MICROFINANCE AND POVERTY ALLEVIATION:

A CASE STUDY OF AHMADU BELLO UNIVERSITY MICROFINANCE BANK (A.B.U. MFB) , ZARIA.

BY

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DECLARATION

I declare that this thesis titled "Microfinance and Poverty Alleviation: A case study of Ahmadu Bello University Microfinance Bank, Zaria" has been written by me in the Department of Economics under the supervision of Prof. G.D. Olowononi and Dr. M. Duru.

The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for another degree or diploma at any university.

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CERTIFICATION

This thesis titled "Microfinance and Poverty Alleviation: A case study of Ahmadu Bello University Microfinance Bank, Zaria" by DANRAKA N. Dari meets the regulations governing the award of the degree of Master of Science (Economics) of Ahmadu Bello University, Zaria, and it is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis is dedicated to my father, Alhaji Dari Mustapha; my late mother, Hajiya Aishatu Dari (Lanti) and late grandfather, Alhaji Mustapha Danraka, may their soul rest in perfect peace, amin.

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ABSTRACT

Poverty has such an adverse effect that those under it remain trapped in a vicious circle because access to basic necessities of life is lacking or inadequate. The antipoverty programmes of the federal government were targeted at the rural and urban poor with emphasis on women and unemployed youth. The intervention took the form of the provision of basic infrastructures to facilitate rural development as well as provision of credit facilities to improve the lot of the underprivileged by encouraging micro-enterprises in the cities and training programmes for the unemployed youths. This was done because it was realized that Structural Adjustment policies did not achieve steady economic growth and poverty has become more acute as evident among the rural and urban dwellers. The objective of this study was to examine the impact of microfinance banks on poverty alleviation using the Ahmadu Bello University microfinance bank as case study. Both primary and secondary data were collected and used. Also, descriptive statistics were used. The results showed that microfinance banks enhanced rural and urban development; there was improved savings mobilization which improved credit facilities which in turn improved the lot of the rural and urban dwellers by the larger output from micro-enterprises. Data were analyzed by the use of simple percentage and Chi-square statistics. It was found that microfinance banks contributed to poverty reduction. It was concluded that Ahmadu Bello University Microfinance Bank charges high interest rate because of their incapacity to mobilize its funds from the local community but rather borrowing from other banks; thus this has continued to undermine the contribution of microfinance banks to poverty reduction. More study on the design, effects and effectiveness of these antipoverty banks are needed.

CONTENTS

Title Page ---------- i

Declaration ---------- ii

Certification ---------- iii

Dedication ---------- iv

Acknowledgement ---------- v

Abstract ---------- vi

Contents ---------- vii

List of Tables ---------- viii

List of figures ---------- xii

1.0 Chapter One: GENERAL INTRODUCTION

1.1 Background of the study---------- 1

1.2 Statement of problem---------- 5

1.3 Objectives of the study---------- 7

1.4 Research Question/Hypothesis---------- 7

1.5 Justification /significance of the study ---------- 9

1.6 Organization of the study ---------- 9

1.7 Limitation ---------- 9

2.0 Chapter Two: LITERATURE REVIEW

2.1 Definitions of key terms ---------- 11

2.1.1 Microfinance ---------- 12

2.1.2 Microfinance Banks ---------- 12

2.1.3 Credit/ Loan ---------- 12

2.1.4 Micro-credit ---------- 12

2.2 Theoretical Literature Review ---------- 13

2.2.1 Empirical Literature ---------- 19

2.2.2 Local Government Areas ---------- 26

2.2.3 Established Poverty Line: Poorest of the poor ---------- 29

2.2.4 Established Poverty Line: Horizontal Results ---------- 30

2.3 Theoretical Framework ---------- 34

2.4 Goals of Microfinance Banks ---------- 36

2.5 Brief History of Microfinance ---------- 37

2.6 Review Of Some Microfinance Banks ---------- 38

2.6.1 The Shore Bank ---------- 38

2.6.2 The Grameen Bank ---------- 38

2.6.3 The Bangladesh Rural Advancement Committee (BRAC) ---------- 39

2.6.4 An Overview of the Characteristics and Policy of Microfinance

Institutions in Nigeria ---------- 40

2.7 Community Banks ---------- 42

3.0 Chapter Three: RESEARCH METHODOLOGY

3.1 History Of The Study Area ---------- 50

3.2 Source of Data Collection ---------- 51

3.3 Instrument of Data Collection ---------- 51

3.4 Sampling Method (Techniques) ---------- 52

3.5 Sample Size ---------- 52

3.6 Statistical Techniques ---------- 52

3.6.1 The Chi- square (X^2) Test ---------- 52

3.7 Variables on Which Data Were Collected ---------- 53

3.8 Descriptive Statistics ---------- 54

3.9 Interest Rate Regime ---------- 54

4.0 Chapter Four: DATA PRESENTATION AND ANALYSIS

4.0 Introduction ---------- 55

4.1 Brief History Of A.B.U. Microfinance Bank And Its Activities ---------- 55

4.2 Socio- Demographic Profile Of The Respondents ---------- 57

4.3 Individual Savings And Income ---------- 59

4.4 Condition Of Loan ---------- 62

4.5 Health And Medical Services ---------- 63

4.6 Summary Of Findings ---------- 64

Chapter Five: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary ---------- 66

5.2 Conclusion ---------- 67

5.3 Recommendations ---------- 68

Appendices ---------- 70

References ---------- 79

LIST OF TABLES

Table 2.2.1 Poverty levels in Nigeria from 1980 – 2004 ---------- 20

Table 2.2.2 Poverty levels by Proportion From 1980 – 2004 ---------- 21

Table 2.2.3 Relative Poverty Incidence by Sector and Region for 1980 –2004 ---------- 21

Table 2.2.4 Regional Poverty Rate for 1980 – 2004 ---------- 23

Table 2.2.5 State with Highest Incidence of Poverty ---------- 23

Table 2.2.6 states with lowest incidence of poverty ---------- 24

Table 2.2.7 Self Assessment of poverty by State (Some Selected States) ---------- 25

Table 2.2.8 Aged Group by relative Poverty Incidence ---------- 26

Table 2.2.9 Established Relative Poverty Line for Giwa by Income Sources ---------- 27

Table 2.2.10 Established Relative Poverty Line for Kaduna South by Income Sources ----- 28

Table 2.2.11: Established Relative Poverty Line for Kaduna North by Income Sources ---- 28

Table 2.2.12: Established Poverty Line for Poorest among the Poor: Vertical Analysis ----- 29

Table 2.2.13 Poverty Line: Giwa ---------- 31

Table 2.2.14 Poverty Line Kaduna North ---------- 31

Table 2.2.15 Poverty Line: Kaduna South ---------- 32

Table 2.7.1 Antipoverty Programmes by the Government of Nigeria ---------- 47

Table 4.2a: General information of respondents ----------

Table 4.2b Distribution of respondents based on type of marriage, number of children and religion. --- 58

Table 4.2c Distribution of respondents based on educational and accommodation status --- 58

Table 4.2d Children and educational status ---------- 59

Table 4.3a: Distribution of respondents based on occupation, duration in business and if they have savings ---------- 59

Table 4.3b: Distribution of respondents based of source of investment and awareness of microfinance loan ---------- 60

Table 4.3c: Distribution of respondents based on application of loan, type of loan, and duration before granting. ---------- 60

Table 4.3d: Demand of collateral and kind of collateral offer ---------- 61

Table 4.3e: Status of savings and income in the last 12 months ---------- 61
Table 4.4a: Perception of interest, Lending condition and strictness on loan repayment ---- 62
Table 4.4b: amount received as loan, repayment period and condition for repayment ------- 62
Table 4.4c: loan granted, for how long, and problem of paying on schedule ---------- 63
Table 4.6.1 Chi-Square Tests ---------- 65

LIST OF FIGURE(S)

FIG.1 Keynes Theory of Interest Rate ---------- 35

CHAPTER ONE

GENERAL INTRODUCTION.

1.1 BACKGROUND TO THE STUDY.

Poverty is defined in many ways by a number of rural and urban characteristics. It is strongly influenced by education, age, the nature of employment and level of income among others. The level of income has been used to construct poverty line. This is the value of income necessary to purchase the minimum standard of nutrition and other necessities of life.

In Nigeria, the poverty line (at 1985 prices) of N395 per person per month and the extreme poverty line of N198 per person per month is used to designate the poor and extremely poor respectively (World Bank Report, 1996). In Nigeria, those without education account for most of the poor. According to the World Bank Report, about 79% of the urban extreme poor and 95% of the rural poor had only primary education or less.

Poverty has such an eroding effect that those under the poverty line remain trapped in a vicious circle of poverty. In such a situation, access to basic necessities of life eludes them and it takes the intervention of the government in most cases for them to be rescued from their plight. In response to their plight and as part of its social responsibility, the government undertakes poverty alleviation programmes targeted at this group. In Nigeria, these poverty alleviation programmes come in many forms. Some are sectoral in nature, while others are multi-sectoral. In whatever nature or form the programmes are, the primary objective remains the same – how best to reach the poor communities in the society.

Government provides funds either through direct statutory budgetary allocations or through sectoral allocations to execute poverty alleviation programmes. The question now is whether

these budgetary allocations have been adequate, well managed and have alleviated poverty in Nigeria?

Zaria, one out of the eight local governments along with Sabon Gari, Soba, Makarfi, Kubau, Kudan, Ikara and Lere that constitutes zone one area of Kaduna state with a population 408,198 is the highest followed by Lere Local Government 331,161 and the least is Markarfi with 146,259 people. The Local Government (Zaria has received increased subvention and grants from federation account of almost N1.6billion from June 1999 to May, 2003; N4.2billion in June 2003 to May 2007 and N5.8billion in June 2007 to June 2010. KADSEEDS doc.

Majority of these people in Zaria are known to engage in farming as a means of earning livelihood. The bulk of it is subsistence –farming for family consumption. Others are engaged in small and medium scale enterprises like cloth making-tailoring, tie and dyeing of clothes, leather works, laundry services; blacksmith, roadside mechanics, sale of 'suya' and frying yams and 'akara' either along the road or in their houses, sale kuli-kuli, etc; some women do weaving for neighbours which they receive a small token. These activities are usually on small scale capital outlay. As such, these economic activities if observed closely contribute little for the sustenance of an individual or a household. There is a need to expand in order for it to bring a meaningful growth and development of a society.

Widespread poverty is one of the major problems of mankind and its alleviation is one of her major agenda (Zubair et al 2008). Successive Nigerian Governments have at one time or the other pursued national goals through the introduction of different programmes to alleviate poverty. Such programmes are either aimed at alleviating people's sufferings or are to convince them to adopt innovative practices which are meant to achieve new socio-economic development (Fasoranti 2006). People perceived poverty as a threat to the very existence of

human kind and that unequal distribution of global wealth has exacerbated the problem of developing countries (Duru 2008). Many nations of the world especially developing economies like Nigeria experience poverty having at its base lack of basic needs (food, clothing and shelter). The awareness of the lowest level of poverty has been with the nation for decades and successive governments have developed several policy packages to tackle the problem yet a significant number remain poor especially in the northern part of the country (Soludo 2006).

The fourth National Development plan emphasized an increase in the real income of the average citizen and more even distribution of income among individuals and socio-economic groups among others as a way of dealing with poverty. Programmes like River basin Development Authorities (RBDA), Agricultural Credit Guarantee Scheme (ACGSS), Rural Electrification (RES), Rural banking Scheme (RBS) and Agricultural Development Programme (ADP) were initiated by governments or in collaboration with international agencies in order for it to have effect on poverty alleviation.

More recently, with the coming in of an elected democratic government in 1999, the NEEDS, 7-Points Agenda, Millennium development Goals, and other policy packages all contain in them objective of poverty alleviation.

Experts in China estimated that small and medium scale enterprises (SMEs) are now responsible for about 60 percent of China's industrial output employing about 75% of the workforce in Chinese cities and towns. Similarly, in Indonesia, SMEs account for 98 percent of employment creation and growth with Japan and Thailand contributing 81 percent and 78 percent respectively.

SME provided practical solutions to such challenges as poverty and declining household income to meet family basic needs such as food, school fees and access to health services

among others (Gono 2006). In Nigeria, the SME contribute about 70 percent of total industrial employment accounting for only 10-15 percent of total manufacturing output (Salami 2003).

Despite vital role play by SME in development every where, it was constrained by inadequate funding and poor management (Ogujiuba et al 2004). They lacked access to finance; their perceived risk and lack of collateral made formal financial institutions like commercial banks and others reluctant to lend to them (Gono 2006). Informal financing which consists of personal savings, borrowing from friends, credit from cooperative societies provide more finance opportunities to SMEs but lack the capacity and regulatory framework to impact more significantly on the financing needs of SMEs (Musilimat 2005). According to Soyibo, (1996) the non-institutional sources of credit were still much more important than institutional source in Africa. Informal savings and loan associations were reported to have been utilized by local population. As much, this necessitates the need of a microfinance policy which recognizes the existing informal institutions and brings them within the supervisory preview of the CBN. It is as a result of these that CBN in 2005 decided to present a National Microfinance Policy Framework for Nigeria so as to enhance the provision of diversified microfinance services on a long term, sustainable basis for the poor and low income groups. (CBN 2005).

Robust economic growth cannot be achieved without putting in place well focused programmes aimed at achieving reduced poverty through empowering the people by increasing their access to credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self reliant. Increase employment opportunities, enhance household income, create wealth, gain access to quality education and better health facilities.

1.2 STATEMENT OF THE PROBLEM

With a population estimated at about 140 million, Nigeria is the largest country in Africa and one-sixth of the world's black population (National Bureau of Statistics 2007). Nigeria is the 8th largest oil-producer and the 6th largest deposit of natural gas in the world. Currently, barely 40 percent of its arable land is under cultivation. With over 100 tertiary institutions producing more than 200,000 graduates per annum, the basic human capital for progress is there yet the Nigerian economy (on the average) has stagnated since 1960 to date. The country's poverty situation has worsened consistently such that by 1999 when the new democratically elected government came to being, the incidence of poverty has reached an estimated 70 percent despite the growth in the nominal GDP (Soludo 2006).

In a household survey by the FOS, it was indicated clearly that the incidence of poverty in Nigeria had worsen most especially with the northwest geopolitical zone having 77.2 percent of the total population as poor; northeast 70.1 percent north-central 64.3percent; south east 53.5 percent. These groups of poor, lacked access to formal financial services. (NEEDS Document.)

In Nigeria, the formal financial system provides services to about 35 percent of the economically active population while the remaining 65 percent of the economically active population (working or able-bodied individuals) are excluded from access to financial services (loan). This 65 percent are often served by the informal financial sector through money lenders or credit unions that often charged them comparatively high interest rates. The non-regulation of the activities of these informal actors has serious implications for CBN ability to promote monetary stability and sound financial system (CBN 2005).

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions (commercial banks and other institutions)

microfinance is created in response to the missing credit market for the poor. The problem here is that government has in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural banking Programme(1977-1990), Sectoral allocation of credits, a concessionary interest rates and the Agricultural credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of NACB Ltd., the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN,1987-1990), the Community Banks (CB,1990-2005), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

Despite all these efforts, a higher percentage of Nigerian is still poor. Also, studies by Zubair (2008) found out that microfinance institutions charge interest rate as high as up to 100% for lending and pay as low as 5% on savings.

The existing microfinance in Nigeria serves less than one million people out of 40 million being the potential number that need the service (Zubair et al 2008). Also the aggregate micro-credit facilities in Nigeria, account for about 0.2 percent of GDP and is less than one percent of total credit in the economy.

Despite all the programmes established by the Federal Government of Nigeria to provide resources for development of small scale enterprises in Nigeria, they still suffer from scarcity of funds, either to start up business or expand existing ones. Small scale enterprises have

limited access to institutional credit sources because of the high risks with which many of them are associated.

Given the complex nature of poverty together with the current microfinance intermediation approach, it has become difficult to assess whether such a programme does alleviate poverty. This study will investigate the role played by A.B.U. Micro-finance Bank in alleviating poverty by providing individuals with low income an opportunity to borrow and invest; and the challenges facing the bank in discharge of its functions.

1.3 OBJECTIVES OF THE STUDY

The general objectives of this study are to evaluate how Ahmadu Bello University Microfinance Bank (A.B.U. MFB) has alleviated poverty among people in its community. The specific objectives are as follows:

i. To examine the conditions of the bank on borrowing and repayment.

ii. To investigate the interest rate charged by the bank.

iii. To examine the impact of credit (loan) by A.B.U. MFB on the income of the poor and low income earners.

1.4 RESEARCH QUESTIONS/HYPOTHESIS

The research hypothesis is:

H_o: $\alpha = 0$ (Credit or loan by ABU MFB does not have a positive impact on the poverty level in Zaria.

H_1: $\alpha \neq 0$ (Credit or loan by ABU MFB has positive impact on the poverty level (welfare of the low income earners in Zaria).

1.5 JUSTIFICATION SIGNIFICANCE OF THE STUDY.

Microfinance is the provision of a broad range of financial services to low-income micro enterprises and households. The range of financial services usually includes savings, loans, insurance, leasing, money transfers and others.

United Nations referred to year 2005 as international year of micro-credit. (Bakhtiari 2006). Also at the micro-credit summit held in 2006; it set its attention to achieve the goals set forth in the MDGS by 2015 of reaching to 125 million around the world and alleviating their poverty. In Nigeria, the coming of a democratic government in 1999, the NEEDS document and the 7-point Agenda of the recent past government all contain in them an objective of poverty alleviation.

Therefore, a clear appraisal of this microfinance institution would help in establishing the relationship between increase access to credit and income. It is also likely to see how far fetched are the objectives of a number of policy packages (NEEDS, 7-Point Agenda, MDG) being close to reality or otherwise.

The research work is important in the sense that poverty level is rising in Kaduna State and Zaria local government. Also there is a need to examine the relationship between access to credit and increase income that will in turn increase savings; investment and promote economic growth and development of the immediate community.

Furthermore, there is a need to compare the microfinance institutions with convectional commercial banks most especially in the areas of poverty reduction.

This thesis could serve as a reference material for study on other microfinance institutions in Zaria and for policy making.

1.6 ORGANISATION OF THE STUDY.

This research work will consist of five chapters: Chapter one which is on general introduction contains background to the study, problem statement, objectives of the study, research hypothesis, significance of the research and limitation of the research.

Chapter two is on the literature review. These include conceptual literatures, theoretical literatures and empirical literatures.

Chapter three deals solely with research methodology which contains the history of the study area, source of data collected, instrument of data collection, population, sampling technique, descriptive statistics, instrument of analyzing the data and a test procedure.

Chapter four of the work deals with the presentation of analytical data, interpretation and analysis of results of the findings.

Chapter five of the work bears the summary, conclusion, and recommendation of this research work.

1.7 LIMITATION

The major limitation of the thesis is the small sample size. Rather than taking samples across Kaduna State, we focused on the Ahmadu Bello University Microfinance Bank, Zaria only. Consequently, the results of the study should be taken with caution. Besides, since some of the people that were chosen for the study (respondent) were not familiar with the researcher, they were reluctant in filling the questionnaire and when they did, they did not provide true data. Also, the bank officials in the process of seeking for ethical permission in order to carry out the research were not willing to release information despite the official introduction letter by the Department of Economics, Ahmadu Bello University, Zaria. Ahmadu Bello University

Microfinance bank was chosen because it is thought by the researcher to be the largest bank for gathering that information.

CHAPTER TWO

LITERATURE REVIEW

2.1 DEFINITION OF KEY TERMS.

2.1.1 Microfinance (MF): Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. First, the smallness of loans advanced and or savings collected; second, the absence of asset-based collateral; and third, simplicity of operations. (CBN2005)

Microfinance is the provision of a broad range of financial services to low-income micro enterprises and households. The range of financial services usually includes savings, loans, insurance, leasing, money transfers, and others. (Bakhtiari2006)

Microfinance is the provision of financial services such as credit (loans), savings, micro leasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses.(Irobi 2008).

2.1.2 Microfinance banks (MFBs): These are institutions that were established to provide financial services to the active poor. Microfinance Institutions, (MFIs) can be non-governmental organizations (NGOs), saving and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions (Ledgerwood 1999). This policy seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through privately owned banks. This scheme gives small loans to households lacking access to formal sector banks.

2.1.3 CREDIT (LOAN)

The term credit and loan have been used interchangeably. There is no doubt about the role of credit in expansion of income especially if it is used for productive purposes and not for consumption purposes. Scholars have noted its indispensability in the process of socio-economic transformation. Also credit contributes to economic growth and development by enhancing production and productivity, and thus higher income and better quality life for the people (Ijere 1975).

Credit can be considered from its ability to energize or motivate other factors of production. In such a situation, credits acts as a catalyst that activates the engine of growth, enables it to mobilize its inherent potentials and to advance in the planned or expected direction (Okpi 1962).

In simpler form, credit is a repayable loan, either in cash or kind, given out by banks or other sources. The loan is given to enable individual household or firm to improve his operations (Akinsanmu 1999).

2.1.4 Micro credit: Microcredit is the provision of small amount of money as loan to the poor or low income earners usually without tangible collateral asset but with a reputable guarantor or being a member of a group. The size of the loan may vary, but is often small and the time for repayment is everything between 30 days to 24 months, and sometimes even longer. The micro credits are normally carried out without any back-up as security and are intended to give the client a chance to improve its living standards. Micro credits are known to be the building stone in microfinance.

2.2 THEORETICAL LITERATURE REVIEW

The orthodox view of development was seen in terms of growth of the gross national product(GNP), the eradication of widespread poverty, a reduction in inequalities and the removal of the spectre of rising unemployment , all within the context of a growing economy(Olopoenia,1983).

Development economics has found expression in the 'redistribution with growth' strategy and also in the 'basic needs' strategy. The former strategy stresses the redistribution of economic opportunities in an egalitarian manner while the latter emphasizes the need for development to guarantee a decent livelihood to the majority of the population. The basic needs to be met include adequate food, shelter and clothing; access to health facilities and education; and greater employment opportunities. Lack of these needs is both a symptom and a cause of poverty (Olopoenia, 1983:23). The opinion and attitude of policy makers over the poverty issue differed between the adoption of growth-enhancing policies and the adoption of poverty-focused strategies. The former was very popular in the 1950s and 1960s and it was presumed that there was a trickle-down effect of growth on poverty. In the 1970s the pendulum swung in favour of strategies focused on poverty. The change was prompted by the notion of basic needs and the premium accorded distributional objectives. The 'basic needs' strategy faded away in the 1980s when the world moved into recession and the imperative of introducing structural adjustment programme came to be acknowledged globally. The primary policy focus then came to be on the achievement of sustainable economic growth, while distributional objectives and poverty alleviations were abandoned. Since 1990s the issue of poverty alleviation has been back in the international discussions. The International Labour Organization (ILO), has kept the poverty issue on its agenda and has maintained that poverty is a threat to humanity everywhere. It brought the necessity for poverty alleviation to the forefront of the world. Other international bodies like UNCTAD and The World Bank are

now paying much more attention to poverty. The Inter-American Development Bank has actually adopted a policy commitment, whereby half of its loans contributed directly to poverty reduction (Courier, 1994:50). The recent multiplication of non governmental organizations (NGOs) in many developing countries constitutes yet another visible force in the poverty alleviation campaign.

An important poverty indicator is the size of the household. The size of the household has a profound effect on poverty as does education. For example, the Federal Office of Statistics (FOS) in its national consumer survey of 1996/97 observed that 95.1% of households with less than four persons were above the poverty line, whereas 95.7% of households with twenty or more persons were under the poverty line. The policy implication is that the reduction of the size of the household is a key element in the eradication of poverty.

Other studies saw poverty in terms of physiological deprivation. For example, the basic human needs (BHN) approach to poverty alleviation shifts attention from the traditional poverty indicators by explaining poverty in terms of physiological deprivation resulting from lack of access to basic needs and goods. The ILO World employment Conference of 1996 nurtured the idea of BHN, in which two groups of basic needs were identified. First are the physical requirements of the household for its survival. These include adequate food shelter, potable water, primary health care and sanitation. Second is the provision of public transportation and electricity for the community.

Also UNDP (1998), defined poverty as measured in terms of income (income poverty). It observed that an annual growth rate averaging 8 - 9 % of GDP which will in turn result in an average of 5 – 6 % increase in per capita GDP is required to make significant inroads into income poverty alleviation. In assessing Nigeria's performance in that area, the study observed that between 1975 and 1998 (a period of 23 years), Nigeria achieved high growth

rates only in five years. According to the report, for the remaining period, it had negative growth rates in six years, and a negative or zero per capita growth rates in the other 12 years. Consequently, income poverty increased.

Similarly, the FOS and World Bank agreed to a two-third mean per capita household expenditure to indicate extreme poverty. It was on this basis that N395 and N198 per person per month were fixed as absolute poverty line and extreme poverty line. By this definition of the incidence of poverty, the number of people who fell below the poverty line was 43% (36.1 million) in 1985, but reduced to 34% (34.7 million) in 1992. However it has considerably increased since then to the extent that about half of the total population – 48.5% (55.8 million) is below the poverty line in 2003.

Many economists have argued that macroeconomic mismanagement and political crisis were the bane of poverty alleviation. These have resulted in high inflation rate, exchange rate volatility, low output production and low economic growth. It would be admitted that in whichever way or approach Nigeria's poverty is measured or considered, the results would indicate that despite seemingly notable attempts on the part of the government to minimize poverty, if not eradicate it by making budgetary provision for poverty alleviation programmes, little or no success has been recorded.

Prior to the structural Adjustment Programme (SAP) in 1986, the Federal Government (FG) initiated a number of poverty alleviation programmes and projects and allocated a large amount of funds for them. Such programmes and projects were noticeable in the agricultural, educational and health sectors of the economy. For instance, there were such programmes as Operation Feed the Nation (OFN), Green Revolution, and Universal Primary Education (UPE). Owing to the relative stability in the economy, more especially in the mid- 1970s, the proportion of the population under the poverty line did not give cause for concern. When the

poverty line was first measured at the national level in 1980, the level stood at 27.2%. By 1985, however, the level of poverty went up to 43% (FOS, 1999).

Under the SAP, a number of poverty alleviation programmes were introduced by the government- directly or indirectly. For instance, the National Planning Commission (NPC) set up a Poverty Alleviation Programme Development Committee (PAPDC). The committee consisted of representatives from government agencies (NPC, the Federal Ministries of Finance, Health, Education, Agriculture, and Labour and Productivity), non-governmental organizations, community development associations (CDA) as well as academics and business communities.

The PAPDC's main task was to advise the FG on the design, coordination and implementation of poverty alleviation programmes (PAP). The World Bank, UNICEF and UNDP assisted the PAPDC by providing technical and financial support through workshops, beneficiary assessments and consultations in rural and urban communities. These programmes for the poor, apart from those directed at particular sectors of the economy, had multi sectoral programmes as well. For instance, the National Directorate of Employment (NDE) has in its programmes:

a. Vocational skills development

b. Special public works programmes

c. Support of small scale enterprises

d. Agriculture employment programme

The Directorate of Food, Roads, and Rural Infrastructures (DFRRI) programme was established to improve the rural areas, while the Better Life/Family Support Programme (BL/FSP) had number of programmes for rural women in such areas as agricultural and

extension services, education and vocational training, cottage industries, food processing, primary health care and deliver, and enlightenment/awareness and cooperatives.

Under the sectoral programmes, the National Agricultural and Land Development Authority (NALDA) was set up. Also introduced for agricultural development were the strategic grain reserve programme – a programme for accelerated wheat production, the development of fish farming, small ruminant production, pasture and grazing reserves, etc. the programme were aimed at promoting the utilization of land resources through subsidized land development, the supply of farm inputs, services and credit, extension services to farmers and institutional support for produce marketing cooperatives.

In the health sector, the primary health care scheme and the guinea worm eradication programme were introduced. In the educational sector, nomadic and girls' education programmes were proposed. The housing sector had a site and service scheme, as well as a low-cost housing programme, while the transport sector had the Federal Urban Mass Transit Scheme.

A number of programmes were also initiated in the financial sector. These included: the National Economic Reconstruction Fund (NERFUND), the rural banking scheme, the People's Bank of |Nigeria (PBN) and the Community Banking Scheme (CBS).

These programmes and projects were specially aimed at reaching the poor under the poverty alleviation programme of the Federal Government. Some of the programmes remained on paper, others collapsed shortly after their initiation.

Studies have shown that despite the number of programmes and the budgetary allocations for them, the incidence of poverty has been increasing progressively. For instance, the incidence of poverty increased between 1980 and 1985, and between 1993 and 1996. However, there

was a decrease in the level of poverty between 1985 and 1992. A further analysis of the incidence of poverty during the period indicates that between 1980 and 1996, the proportion of the core poor moved from 6.3 percent in 1980 to 12.1 percent in 1996.

The implication of this is that the programme, as well as budgetary allocation for population. The failure of these programmes to make a reasonable impact was due to inadequate resources devoted to them or mismanagement of such resources or both. Hence the quantum of government's resources devoted to the poor, as well as how they sustained long-term growth which benefits the poor depends critically upon increasing the access of poor people to finance and essential infrastructures to enable them increase their human capital and make full use of their main asset which is mostly labour. However, studies have shown that though the numbers of poverty alleviation programmes were many, they were under funded, either through direct budgetary allocations of through the sectors they fell into.

Another major problem that aggravated the incidence of poverty was the frequent and inconsistent policy change. For instance, with the introduction of SAP in 1986 along with the poverty alleviation programmes that followed, poverty declined in general terms between 1986 and 1992. With the enabling policy measures in place, locally grown grains were suddenly able to compete with imported ones, while cocoa, rubber and other exports earned more income especially with the abolition of marketing boards. Consequently, most farming families gained from this change, where either food crops or cash crops could be grown for export. Agro-industry also gained from increased agricultural output. However, this did not continue as the events after 1992 led to deterioration in the economy, thus and poverty increased. Another major problem that were against poverty alleviation programmes was the increased distortion in the economy, resulting from, among other things, wasteful public spending on non sustainable large public sector projects and support for inefficient programmes such as: the River Basin Development Authorities, the erection of silos, input

subsidies (e.g., on fertilizers), and the National Agricultural Land Development Authority (NALDA).

No doubt, both unemployment and underemployment have intensified the level of poverty. The unemployment and under employment can be attributed to:

a. The NDE programme for employment generation for school leavers at all levels has lost its impetus from 1992 till date.
b. The death of the DEFRRI and other rural programmes which provided rural infrastructures and opened up employment opportunities in the late 1980s.
c. The abandonment of the Better Life Programme for rural dwellers which enhanced employment opportunities for rural dwellers at its inception and were abandoned in 1994 with no functional alternative. The FEAP, established in late 1994 to replace the Better Life Programme never took off, despite the huge sum of money assigned in statutory allocations, though an administrative set up was effected at the end of 1997,

2.2.1 EMPIRICAL LITERATURE

To understand poverty in Nigeria as a whole and for policy makers to be able to allocate resources efficiently for poverty reduction, three factors were examined: They were nature of income inequality in rural and urban areas, the extent and the severity of states and regional inequalities and the causes of these disparities A recent work by Ibrahim Elbadawi et al (2005) stressing out the need to Support policies addressing inequality emphasized that to eradicate poverty on the scale and scope called for by the Millennium Development Goal and that simply defining poverty and pro poor growth was not enough, but clear understanding must be brought to the dynamic relationship between inequality and poverty reduction such that policies intended to address and alleviate poverty must accommodate the variable elasticity of poverty with respect to inequality. Also such policy must be focused to reduce

inequality especially in highly unequal economies. Two ways through which policy could address the issue of inequality were:

a. Policy should address it directly or through progressive redistribution scheme.

b. Policy should address it indirectly by increasing the opportunities of the disadvantage.

Poverty has been recognized as a handicap to development. An overview of Poverty and Inequality trends in Nigeria from five surveys conducted between 1980 and 2004 revealed Poverty incidence for 1980o as 28.1, 46.3% for 1985, 42.7% in 1992, 65.6% in 1996 and 54.4% in 2004. The population in poverty has maintained a steady increase from 18.26 million in 1980 to 68.70 million in 2004 (NBS, 2005). This increase is also reflected in the number of core poor population in the country.

Table 2.2.1 Poverty levels in Nigeria from 1980 – 2004

Year	Poverty incidence %	Estimated population (million)	Population in poverty (million)
1980	28.1	65	18.26
1985	46.3	75	34.73
1992	42.7	91.5	39.07
1996	65.6	102.3	67.11
2004	54.4	126.3	68.70

Source: Computed from National Bureau of Statistics report 2005

From the distribution of the population in poverty, estimated proportion of core poor in 1980 was 6.2%, this doubled in 1985 to 12.1% and in 2004 it recorded an increase to 22% The proportion of moderately poor was estimated to be 32.4% in 2004 as against the previous figures of 21% in 1980, 34% in 1985, 28.9% in 1992.

The spatial distribution shows a sharp contrast among zones, between 1980 to 2004, Poverty level by Zone North West, North East, and North Central, having the highest poverty with 72.2% and 71.2% and 67% in 004 as against 77.2%, 70.1% and 647% in 1996.

Table 2.2.2 Poverty levels by Proportion From 1980 – 2004

Year	**Core Poor**	**Moderately Poor**	**Non Poor**
1980	6.2	21.0	72.8
1985	12.1	34.2	53.7
1992	13.9	28.9	57.3
1996	29.3	36.3	34.4
2004	22.0	32.4	43.3

Source: Computed from National Bureau of Statistics report 2005

These figures are far above the national average estimated at 54.4% in 2004 and what was obtained in the southern part of the country. It is not surprising that the scenario in the North West and North Central as evidence by the prevailing statistics have drawn the attention of those concerned.

From the table 2.2.3 overleaf even though, the percentage of total poor in urban centres have decline from 58.2% in 1996 to 43.2% in 2004, the percentage of total poor in the rural area is still very high (69.3% in 1996 to 63.2% in 2004).

Table 2.2.3 Relative Poverty Incidence by Sector and Region for 1980 –2004

Urban %

Year	**Core Poor**	**Moderately poor**	**Total poor**	**Non poor**
1980	3.0	14.2	17.2	82.8
1985	7.5	30.3	37.8	62.2
1992	10.7	26.8	37.5	62.5
1996	25.2	33.9	58.2	41.8
2004	15.7	27.5	43.2	56.8

Rural %

Year	**Core Poor**	**Moderately poor**	**Total poor**	**Non poor**
1980	6.5	21.8	28.3	71.7
1985	14.8	36.6	51.4	48.6
1992	15.8	30.2	46.0	54.0
1996	31.6	38.2	69.3	30.7
2004	27.1	36.2	63.2	36.7

Source: NBS Report 2005

The values in table 2.2.3 revealed that poverty is still a rural phenomenon. The welfare gap (P_0/P_1 between urban and rural area was estimated as 0.3868 (urban) and 0.4989 (rural). NBS survey in 2004 shows that Poverty Incidence have increased tremendously in nine states since 1996. States affected include Jigawa, Kogi, Kwara, Kebbi, Yobe, Bauchi, Lagos, Zamfara, and Taraba. The highest Poverty incidence in 2004 were in Jigawa, Kebbi, Kogi, Bauchi, Yobe among others.

Table 2.2.4 Regional Poverty Rate for 1980 – 2004

Zone	Year				
	1980	1985	1992	1996	2004
South –South	13.2	45.7	40.8	58.2	53.1
South–East	12,9	30.4	41.0	53.5	26.7
South –West	13.4	38.6	43.1	50.9	43.0
North – Central	32.2	50.8	46.0	64.7	67.0
North – East	35.6	54.9	54.0	70.1	72.2
North – West	37.7	52.1	36.5	77.2	71.2

Source: Computed From the National Bureau of Statistics 2005 Report.

These statistics on poverty provides very useful information as to where intervention policies and programmes should be directed and further research into the nature and cause of poverty and inequality at state levels.

Table 2.2.5 State with Highest Incidence of Poverty

State	Incidence of Poverty(PO)	Poverty Gap (PI)
Jigawa	92.1	0.4967
Kebbi	90.4	0.4322
Kogi	88.6	0.5713
Bauchi	82.2	0.3573
Yobe	81.1	0.3563
Kwara	79.3	

Source: Computed From the National Bureau of Statistics 2005 Report.

From the above table 2.2.5, Kogi state has the deepest poverty gap (about 0.57) thought it is not the poorest, this is followed by Jigawa, then Kebbi, Bauchi and Kwara (NBS Report 2005). The deteriorating level of poverty is reflected in table 2.2.6 overleaf.

Table 2.2.6 states with lowest incidence of poverty

State	Incidence of Poverty(PO)	Poverty Gap (PI)
Oyo	23.4	0.0650,
Osun	28.8	.0.0807
Imo	30.8	0,0954
Bayelsa	32.4	0.1148
Abia	33.2	0.1041
Ogun	35.0	0.1093

Source: Salamatu I. Isah (2011)

Bayelsa has the deepest poverty gap of (0.1148). Within this group, even though it is not the poorest state (P0=32.4) poverty intervention, it should be considered first in the list.

Table 2.2.7 Self Assessment of poverty by State (Some Selected States)

State	Very poor	Averagely poor	Non Poor
Adamawa	34.45	46.68	18.87
Bauchi	27.01	59,26	13.73
Borno	36.86	50.87	12.27
Ebonyi	36.74	49.84	13.42
Enugu	17.24	59.53	23.23
Gombe	12.25	62.03	25.72
Jigawa	13.87	47.15	38.97
Kaduna	11.87	59.94	28.16
Kono	18.40	54.58	27.02
Katsina	5.60	67.71	26.69
Kogi	28.61	56.24	15.12
Niger	18.10	56.39	25.51
Plateau	19.42	58.33	22.25
Sokoto	17.89	59.64	22.47
Yobe	26.29	55.04	18.67
Zamfara	18.52	54.12	27.36

Source: Salamatu I. Isah (2011)

Table 2.2.8 Aged Group by relative Poverty Incidence

Year	Core poor	Moderately poor	Non poor	total
20 - 24	26.38	38.34	35.27	100
20 – 35	22.46	40.14	37.40	100
235 – 39	25.54	39.68	34.78	100
45- 49	22.29	41.11	34.36	100
55 – 59	19.32	37.82	42.86	100
65 – 69	14.03	30.38	55.59	100
70 and above	14.03	30.38	55.59	100

Source: NBS 2007 Report.

A productive economy is reflected in the nature of employment level, wage rate and the productive stock of human capital world Bank (2001) pointed out that improvement in any aspect of well being especially income tends to be correlated with improvement in other aspect (health, education e.t.c.) The implication of the statistical distribution of prevailing poverty level among age groups between 30 to 35 years and 45 to 49 years is worrisome. The contest for economy growth in the vision 2020 in Nigeria could be undermined by the existing nature of poverty is supposed to be productive working age groups is very wide, these results complements the previous findings in the frequency distribution of respondents of various income ranges showing widening gaps from one income level to another.

2.2 2 LOCAL GOVERNMENT AREAS

In Giwa Local Government Area, the results of the relative poverty lines for various locations are based on the dissertation by Salamatu Isah (2011). A relative poverty line of N94,924.18 mean per capital income expenditure was established for wages/salary income source, N55,812.92 for asset or property income and N127,873,42 for wealth income source in Giwa. The established relative poverty lines estimates show that 55% of the respondents fell below

the established poverty line in earnings source, 74% in assets and 65% in wealth. In all the three income sources, asset has the higher percentage of the poor while wealth has a larger percentage of the rich (35%). The poverty lines in this location were relatively smaller than the one obtained at aggregate level. The mean per capita incomes were and the percentage of the poor was still very high.(Table 2.2.9 below)

Table 2.2.9 Established Relative Poverty Line for Giwa by Income Sources:

Poverty Line	**Earnings**	**Assets**	**Wealth**
Mean per capita income expenditure	**N94,924.18**	**N55,812.92**	**N127,873.42**
Number of poor	130	88	129
% of poor	55.33	74.58	65.48
Number of rich	66	31	68
% of rich	33.67	26.27	34.52
Total number of respondents	196	118	197
Total money income expenditure	**N18,605,138.81**	**N6,585,924.13**	**N25,191,062.94**

Source: Salamatu I. Isah (2011)

In Kaduna South Local Government Area of Kaduna State (table 2.2.10 overleaf) the percentage of the poor was 79% while the percentage for the rich on the average was 21%. For example, the percentage of the poor in wage earnings source and wealth income source based on mean per capita households expenditure of N217541.52 and N67124.62 annually show the percentages of the poor as 79.17% and 73.08% respectively. For total asset, the percentage of the poor was 75.13%.

Table 2.2.10 Established Relative Poverty Line for Kaduna South by Income Sources.

Poverty Line	Earnings	Assets	Wealth
Mean per capital income expenditure	**N217,541.52**	**N261,627.83**	**N67,124.62**
Number of poor	152	145	95
% number of the poor	79.17	75.13	73.08
Number of rich	40	48	35
% number of the rich	20.83	24.87	36,92
Total number of respondents	192	193	130
Total money income expenditure	**N41,767,971.43**	**N50,494,172.14**	**N8,726,200.71**

Source: Salamatu, I. Isah (2011)

In The Kaduna North Local Government area of Kaduna State the mean per capital household's income was as high as the mean per capita households income expenditure in wealth. The percentage of poor using the N1,458,799.36 for earnings and N1,425,001.97 for wealth benchmark for categorization show that 95.30% of wage earners of wealth owners were poor. The percentages of the rich were relatively low in earnings and assets.

Table 2.2.11: Established Relative Poverty Line for Kaduna North by Income Sources

Poverty Line	Earnings	Assets	Wealth
Mean per capita income expenditure	**N1,458,799.36**	**N1,425,001.97**	**N1,425,001.97**
Number of poor	142	147	147
% of the poor	95.30	93.04	93.04
Number of the rich	7	11.00	11.00
% of the rich	4.70	6.96	9.96
Total number of respondents	149	158	158
Total money income expenditure	**N217,361,098.36**	**N225,150,311**	**N7,789,213.10**

Source: Salamatu I. Isah (2011)

2.2.3 Established Poverty Line: Poorest of the Poor

The analysis above only identified two classes; the poor and the rich, to determine the category of the extremely poor, Salamatu I. Isah used the already existing poor class and their sum total money income to establish another mean per capita households expenditure income.

The table 2.2.12 below provides the vertical result on the extremely poor. The table shows that 64.94% were extremely poor by wage income (earning) source, while 60.82 were also classified as extremely poor by Assets income source and 61.68% by wealth income source. These percentages are quite high with established relative poverty line as low as N109,265.83 per annum for wages and salaries earners. N22,576.54 for asset holders per annum and N131,122.74 for wealth respectively.

Table 2.2.12: Established Poverty Line for Poorest among the Poor: Vertical Analysis

Income Sources

Poverty Line	**Wages**	**Assets**	**Wealth**
Mean income expenditure	**N109,265.83**	**N22,576.54**	N131,122.74
Number of the Poor	176	96	192
% of the Poor	35.06	39.18	38.32
Number of Extremely Poor	326	149	309
% of extremely Poor	64.94	60.82	61.68
Total Number of respondents	502*	245*	501*
Total Money Income	**N54,851,446.69**	**N5,531,252.22**	**N65,592,490.98**

Note:* = Including previous number of the rich but excluding no response frequency

Source: Salamatu I. Isah (2011)

2.2.4 Establish Poverty Line: Horizontal Results

Table 2.2.13 shows that Giwa has an estimate of 76% extremely poor by wage earnings, 74% by wealth and 51% by asset respectively. Though, the poverty line for asset is lower than that of earnings and wealth, with low real income, this is not surprising as more of the respondents were wealthy enough to earn as much as N19,106.28 to purchase asset compared to N54,107.94 or N40,131.69

In Kaduna North, the extremely poor by wealth were 71.43% by assets they were 59.68% and by earnings are 70.42% respectively (see table 2.2.13). The results from all the locations showed high percentages, though the result in Kaduna North were far greater, but this can be attributed to the values established as benchmarks of the Poverty line for this location in addition to the nature of the extent of inequality. Kaduna North poverty lines values were quite high compared to Kaduna South and Giwa, thus, some respondents classified as poor (the rich among the poor) and extremely poor (the poorest among the poor) in Kaduna North could fall into the classified rich class in the other two locations (Kaduna South and Giwa) based on location established poverty line. Hence, the established relative mean per capita incomes are relative to their location.

Table 2.2.13 Poverty Line: Giwa

Income Sources

Poverty Line	Wealth	Wage Income	Assets
Mean income expenditure	**N54,107.94**	**N40,131.69**	**N19,106.28**
Number of the Poor	55	54	37
% of the Poor	42.64	41.54	42.05
Number of Extremely Poor	74	76	51
% of extremely Poor	57.36	58.46	57.95
Total Number of respondents	129	130	88
Total Money Income	**N6,979,924.84**	**5,217,119.76**	**1,681,352.70**

Source: Salamatu I. Isah (2011)Table 2.2.14 Poverty Line Kaduna North

Income Sources

Poverty Line	Wealth	Wage Income	Assets
Mean income expenditure	**N211,743.94**	**N208,176.75**	**N29,749,37**
Number of the Poor	42	42	25
% of the Poor	28.57	29.58	40.32
Number of Extremely Poor	105	100	37
% of extremely Poor	71.43	70.42	59.68
Total Number of respondents	147	142	62
Total Money Income	**N31,126,359.07**	**N29,561,098.36**	**N1,844,460.71**

Source: Salamatu I. Isah (2011)

Table 2.2.15 Poverty Line: Kaduna South

Income Sources

Poverty Line	Wealth	Wage Income	Assets
Mean income expenditure	**N104,756.03**	**N83,524.25**	**N22,449.86**
Number of the Poor	64	67	39
% of the Poor	44.14	44.08	41.05
Number of Extremely Poor	81	85	56
% of extremely Poor	55.86	55.92	58.95
Total Number of respondents	145	152	95
Total Money Income	**N15,189,624.52**	**N12,695,685.71**	**N2,137,486.43**

Source: Salamatu I. Isah (2011)

From the discussion so far, the relative poverty line established for each income source either low or high has a significant effect on growth.

Irobi (2008) undertook a study on 'Microfinance and Poverty Alleviation, *a case of Obazu Progressive Women Association Mbieri, Imo State – Nigeria'*. The study, was undertaken to investigate the question 'whether credit (loans) and saving scheme is a viable strategy to alleviate poverty in the area and especially for women. The study was based on primary data in which members of the association were given a structured questionnaire to. She administered 72 out of which 52 were returned.

The instrument of the test was a 23-item self- administering questionnaire that elicited information about respondents' biographic characteristics such as age, gender, education, income, type of business, family educational status, e.t.c.

The study was conducted in August 2007 during the association's 'August meeting' period between 14.00-15.05hours. The period was chosen because most of the members gave account of their welfare in various business based on the credit received from the association.

Findings show that microfinance loans had a positive impact on participants' income. Some of them were able to send their kids to better schools and visited qualified medical practitioners; thus increasing their welfare and raising their standard of living in the long-run.

Garba (2006) presented a paper termed 'Alleviating poverty in Northern Nigeria' at the annual convention of Zumunta Association U.S.A, Minneapolis, MN. The paper started with a general historical perspective, conceptualized poverty and how it is measured. He explained the causes of poverty, its profile in Nigeria, past attempt to alleviate poverty and why they failed. He clearly pointed out that the poor should be helped and taught how to cooperatively initiate and implement self-help projects by first identifying their needs, priotizing those needs, and providing micro finances so as to achieve the millennium development goals by 2015.

Matovu (2006) in his thesis on 'Microfinance and Poverty Alleviation, a case study of Uganda finance Trust' identified poverty as one of the most compelling challenges facing Uganda like most African countries and other parts of the world. He aimed at exploring the impact of microfinance on rural women. His work was divided into two parts- a qualitative study and a minor field study. The study was conducted in mid April 2006 in Kayunga-Central Uganda. The questionnaire and interview method were both used. Results showed that most women clients reported an increase in their income which improved their standard of living, and empowered them economically. He identified that well functioning market, entrepreneurial skills and other infrastructure that supported microfinance helps to achieve the results.

2.3 THEORETICAL FRAMEWORK

Keynes' Liquidity Preference Theory of interest rate is the theory chosen to serve as the theoretical framework that will support the topic under discussion.

Keynes' in his theory started by defining the rate of interest as the reward for not hoarding, but the reward for parting with liquidity for a specified period.

Keynes theory stated that, the equilibrium rate of interest is determined at the point where the liquidity preference or demand for money can be best represented poor or low income who needed such funds for small scale purposes in our topic; while the supply side of the funds can be best captured by the bank (A.B.U MFB) who is the supplier of the funds.

Keynes in his theory look at total demand for money (M_D) as a positive function of income (transactive and precautionary demand for money)M_1 and a negative function of interest rate (speculative demand for money (M_2).

Thus, $M_D = M_1 + M_2$

Where: $M_1 = L_1(Y)$ and $M_2 = L_2 (r)$

The equation above shows that more is demanded at a very low rate than at a higher interest rate.

This study modifies total demand for money (M_D) as stipulated by Keynes, by incorporating another new variable into the equation. This now defines total demand for money (M_D) as a positive function of income (M_1), a negative function of interest rate (M_2) and a negative function of the banks conditions M_3.

Thus, $MD = M_1 + M_2 + M_3$.

$M_1 = L_1 (Y)$, $M_2 = L_2 (r)$ and $M_3 = L_3 (n)$

Where: Y= Income, r = interest rate and n = bank's condition.

The modified new equation clearly indicates that, individuals tend to borrow more at a very low interest rate and a relaxed bank conditions by the bank. On the contrary, less is demanded at a high rate of interest and where the bank's conditions are harsh and rigid.

The supply of money M_s =(C+D) where C = currency in circulation and d = demand deposit. This total money supply (M_S) is taken to be fixed at all levels and is not responsive to changes in the rate of interest.

The diagram below illustrates the liquidity preference theory of interest rate as applied to A.B.U. MFB

FIG.1 Keynes Theory of Interest Rate

Fig.1 above shows that, the demand for money is negatively sloping; meaning that, the demand for funds by farmers is a negative function of rate of interest ® and also a negative function of the bank's conditions (n).

MM is the autonomously determined supply curve of money. Interest elasticity is zero. The two curves intersect at point A, corresponding to the interest rate and bank's conditions Orne. This became the equilibrium point, because at the point, total amount of money demanded by poor or low income is equal the total amount made available by the bank.

Also in the figure, where the bank's money supply curve shifts rightward to M_1M_1, another equilibrium condition is established at point B, Or^1n^1e showing an expansionary monetary policy which is effective in raising output in the economy. Point C is the liquidity trap where total demand is perfectly inelastic and demand is not sensitive to any further fall in interest rate.

The above theory is very relevant in explaining small scale enterprenuer and MFB loan relationship in the study area. The theory emphasizes demand for and supply of investable funds and the determinants that equilibrate the two. To show how applicable the theory is to this study, the low income earners represent the demand side while A.B.U. MFB are the suppliers of the funds; and interest rate with the bank loan conditions remains the determinants. The theory helps to explain how low income/poor are expected to respond under harsh and rigid loan conditions and at a higher rate of interest and vice versa. Thus, the researcher's contributions clearly manifested themselves in the areas of modifying the theory to suit the problem at hand.

2.4 **Goals of Microfinance Bank**

The goals of MF banks are the following:

• To provide diversified, dependable and timely financial services to the

economically active poor.

• To mobilize savings for financial intermediation.

• To create employment opportunities.

• To provide veritable avenues for the administration of the micro-credit program of government and high net worth individuals.

• To render payment services such as salaries, gratuities and pensions on behalf of various tiers of government.

• To involve the poor in the socio-economic development of the country (Egbu, 2006).

2.5 **Brief History of Microfinance**

Microfinance is dated back to the 1970s, and it was called the community banks. Borrowers had to pass two tests. Community banks attempted to show that

- People can be relied on to repay their loans and

- it is possible to provide financial services to poor people, which are done through market-based enterprises without subsidy.

In the 1970s a new wave of microfinance initiative introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the poor and underserved in the same year. Beginning in the 1980s a new approach came to work on the assumption that more market based solutions were required still focusing on income expansion and poverty reduction but searching for cost-effective alternatives, Ledgerwood (1999), Yaron et al (1998).

Local Non governmental organizations also began to look for a more long-term approach, and at about the same time Prof. Mohammed Yunus of Bangladesh who won the 2006 Nobel peace prize led the first lending scheme for landless people under the Grameen Bank in Indonesia. From 1980 onwards, the field of microfinance has grown substantially and most recently, some NGOs have started transforming into formal financial institutions that

recognize the need of savings services to clients and also to access market funding sources than rely on donor funds.

2.6 REVIEW OF SOME MICROFINANCE BANKS.

2.6.1 The Shore Bank

The first fully - incorporated microfinance and development bank was Shore bank, founded in 1973 in Chicago. This was when Millon Davis, James Fletcher, Mary Houghton and Ron Gryzywinski purchased the South shore bank at 71st Street. Shore bank has helped finance the purchase and renovation of 49,000 affordable housing residences and between 2000 and 2006 it issued nearly $900 million in loans to citizens in Chicago, Detroit and Cleveland. One of the early pioneers of microfinance was Dr. Akhtar Hameed Khan. He was a development activists and social scientist credited for pioneering micro-credit and microfinance initiatives, farmers' cooperatives and rural training programs in the developing world.

2.6.2 The Grameen Bank

The question 'whether we can eliminate poverty in our lifetime' has already been answered by Muhammad Yunus one of the pioneers of microfinance, which is the provision of loans and other financial services to the poor to start small/micro businesses and get out of poverty. He gives us hope that we can eliminate poverty in our lifetime.

An Economist Professor Muhammad Yunus was credited with disbursing the first micro loan in Bangladesh in 1974. He later went on to find the Grameen Bank (GB) and was awarded the 2006 Noble prize for his efforts. The GB was chartered to operate as a National bank in 1983, with 75 branches spread in five districts of the country. As at 1997, the bank reached about 2.5 million clients in 37,000 villages and the total amount of loan disbursed amounted to US$ 2 billion with a repayment rate of over 97% (Yunus 2001). According to the data compiled in 1998, 97% of the bank's members were women and 61% of them belonged to households with less than 0,1 acre of land and 31% owned 0,11-0,40 acre. Nearly half of the

households owned no cultivating land at all and 87% had did not go to school at all (Chowdhury 2001).

GB lending system is purely group-based and participatory. It also offers other integrated services in addition to credit like training and education in health, nutrition and home food production. The bank has a highly decentralized organization with branches that are independent profit maximizing units. Employees are said to be highly motivated to help the poor as they are compensated according to productivity and general performance.

The bank provides financial services to the poor to grow their small businesses and overcome poverty. The borrowers of the loan pay interest on the loans at its return. According to Yunus, what the poor people want most is not charity but opportunity. If the poor are given charity today and none tomorrow, it does not help in ending their poverty at all. Opportunities granted to them will go a long way in assisting or aiding their businesses thereby ending poverty. Yunus added that the key to microfinance was to design loan products that meet needs of the poor. This he explained saying that the poor would use the funds for income – generating activities and lift them selves out of poverty.

Microfinance often works through women. This is because they invest profits in the household. Based on the above, the Noble Peace Prize committee did not stop at giving the prize to only Yunus, but also to nearly 70 members of the Grameen Bank.

2.6.3 The Bangladesh Rural Advancement Committee (BRAC)

This organization (BRAC) is a non-governmental organization (NGO). It was established as a response to humanitarian need in 1972. Poverty alleviation and empowerment are the main objectives of the Bangladesh Rural Advancement Committee (BRAC). The main target-groups of the organization are women who come from poor families with their lives dominated by extreme poverty, diseases, illiteracy etc. The organization, over the years has gone through series of evolutions or transmission and came up with the status of one of the

largest Non-governmental Organizations (NGOs) in Bangladesh. They have the needs of catering to the multifaceted needs of poor women in their country (Mushtaque et al 2001). In occupation terms, also, 8% of the new members were shop traders, while no such shop-owners were presented in the borrower categories previously, 10% were doing some form of rural industry compared to fewer than 5% of old borrowers (Montgomery et al 1996). Again in 2000, BRAC reached 3.6 million participants, 97% are women, in more than 50,000 villages. Total amount given out was US$ 1 billion in that year. They had the function of mobilizing a saving amount of US$ 70 million (Mustaque et al 2001).

2.6.4 An Overview of the Characteristics and Policy of Microfinance Institutions in Nigeria

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes has contributed to the growth of private sector-led microfinance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members.

The informal microfinance arrangements operate under different names: ‘esusu’ among the Yorubas of Western Nigeria, ‘etoto’ for the Igbos in the East and ‘adashi’ in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, et al, 2003). They also operate in the urban centres. However, the size of activities covered under the scheme is difficult to determine.

The non-traditional, formalized microfinance institutions (MFIs), are operating side by side with the informal services.

In 2000, a National Conference on Microfinance organized by the Federal Government of Nigeria and the World Bank recommended that the Central Bank of Nigeria should take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation of MFIs. The workshop recognized that the development of appropriate Microfinance Policy (MFP) was critical to the development of sound microfinance practice, sustainable MFIs and by implication viable micro enterprises in Nigeria. In responding to this recommendation, the Central Bank of Nigeria conducted a baseline study of MFIs in 2001. Consequent on the findings of the study, a policy paper regarding microfinance activities was adopted in the year 2005.

As at 2009, there are 898 registered microfinance banks (Jibril, 2011). Out of which about 64% of them transformed to microfinance banks from community banks. This implied that 34% of the microfinance banks in Nigeria were a direct result of the 2005 Microfinance Policy. Since then microfinance banks in Nigeria has been increasing in number among which are Ahmadu Bello University Microfinance Bank in Samaru, Nakowa Microfinance Bank in Tudun Wada, And Zazzau Microfinance Bank in Zaria-city; all of Zaria in Kaduna State of Nigeria.

The financial services provided by the MFIs in Nigeria include savings, credit and insurance facilities. The stated objectives of the MFIs obtained through the survey exercise are summarized as:

(a) To improve the socio-economic conditions of women, especially those in the rural areas through the provision of loan assistance, skills acquisition, reproductive health care service, adult literacy and girl child education;

(b) To build community capacities for wealth creation among enterprising poor people and to promote sustainable livelihood by strengthening rural responsive banking methodology; and

(c) To eradicate poverty through the provision of microfinance and skill acquisition development for income generation.

2.7 COMMUNITY BANKS:

These are banks that commenced operation in 1990, for the purpose of ameliorating grassroots banking problems. In 1991, only 60 community banks commenced banking business having been issued with provisional license. By 1993, the number rose to 590 and the total number licensed provisionally as at June, 1995 increased to 970 community banks.

The capital, reserves, total assets and deposit liabilities of community banks grew rapidly in the first three years of their existence, while the bank investments also rose from N16.8 million in 1991 to N212.1 million in 1993. Similarly their loans and advances increased from N15.9 million in 1991 to N639.5 million in 1993. The average loan/deposit ratio of the banks stood at 20.7, 27.8, and 33.5 per cent for 1991, 1992 and 1993 respectively. These trends revealed that the banks were very cautious in expanding their loans as a way of minimizing delinquency and default.

Community banks savings/deposits and lending rates were generally in line with central bank of Nigeria's interest rates policy guidelines. The average savings/deposit rate fell from 19% in 1993 to 15% in1994; while the average lending rate also dropped from 36% during the period of deregulation to 21% in 1994 when partial regulation was introduced.

Sectoral allocation of the banks' loan portfolio in 1992 and 1993 indicated that 33.1% and 34.8% of the bank's total loans went to agriculture and Commerce respectively, while the other sectors accounted for the remaining.

Community banks operation continued to be constrained in 1998 as the lingering distress in the sub-sector remained unresolved. Also, the regulatory framework for the banks had not been fully resolved as the erstwhile National Board for community banks still exercised some supervisory powers over the banks. The number of community banks remained at 1015 as at 1997 while the licenses of those in distress were yet to be revoked as the CBN continued its verification exercise to ascertain the health of the banks in preparation for full licensing of healthy ones. The number of community banks that reported on their activities rose to 552 in June 1998 from 491 in 1997. The performance of the reporting banks in the review reflected modest improvement compared with 1997. Total assets/liabilities of the banks which amounted to N5320 million in 1998, increased by N926.6 million or 21.1% as against the decline of N554.5 or 11.2% in 1997. Capital and reserves of the banks rose from N882.8 million in 1997 to N849.3 million in 1998 while loans and advances granted also rose by 29.6% to N1946 million. Investments which stood at N82.5 million in 1997, however declined by 41.2% to N48.5 million in 1998.

The sectoral analysis of the banks' total loans and advances indicated the continued prominence of commerce and agriculture/forestry in their lending operations. While their lending increased generally, loans and advances to real estate construction and transportation/communication fell from N55.5 million and N132.1 million in 1997 to N35million and N50.6 million in 1998 respectively. The average loan or deposit rose marginally to 55.9% from 55% in 1997. (Appendix 1).

The number of community banks in operation stood at 881 in 2000. The performance of the 506 community banks that reported during the year was higher compared with 1999. However, in view of the continued dismal performance of the community banking sector over the years, the CBN intensified its efforts at strengthening the sector's performance. At N12014.7 million, total assets/liabilities of the reporting banks rose by 50.8%, compared with

N7913.4 million in 1999. Capital and reserves which stood at N2048.6 million in 1999, rose to N2773.6 million during the year, representing a rise of 35.4%. loans and advances granted also increased by 39.4%, from N2631 million in 1999, while aggregate investments rose to N450.2 million compared with its level of N436.7 million in the preceding year. The improved performance of the community banks reflected the positive impact of surveillance activities of the supervisory authorities.

The sectoral analysis of the banks' total loans and advances showed that agriculture and forestry dominated their lending operations. The sub-sector accounted for N1613.7 million or 44% of the total loans and advances. Commerce received N1302.4 million or 35.5% while manufacturing got N458 million or 12.5 %. The average loan/deposit ratio of the banks declined to 47.7% in 2000 from 51.6% in 1999 (Appendix 1).

According to Soyibo (2000) under liberalization, activities of the informal financial sector did not diminish; rather it expanded, on average. Thus, esusu collectors continued to cover more small depositors than any other informal operator in urban areas. In contrast, the savings and credit cooperatives led in the coverage of small depositors in rural areas (Soyibo, 1994). Besides, the average number of deposits mobilized by esusu collectors in urban centres increased by 75% between 1990 and 1992. However, the average number of deposits mobilized by savings and credit cooperatives remained virtually the same over the period, while that of esusu collectors increased phenomenally by over 10 –fold from 30 in 1900 to 367 in 1992.

The average amount of deposit mobilized by esusu collectors in 1992, for example, increased by more than four times its value in 1991. In fact over the period 1990 – 1992, the average amount mobilized increased by 51%. Correspondingly, among Savings and Credit Associations, and increase of 158% was observed on average.

However, average deposit mobilized by such semi-formal financial institutions can be relatively substantial. Thus, savings and loans, in spite of their relatively low number of deposits, tend to mobilize higher deposit per capital when compared with other informal units. But the average deposit mobilized by class of semi –formal institution declined by nearly three – fold between 1990 and 1991. in the case of credit unions, the average deposit mobilized was found to be constant. This is because deposit contributions in such organizations are fixed. These findings suggest that the Structuralist concept of the origin of informal finance seems to explain the working of the sector better in Nigeria.

Soyibo (1994) also found out that most informal finance group tended to improve on their initial capital base. For example, more groups indicated deriving their lending capital from mobilized deposits. These are credit unions (100%), Savings Associations (76.9%), savings cooperatives (55.6%), Esusu collectors (56.3%) and savings and loans companies (50.0%). Besides, informal finance group indicated that they practice ploughing back of profits from operations into lending capital. Among these are money lenders (55.0%), savings and loans companies (50.0%) and Esusu collectors (31.3%). This suggests that, inspite of financial liberalization and overtime, informal financial institutions in Nigeria are improving on their financial intermediation activities.

Informal finance business also witnessed steady growth in the member of loan applicants and loans granted between 1990 and 1992 in both rural areas and urban centres and among all units of the sector (Soyibo, 1994). The steady growth in the business of the sector is also witnessed along the gender dichotomy: increase in growth was observed in the number of male and female applicants/loanees. Among esusu collectors in rural areas, all those who applied for loans got during the period under study (1990 - 1992). However, among urban esusu collectors, a higher proportion of men who applied for loans got when compared to women. All those in the sample who applied for loans is savings and credit and Associations,

the savings and credit cooperatives, and the credit unions in urban centres and rural areas invariably got. This is not surprising given that members in these semi-formal institutions know themselves and there are stiff sanctions against default. This contrasts with the case of credit from money lenders where the approval rate is lower, perhaps because of the high-risk nature of the business and the fact that the loan approval rate by rural money lenders tend to be higher than that of their urban counterparts, particularly in 1991 and 1992. This can be explained by the stronger kinship ties and greater social sanctions obtained in the rural areas and which money lenders employ to advantage incase of default. These analyses show that the informal sector is still a force to be reckoned with in the provision of rural credit in spite of the implementation of financial liberalization policy.

According to Oladeji and Abiola (1998) government's effort to tackle poverty in Nigeria was the inclusion in the 1997 budget of the Family Economic Advancement Programme (FEAP). The programme was introduced to boost the productive capacity of the rural areas; enhance the establishment of productive cottage industries in the rural areas; and develop and harness locally designed and fabricated machinery and equipment for the cottage industries.

Ogwumike (1995) examined the impact of government policies on rural development and found out that programmes like the Directorate for Food, Roads and Rural infrastructures (DFRRI), the National Directorate of Employment (NDE) and Better Life Programme (BLP) had positive effect on poverty reduction by increasing the welfare of the masses.

Table 2.7.1 Antipoverty Programmes by the Government of Nigeria

Programme	Year established	Target group	Nature of intervention
Directorate for Food, Roads and Rural infrastructures	1986	Rural areas	Feeder roads, rural water supply and electrification
National Directorate of Employment	1986	Unemployed youth	Training Finance and guidance
Better Life Programme	1987	Rural women	Self-help and rural development programmes, skill acquisition and health care
People's Bank of Nigeria (PBN)	1989	Underprivileged in urban and rural areas	Encouraging savings and credit facilities
Community Banks (CB)	1990	Rural residents, Micro-enterprises in urban centres	Banking facilities
Family Support Programme	1994	Families in rural areas	Health care delivery, child welfare, youth development, etc
Family Economic Advancement Programme	1997	Rural areas	Credit facilities to support the establishment of cottage industries

Source: S.I. Oladeji and A.G. Abiola (1998)

Although more information is still required on the FEAP, the programme has some positive features. First, funding was provided by the Federal Government through other antipoverty projects, namely the People's Banks and the Community Banks. Such a measure did not only enhance the success of the programme, but put new life into the People's Banks and the Community Banks and made them more functional. Second, with more political commitment, coupled with proper monitoring and implementation, FEAP became a varitable means of promoting economic opportunities.

The federal government adopted and began implementing a structural adjustment programme (SAP) in Nigeria from January 1986. To cushion the adverse effects of the policies on the poorer segment of the society, some funds transfer institutions and programmes were established to act as a safety net for vulnerable groups. The set of institutions included the

Peoples' Bank of Nigeria (PBN), Community Banking Programme, Better Life for Rural Women, and Family Economic Advancement Programme.

The Peoples' Bank of Nigeria (PBN) was established in 1989 as a specialized development bank for the provision of financial services to the small scale enterprenuers and traders, who normally fail to qualify for loans from the convectional banking system. The Peoples' Bank of Nigeria (PBN) was 100% owned by the federal government of Nigeria and about 99.9% of its loanable funds derived from the three tiers of government. Given its policy of providing banking services to the remote areas of the country, the bank drew its customers primarily from the informal sector. As at 1995, the Peoples' Bank of Nigeria (PBN) had 745 branches and N2834.6 million deposits.

Besides, in 1990, the Babangida's administration encouraged communities to set up community Banks and the first community bank commenced operations in Kaduna in December 1990. The community banking scheme promoted rural development through the provision of banking and financial services, and by promoting the development of banking culture in rural communities, fostering the spirit of community ownership and mobilization of financial resources within communities. Community banks were supposed to provide credit, deposit banking and financial services to members largely on self recognition and personal credit worthiness (Umoh, 2004).

The Better Life for Rural Women programme targeted rural women; the Family Economic Advancement Programme (FEAP) was established as a poverty reduction programme by Decree 11 of August 12, 1997. FEAP provided capital to individuals at the ward level to enable them set up and run cottage industries. The federal government provided the initial capital to participating banks for disbursement. The programme was supervised by the FEAP Board and FEAP Secretariat. Subsequent funding was to be provided by the states, local governments, the private sector, international agencies and through loan repayment.

Umoh collected data from 164 respondents using a well-structured questionnaire and a multistage random sampling method was employed for data collection. The study covered the whole of Uyo Local Government Area. In the second state, farm households were randomly selected through a random walk method.

The primary data collected were analyzed using simple percentage and Chi-square statistics. The use of the latter was necessitated by the need to ascertain if there were differences in the respondents' perception of the impacts of Nigerian Agricultural Credit Bank (NACB) and Peoples' Bank of Nigeria (PBN) on the agricultural production.

The study shows the farmers' perception of the loan delivery procedures of the NACB and PBN. About half of the respondents (51.2%) found the loan delivery procedures difficult. Of the two categories of respondents i.e primary farmers and secondary farmers, more of the latter found the procedures difficult. Put another way, the results suggest that those who primary occupation was farming had easier access to loan from sources other than these institutions.

The study shows further that 54.9% of all respondents reported an increase in their output as a result of loans from Nigerian Agricultural Credit Bank (NACB) and Peoples' Bank of Nigeria (PBN).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 HISTORY OF THE STUDY AREA.

Zaria Local Government of Kaduna State is one among the 23 Local Governments area of Kaduna State, and one out of the eight local governments along with Sabon-Gari, Soba, Makarfi, Kubau, Kudan, Ikara and Lere that constitutes zone one area of Kaduna state (northern senatorial zone).

Zaria is a major city in Kaduna State in Northern Nigeria, as well as a local government area. Formerly known as Zazzau, it was one of the originally seven Hausa city-states. The old part of the city is known as Birnin Zaria or Zaria-city. The emir's palace is located in the old city. In the old city and the adjacent Tudun Wada neighbourhood people typically reside in traditional adobe compounds formerly although modern settlement of bricks houses has taken over. Those people residing in Samaru area where A.B.U. MFB is situated and Sabon-Gari are predominantly occupied by Nigerians of southern origin (Ibos and Yorubas).The largest market place is in Sabon-Gari. Other more recent neighborhood includes Dan'magaji, Wusasa, P.Z, Kongo, GRA-Zaria, Hanwa, Bassawa and Shika.

Geographical Location: Zaria Local Government is located in the northern part of Kaduna State. The area shares boundaries with Igabi Local Government to the South, Makarfi and Giwa to the North and West, Soba to the North-East. Zaria is situated between latitude 11^0 04 North and 07^0 42 East.

Size: Zaria Local Government has a fairly manageable land area of about 300 square kilometers (115.8 sq miles). The entire landmass is made up of an assured agricultural rich soil.

Population: According to 2006 National Population Census figures, Zaria has a total population of 408198 people both male and female with a population density of 1 360.7/ km^2, and 2.3% annual growth rate.

Ethnic Groups: The major ethnic groups in Zaria Local Government are Hausa and Fulani, along with other tribes like Yoruba, Igbo, Nupe, e.t.c. Zaria is headed by a traditional Chief called 'Sarkin Zazzau' meaning the Emir of Zaria.

Religion: The people of Zaria Local Government are predominantly Muslim and Christian with a very few who are into traditional religion.

Occupation: The people of Zaria Local Government are predominantly peasant farmers with a few business men and women; civil servants and academicians.

Major crops produced: The fertile and agricultural rich soil of the area, with a favourable weather condition, coupled with sufficient annual rainfall, favours the production of food crops such as maize, guinea corn, millet, rice, yam, cocoyam, potato, e.t.c. cash crops such as soybeans, groundnut, cassava, sugar cane, ginger, cotton e.t.c The people also engage in poultry farming and cattle rearing.

3.2 Source of Data Collection

In order to facilitate the execution of this thesis, primary data was used. Also, secondary data was used.

3.3 Instrument of Data Collection

Since the study is based on primary source of data, the instrument of data collection was basically the questionnaire. Series of questions relating to the topic were asked and each of these was valid and reliable, for the purpose of our investigation.

3.4 Sampling Method (Techniques)

Considering the nature of the research on the poor and low income earners with limited or no access to financial instruments (credit loan) in Zaria Local Government, the sampling technique that was adopted for this study was the simple stratified random sampling in which the respondents were mostly junior staff of the community. The choice of this technique is justified on the ground that, every client of the bank stands a chance of being benefited, from the microcredit scheme. More, so, every banker has an equal chance of being knowledgeable about the scheme.

3.5 **Sample Size**

Using a simple stratified random sampling technique, a sample size of fifty was selected from bank clients and three bankers from A.B.U. MFB, Samaru branch in Zaria Local Government. The sample size selected was considered as able to represent the population adequately and it was with a view of obtaining the right information at the right time and in the required level, given the fact that similar researches done in this area had roughly one hundred (100) to one hundred and fifty (150) sample drawn.

3.6 Statistical Techniques

This study employed the use of statistical technique (SPSS) for the purpose of reducing the data to a quantitative form. The research employed the use of descriptive statistics such as frequencies, tables, and cross tabulations a well as non-parametric test such as chi-square as a means towards arriving at a reasonable conclusion, which helped in achieving the objectives as stated in chapter one.

3.6.1 The Chi- square (X^2) Test.

Chi-square is symbolically defined as:

$$X^2 = \sum \frac{(O - E)^2}{E}$$

where X^2 = Chi- square

$\sum$ = summation of total value obtained

O = observed frequency value

E = expected frequency value

degree of freedom (d.f) = (R-1) (C-1)

R = number of rows

C = number of columns.

3.7 Variables on Which Data Were Collected

Application for Loan: Respondents who applied for A.B.U. MFB loan can only be useful in reflecting the conditions of granting such loans, how well/appropriate the loan were been used as well as the fairness of the interest rate on such loans and even the impact of the loan on individuals' output because it is only those who applied for the loan who can equally provide appropriate information concerning the other variables.

Assessment of Lending Condition: This variable helped the researcher to achieve the first objective – "to examine the conditions for the loan".

Perception of interest rate: This came to be the second variable employed to achieve the second objective "to evaluate the interest rate charged by the bank".

Impact of the bank's loan on income: This variable appears to be the last variable used to capture the fourth objective – "to evaluate the impact of loan on the welfare of the household".

3.8 Descriptive Statistics

Having considered the nature of this study, the researcher employed the descriptive approach, which is concerned with the collection of data for the purpose of describing and interpreting. Objective one and three- "to examine the conditions for the loan" and 'to evaluate the interest rate charged by the bank" can be achieved through the use of descriptive statistics such as frequencies tables and cross-tabulation. This is justifiable because frequency often distributes data into classes and determines the number of observations falling into each class for easy conclusion.

3.9 Interest Rate Regime: Microfinance banks and other related banks interest rate on loans is generally concessionary and discriminatory in favour of small scale enterprises and low income to which the funds are directed as dictated by the central bank of Nigeria. However, each particular bank can negotiate with its client depending on the volume of funds to be borrowed.

a. Microcredit---------- 8% per annum
b. Macro credit
    i. Agric production---------- 16.5% per annum
    ii. Agro-processing---------- 17.5% per annum
    iii. Marketing---------- 22% per annum
    iv. Cotton production---------- 7% per annum

The lowest lending rates are in cotton production and microcredit while marketing has the highest lending rates.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter presents and analyzes the result of the data collected from the field. The presentation and analysis takes cognizance of the objectives of the study. The use of tables is employed in the presentation of results. The tables are with frequencies and percentages and immediately followed is the analysis thereof.

Fifty questionnaires were administered to clients of A.B.U. MFB in Samaru area of Zaria local government in Kaduna State. All were filled and return, yielding a hundred percent return rate for analysis.

4.1 BRIEF HISTORY OF A.B.U. MICROFINANCE BANK AND ITS ACTIVITIES.

The bank was established in December, 1992 and commenced business as a Community Bank in July, 1993. It has grown consistently since that date and has created a niche for itself in the Microfinance Banking industry in the State. Pursuant to the recapitalization and consolidation in the banking sector in 2005, the bank converted to Microfinance Bank from its Community Bank status in March 2007 after it had met all the stipulated requirements as set out by Central Bank of Nigeria.

As at 31st December, 2009, the bank had a total deposit liabilities of over **N824 million** loans/advances of **N302 million** and a total shareholders fund of **N176 million**.

The bank has its Main Branch and Head Office located opposite the former Post Graduate School in ABU, Main Campus, Samaru, Zaria and now Institute of Developmental Research of the university. The bank has opened a new branch, at the Kongo Campus of the University

in Gyallesu, Zaria on 3rd June, 2010. This is to ensure that the Bank explores to the fullest the potentials and opportunities that abound in the University Community and its immediate environments. Some of the products and services its offers are:-

(i) **CORPORATE CURRENT ACCOUNT** - Current Account were opened for individuals, Businesses and Institutions to facilitate their financial transactions. Out cheques were issued and cashed at any of the two branches.

(ii) **PERSONAL CURRENT ACCOUNT** - Personal current accounts were opened for individual customers who can draw from the bank, its branch and any branch of Fidelity Bank, Plc all over the country.

(iii) **REGULAR SAVINGS ACCOUNT** - Individual and Joint Savings account were maintained with the bank. Balances on the savings accounts attract interest at 3% p.a. and withdrawals can be made from the bank, its branch and any branch of Fidelity Bank Plc all over the country.

(iv) **TENORED DEPOSIT** - Deposits of 30, 60, or 90 days were placed with the bank where yields on such investment take into cognizance progress or market trends and overall industry analysis.

(v) **STRUCTUTRED LOANS –** Loans were granted based on request from deserving customers to finance their financial needs and requirements. The loans are extended to both staff and registered Contractors of Institutions and are repayable over 12-24 months.

(vi) **SALARY ADVANCE** – Up to 50% of staff salary were granted as a temporary overdraft to staff who maintains salary account with the bank.

(vii) **COMMODITY LOANS** – Depending on season and customer needs, certain essential commodities like, Fertilizer, Rice, Vegetable oil etc. were procured and

distributed on credit to customers to be repaid over period of not more than 3 months.

(viii) **OVER THE TABLE WAGES PAYMENT - U**nder special arrangement, the bank pays out institution's Casual/Auxiliary staff monthly wages.

The bank desired to meet and even exceed delivery expectations through effective and efficient utilization of Orbit **real-time on–time** banking software and responsive Customers' Service backed by a team of well trained staff.

4.2 SOCIO- DEMOGRAPHIC PROFILE OF THE RESPONDENTS

This section examines ages of respondents, marital status, type of marriage, number of children, religion, educational background and others.

Table 4.2a: General information of respondents

Sex			Marital Status			Age		
Male	female	Single	Married	divorced	16-24	25-34	35-44	Above 45
42(84)	8 (16)	12(24)	36(72)	2(4)	5(10)	10(20)	27(54)	8(16)

Source: Field survey, 2010. Note: Percentages in brackets.

From the table 4.2a, the male (84%) respondents are more than the female (16%) respondents. 72% are married, 24% are single and 4% are divorced. 74% are of ages between 25 to 44 years. The above statistics indicates that majority of the bank clients are male and of the middle working age who have potentials of setting up small scale businesses.

Table 4.2b Distribution of respondents based on type of marriage, number of children and religion.

Type of marriage			Children				Religion		
Mo	po	others	1-4	5-8	9-12	Above12	Islm	Chr	tra
15(30)	25(50)	10(20)	12(24)	20(40)	5(10)	3(6)	28(56)	20(40)	2(4)

Source: Field survey, 2010. Note: Percentages in brackets.

mo - monogamous po – polygamous Islm- islam chr- Christians tra- traditional

From table 4.2b, 50% of the clients are polygamous while 30% are monogamous. Under type of marriage the high percentage of others is as a result of those clients that are single. 56% of the households have more than four children while 24% have up to four children. Majority of the respondents are muslims (56%).

Table 4.2c Distribution of respondents based on educational and accommodation status.

Educational status				Accommodation			
Primary	Secondary	Tertiary	Non-formal	Owned	Rented	Sharing	others
4(8)	25(50)	10(20)	11(22)	3(6)	20(40)	25(50)	2(4)

Source: Field survey, 2010. Note: Percentages in brackets.

From table 4.2c, 8% were of primary school certificate, 70% were of secondary and tertiary levels while 22% acquired non-formal education. This reveals that all of the respondents were literate. In terms of accommodation, the results indicate that only 6% lived in their own houses while 90% did not have houses of there own but had plan to build a house in the new future. Their source for their plan to build a house is savings, loans, and mortgages. 4% indicates others as the source of accommodation.

Table 4.2d Children and educational status

No of children		Of sch. Age but do not attend.		Reason	
1-2	15(30)	1	2(4)	Financial constraint	37(74)
2-4	25(50)	2	15(30)		
5-6	8(16)	3	15(50)	Lack motivation	13(26)
Above 7	2(4)	Above 4	18(36)		

Source: Field survey, 2010. Note: Percentages in brackets.

Table 4.2d shows that 30% of the respondents had 1 to 2 children, 50% have 2 to 4 children, 16% have 5 to 6 children and 4% have over 7 children. 80% have 2 to 3 children that are of school age but do not attend school due mainly to financial constraints. However 36% of the respondents had over 4 children that were of school age but did not attend school due to poverty.

4.3 INDIVIDUAL SAVINGS AND INCOME

Table 4.3a: Distribution of respondents based on occupation, duration in business and if they have savings.

Occupation				Duration in business				Savings	
Farming	Trading	Civil servant	student	1-2yrs	2-3yrs	3-4yrs	Above4yrs	Yes	no
5(10)	10(20)	30(60)	5(10)	20(40)	10(20)	15(30)	5(10)	35(70)	15(30)

Source: Field survey, 2010. Note: Percentages in brackets.

Table4.3a shows that about 30% of the respondents were engaged in trade and 50% had been in business for more than three years. Also 70% of the respondents had savings.

Table 4.3b: Distribution of respondents based of source of investment and awareness of microfinance loan.

Source of investment		Awareness of mf loan		Source of inf. on mf loan	
Personal savings	10(20)	Yes	35(70)	Mass media	10(20)
Money lenders	25(50)			Friends	20(40)
Commercial banks	3(6)	No	15(30)	Opinion leaders	5(10)
Relatives and friends	12(24)			No response	15(30)

Source: Field survey, 2010. Note: Percentages in brackets.

From table 4.3b, it shows that very few of the respondents (6%) have access to credit from commercial banks. A large number of them (50%) got their investment fund from money lenders whom are known to charge higher interest rates. Based on the awareness of mf loan, 70% are aware while the remaining 30% are not aware. Of those that are aware, 40% got information from friends, 20% from mass media and only 10% from opinion leaders. This result suggests that the organization has to seek ways of reaching out to clients.

Table 4.3c: Distribution of respondents based on application of loan, type of loan, and duration before granting.

Loan application		Type of loan		Duration before granting		
Yes	35(70)	Short term	28(56)	Less than a month	10(20)	
				1 month	15(30)	
No	15(30)	Long term	7(14)	2 months	10(20)	
				No response	15(30)	

Source: Field survey, 2010. Note: Percentages in brackets.

From table 4.3c it can be seen that of the out of the 35 respondents that are aware of microfinance loan, 28 respondents apply for short term loan and only 7 respondents apply for long term loan and that the period before granting is anything between a month and two.

Table 4.3d: Demand of collateral and kind of collateral offer.

Demand of collateral		Collateral offer	
Yes	30(60)	Land	3(6)
		Employer's cover	12(24)
No	5(10)	Guarantor	15(30)
		Group Membership	0(00)

Source: Field survey, 2010. Note: Percentages in brackets.

From table 4.3d, results of respondents indicates that all applicant for loan were required to present collateral even though some five people answered no; these may represent those people that are aware of the loan but did not apply for the loan. This then suggest that the bank has challenges as credit is not granted to people without collateral and that membership do not have weight; Perhaps the reason being that the bank is in urban settings.

Table 4.3e: Status of savings and income in the last 12 months

Savings		Income	
Increased	30(60)	Increased	30(60)
Decreased	5(10)	Decreased	5(10)
Remain the same	15(30)	Remain the same	15(30)

Source: Field survey, 2010. Note: Percentages in brackets.

The result from the table 4.3e shows that 60% of the respondents recorded increases in both savings and income while 10% recorded decreases while 30% remained the same. As such,

one can satisfactorily say that the bank has on the average been able to enhance the welfare of its clients.

4.4 CONDITION OF LOAN

Table4.4a: Perception of interest, Lending condition and strictness on loan repayment.

Perception of interest rate		Lending condition		Strictness on loan repayment	
Too high	3(6)	Very good	2(4)	Very strict	20(40)
High	15(30)	Good	25(50)	Strict	10(20)
Average	2(4)	Average	20(40)	Normal	20(40)
No response	30(60)	Bad	3(6)		

Source: Field survey, 2010. Note: Percentages in brackets.

Table 4.4a shows that respondents largely agree that interest rate are high but the lending condition is good. The none response is as a result of those people that are not aware and has not even applied for the loan. On strictness on loan repayment 40% said that the bank is very strict while 40% said it is normal.

Table 4.4b: amount received as loan, repayment period and condition for repayment.

Amount of loan		Repayment period		Condition for repayment	
N5000-N10000	5(10)	0-6mths	10(20)	Installments	25(50)
N10000-N15000	5(10)	6-12mths	20(40)	At agreed time	20(40)
N15000-N20000	10(20)	12- 18mths	15(30)	At your convenience	0(00)
Above N20000	5(10)	Above 18mths	5(10)	No response	5(10)

Source: Field survey, 2010. Note: Percentages in brackets.

Table 4.4b shows the amount received as loan, repayment period and the condition for repayment. The amount disburses as microfinance loan is small; as such it agrees with the principle of microfinance loan.

Table4.4c: loan granted, for how long, and problem of paying on schedule.

Loan granted?		Problem paying back		Duration of loan	
Yes	30(60)	Yes	5(10)	0-1ys	13(26)
No	15(30)	No	20(40)	1-2yrs	15(30)
No response	5(10)	Sometimes	5(10)	Above 2yrs	2(04)

Source: Field survey, 2010. Note: Percentages in brackets.

Table4.4c shows that 60% of the respondents were granted the loan and 40% had no problem paying back. The duration for the loan indicates that it is short term although some 4% are granted loan that extend beyond two years. The deduction from these results is that the impact of microfinance loan on poverty will be very minimal because growth and development are long term variables. When asked about how they resolve problem of paying back; some of them repay back with higher interest while others seek help from relatives.

4.6 SUMMARY OF FINDINGS

Table4.4a shows how those who filled the questionnaire assessed the lending condition of the scheme. It reveals that, out of the 50 respondents, 2 responded that the lending condition were very good, 25 responded good, 20 said average and 3 agreed that the conditions were bad.

On repayment, 20 responded that the bank is very strict on repayment, 10 said the bank is strict on repayment and 20 said normal.

Based on the above opinion of respondents on the aggregate, we can be convinced that 45 out 50 assessed the lending condition to be good while only three assessed it to be bad. This

generalization helps us to draw conclusion that the lending condition under A.B.U MFB is good but posses another problem in terms of bank strictness on loan repayment because majority of them believe that the bank is strict on repayment.

On perception of interest charged by the bank, 20 out 0f the 50 agreed that the interest was too high; 15 said it was high and only 2 said normal. Again, this result suggests that the bank charged high interest rate. Based on this result, we conclude that ABU MFB charges high interest like commercial banks. (Lending rate is between 18- 20%).

Thus answers to objectives one and two on the condition of loans on borrowing and repayment and as well the perception of interest rate charged: on the basis of collected data; lending condition is good, condition of repayment by the bank is strict and interest rate charge is high. This is because the bank has to built in its cost of borrowing from other convectional commercial banks and as well make profit.

To examine the impact of credit loan by the bank on the income of the poor and low income earner, a non- parametric test was run (Chi-square) see table.

H_o: $\alpha = 0$ Credit loan by the bank do not have impact on the income of their clients.

H_i: $\alpha \neq 0$ Credit loan by the bank does have impact on the income of their clients.

Decision rule:

Accept H_o if $X_c^{\ 2} < X_t^{\ 2}$

Reject H_o if $X_c^{\ 2} > X_t^{\ 2}$

From the table below, the pearson Chi-square Asymp sig (2-sided) = 0.000 is (46.875) while the critical X_t^2 at (0.05) is 3.33. Thus the chi-square value is greater than the critical value;

therefore we reject H_o and conclude that credit loan by the bank does have positive impact on the income of their clients even though the bank charged higher lending rate.

Table4.6.1 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	46.875[a]	9	.000
Likelihood Ratio	56.596	9	.000
Linear-by-Linear Association	16.155	1	.000
N of Valid Cases	50		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .40.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.1 SUMMARY

Available literature has shown that there is a strong relationship between poverty and income. Low income causes lack of access to portable water, primary health care and sanitation among others. These are the indicators of poverty. In Kaduna state, there is a growing urban and rural poverty because the middle income dwellers in the formal employment sector have had their wages and salaries reduced in real terms. They have become impoverished by the naira depreciation and inflation. Worst still, others have had to contend with incessant loss of jobs both in the public and private sectors.

Three main strategies are identifiable in the process of tackling poverty, namely: exclusive reliance on the natural forces of economic growth, specific programmes to increase earning opportunities for the poor, and social programmes targeted at the poor. Each of these strategies holds varying prospects for poverty alleviation. Targeting the poor by the means of social programmes was the most direct approach, followed by the consideration of specific programmes to enhance their earning capacity. These two were directed at particular groups and were therefore presumed to have an immediate impact on poverty reduction. In practice, the problem with these strategies was that the benefits may leak to unintended groups. Administratively, they were expensive to implement, inefficient in operation and outcome and lacked sustainability.

The economic growth strategy was an indirect approach to poverty alleviation. It was aimed at achieving an untargeted general increase in income which would invariably lift the average poor above the poverty line. In the short-run, income distribution may be positively skewed,

but the assumption was that in the long-run, through trickle down effects, poverty reduction, both in absolute and relative sense would be achieved. The approach was rooted in the economic efficiency criterion and therefore has the possibility of sustainability. Also, in as much as the reliance was on the natural forces of economic growth, the strategy could be said to be devoid of any extensive administrative machinery. Poverty alleviation through growth has been challenged as an effective means of tackling poverty both in the short and long run.

This thesis has shown that microfinance banks play a central role in poverty alleviation. The impact extends beyond the traditional production into the households. Farmers as well as the self-employed in the urban areas are now thought of as capable of contributing more to the growth of the Zaria economy since they are encouraged to mobilize more resources.

In general, microfinance banks are now significantly linked with the country's developmental policy. Microfinance banks are important instruments designed to provide rural and urban poor economic agents with access to credit. This community banking scheme has enhanced Zaria community to have greater access to formal credit. The bank has drawn (pool) excess funds in the community and lent same funds to the members of the community. The performance has been satisfactory. However, there were many borrowers who were yet to be covered. There was also the problem of sustainability.

5.2 CONCLUSION

There is no doubt that Zaria local government has put a lot of efforts to alleviate poverty but the problems still persists. Based on the various studies, it is clear that, the operation and activities of the microfinance banks has been translated into increased incomes of the study area. Our investigation has heeped us to conclude that, even though some of the clients assessed the lending conditions of ABU MFB to be good, it is not good enough to mobilized

and improve business activities as expected. We also concluded that, the interest rate is high meaning that something has to be done in that area.

Lastly, conclusion have it that, Ahmadu Bello University microfinance loan has positive impact on income but not adequate, because of reasons, such as high interest rate, late disbursement, inadequate loan, discrimination and long procedures. On the other hand, bank officials complained of high default rate, delay repayment, loan diversion, and illiteracy of some of their clients. Therefore we concluded that, the problems were two sided contestable issues. Base on that, both individuals and bank need to adjust in order to alleviate poverty, improve welfare of the poor in the study area and the nation at large.

5.3 RECOMMENDATIONS

Knowing fully that, there exist a number of problems between the poor and the bank in the area of microfinancing in Zaria Local Government, a two-sided recommendation has been put forward with the hope that if properly followed, the problems will be addressed.

- There is a need for an improvement in terms of customers' treatment,

  strictness on loan repayment, and soft loan to enable quite number of poor enjoy from the loan scheme.

- We suggest that the rate of interest should be reduced to a single digit

  and if possible no interest should be charged in order to encourage the poor to obtain the loan. Funds for loan should be generated within the priviledged rich.

- There should be proper and close supervision of the loans. This will help in

  reducing loan diversion and to allocate the loan into their appropriate uses which will in turn reduce the default rate. also supervision will guarantee the bank more assurance of recovering its loans.

- With respect to late disbursement, we suggest that disbursement should

be completed at least within two weeks from the time of application.

- On the issue of inadequate loan, we suggest that farmers should be

granted with adequate fund, if not exactly what applied for, but an amount that will cover the size of the farm project that the farmers intend to embark on.

- On the basis of literacy, we suggest that, symposiums and the likes to

teach those poor the essence of the loans and the need to be self sufficient.

- To guard against late repayment and high default rate, we suggest that

poor should form groups and co-operatives and the loans should come through them. In a situation where a member of the association defaulted, the group or cooperative can force him/her to repay through group pressure.

- Outreach should also be extended to female clients.

APPENDIX 1.

APPENDIX 2: SAMPLED QUESTIONAIRE

A. SOCIO-DEMOGRAPHIC PROFILE OF THE RESPONDENTS

1.) Sex: Male ( ) Female ( )

2.) Age: 16-24 ( ) 25-34( ) 35-44( )
45-54( ) 55 ad above ( )

3.) Marital status:
(i) Single ( ) (ii) Married ( ) (iii) Divorced ( )

4.) Type of marriage
(i) Monogamous ( ) (ii) Polygamous ( ) (iii) others

5.) Number of children (specify)
(i) 1-4 ( ) (ii) 5-8 ( ) (iii) 9-12 ( ) (iv) above 12 ( )

6.) Religion:
(i) Islam ( ) (ii) Christianity ( ) (iii) Traditional Religion ( )

7.) Educational Background:
(i) Primary Education ( ) (ii) Secondary Education ( )
(iii) Tertiary Education ( ) (iv) Non-formal ( )

8.) Accommodation Status:
(i) Owned House ( ) (ii) Rented House ( )
(iii) Sharing House ( ) (iv) Others ( )

9.) Do you plan to build a house in the near future? (if you do not have one).

(i) Yes ( ) (ii) No ( )

10.) If yes to the answer above, how do you intend to finance the project?

(i) Savings ( ) (ii) Loans ( ) (iii) Mortgage ( )

B. INDIVIDUAL SAVINGS AND INCOME

11.) Type of occupation:

(i) Farming ( ) (ii) Trading ( ) (iii) Civil Servant ( ) (iv) Student ( ) (v) Petty ( )

12.) How long have you been in business?

(i) 1-2yrs ( ) (ii) 2-3yrs ( ) (iii) 3- 4yrs (iv) above 4yrs ( )

13.) Do you have savings?

(i) Yes ( ) (ii) No ( )

14.) What is the source of your investment?

(i) Personal Savings ( ) (ii) Money Lenders ( )

(iii) Commercial Banks ( ) (iv) Relatives and Friends ( )

15.) Have you ever heard of microfinance loan?

(i) Yes ( ) (ii) No ( )

16.) If yes, how did you get information about the credit facilities of MFB?

(i) Mass media ( ) (ii) Friends ( )

(iii) Opinion Leaders ( ) (iv) Posters and bills ( )

17.) Have you ever applied for the loan?

(i) Yes ( ) (ii) No ( )

18.) If yes, what type of loan do you applied for

(i) Short Term ( ) (ii) Long Term ( )

19.) How long did it take from application to granting?

(i) less than a month ( ) (ii) 1 month ( )

(iii) 2 months ( ) (iv) no response

20.) Did the bank require you to offer any collateral?

(i) Yes ( ) (ii) No ( )

21.) If yes to (20) above, what kind of security do you offer to obtain the loan?

(i) Land ( ) (ii) Employers cover ( )

(iii) Guarantors ( ) (iv) membership of a Group ( )

C. REQUIREMENT AND CONDITION FOR OBTAINING THE LOAN

22.) How can you commend on the interest rate charged by the bank loan?

(i) Too high ( ) (ii) High ( ) (iii) Average ( ) (iv) Low ( )

23.) How can you assess the lending conditions under the MF loan scheme?

(i) Very good ( ) (ii) Good ( ) (iii) Average ( ) (iv) Bad ( )

24.) What are the usual conditions for loan repayment?

(i) Installments ( ) (ii) At Agreed time ( ) (iii) At your convenience ( )

25.) What is the repayment period?

(i) 0-6yrs months ( ) (ii) 6-12months ( )

(iii) 12-18 months ( ) (iv) Above 18 months ( )

26.) How much did you receive?

(i) N5 000 – N10 000 ( ) (ii) N10 000-N15 000 ( )

(iii) N15 000 –N20 000 ( ) (iv) Above N20 000 ( )

27.) Have you been granted a loan under any microfinance scheme for you business before?
(i) Yes ( ) (ii) No ( )

28.) If yes for how long?

(i) 0-1yr () (ii) 1-2yrs ( ) (iii) 3-4yrs ( ) (iv) Above 4yrs ( )

29.) Did you have any problem paying back on schedule?

(i) Yes ( ) (ii) No ( ) (iii) Sometimes ( )

30.) How did solve it?

(i) Extend repayment period on agreement ( ) (ii) Get help from others ( )

(iii) Repay with higher interest ( ) (iv) did not pay back (defaulted) ( )

(v) None of the above ( )

31.) How strict is MFB with respect to loan repayment?

(i) Very strict ( ) (ii) strict ( ) (iii) Normal ( )

32.) Have you faced any problem with MFB loan scheme?

(i) Yes ( ) (ii) No ( )

33.) If yes, what is the nature of the problem?

(i) High interest rate ( ) (ii) Late disbursement ( )

(iii) Inadequacy of loan ( ) (iv) Loan discrimination ( )

(v) Others (Specify) ( )

34.) What is the status of your savings in the last 12 months

(i)Increased ( ) (ii) Decreased ( ) (iii) Remain the same ( )

35.) What is the status of your income in the last 12 months?

(i) Increased ( ) (ii)Decreased ( ) (iii)Remain the same ( )

36.) Do you perceive microfinance loan to be an important contributor towards alleviation of poverty in Zaria?

(i)Yes ( ) (ii) No ( ) (iii) Do not know ( )

37.) Do you have any regret for obtaining the loan?

(i) Yes ( ) (ii) No ( ) (iii) Do not know ( )

38.) How can you assess the operation of MFB loan?

(i) Very good ( ) (ii) Good ( ) (iii) Average ( ) (iv) Weak ( ) (v) Poor ( )

39.) Suggest one way of improving the bank's activities.

APPENDIX 3: BANK'S SAMPLE QUESTIONNAIRE

1. Staff Rank----------

   Qualification----------

   Working Experience (yrs) ----------

   Age ----------

2. What type of business did MFB give loan?

   (i) Trade ( ) (ii) Farming ( ) (iii) Civil Servants ( ) (iv) All of the above ( )

3. What categories of businesses are the beneficiaries of this loan?

(i) Individuals ( ) (i) groups( ) (iii) Cooperatives ( ) (iv) All of the above( )

4. How do the banks disburse their loans?

(i) Randomly selected ( ) (ii) First come, first serve ( ) (iii) Others (specify)

5. How did the bank encourage small business to obtain a loan?

(i) Timely disbursement ( ) (ii) Low interest rate ( )

(iii) Frequent visit and advices ( ) (iv) All of the above ( )

6. How does MFB requires individuals to repay loan granted?

   (i) once ( ) (ii) installments ( ) (iii) Others ( )

7. Has the bank ever encountered any repayment failure?

   (i) Yes ( ) (ii) No ( )

8. If yes, what reasons do individuals give as responsible for this failure?

   i) (ii) (iii) (iv) (v)

9. How can you assess the conditions of both loan disbursement and repayment by ABU MFB?

(i) Very fair ( ) (ii) Fair ( ) (iii) Unfair ( )

10. How can you assess the performance of ABU MFB especially during the last five years?

(i)Good ( ) (ii) Average (iii) Poor ( )

11. Commend briefly on ABU MFB scheme as regards to its effect on individual income and output.

Thanks for your cooperation.

APPENDIX 4:

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