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MICROFINANCING AND MICRO-ENTERPRISE GROWTH IN NIGERIA

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ABSTRACT

Microfinance is an effective way for the economic active poor to increase their economic security and thus reduce poverty. This paper assesses the impact of micro financing on the growth of micro and small entrepreneurs in Southwest Nigeria. Data were sourced through questionnaires administered to 198 MFBs in Lagos and Ogun State Nigeria. To achieve the objective of the study a growth analysis was carried out using a loan demand model 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. The study found out that the micro enterprises experienced positive percentage change as well as positive annual sales growth as a result of micro financing. Another interesting finding is that the enterprises owned by male micro-entrepreneurs generate more employment than those owned by their female counterparts while employment declined in the enterprises owned by those with no formal education. The study recommends that 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.

1. INTRODUCTION

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 serves 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

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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.

2. LITERATURE REVIEW

Societies 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 Grameen 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.

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The specific detail relating to micro-credit practice mentioned in the report is the prominence given to the matter, as it relates to 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 shows 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.

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.

***Direct Credit Model*:** 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.

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.

Bank Guarantees Model: 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 transmuted 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.

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.

Swain and Wallentin (2007) in a study 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

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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.

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 literatures 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 ADB (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 Nagarajah (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, which 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 outreach 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.
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

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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.

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, employment 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.

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.

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 Institutions (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.

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.

Microfinance in 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, counselling 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).

Babajide, A. (2012) investigates the effects of microfinance on micro and small business growth in Nigeria. The purposes of the paper are: one, to examine the effects of different loan administration practices (in terms of loan size and tenor) on small business growth criteria. Second, to examine the ability of Microfinance-Banks (MFBs) (given its loan-size and rates of interest charged) towards transforming micro-businesses to formal small scale enterprises. She fins strong evidence that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, are found to have positive effect on enterprise growth. The paper recommends a recapitalization of the Microfinance banks to enhance their capacity to support small business growth and expansion.

3. METHODOLOGY

A multistage sampling technique was adopted for this study. 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, Owo de 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) was 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.

Questionnaires were administered in a survey conducted among the microfinance banks and their customers in Lagos and Ogun States. According to CBN (2008), there are three hundred and five (305) MFBs in the South-West part of Nigeria. These banks are categorized into those with final licenses (169) and those with Provisional Licenses (136). Out of the total, Lagos State controls the lion share of 147 MFBs with 74 in the licensed category while 73 have provisional licenses. 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

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of them in the licensed category while the remaining 95 have provisional licenses. 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 South-West, 243 are located in Lagos and Ogun States. It therefore follows that sample drawn from the States are, all things being equal, more likely to reveal the characteristics of the MFBs and their customers. The questionnaire employed for the primary data was pilot-tested and found very reliable. Using Statistical Package for Social Sciences (SPSS), the cronbach alpha reliability test provided satisfactory score. The schedule of the questionnaire is attached as an annexure to this chapter.

Model Specification

The objective of this study as stated earlier is to assess the impact of micro financing on the growth of micro and small entrepreneurs. In an attempt to address this objective, 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.

Model 1 - 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 demonstrated by Ogunrinola and Alege (2007: 100). Thus, a loan-impact probability model is specified as indicated below:

$$Y_j = f(X_i; e_j) \quad (1)$$

and assuming a linear relation between Y_j and X_i then equation (1) can be written as:

$$Y_j = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + ... + \alpha_k X_k + e_j \quad (2)$$

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:

$$E(Y / X_1, X_2, ..., X_k) = 0 \quad (3)$$

Then,

$$E(Y/X) = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + ... + \alpha_k X_k \quad (4)$$

Given the binary nature of variable Y, then

$$P(Y = 1/X) = E(Y/X) \quad (5)$$

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

$$P(Y = 1/X) = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + ... + \alpha_k X_k \quad (6)$$

Equation (7) can be re-written more compactly as follows:

$$Y_j = \alpha_0 + \sum_{i=1}^{k} \alpha_i X_{ij} + e_j \quad (7)$$

Where Y_j, α_i (i=1, 2,…,k), X_{ij} and e_j are as defined above. In equation (7), the vector X_{ij} includes: AGEE, GENE, EDUC, BIZT, LOAF, AGEB, and BLOC.

Table 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

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Model 2: 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:

$$LN\,Y = f(\boldsymbol{X}, \boldsymbol{B}, \boldsymbol{H}, \boldsymbol{P}) \tag{8}$$

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 (8) we have:

$$Ln\,Y = f(D, G, G^2, N, M, RG, R, S, E, MF, L1, LA, BKYR, B) \tag{9}$$

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:

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

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

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

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.*

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 and Ordinary Least Square technique (OLS). The outputs of the analysis are presented in tables and figures. However, the use of linear probability model poses some econometric problems. These include non-normality of the disturbance e_j; heteroscedasticity of the variances, and the possible non- fulfillment of the restriction $0 \leq E(Y / X) \leq 1$. These econometric problems will be solved through the solution method proposed by Gujarati (1995: 543) and Ogunrinola and Alege (2007: 101).

4. RESULT PRESENTATION DISCUSSION

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.

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

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of the micro-entrepreneurs by the nature of the enterprises they operate is as shown in Table 2.

Table 2: Frequency Distribution of Micro-Enterprises By Nature of Business

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

Table 3 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 was taken for two 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 percentage change of 104.59% within an average of three years when the microenterprises in the survey areas had access to micro financing 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 percentage 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.

Table 3: 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.

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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 percentage change as well as positive annual sales growth as a result of micro financing.

Micro-financing and Growth of Employment

Table 4 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 micro financing 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 micro financing 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-micro financing period. 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: Frequency Distribution of Micro-Enterprises By Number Employed Before Microfinancing And After.

Number Employed	Employment Before Microcredit		Employment Level At Time of Survey (Year 2010)	
	Frequency	%	Frequency	%
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 (2010)

Table 5: 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 (2010).

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Table 5 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 rate of 3.37%. Enterprises in Lagos state generated an aggregate employment of 14.50% which translates to an annual percentage rate of 4.62%. Within the period under consideration the rate of employment generation in Ogun state was zero.

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 6: Distribution Of Respondents By Their Perception On Microfinancing And Poverty Reduction

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

Source: Computed from field survey data (2010)

5. SUMMARY AND CONCLUSIONS

The advocation of micro financing 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.

Policy Implications and Recommendations

For Microfinance Banks

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

ii. MFBs should seek long term capital from the Pensions and Insurance Companies in the country. This will enable them grant larger volume of loan and to greater number of people who will improve their outreach level;
iii. MFIs should ensure and strive to put in place procedures, policies and products that will enhance the participation of both men and women in their various programmes in order to achieve gender responsiveness and equity; and
iv. The MFIs should design appropriate products that are flexible enough to meet the different needs of the poor for both production and consumption purposes.

For Government

i. Government should urgently tackle the problems of infrastructural development and maintenance. These include electricity, water and efficient transportation system which impact greatly on the standard of living of the people;
ii There should be provision of incentives by government to sustain MFIs in order to further extend their services to the rural areas;
iii. Capacity building of MFIs in Nigeria should be mandatory so as to develop appropriate policies that will enhance sustainability and stability; and

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