with MFB
d Predictors: (Constant), Amount approved & paid on 1st loan, Primary educ dummy, Number of years account opened with MFB, No schooling dummy
e Dependent Variable: Log (natural) of income after loan

The result shows the importance of micro-financing through the MFIs in the distribution of income of respondents. Of the four variables that were selected as the best in the stepwise procedure specified for the SPSS software that carried out the data analyses, two of the variables were MFI variables (Loan Amount, and the Number of years account opened with MFI) while the last two are human capital variables (Education). Thus, micro-financing variables (in addition to human capital variables) positively affected earnings and these variables are statistically significant at no worse than 5% confidence level as shown in Table 4.39. In terms of the goodness of fit, the result shown in Table 4.40, shows a relatively high adjusted R^2 of 20% (Model 4) compared to 4% reported in Table 4.36(b) when only human capital and personal variables were considered. Also, the F-statistic improved significantly to 8.794 (at the Significance level of 0.000) showing a very good fit, econometrically. This represents an unparalleled improvement on the model reported in Tables 4.35-4.37 when the F-statistic is as low as 1.784 at a significance level of 0.064.

4.5 MICROFINANCING AND MICRO-ENTERPRISE GROWTH.

The analysis carried out in section 4.4 above shows that both savings and personal earnings (in nominal terms) of MFI customers have been improving since having access to micro-financing services of the micro-finance institutions. The following sub-sections examine how micro-financing has affected the growth of the respondents' micro-enterprises in the survey location. The micro-business variables that are examined are: average weekly revenue, average level of employment, average weekly income and average level of loan facility received. In addition to the examination of the above-named variables at levels, their growth rate is also examined.

4.5.1 Micro-financing and the Growth of Sales Revenue

The classification of respondents by occupation shows that those in wage employment are 59 representing 18.5%; while those in self-employment and therefore operating their own micro-enterprises are 253 representing 79.3%. The remaining unclassified category among the respondents is seven in number, representing 2.2% of the total. A frequency distribution of the micro-entrepreneurs by the nature of the enterprises they operate is as shown in Table 4.41.

TABLE 4.41
FREQUENCY DISTRIBUTION OF MICRO-ENTERPRISES BY NATURE OF BUSINESS

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Trading	144	56.9	57.4	57.4
	Supplier/Contractor	45	17.8	17.9	75.3
	Others	27	10.7	10.8	86.1
	Tailoring/Fashion Design	35	13.8	13.9	100.0
	Total	251	99.2	100.0	
n		253	100.0		

Source: Computed from survey data

Out of the three hundred and twenty two respondents selected for the survey, two hundred and fifty-one are micro-entrepreneurs in self employment, among which the traders have the largest share with a number of 144 representing 57.4% of the total.

TABLE 4.42
DISTRIBUTION OF WEEKLY SALES REVENUE AND ITS GROWTH RATE BY SOME SELECTED CHARACTERISTICS OF ENTERPRISES AND ENTREPRENEURS

MAIN VARIABLE	DERIVED VARIABLE	WEEKLY SALES REVENUE			
		Year Before Micro-Credit*	Year of Survey (2010)	% Change**	Annual Compd. Growth Rate*+
TYPE OF ENTERPRISE	Trading	18,094 (72)	35,804 (73)	97.88	25.54
	Contractor/Supplier	13,018 (17)	32,912 (17)	152.82	36.23
	Tailoring/Fashion Design	13,500 (21)	19,357 (21)	43.39	12.76
	Others (Unclassified)	12,950 (12)	32,167 (12)	148.39	35.43
	ALL ENTERPRISES	**15,905 (97)**	**32,540 (99)**	**104.59**	**26.95**
TYPE OF MFI	LAPO	14,129 (83)	26,595 (84)	88.23	23.47
	Other MFIs	19,025 (12)	51,154 (13)	168.88	39.05
LOCATION	Lagos	15,992 (83)	31,750 (84)	98.54	25.68
	Ogun	15,393 (15)	36,997 (14)	140.35	33.95
REGION OF ORIGIN OF OWNERS	North	17,025 (12)	41,305 (13)	142.61	34.37
	East	15,721 (61)	35,896 (24)	128.33	31.68
	West	15,757 (61)	29,403 (62)	86.60	23.11
AGE	< 30 Years	11,000 (22)	21,196 (22)	92.69	24.44
	30-44 Years	17,576 (59)	38,475 (60)	118.91	29.84
	45 Years and over	16, 488 (16)	26,594 (16)	61.29	17.27
EDUCATION	No Schooling	17,043 (7)	26,250 (8)	54.02	15.49
	Primary	20,014 (22)	40,870 (23)	104.21	26.87
	Secondary School	15,581 (48)	33,104 (48)	112.46	28.56
	Post Secondary	11,765 (20)	24,125 (20)	105.06	27.06
GENDER	Male	18,730 (23)	43,625 (24)	132.92	32.56
	Female	15,027 (74)	28,993 (75)	92.94	24.49

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.

Forty-five of them are Contractors/Suppliers representing about 18%, while those in Tailoring/Fashion Designing are 35 in number, representing 13.9%.

Table 4.42 shows the distribution of mean values of sales revenue and its growth by some selected characteristics of micro-enterprises and those of the micro-entrepreneurs. The average sales revenue were taken for wo periods: the time before the enterprises had any relationship with the microfinance institutions and the time of the survey, which was the year 2010. Columns three and four of the table show the average sales revenue figures while the last two columns show the computed aggregate growth rate and the annual compound growth rate respectively.

For all enterprises, nominal weekly sales revenue grew from ₦15,905 to ₦32,540 giving a total per centage change of 104.59% within an average of three years when the microenterprises in the survey areas had access to microfinancing opportunities. This gives an annual constant compound growth rate of 27%, a figure that is higher than annual rate of change of price level.

Average sales revenue for enterprises banking with LAPO is lower than those with other MFIs. As noted earlier, LAPO has a wider outreach in terms of reaching more micro-entrepreneurs than the other MFIs. However, the latter gives higher loan volume which might be responsible for higher sales revenue as well as higher growth rate of sales from such customers. For instance, the per centage change in sales revenue for entrepreneurs banking with Lapo is 88% while the annual growth rate of sales is about 23.5%. Similar figures for those patronizing other MFIs are 168.88% and 39.05% respectively. Both sales revenue and sales growth are higher for micro-businesses in Ogun State as compared with those in Lagos State. This is however contrary to *a priori* expectations given the population density and hence the expected level of customer patronage in Lagos State. In terms of the type of business enterprises, the Contractors/Suppliers experience the highest income growth while the least growth rate is found among tailors/fashion designers. Even with personal characteristics, average sales revenue shows robust increases: for instance, sales increased with the age of micro-entrepreneurs up to age 44 years and later declined for age group 45 years and above; sales increased with education up to primary education level and declined steadily thereafter; and finally, the male micro-entrepreneurs are higher sales revenue than the female. In total, all the enterprises experienced positive per centage change as well as positive annual sales growth as a result of microfinancing.

4.5.2 Micro-financing and Growth of Employment

Table 4.43 shows employment level in the two hundred and fifty-three micro-enterprises interviewed in two time periods: first, before the micro-enterprises had access to micro-financing and second, after about three years into having access to microfinancing opportunities. The data shown in the table suggests an improvement in the employment level of micro-enterprises. For instance, micro-enterprises with no employees (except the owner) before access to microfinancing dropped from 188 (or 74.3% of all micro-enterprises) to 170 which is 67% of all micro-enterprises; those with employee also dropped from 7% to 8% while those employing two or more employees increased in the year of survey (i.e. 2010) compared to the pre-microfinancing period.

TABLE 4.43
FREQUENCY DISTRIBUTION OF MICRO-ENTERPRISES BY NUMBER EMPLOYED BEFORE MICROFINANCING AND AFTER.

NUMBER EMPLOYED	EMPT. BEFORE MICROCREDIT		EMPT. LEVEL AT TIME OF SURVEY (YEAR 2010)	
	FREQUENCY	PER CENTAGE	FREQUENCY	PER CENTAGE
0	188	74.31	170	67.19
1	18	7.11	8	3.16
2	13	5.14	19	7.51
3	10	3.95	23	9.09
4 AND OVER	24	9.49	33	13.04
	253	100.00	253	100.00
AVERAGE	3.46		3.84	

Source: Computed from field survey data

Aggregate mean employment level rose from 3,46 to 3.84 per enterprise, thus giving an annual compound growth rate of 3.53 %.

Table 4.44 shows the level of employment and its growth rates distributed by several characteristics of the micro-enterprises and some of those of the micro-entrepreneurs. Within the different enterprise type, the Contractors/Suppliers group (among the classified categories) recorded the highest employment growth of about 16% with an annual growth rate of about 5% while the Tailoring/Fashion Designing category had an average annual growth rae of 3.37%. Enterprises in Lagos state generated an aggregate employment of 14.50% which translates to an annual per centage rate of 4.62%. Within the period under consideration the rate of employment generation in Ogun state was zero.

TABLE 4.44
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.

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 4.45
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 microfinancing 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 4.45. While 91% of the respondents agreed that microfinancing 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.

CHAPTER FIVE

SUMMARY OF FINDINGS AND RECOMMENDATIONS

5.1 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 Southwest 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 operating in Lagos and Ogun States, Southwest 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.

The study examined the nature and significance of Microfinance banks' services to customers paying particular attention to the MFIs' basic intermediation functions of funds mobilization, credit allocation and distribution among respondents. The volume and determinants of loan demand were also investigated. The study also explored the economic analysis of of loan demand using the linear probability model. The study further examined the influence of Microfinance on personal welfare of respondents.

5.2 Findings

5.2.1. MFIs have made satisfactory impact

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 validates 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

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5.2.2. 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.

5.2.3 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. This indicates that government policies on the operations of Microfinance Banks can affect the ability and willingness of customers in their desire to transact business with the banks.

5.2.4 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. As earlier stated in section 4.3.2, this can be explained, premised on the Cost versus Availability doctrine. In Nigeria and some other African countries, availability doctrine tends to influence financial behaviour more than cost doctrine, whereas by conventional wisdom, it ought to be the other way round, Customers in the graduate and post-graduate category do more business with Microfinance than other categories. Also, male customers demand higher levels of loan amount relative to their female counterparts. The location of a business is also found to be insensitive to loan demand.

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.

5.2.5. 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.

5.2.6. 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. This group of micro-entrepreneurs have established a tradition of prompt loan repayment and thus have better access to micro-credit facilities offered by MFIs. The reason adduced for this is that they operate on short-term basis.

5.2.7. Business expansion dominated frequency of loan demands

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.

5.2.8. Savings Habits

The savings habit of the customer improved with the provision of microfinance services and their monthly income also rose by approximately 88% within an average of about three years within when an account was opened and loan facilities were granted to the respondents.

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:

i. 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.
ii. Microfinance institutions loans are more readily available for development related purposes.
iii. Microfinance institutions can really get people out of their poverty level with consistent utilization of loans for developmental activities by their customers. This also impacts greatly on Customers' savings habit and income generation. By financing more small and medium scale enterprises, the MFI have made a significant contribution to creation of employment and improving household income.

5.2.9 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 a unit increase in all these variables decrease the level of loan demand and each of them is statistically significant. The result also showed that graduate and post graduate level of education are positive determinant of loan demand. It is also interesting to observe that the variable male gender is a positive determinant of loan demand. Marital status-single is also a positive determinant of loan demand and MFI – LAPO is a positive determinant of loan demand and statistically significant at 1%. This implies that entrepreneurs having account with Lapo are likely to demand for loan, also male entrepreneurs, and single entrepreneurs do the same. It is interesting to note that the number of years for which account has been opened is not a determinant of loan demand.

The result obtained also showed that the variable age group less than 30 years is a negative determinant of loan demand and statistically significant at 5%, while age group 30 – 44 years is not statistically significant. The study also showed that entrepreneurs state of origin particularly from East and West geographical zone are positive determinants of loan demand and they are statistically significant at 5%. It is interesting to find that location of business and being self – employed is not a determinant of loan demand.

The linear probability function was estimated for those that have ever received loan and those that have not. The result of the linear probability function showed that age of the respondents did not affect the probability of loan demand, since none of the age-cohort is statistically significant. As regards the microfinance variables, the result obtained confirmed that the number of years account is opened does not affect the probability of credit demand. On business related variables, business location-Lagos and supplier/contractor business type have higher probability of securing loan from Microfinance Institutions.

5.2.10 Microfinance Bank and Personal Welfare of the Respondents

On this aspect of the study, the result obtained showed that all the MFIs have granted N9.1 million, N6.5 million and N4.9 million in each of the three loan categories respectively. The result also shows that the first loan received by the respondents was utilized for business development related issues, the second loan was utilized for business expansion by most of the respondents, while the third loan followed the same trend. Other issues such as children education, land/asset acquisition and consumer durable are the other things the loans were used for. The result also shows that the majority of the respondents saved regularly – which implied that Microfinance has helped them to develop the habit of saving regularly. Most of the respondents' weekly income also showed increase of 88% after receiving and utilising the loan within a period of three years. The result also showed that those with higher educational qualifications are likely to increase their income faster. There appeared to be no significant difference between the growth of income of males and female gender. In terms of MFIs being used by the respondents, those using other MFIs seemed to have higher income growth than those in LAPO even though LAPO have greater outreach. Those in Ogun State experienced higher income growth than those in Lagos, this may be associated with higher standard of living in Lagos compared to Ogun State. In terms of state of origin, those that are from the Eastern part of the country experienced higher income growth than those from other regions, ostensibly due to the tenacity and shrewdness of an average Easterner in business.

5.2.11 Determinant of Income Distribution among MFI customers

The result obtained for this aspect of the study showed that education (as measured by the number/levels of formal education attained, gender, region of origin (East and West) are significant determinants of income distribution. This implies that as each of these variables increase by a unit, weekly income also increases for MFI customers. The result for the stepwise regression showed that loan amount, number of years account opened with MFI, and respondent's level of education positively affected earnings of the respondents.

5.3 Conclusion of Study

The advocation of microfinancing was triggered by the insensitivity of the conventional formal finance sector. The essence was to reach the overwhelming population of the poor and to assist in the drive to alleviate poverty. The microfinance movement has captured the imagination of academics, policymakers, and practitioners. It has demonstrated possibilities for lending to poor households and has transformed discussions on poverty alleviation to realism. The last twenty years have seen significant advances in the provision of financial services to improve economic development and eradication of poverty. This includes providing the financial means to access credit, and start small businesses, with the potential to enhance community, local and national development. It has been proven that when microfinance is properly harnessed and supported, it can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor can lift themselves out of poverty.

Microfinance should not be seen as a universal remedy for poverty and related development challenges, but rather as an important tool in the mission of poverty alleviation. 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. As a result, solutions are as multifaceted as the causes. Problems and solutions are not isolated phenomena, but occur within an interconnected system in which actors and actions have reciprocal consequences. As microfinance becomes more widely accepted and moves into the mainstream, the supply of financial services to the poor will likewise increase, improving efficiency and outreach, while lowering costs. This, in turn, can have a multiplier effect on people's standard of living. Perhaps the greatest contribution of microfinance is that it empowers people, by providing them with confidence, self-esteem, and the financial means to play a larger role in their development. The potential of microfinance far exceeds the micro-level, scaling-up to address macro-problems associated with poverty 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. These findings suggest that microfinance is one of the successful critical interventions for empowering the poor people.

In conclusion, the study has established that microfinance programmes have impacted the businesses and lives of the beneficiaries in several positive ways, particularly in their economic circumstances and access to essential life-enhancing facilities and services. The study has also shown that the number of years a client opened account with MFI, religion, place of business location and self employment are not determinants of loan demand. More research is needed in the area of impact assessments so as to inform the designers of programmes on measures that will ensure maximum benefits both to the MFIs and their clients.

Among other benefits of microfinance, the following are key:

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.

5.4 POLICY IMPLICATIONS AND RECOMMENDATIONS

5.4.1. 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.

5.4.2 For Government

ii. 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;

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

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

5.5 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.

5.6 Suggestions for Further Research

This research study has revealed numerous research opportunities in the field of micro finance, particularly in the development of Microfinance Institutions in Nigeria. Other areas that could be of researchers' interest includes, but not limited to the followings:

a. An Appraisal of Microfinance Institutions in Nigeria: 2005 – 2012;

b. The Impact of Group Lending on MFI Performance in Nigeria;

c. The Economics of Microfinance in Nigeria: Practice and Mode of Operations;

d. Microequity and Microfinance: An Empirical Analysis;

e. Mainstreaming Microfinance: Performance Evaluation; and

f. Microfinance in Africa: Combining the Best Practices of Traditional and Modern Microfinance Approaches towards Poverty Eradication.

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APPENDICES:

Appendix A

QUESTIONNAIRE ON:

MICROFINANCE AS KEY TO POVERTY ALLEVIATION:

THE CASE OF LAGOS AND OGUN STATES OF NIGERIA.

MICROFINANCE BANKS' OFFICIALS.

I. Personal Data.

Please answer the following questions as objectively as you can by ticking the answer which you consider appropriate among the alternatives provided.

a) Age: 18 – 25 □ 26 – 35 □ 36 – 45 □ Above 45 □

b) Sex: Male □ Female □

c) Religion: Christianity □ Islam □ Other □

d) Educational Background:

(i) No formal Education □ (ii)Elementary Education □ (iii) Secondary Education □

(ii) (iv) National Diploma/NCE □ (v) Bachelors Degree/HND □ (vi) Master Degree (Msc/MA/MBA) □ (vii) Ph.D □ (viii) Others/Specify □

e) Marital Status: Single □ Married □ Divorced □ Widowed □

f) Residential Address & Business Location ………………………………………………..

LGA ………………..……………………….. State ….…………………………………..

I. General.

Please indicate your answer by ticking one of the options provided to the following questions.

1. When was your bank licensed to operate as a microfinance bank?
   Up to 2years □ 3years □ 4years □ 5years and above□
2. Altogether, how many accounts has your bank opened to date?
   1 – 100 □, 101 – 250 □, 251 – 500 □ 501 – 1000 □, 1001 and above □

3. What per centage of your customers ask for loans and other forms of credit facilities?

   10% □ 20%□ 30% □ 50% □ 10% and above □

4. What per centage of those who ask for financial assistance has your bank assisted so far?

   5% □ 10% □ 20%□ 30%□ 50%□ Over 50% □

5. In which subsectors of the economy do most of your customers invest the loan which you give to them?

   Farming □ Fishing □ Petty Trade □ Small Scale Manufacturing □

   Artisan □ Contract □ Others (specify) □

6. In which sector/s has your bank given most financial assistance, choosing from 5 above.

   Farming □ Fishing □ Petty Trade □ Small Scale Manufacturing □

   Artisan □ Contract □ Others (specify) □

7. Do you think that microfinance has improved the lot of the low-income group in Nigeria, using your bank as an example?

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

8. Funds disbursed are applied for the purpose for which they were given:

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

9. Do you believe that microfinance is really the answer to poverty alleviation in Nigeria if properly practiced, using your bank's experience as an example?

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

10. Do you agree that more microfinance banks should be established, particularly in the rural areas of the country?

    Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

11. Should Microfinance Banks charge same interest rates as the mainstream banks?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

12. Should microfinance banks charge higher interest rate than the mainstream bank?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

13. From your bank's experience, do you agree that the low-income group repay loans extended to them by microfinance banks satisfactorily?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

14. Do you agree that households use loans given to them for food, children education, minor house repairs, farming, fishing, health matters and other emergencies?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

15. In your opinion, has the Government done enough to support microfinance sector in Nigeria?

Yes □ No □

16. Are your customers mainly women?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

17. Does your bank provide services in the areas of money transfer, savings etc.

Very rarely □ Rarely□ Undecided □ Often □ Very often □

18. Does your bank promote small scale Enterprises enough?

Yes □ No □

If yes which of them have you lent to? and if No please give reason (s)

19. Do you think that N20million capital base is adequate for the operations of microfinance banks?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

20. Many microfinance banks are failing presently, what do you think are the main challenges confronting them?

Inadequate capital □ Poor Management □ Little or no product innovation □ Staff incompetence□ Loan losses □ All the above □

Any other reason (please state) ……………………

21. Do you agree that many microfinance banks are fail as a result of fraud and insider abuse?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

22. Do you agree that many microfinance banks do not meet the Central Bank of Nigeria 2005 Policy of Microfinance Banks?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

23. Has group membership facilitated loan packaging?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

24. Does your bank have grants and or donations from any organization foreign or local?

Yes □ No □

25. Are you of the opinion that microfinance banks can really promote business development and bring about economic development?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

26. Training of microfinance staff, innovation in product packaging and good corporate governance are the keys to success in microfinance practice. Do you agree to these notions?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

27. Do you agree that microfinance banks should take on other services such as start up funds, rehabilitation etc?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

28. What is the least amount of loans which your bank grants to customers as a policy?

N1,000 □ N5,000 □ N10,000 □ N20,000 □ Other □(specify)

29. What is the largest amount of loan granted by your bank to a single customer?

N500,000 □ N100,000 □ Over N100,000 □

30. What is the longest period of repayment allowed for your customers?

1 month □ 3months □ 6months □ 1year □ Others please specify □

31. How do you collaterise your lending?

Guarantee □ Shares □ Landed Property □ Clean lending □ Other □specify

32. Do you offer any non-financial services to your customers?

Yes □ No □

If so which of the services?

	Non-Financial Services.	**Please tick**
1.	Safe Custody Services	
2.	Training of Entrepreneurs before lending to them	
3.	Advisory Services	
4.	Mentoring of existing micro enterprises.	
5.	Others (please state).	

Appendix B

QUESTIONNAIRE ON:

MICROFINANCE AS KEY TO POVERTY ALLEVIATION:

THE CASE OF LAGOS AND OGUN STATES OF NIGERIA.

MICROFINANCE BANKS' CUSTOMERS.

II. Personal Data

Please answer the following questions as objectively as you can by ticking the answer which you consider appropriate among the alternatives provided.

1. Age: 18 – 25 □ 26 – 35 □ 36 – 45 □ Above 45 □
2. Sex: Male □ Female □
3. Religion: Christianity □ Islam □ Others □
4. Educational Background:
   i) No formal Education □ (ii)Elementary Education □ (iii) Secondary Education □ (iv)National Diploma/NCE □ (v) Bachelors Degree/HND □ (vi)Master Degree (Msc/MA/MBA) □ (vii) Ph.D □ (viii) Others/Specify □

e) Marital Status: Single □ Married □ Divorced □ Widow □

f) Account Relationship with Microfinance Bank as:

Sole/Personal A/c □ Partnership A/c □ Company /A/c □ Others □

g) Nature/Size of Business: Micro□ Small □ Medium □

h) Residential Address & Business Location ………………………………………………..

LGA ……………….……………………….. State …..…………………………………..

i) Nature of Occupation/Business Activities:

Farming □ Fishing □ Petty Trade □ Artisan □ Small Scale Manufacturing □
Travel Agency □ Contractor □ Others □

j) Size of Enterprise – Number of employees: Under 5 □ Under 10 □ 10 and above □

k) Status/Level of Staff:
Senior Management □ Middle Management □ Junior Staff □

l) Length of Service: 1 – 5years □ Over 5years □

II. General.

Please indicate your answer by ticking one of the options provided to the following:

1. Can you say that the loan you obtained from Microfinance Bank has improved your business as well as raised the standard of living in your family substantially?

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

2. Many customers of microfinance banks have used loans obtained from the banks to pay the school fees of their children.

   Totally incorrect □ Incorrect □ Undecided□ Correct □ Totally correct □

3. Many microfinance customers have obtained financial assistance from their banks to start small businesses.

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

4. Customers of microfinance banks have used funds borrowed to cultivate maize farms, vegetable farms, fisheries etc.

   Very Rarely □ Rarely □ Undecided□ Often □ Very often □

5. Do you think many customers of microfinance banks have been refused loan because they have no collaterals?

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

6. It is easier to obtain loans from microfinance banks if customers belong to Groups, in which case, a borrower is guaranteed by the other members of the Group.

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

7. Do you agree that pre-borrowing training is necessary for a successful loan usage?

   Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

8. It is possible to obtain start up funding from microfinance banks by low income groups.

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

9. Microfinance banks officers monitor the use to which the loans they give to their customers are applied in order to avoid diversion of funds.

Very Rarely □ Rarely □ Undecided□ Often □ Very often □

10. Do you agree that more microfinance banks should be established in the rural areas?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

11. Do you agree that staff of microfinance banks will perform their functions better if they undergo training from time to time?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

12. Should microfinance banks attend to the poor people only?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

13. Do you think that the interest rates charged by the microfinance banks are too high for their services?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

14. The introduction of microfinance in Nigeria has reduced the poverty level in the nation, do you agree?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

15. To what extent do you believe that SMEs have benefited from the services of microfinance in Nigeria?

Very Substantially □ Substantial □ Undecided □ Averagely □ Poorly □

16. Do you think that the success of small scale businesses lie in microfinance and not the big banks?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

19. In your opinion do customers of microfinance banks repay loans promptly?

Strongly Disagree □ Disagree □ Undecided□ Agree □ Strongly Agree □

18. Are you aware that some banks have to write off loans given to some customers because they fail to repay?

Yes □ No □

19. Can you compare your profit profile before and after the period when you were given funds by your microfinance bank?

Very low□ Low □ Undecided□ High □ Very High □

21. What are the challenges of your microfinance bank staff?

Inadequate office space □ Insufficient Training □ Other specify□

ABSTRACT

The study presented empirical findings on the impact of Microfinance on welfare and poverty alleviation in Southwest 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.