AN EVALUATION OF THE IMPACT OF MICRO FINANCE BANKS ON THE BENEFICIARIES: *A CASE STUDY OF KADUNA STATE*

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A THESIS SUBMITTED TO SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF M.Sc IN ECONOMICS IN THE DEPARTMENT OF ECONOMICS.

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DECLARATION

I hereby declare that this thesis titled, 'An Evaluation of the impact of Micro Finance Banks on the beneficiaries: *A Case study of Kaduna State'* has been written by me and it is a record of my own research work. It has not been presented in any previous application for a higher degree. All borrowed ideas have been duly acknowledged by means of references.

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CERTIFICATION

This thesis titled, "An Evaluation of the impact of Micro Finance Banks on the Beneficiaries: *A Case Study of Kaduna State*" by Chima Kate Obianuju. (M.Sc./Soc-Sci./09841/08-09) meets the regulations governing the award of M.Sc. in Ahmadu Bello University Zaria and is approved for its contributions to scientific knowledge and literary presentation.

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May God Almighty reward you all Abundantly. Amen.

DEDICATION

This work is dedicated to the Almighty God for his infinite mercy for seeing me through up to this moment.

ABSTRACT

The thrust of this study is to evaluate the impact of Microfinance banks credit on Kaduna State and to examine the impact of Microfinance on the beneficiaries. The data utilized cross sectional data obtained through questionnaires administered randomly to six (6) operators, one hundred and eighty (180) questionnaires beneficiaries of microfinance banks' credit facilities and one hundred and eighty (180) questionnaires non- beneficiaries of microfinance bank credit facilities respectively. The tools of analysis used are Descriptive Statistics, Paired sample t test technique and Double Difference (DD) estimator model. The study reveals that (i) there is a significant difference (in terms of income, business expansion and improved profit) in the number of businesses who use microfinance products than those that did not use Microfinance Credit. This study concludes that there is a significant relationship between Microfinance Credit and change in income, output growth and general welfare level in Kaduna State. Therefore, the study recommends that the state government in partnership with the Central Bank of Nigeria should ensure that Microfinance product should be combined with other development tools to leverage the effect of Credit. Second, repayment should include a grace period with reasonable schedule instead of weekly payment period that is presently practiced among the microfinance banks in the State.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Nigeria is among the few countries of the world characterized by contradictory socio-economic and development scenarios (Nwokocha, 2007). Despite her enviable human and material resources, the country and its peoples are still classified among the very poor (Okunmadewa, 2001, HDI Report 2010) with no fewer than 54% of Nigerians living below poverty level (Akinyele, 2005). It is described as a country with a complex socio-political history that has for most part, impacted adversely on the population through worsening income distribution and increased poverty (Salamatu, 2008). Consequently, the number of rural inhabitants that migrate to cities with high hopes of overcoming powerlessness consistent with rural life is unprecedented.

The resulting population densities in these destinations and the corresponding disadvantages require effective regulations that will engage the push factors on one hand, and how immigrants could adjust to destination cities without infringing on existing social equilibrium on the other (Ezebunwa, 2009). Majority of the people living in rural communities are categorically the small farmers, tenants, micro entrepreneurs, and the landless poor. However, it is obvious from the trends between 1980 till date that poverty is becoming an increasing problem in Nigeria (Fidelis, 2009).

Meeting basic amenities and cash requirement for family maintenance is the main challenge for the micro entrepreneurs and farming communities of which account for about 58 percent of the informal sector of the economy (World Bank Doing Business, 2007; Klaus, 2010). Survival strategy is the main philosophy of the entrepreneur from generation after generation. Nowadays, poverty is considered as the main unbalancing element of the human being and nature. It is therefore truly said, 'Poverty anywhere is a threat to everywhere." It is a global phenomenon with all the evils, which are dissatisfaction, desperation, anger, anxiety, diseases and hunger, the consequences of poverty (Shanti, 2008; Mike, 2008).

Microfinance has evolved as an economic development approach intended to benefit low income men and women, thus regarded as an effective tool for economic development (Siebel, 2003; Zahra, 2008; Ojo. 2009). An effective economic development programme is one in which the poor are the agents of change. The poor do not need aid, they need opportunity (Tessi, 2005) thus promoting economic growth, reduce poverty, support human development and improve the status of urban-rural communities. For the past 20 years, the government, international agencies and social organizations have been focusing on rural and women's development Programmes (Rieneke, 2010; Shanti, 2008) one of the priorities of the Millennium Development Goal is poverty alleviation and economic development, women's empowerment and gender mainstreaming.

According to Kevin (2009) most of the poor people have little financial opportunity thus micro-finance could help poor people who have no collateral, but the willingness to work and to do some business activities from which they will acquire employment as well as income. Most Nigerian micro entrepreneurs are economically isolated, which means that their market is often local, small and does not offer any demand growth prospects. Commercial banks and other financial institutions normally do not like to go in that area because of the geographical constraints, underdeveloped infrastructure and other physical constraints. However, on the other hand, there is a substantial demand of micro credit. In this scenario, microfinance banks could obviously play an important role to mobilize local savings, extend credit as well as channelize borrowed fund/grant to the local rural people (Dhakal, et al, 2002).

Micro finance is equally important to both men and women. Women's experience of poverty is different and more acute than those of men because of gender-based forms of exclusion. Women become poor through deterioration in the household's access to resources. Women's are governed by more complex social constraints and responsibilities than men, and they are more concentrated in the non-monetized sector (United Nations, 2004; Shanti, 2008). In almost every African country, women comprise a large percentage of the poor (World Bank, 2002). The existence of the gender complexities in the handling of income affects the quality of family life, the quality of children's nutrition and education, as well as household stability. Until women have access to economic opportunities, poverty cannot be reduced (Shanti, 2008) and economic development may not be sustained.

1.2 Statement of the Problem

Lack of access to income opportunities or skill-based training opportunities kept many people in Nigeria shackled to poverty. Unemployment is high, forcing many people to immigrate to other countries. Unless the poor people are brought into the mainstream for economic and social change, we will fail to bring change development (Aku et.al, 1997). They (poor) need to be organized for the decision of their choices and voices. Prevalence of poverty is quite high among urban-rural population. There is need for economic development program to be target-focused so as to reach a majority of the poor population in Nigeria who suffer disproportionately from poverty. Among the poor, women are considered the most disadvantaged due to their limited access to economic opportunities and basic social services and the excessive burden of household chores on them (Gaudel, 2004).

Capital accumulation in modern world requires financial intermediation because economic and social issues are closely intertwined, one reinforcing the other (Njiforiti et.al, 2008). People's access to credit is limited because both formal and informal credit institutions are inclined towards funding property owners (Shanti, 2008). All formal credit institutions seek tangible collateral for their loan and majority of the poor are disadvantaged from these credit since they have no access or limited collaterals. The money lenders are also interested in earning high interest or acquiring the debtor's property rather than financing people in need (Siebel, 2003). In the case of some women, their access to institutional credit is further restricted by their confinement to household activities and lower level of awareness and educational attainment (World Bank, 2002).

On balance, however, a school of thought argues that there is evidence that microfinance, does have a positive economic impact on economic development in terms of income growth and reduced vulnerability, although the effects are often small (Kevin, 2009) and all clients do not benefit equally. While the other school of thought states that microfinance banks have been shown to be interested in their own financial survival than embarking on poverty alleviation or economic development exercise (Davies et al,2006). The World Bank recently confirmed that poverty is increasing in Nigeria and capital is one of its highest rank constraints (Human Development Index Report, 2010-2011) in economic development.

Nigeria since her independence, various credit schemes have been put in place to alleviate poverty to bring about desired economic growth and development but they have failed to achieve these targets (Fidelis, 2009). In December 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of micro- entrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth and development.

The policy is prepared in exercise of the powers conferred on the CBN by the provisions of Section 33 (1) (b) of the *CBN Act No. 7 of 2007* and in pursuance of the provisions of Sections 56-60 (a) of the *Banks and Other Financial Institutions Act [BOFIA] No. 25 of 1991* [as amended].The rationale was that no inclusive growth can be achieved without improving access of this segment of the economic strata to factors of production, especially financial services.

1.3 Research Questions

Arising from the above statement of problem are the following questions

i. What is the extent of synergy between Microfinance banks and economic growth in Kaduna State?

ii. What is the likely impact of microfinance banks on business in Kaduna State?

iii. What are the problems militating against the MFBs and Client in Kaduna State.

1.4 Objectives of the Study

The main objective of the study is to evaluate the impact of microfinance banks in Economic growth in Kaduna State.

The specific objectives are:

i. To evaluate the activities of Microfinance banks on economic growth in Kaduna State.

ii. To assess the impact of microfinance banks on the business of the beneficiaries in Kaduna State

iii. To investigate the problem(s) militating against Microfinance banks in Kaduna State if any.

1.5 Hypotheses

The research hypotheses are as follows

H_0: Microfinance banks have not impacted on business of beneficiaries.

H_1: Microfinance banks have impacted on business of beneficiaries.

1.6 Significance of the Study

Kaduna State predominantly agro based economy, micro-credit is largely applied to agricultural and allied activities and livestock development. The marginal farmers and micro enterprise are designed to benefit greatly from the micro-finance programs. This study focus on the microfinance experimental groups (user) in Kaduna State and try to find out how they are getting benefit from the programme. The data collected in turn will provide the information on the effect of credit and saving facilities if they (poor) are provided equal opportunity.

This study would help policy makers and the regulatory body examine whether or not there is need for modification in its policy framework (Daily trust Newspapers dated 12th March 2011, an advert call position paper on microfinance bank). It would also provide data to all other institutions and individuals who intend to work within the group that fight against the existing poverty of the country. The study will provide recommendations to the International Agencies, NGO's, Government and Human right activist.

1.7 Scope and the Limitations of the Study

The study area of this research work is Kaduna State. This is because; Kaduna State is one of the states with the highest number of Microfinance Banks its state. The main limitation of the study was the difficulty in obtaining accurate data from some of the MFBs. The data used for the study is primary source which some operators and its client were not willing to give out.

1.8 Organization of the Study

This study consist of five chapters, the first chapter deals with the general introduction, statement of problems, research questions, objectives of the study, hypotheses and significance of study.

The second chapter focus on the conceptual framework, theoretical framework, Empirical Literature, Microfinance role in economic development, Microfinance policy and development framework and transmission mechanism.

Chapter three discussed the study area, source and nature of data, data collection technique, and analytical framework.

In Chapter four the result of the study findings is presented and analyzed.

The final chapter discussed the finding, recommendation and conclusion of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of Terms

Microfinance is defined as the provision of thrift, credit and other non-financial services and product in very small amount to the poor to enhance them raise their income level and improve their standard of living (Eluhaive, 2005). It is the provision of very small loans that are repaid with short period of time and is essentially used by poor individual and household who have few assets that can be used as collateral. A Microfinance bank therefore, may be construed as a company licensed to carry on the business of providing microfinance services such as saving, loans, insurance, money transfer service and other financial service that are needed by the economically poor, micro-, small- and medium enterprises (CBN, 2009).

Socio- economic may refer broadly to the "use of economics in the study of society and in these research study would focus on the social impact of some sort of economic change. These may affect patterns of consumption, the distribution of incomes and wealth, the way in which people behave (both in terms of purchase decisions and the way in which they choose to spend their time), and the overall quality of life (Mike 2008, Encarta, 2009). The goal of socioeconomic study is generally to bring about socioeconomic growth and development, usually in terms of improvements as life expectancy, literacy, level of education and standard of living etc. Although harder to measure, changes in less-tangible factors are also considered, such as personal dignity, freedom of association, personal safety and freedom from fear of physical harm, and the extent of participation in civil society.

To confront the problem inherent in lending to the poor, which is in this research study a socio-economic analysis, there have been large-scale innovations in the provision of financial services over the past decades. Generally, these new system have been called *micro-credit provision* of small-scale loan to the poor and more recently *microfinance* provision of a range of the poor's financial service requirement including credit, savings, insurance, and remittance management. The majority of micro financial interventions have been targeted towards micro enterprise and economic development (Igbekele et.al, 2003).

Poverty and economic growth: The concept of poverty has many dimensions often from place to place and across time and, in process has been observed and described, what is paramount is that poverty exists and it is real. It has no geographical boundary; neither does it respect colour, tribe, race or religion (Mike, 2008).People live in poverty when they are denied an income sufficient for their material needs and when these circumstances exclude them from taking part in activities which are an activities part of daily life in that society (Bentul, 2008).On the other hand, according to the World Bank Organisation 2005 ''the most commonly used way to measure poverty is based on incomes. A person is considered poor if his or her income levels fall below some minimum level necessary to meet basic needs. This minimum level is usually called the 'poverty line'. Poverty lines vary in times and place and each country use lines which are appropriate to its level of development, societal norms and values. However, Sen (1995 cited in Khawari, 2004) state that the point is not the irrelevance of economic variable such as personal incomes, but their severe inadequacy in measuring many chances of people. It is possible to infer from this that an inadequate or inconsistent income level generates poverty; hereby depriving people of some basic human needs (Khawari, 2004).

Economic growth is a broad term that generally refers to the sustained, concerted effort of policymakers and community to promote the standard of living and economic health in a specific area. Such effort can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, accessibility of credit and other initiatives. The scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people

Thus, Economic development is an ultimate goal of instating microfinance institution with either direct or indirect links to immediate objectives. Objectives are in turn determine by the organisation's ideological outlook, in particular how the organisation perceives the relationship between economic development and access to microfinance. The ease with which a poverty-focused intervention can be carried out and the efficacy and or efficiency with which it can be monitored and evaluated are also very important factor. Also, understanding how to alleviate poverty is a central concern of development economies. According to Bruno *et al* (1995) there are enough evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at economic development are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty and such programs can have a short-term or long- term effect. He took a short term effect on programs design for economic development, assuming that income-earning abilities are fixed. He took two disparate approaches to program design, which he called the institutional and the technocratic framework.

The institutional approach is more common among non-economists. For them the question of why program for the poor do or do not work has much more to do with social institutions than with policy design. The technocratic approach usually associated with economists, focusing on targeting, exploring the theoretical and empirical implications of trying to direct limited resources to pro-poor with the greatest need (Akanji, 2001).

2.2 Theoretical Literature

The underlying theory of microfinance bank is that, by making financial services available to a previously excluded section of society, microfinance banks is aimed at providing the poor clients with capital for investments, extra liquidity to allow them to take advantage of economic opportunities as they arise, and the opportunity to accumulate assets and gain access to savings to help protect against shocks in times of need (Akanji, 2001).At the same time, for these microfinance services to be available over the long run, the microfinance banks must be viable and sustainable in the long term. This, in turn, may necessitate influencing that in the overall. It is obvious that a new competitive poverty reduction strategy for any country or region is to facilitate survival, (Njiforiti et.al, 2008) and sustainable economic development.

Economic development is a process by which an economy is transformed from one that is dominantly rural and agricultural to one that is dominantly urban, industrial, and service in composition, (Syrous and Laura, 2007). Economic development brings a higher standard of living and welfare to a nation, while attempting to adhere to the Parato Optimality, or a "win-win strategy" without negative externalities. In economic development pursuits, a number of theories on economic development which would aid economic development have been posed by economists dating back to Adam Smith, (1776), David Richrado, (1830), Karl Marx, (1880), W.W Rostow (1953), Leontief (1965) cited in Syrous, et al (2007).

North (1993) incredulously has asserted that democratic institutions are responsible for economic development.

Contrary to North (1993) the growth and development of industrialized economies was not merely the result of democratic institutions, but due to many other conditions including technology, resources, productivity, and economic policies. North's naive conclusion on the causes of development leaves little hope for South's (i.e., developing countries') economic development, although according to Gillis et al, (1996): " Given the great diversity in the developing country experience, it would be a counsel of despair to suggest that the way to begin development is first to recreate the kinds of political, social, and economic conditions that existed in Western Europe and North America when those regions entered into the modern economic growth".

Almost all-economic planning models deal with economic development or growth determination. These models include: a simple Keynesian macroeconomic growth model, Harrod-Domor Model, Leontief's Input/output model, general equilibrium models, and cost benefit analysis approach, [Gills, et. al. 1996]. For example Horrod-Domor Model simply states the following:

$$g = s/k \tag{1.1}$$

Where: g = GNP or GDP

s = saving rate

k = capital/output

Harrod-Domor model can be rewritten as

$$\Delta Yt = Yt - Yt\text{-}1 = (Yk)\ \Delta\ kt\text{-}1 = (Yk)\ (It\text{-}10\text{-}\ dkt\text{-}1) \qquad (1.2)$$

Where y = GDP or GNP; I = gross investment; k = capital stock; and d = depreciation rate. This model states that economic growth, as measured by GNP, is dependent on the stock of capital or net capital investment, (excluding depreciation).

2.2.1 Vicious Circle Theory

In the conventional wisdom of the vicious of poverty, poor nations and people may remain perpetually poor given primary causes of poverty which are so closely interconnected that together they have been said to form a vicious circle with one factor leading to another (Adebayo, 2008). Low income leads to low savings, low savings are the reason for low investment, and low investment means low productivity leads to low income this effects development. Within this framework, it shows the circle of demand and supply as it relates to poverty. When income is low then there is low productivity per person and we see then in this case that the country is too poor to save. On the demand side when incomes are low there is also low investment.

Economist and policy makers have attempted to explain how availability of capital constitutes part of an overall development strategy (HDI Report, 2010). Consequently, theory of microfinance and urban-rural development is derived from the general theory of development (Eboh et.al, 1995; Ezeh et.al, 2004; Hulme et.al, 2006). According to this theory, every country which embarks on the course of economic development necessarily encounters a set of constraints imposed by inelasticity on the supply of strategy inputs. Unless efforts are directed towards the loose reduction of these constraints by producing substitutes for these factors with inelastic supply, the whole process of economic development is bound to be greatly depressed (Hayami and Ruttam, 1971). Microfinance and rural economic development conceptualization embraced by most country in recent years refers to a process through which sustained increase in the productivity and income of the urban-rural workers and household are attained (Eboh et al 1995, Adamu 2010). There are many other theories that support microfinance: each purporting to explain the mechanics of microfinance as regards economic development among of this theory discussed below.

2.2.2 Dusenberry's Financial Theory of Investment: This theory indicates that there is another variant of the financial theory of investment, known as the cash flow. Dusenberry integrates the profits theory and the acceleration theory of investment. He emphasises that cash flow is the main determinant of investment. Investment is regarded as a function of income (Y), capital stock (K), profit (π), and Capital consumption allowances(R). All these are independent variable and can be represented below

$$l = f(Y_{t-1,} K_{t-1,} \pi_{t-1,} R_t) \tag{2.1}$$

where t refers to the current period a

(t-1) refers to the previous period.

Π_t refers to profit during period t

Y_{t-1} refers to income

K_{t-1} refers to capital

I refers to investment

Duesenberry investment function is a modified version of the accelerator principle,

$$I_{t} = \alpha Y_{t-1,} \beta K_{t-1} \quad (2.2)$$

where investment in t period is a function of income (Y) and capital stock (K) of the previous period ($_{t-1}$). The parameter (α) represents the effect of changes in the income investment, while the parameter (β) represents the influence of capital stock on investment working through both the marginal efficiency of investment and investment. Since the determinants of investment is capital (microfinance) which also affects consumption function and poverty rate. This is a multiplier-accelerator process.

2.2.4 Loanable Fund theory of interest: The Loan able fund theory explains the determination of interest rate in terms of demand and supply of loan able fund by the microfinance operators (Jhingan, 1997). According to this theory, the rate of interest is the price of credit which determined by the demand and supply for the loanable funds.

The users for loanable funds, (microfinance) are micro entrepreneur, framers, tenants and landless poor. They borrow these funds for the purchase of capital goods, starting new business and input tools. Such borrowing is interest elastic and depends mostly on the expected rate of profit as compared with the rate of interest. The supply loanable funds comes from saving, private and individual savings are the main source of savings

Urban- rural poor are the demanders of credit with the microfinance bank and the rate of interest is the major problem associated with the acquisition of loan (Khawari, 2004). The interaction between the demand and supply for loan able funds determines the price of finance (interest rate) and establish the market equilibrium. The cost of this credit (microfinance) is negatively related to its demand.

2.2.5 Input-output theory: This theory points out that finance need is assumed to equal the amount of other input used from other sector. These include social welfare programs, basis education, basic amenities and transportation. It also point that developing economies do not have a large financial market and the amount of informal finance that reaches for poor is small. Access to institutional microfinance by the poor is generally limited. Self-finance predominate the Poor's balance sheet in the market economies. Thus, availability of funds in an economy is a sine-qua-non to the overcoming of the constraints. Klaus (2010) has identified finance as an indispensable tool in development. A poorly developed finance system is an obstacle to the development of wealth, enhancement of soci-economic welfare and promotion of human dignity (Iniodu and Ukpak, 1996).

It is obvious that no production, no matter how simple the technology, can take place without the use of capital (finance). The provision of financial support through credit and saving for the acquisition of capital goods is crucial for effective economic management, the aims of which are to increase prosperity, equity and sustainability. Economic management goals are consistent with the primary objectives of the provision of micro finance, which focuses on the improvement of the living condition of the poor in Kaduna State. All these are based on the assumption that additional money, either as loan or saving will result in the overall liquidity available to the households' production, consumption and/ or investment activities as enunciated in the saving-investment or foreign exchange gap models, which are normally used to justify borrowing for economic development.

2.3 EMIPIRCAL LITERATURE

Microfinance is important in the lives of the rural poor in a developing economy. Faced with a weak social security system to fall back upon, this group of landless or near-land- less rural population is forced to depend upon credit for its livelihood. It was this understanding that led various developing countries to make credit an integral part of their economic development programmes (Pallavi et.al, 2006).

In a world where almost half the population lives in poverty, microfinance is one of the better tools for poverty alleviation, economic growth and development in emerging economies. These loans offer the same benefits to major world economies that face growth problems. It is very well realized that these loans can help lower-income groups setup and grow the small businesses, which generate income and employment that helps their communities and their economies (Chaitanya, 2011).

Recent developments in African and other developing countries reinforce the contention that microfinance structures are essential for development of rural areas and economic development in consideration of the fact that areas of development in the these countries have been traditionally urban-centred. As has been argued by the United Nations Capital Development Fund (UNCDF, 2005), "the development of microfinance institutions over the last two decades and a number of success stories have lent credence to the idea that microfinance is a major stimulus for development in the countries of the South, and that is a powerful instrument for combating poverty."

There are two basic assumptions why the development of microfinance has taken such a dramatic and important turn. These assumptions fit in with factor distribution and availability whereby the missing factor of production (from among land, labour, and capital), is supposed to be provided in order to give impetus to development. The first assumption is that "poor populations possess the capacity to implement income generating activities [but] that the main limitation to their initiative is the lack of access to capital." This limitation arises because of two main reasons: financial markets are still in their infancy; and that given their poor track record and lack of collateral, the existing financial institutions are reluctant to extend credit facilities to poor people or their organisations.

Another factor is that often, mutual associations and thrift societies that have dealt with financial institutions have been huge failures. In spite of this negative evaluation, the idea persists that poor people given access to capital and guided properly are in a position to implement and manage income generating business enterprises. In other words, poor people too, have the capacity to run economic activities just like the rest of society given a congenial environment. The second assumption is that once the financial systems are established, the poor people "were able to use it (the financial tools) for productive purposes and progressively incorporate themselves into the financial milieu, repaying the loans, and accumulating savings" (Iheduru, 2002).

On balance, however, there is evidence that microfinance, does have a positive economic impact on economic development in terms of income growth and reduced vulnerability, although the effects are often small (Davies et. al, 2006), and all client do not benefit equally. Further, based on the analysis of panel data spanning, report that microfinance "raises per capita household consumption, increasing the probability that beneficiary of microfinance loan would escape poverty (Hulme et.al, 2006).

Many microfinance banks have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in poverty evaluations (World Bank, 2008). Poverty is indeed increasing in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. It further indicated in the introduction that the World Bank and the IMF group are focusing on economic development as a prerequisite for debt relief (Akanji, 2001).

A commonly accepted model of program design, the cost-minimizing approach, addresses a number of salient features in current debates about transfers to the poor. Moreover, it is consistent with the desire for targeting. It is also a useful first step toward developing a positive theory of transfer to the poor. The model by Besley and Coate makes no pretence at realism. The model is a useful vehicle for clarifying thinking about a number of issues relating to microfinance (economic development) programs. The model views society as composed of two groups: those who make transfers (the rich) and those who receive them (the poor). The model assumptions are as follows:

i. That the rich care only about consumption of the poor and not their utility.
ii. The rich control government and its objective design economic development programs that are financed through taxes paid by the rich.

iii. There must be voluntary participation by the poor in economic development program, which means that the poor must be willing to take any benefits intended for them.

However, certain transfers to the poor such as food- for-work program global had been proved to enhance the efficiency of credit markets by using the coupon as collateral. For example in Bangladesh and Srilanka, a poverty program allowed people who participated in a loan program to pledge their rice ration coupons as Collateral and as a result, borrowers' repayment rates increased substantially (Akanji, 2001).

Mohammed (2011) Used Standard Subsidy Dependence Index (SDI) model to access the Sustainability of Microfinance Banks in Rural Poverty Alleviation in Nigeria. The research stated that the result in the study area were not significant for good performance requisite for sustainable rural poverty alleviation. This is as a result of the microfinance banks inability to pay the market return on their equity.

Hamzat, (2009) Analyzed the effect of Mission Drift on Credit Risk in MFIs using panel data, the researcher observed that the frequency of failure and collapse of MFIs in Nigeria could be a huge potential source of credit risk thus recommended that MFIs require clear focus, strong discipline and appropriate measurements.

Vetrivel and Kumarmangalam (2010) research on the role of microfinance in rural development, he argued that more than subsidies the poor need access to credit. Absence of formal employment make them non 'bankable'. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. The researcher adopted a conceptual framework of a microfinance institution in

India. They argued that microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. He also stated that Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements.

Sergio et.al, (2000) constructed a theoretical framework that describes the social worth of a microfinance organization in terms of the depth, worth to users, cost to users, breadth, length, and scope of its output. They analyze evidence of depth of outreach for five microfinance organizations in Bolivia. Most of the poor households reached by the microfinance organizations were near the poverty line they were the richest of the poor. They observed that group lenders had more depth of outreach than individual lenders. The urban poorest were more likely to be borrowers, but rural borrowers were more likely to be among the poorest.

Annabel, (2007) using a panel survey assessed the changing institutional form of microfinance institutions and its impact on the poor. The researcher studied the transformation process, investigated it and put in its historical perspective. She stated that international institutions are pushing this process in the conviction that commercial institutions are much more efficient to provide financial services to the poor. The paper demonstrated by providing commercial small-scale financial services to the poor which has generated some unresolved ethical questions. Different impact studies and some recent events were put together and the paper shows that it is far from clear how microfinance impacts poverty. The paper concludes that microfinance faces some huge challenges to comply its promises and argues for a more balanced approach towards microfinance practices.

Zahra, (2008) provided an exploratory review of the impact that microfinance programs have on the rural developing world. He demonstrated the underlying assumption of most researchers that western definitions of 'empowerment' should be used to determine the progress of development policies. He stated that western understanding of empowerment is also utilized to evaluate programs and assess their positive impact. Microfinance programs undoubtedly have the potential to decrease, or even eliminate, poverty in the developing world, but microfinance theory is being diluted by interference from international, neoliberal bodies.

Zahra, (2008) looked at the theoretical neoliberal framework upon which microfinance is based, and argued that microfinance has been appropriated and re-configured to fit within the neoliberal agenda by organizations such as the World Bank and United Nations. Regardless of the fact that microfinance was a grassroots, the heavy-handedness of western influences has dramatically altered microfinance in practice, and has decreased its effectiveness as an economic development mechanism.

Tessie, (2005) using Cashpor Housing index shows the various unique traits of microfinance: village banks, group lending, social collateral, and focus on women. Indentifies five major criticisms of microfinance: it does not reach the poorest members of a population, it is not financially sustainable for institutions, it is potentially harmful to women (domestic abuse may result from husbands jealous of their wives' new financial power), it can create a large debt for the poor, and it is not universal in application.

Though these criticisms are valid she showed that, there is ample evidence to show that the benefits of microfinance outweigh the costs. Studies also showed that microfinance can lead to an increase in income, better nutrition for families, greater high school attendance, empowerment of women, and alleviation of poverty. This researcher showed that there is an abundant support to demonstrate that microfinance can lift families out of poverty and is also able to expedite the completion of six of the seven millennium development goals.

Akanji (2001) established the facts that poverty is indeed increasing in Nigeria based on the poverty assessment study using CGAP's Poverty Assessment tool commissioned and sponsored by the World Bank. She gave two conceptual frameworks and reviews some country experiences of micro-credit programs. The paper emphasized that indeed micro-finance is a strategy of economic development. Looking ahead to the future of micro-finance program in Nigeria, the paper indicated that there is significant room for improvement within the current dispensation. Akanji (2001) but raised serious issue of supervision which must be tabled and discussed thoroughly with the financial sector regulating authorities for the new merger of formal/informal credit institutions.

Sri, (2005), argued that microfinance applauded and eulogized as providing collateral tree loan to the poor is really reaching the poorest of the poor. The dichotomy of reaching the core poor and making the operations financially sustainable does not seen to be reconcilable. Moreover, the minimalist approach adopted by the microfinance institution that credit automatically translates into successful enterprises does not match with the reality as poor need skill, managerial ability and market outlet to start micro enterprises. So loan alone strategy may not be an effective tool for economic development.

Sri Ram further stated that microfinance in isolation provides no magic bullet, and no panacea for economic development. There is a need to place the program in the larger context of development and growth, integrated with other mutually reinforcing and supportive activities.

Thi Thu et. al (2009) stated that recent public debates on microfinance have been mentioned as an important instrument for economic development in developing countries. This has led to an almost euphoric attitude among policy makers and aid organizations about potential poverty reducing effects of microcredit. They raised a question, whether microfinance really will be able to significantly reduce world-wide poverty? The researcher examined the impact of microcredit programme in Vietnam. Based on a sample of rural households retrieved from the Vietnam Household Living Standard Surveys 2004 and 2006, it also examined impact of microcredit on household-self employment profits in Vietnam, and compares this with the impact of other (bank) credit. Using several estimation techniques, the empirical analysis reveals that both access to microcredit and participation in microcredit programs do not significantly affect household self-employment profits. In contrast, credit from commercial banks seems to have a positive effect on household self-employment profits. The same holds for access to commercial bank credit.

Bentul, (2008) argued that poverty is a threat to peace and result in denial of all human rights. He stated that despite microfinance significant contribution to help the poor worldwide, the impact of microfinance in reducing poverty is always in question. To evaluate this prevailing issue, this study explores the linkages between microfinance and economic development and also examines the impact of microfinance on economic development. Drawing on empirical case study, this study examines how far microfinance plays important role in economic development.

Bentual,(2008) stated that the problem regarding its operation, based on his research findings, and concluded that microfinance can make meaning contribution should the supervisory authorizes look more seriously at the diversified needs of the poor people and target the extremely poor.

Ranjula, (2008) stated that uncertainty and unpredictability faced by low-income households increase their vulnerability making poverty even more unbearable. This study investigated whether or not microfinance participation results in reducing poverty and vulnerability. A theoretical framework was developed to examine the mechanisms through which the pecuniary and non-pecuniary effects of the microfinance program on the beneficiaries' earnings and empowerment influence their households' ability to manage risk. Going beyond the traditional poverty estimates, they use a vulnerability measure which quantifies the welfare loss associated with poverty as well as different types of risks like aggregate and idiosyncratic risks. Applying this measure to an Indian panel survey data for 2000 and 2003, he concluded that microfinance members have lower vulnerability as compared to a group of non-members (control). Furthermore, we found that the poverty contributes to about 80 percent of the vulnerability faced by the household followed by aggregate risk.

Anthony (2000**)**, stated that Government should not presume that they know what will benefit the poor better than the poor themselves. "Projects should be embarked upon because the people need them not because some contractors (who stands to profit from the projects) are pushing for them. If development is about people, it cannot happen without the participation of the people, argued that the poor should clarify their own needs and priorities. It is also reasonable that before policy are put in place, the government should do well to take stock of the past attempts at alleviating poverty. The point is that when a program has been failing each time it is attempted, the ideal thing to do would be to study the past attempts to see where the mistakes lies (policy reform).

Mar (2005) as a response to many partial and over-simplistic theoretical and empirical studies, this paper presents a more comprehensive analytical framework for assessing the success of microfinance in achieving its dual objective of financial sustainability and economic development. By giving centre stage to the study of group dynamics and using principles of social psychology and imperfect information, the paper argues that microfinance has not only not solved the original problems of information asymmetries between borrowers and lenders but also, in its pursuit of financial sustainability, is destroying the very foundations of these schemes by disrupting the social fabric of communities, creating more poverty and excluding the poorest and most vulnerable from any given group.

Chen et.al (1996) develop a model on household economic portfolios which is based on the concept of non-separability between the household's production and consumption functions. Along similar lines, Chen (1997) analyses impacts at the *individual* level including an examination of a 'relational' pathway, which aims at assessing changes in participation in groups; this, however, focuses on impacts of microfinance services on borrowers' relationships *outside* the joint-liability group. Other conceptual frameworks emphasise specific aspects of wellbeing such as gender empowerment (Mar 2005), impacts on productivity, technology and employment (Hulme *et.al* 1996), children's nutrition and schooling (Khander, 1998), food security (Zeller *et.al,*1997) and riskiness and vulnerability (Cohen *et.al* 2000).

Very few empirical studies deal with aspects of group dynamics. Montgomery (1996) finds some anecdotal evidence of high social costs of imposing sanctions within groups, while Copestake *et.al* (1998) assess reasons for joining or not joining group based programme, Wydick (1999) suggests that social sanctions are weakly enforced between friends, and Painter *et.al* (1999) look at the effects of membership turnover on loan-size growth rates.

Asad (2007), Stated that Social impact analysis of microfinance programs aims at gauging the 'wider impacts' that the practice of micro-lending intends to have on the lives of the poor. This wider impact can be taken to be a 'public good' that benefits the sector in its entirety: the microfinance institutions (MFIs), donors, borrowers, and even the non-borrowers. The issue that emerges is: how is such impact assessed? What methods, tools, concepts, principles, underlying theories, approaches and procedures are adapted to reach such conclusions that are truly representative of the manner by which microfinance impacts the lives of stakeholders.

2.3.1 Various Economic Development Programs in Nigeria

The Nigerian government has embarking on various attempt to enhance economic development. Since independence Nigeria government has instituted various Programmes to minimize poverty and increased economic development. The Table 2.1 is a summary

Table 2.1 Various Economic Development Programmes

Year of inception	Name of programme/ quote	Operational pattern	Source of Finance	Target Group
1960 Nnamdi Azikiwe	‘’Show the light, and the people will find the way’’	Centered on **education**:- implemented along agricultural extension service to increased food production	Government Fund	Youth and Framers
1966-1975 Gen. Yakubu Gowon's	National Accelerated Food Production Programme Nigerian Agricultural and Co-operative Bank	Centre on Agriculture Export (cash crop) and food production	Government fund	Agricultural sector
1976-1979 Gen Olusegun Obasanjo	Operation Feed the Nation[OFN]	Specific focus of increasing food production, thereby meaning higher nutrition level and invariably leading to national growth and development. [effort in getting ill - prepared university undergraduates to	Government fund	Agricultural sector

		go to the rural areas to teach the peasants farmers how to farm]		
1979-1983 Shagari Sheu	The Green Revolution	Emphasized on food production [same idea with his predecessor].	Government fund	Agricultural Sector
1983-1985 Gen Muhammad Buhari	War against Indiscipline WAI Go Back to Land programme	Focus was on fight against indiscipline and corruption Food production thereby reducing importation	Judicial institution Government fund	Public Institutions Agriculture/ Import sector
1985-1993 Gen Ibrahim Babangida	People's Bank Community Bank Directorate of Food Road and Rural Infrastructure [DFFRI] Nigerian Agricultural Land development	Loan Entrepreneurs [Soft term] Cheap funds for communities and their members Rural development via construction of feeder roads and provision of basic amenities Focused on large scale commercial farming by assisting farmers with input and	Government Communities savings and Government funds Government funds Government funds Government funds Government	Micro enterprise Community members Rural Transport

Late Maryam Babangida	Authority [NALDA] National Directorate of Employment Better Life Programme [BLP] Family Support Programme [FSP]	developing(agricultural) lands Implement programmes to combat mass unemployment and articulate policies with labour intensive potentials Rural women – craft and framers Rural women both in small-scale entrepreneurs and home keepers	funds Government funds Government funds	Youths and unemployed Women Rural women
1993-1998 Late Gen Sani Abacha Maryam Abacha	Family Economic Advancement Programme [FEAP]	Loans were given to cooperative societies that were productive oriented	Government funds	Cooperative societies
1999-2007 Olusegun Obasanjo 2005-to date	National Poverty Eradication [NAPEP] Microfinance Bank	Central coordination point for state and local government economic development Programmes streamline services delivery to the low income earner and	Government funds Private/ Stakeholders funds	Unemployed and the poor micro-entrepreneurs

		Small and Medium scale entrepreneurs as well as provide sustainable finance services to micro entrepreneurs		and low income households

SOURCE: CBN Journal and Bullion of various issues.

Statistics and Literature shows (Anthony, 2000; Ana, 2008) that Nigerian government has spent huge amount of tax payer money on economic development Programmes since independence yet rate of Poverty has been on the increase (34.1% of Nigerians lived below poverty level in 1986, that figure had jumped to 56% in 1996 and 63% in 2000. The same report also revealed that 46 million Nigerians were core poor in 2000 unlike 26% in 1996 and 13 million in 1985, an indication of rising poverty level. The figure also show that 60% of rural dwellers and close to 48% of urban dwellers are in poverty, World Bank (2002**).**

2.3.2 Microfinance Role in Economic development

"*Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little" Adam Smith* (1776)

Today, the world faces the major challenge of reducing poverty. Of the world's 6 billion people, 2.8 billion live on less than 2 dollar a day and 1.2 billion live on less than 1 dollar a day. Of these 1.2 billion, 500 million live in Africa. The United Nations has recognized the positive impact of microfinance in economic development (Hulme and Mosley, 2006). Microfinance impact studies have demonstrated that:

i. Microfinance helps poor households meet basic needs and protects them against risks.

ii. The use of financial services by low-income households leads to improvements in household economic welfare and enterprise stability and growth.

iv. By supporting women's economic participation, microfinance empowers women, thereby promoting gender-equity and improving household well being.

v. The level of impact relates to the length of time clients have had access to financial services.

Microcredit helps in reducing poverty by providing the poor with credit facility to start a small business. It not only supports the economic condition of the poor people but also has positive impacts on their social life through better standard of living with greater access to education and health facilities and empowerment to participate in decisions of the society.

2.3.3 Micro-finance Policy and Development Framework

In December 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of micro- entrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth. The rationale was that no inclusive growth can be achieved without improving access of this segment of the economic strata to factors of production, especially financial services.

Since these developments, the microfinance industry in Nigeria had been confronted by numerous challenges since the launch of the Microfinance Policy Framework in December, 2005. In order to redress this unintended development, the apex bank has revised the National Microfinance Policy Framework for Nigeria in July 2011 so that would it enhances the provision of diversified microfinance services on a sustainable basis for the economically active poor and low income households. It also provides appropriate machinery for tracking the activities of development partners and other non-bank service providers in the microfinance sub-sector of the Nigerian economy.

The policy is prepared in exercise of the powers conferred on the CBN by the provisions of Section 33 (1) (b) of the *CBN Act No. 7 of 2007* and in pursuance of the provisions of Sections 56-60 (a) of the *Banks and Other Financial Institutions Act [BOFIA] No. 25 of 1991* [as amended]. It should be read in conjunction with the MFB Operating Template and the revised Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria. Specifically, a total of 866 microfinance banks have been licensed, Microfinance Certification Programme (MCP) for operators of microfinance banks put in place and the promotional machinery beefed up (www.cenbank.org).

Policy Targets

The policy targets of the microfinance are as follows:

i. To increase access to financial services of the economically active poor by 10 per cent annually;

ii. To increase the share of microcredit as percentage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and the share of microcredit as percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020;

iii. To ensure the participation of all States and the FCT as well as at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities by 2015; and

iv. To eliminate gender disparity by ensuring that women access to financial services increase by 15 per cent annually, that is 5 per cent above the stipulated minimum of 10 per cent across the board.

2.3.4 AN OVERVIEW OF THE STRUCTURE OF MIROFINANCE BANK

CATEGORIZATION OF MICROFINANCE BANK: Microfinance Banks has being divided into categories so as to meet up with the requirement to be adequately capitalized, technically sound, and oriented towards lending based on cash flow Microfinance Policy Framework for Nigeria and the character of clients. This category of Microfinance Banks (MFBs) includes:

Unit Microfinance Bank: A Unit Microfinance Bank is authorized to operate in one location. It shall be required to have a minimum paid up capital of N20 million (twenty million Naira) and is prohibited from having branches and cash centers.

State Microfinance Bank: A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid up capital of N100 million (one hundred million Naira) and is allowed to open branches within the same State or the FCT, subject to prior written approval by the CBN for each new branch.

National Microfinance Bank: A National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, subject to prior written approval by the CBN.

2.3.5 Transmission Mechanism

Microfinance is not a panacea for poverty and related development challenges, but rather an important tool in the mission of economic development. Poverty is a multidimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system. Owing to poverty's large scope and multiplicity of actors, there is no single guaranteed approach to its eradication. Within this system, solutions are as multifaceted as the causes. Such systems' perspective is critical in creating an enabling environment for sustainable economic development. Problems and solutions are not isolated phenomena, but occur within an interconnected system in which actors and actions have reciprocal consequences.

Consequently, economic development is a complex mission and requires commitment, cooperation, and cohesion at all levels of development: - individual, household, community, national, and global. While microfinance alone does not improve roads, housing, water supply, education and health services, it can play an important role in making these and other sustainable contributions to the urban-rural community. As microfinance becomes more widely accepted and moves into the mainstream of economic activities, the supply of services to the poor may likewise increase, improving efficiency and outreach, while lowering interest rate. This, in turn, can have a multiplier effect on people's standard of living. Perhaps the greatest contribution of microfinance is that it empowers people, providing them with confidence, self-esteem, and the financial means to play a larger role in their development. The potential of microfinance far exceeds the micro-level, scaling-up to address macro-problems associated with economic development.

CHAPTER THREE

METHODOLOGY

3.1 Study Area

Kaduna state is a state in the Central Northern Nigeria. Its capital is Kaduna having three (3) Senatorial Zone and 23 Local Government Area). About 80 percent of the state population is micro entrepreneurs and farmers. Kaduna state is the most populous state, the fourth with a good number of MFBs and a major Centre of political, economic and social activities in the Nation. Thus it became imperative for the study to evaluate the impact of Microfinance Banks on beneficiaries in the selected study area.

3.1.1 Population size and Sampling Techniques

In Kaduna state there are 23 licensed Microfinance Banks. The sampling technique used in this study is the multi-stage samplings were two MFBs from each senatorial zone. In each of this Senatorial Zone, one category of MFBs (unit and state) was selected.

3.1.2 Sample Size.

The survey includes the *experimental group* - these are users of microfinance bank facilities, *control group* - these are non-users of microfinance bank facilities and *operators*- the managerial staff of a microfinance bank. Three questionnaires were administered in the study area. Totally one hundred and eighty (180) questionnaires, to both users and non-user of microfinance bank credit facilities respectively. Six (6) questionnaires were administered to operators.

The selected MFBs for the study are:

i) MFB selected group in the North Senatorial Zone (ABU Microfinance bank and NA-KOWA Microfinance bank).

ii) MFB selected group in the Central Senatorial Zone (KADA Microfinance bank and Kad Poly Microfinance bank)

iii) MFB selected group in the Southern Senatorial Zone (Gwork Microfinance bank and Nenzit Microfinance Bank).

3.2 Sources of Data

The primary data were collected through administration of structured questionnaires and interviews. An interaction session was also used. Also, information was obtained through personal contacts with the credit/risk units of the various Microfinance banks.

3.3 Data collection technique and tool

The *primary data* was gathered by applying the following research techniques:

Survey: A semi-structured interview schedule was prepared to take interview with both the members of MFB staff and experimental group. Besides interviews, the researcher allowed her respondents open up their experience and express themselves in their own terms and at their own pace.

3.4 ANALYTICAL FRAMEWORK

In order to achieve the objectives of this study, the following analytical techniques were employed. These included analysis such as simple descriptive statistics like frequencies, per cent ages, averages and means. In addition, the impacts on beneficiaries' income before and after were measured via numerical estimate of compare means via Paired-Sample T-test.

In a more specific manner, Objectives (1) and (3) of the study were achieved by the use of nominal analysis and descriptive statistics. The nominal analysis was used to identify the activities of operator of Microfinance banks. It analyses the interest rate, tenor and pricing methodology used. Objectives (2) of the study were achieved by the use of the impact response model that is the Paired Sample T-test and the Double Difference model Estimator.

3.4.1 Descriptive Statistics

The technique is efficacious in summarizing certain characteristics of a sample. Agresti (1979) identify easy comprehension of population behavior and compact presentation of large population data as some of the advantages of this tool of analysis. It was employed to summarize the information from the questionnaires' in this study. This summary was presented in tables and percentages.

3.4.2 Compare Means

Testing the differences between means of two sample of beneficiaries (a before sample and an after samples) that are clearly dependent on each other. To further evaluate the impact of selected MFBs two sample of beneficiaries and non-beneficiaries (experiment group and control group) that are clearly independent on each other. This is also a descriptive statistics. It is used to compare two or more variable mean.

3.4.3 T-test

The Paired Sample t-test is performed in order to identify the statistical significance of income of beneficiaries before and after accessing the loan from the Selected MFBs and the formula for calculating value is:

$$t = \frac{\hat{a}_i}{SE(\hat{a}_i)}$$

$\hat{a}_i$ = estimated value of a_i

$SE(\hat{a}_i)$ = standard error of a_i

$SE(\hat{a}_i) = \sqrt{\operatorname{var} a_i}$

The calculated t-values have been compared with tabulated t-values at a certain level of significance, for a given degree of freedom. If the calculated t exceeds the table value, it is inferred that estimated coefficient is significantly different from zero

3.4.4 Double Difference (DD) Estimator Model

This Study also used the Double Difference (DD) model which compares outcome between experimental group and control group. The advantage of the DD model is that it nets out the effect of addictive fixed factors and common trends on the outcome indicators (World Bank, 2008). The DD model measured potential programme impacts. The use of the model enabled the researcher to get information on both the control group and experimental group. The DD model (World Bank 2008) is specified as follows:

$$DD = (Y_{p1} - Y_{p0}) - (Y_{np1} - Y_{np0}) \qquad (4.1)$$

Where:

Y_{p1} = outcome variable (income) of experimental group after joining the programme.

Y_{p0} = outcome variable of experimental group before joining the programme.

Y_{np1} = outcome variable (income) of non-beneficiaries (Control group).

The variable are then model thus:-

$$Y_{ia} = \alpha + \beta P_1 + \quad X_{ia} + \mu_{ia} \qquad (4.2)$$

Where:

α = constant term

β = estimable effect of participant in the progamme

P_1= indicator for participation in the programme

X_{ia} = vector of observable characteristics of individual

μ_{ia} = error term

Y_{ia} = outcome of programme

The value of variable before joining the programme is model thus:

$$Y_{ib} = \alpha + \beta P_1 + X_{ib} + \mu_{ib} \tag{4.3}$$

Variables are as previously defined. Thus the difference between the two scenarios is taken to obtain the change in outcome variable between variable the two as follows:

$$Y_{ia} - Y_{ibp} = \beta P_1 + (X_{ia} - X_{ib}) + \mu_{ia} - \mu_{ib} \tag{4.4}$$

β and □ are unbiased since the potential bias from correlation between the observable and unobservable has been eliminated, a consequence of the first is differencing. The estimate of β is then DD estimate of the impact of the project (Verners et.al, 2005).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1 INTRODUCTION

This chapter of the research work is concerned with the presentation and analysis of data obtained through field surveys using a set of structured questionnaires administered to operators of micro finance bank, users (experimental group) and non-users (control group) of its credit facilities. A total of one hundred and eighty (180) questionnaires were administered to both users and non-user of microfinance bank credit facilities respectively. The questionnaire for the operators, non-user and user was retrieved 100%, 100% and 96% respectively.

4.2 DATA PRESENTATION

4.1.1 Profile

From the Profile table below (see table 4.1.1), out of 139 respondents of users of microfinance facilities 64(46%) are between the age range of 29-39 years. 37(26.6%) ranges between 18-28 years. This implies that about 72.6% of microfinance users are the active/independent population class. 81(58.3%) are married and (94)67.6% attended tertiary institution these shows that majority of MFBs Client are educated. 74(54%) were male population while 64(46%) were female which shows that MFBs Client are majorly men.

Table 4.1.1: Profile of the User (customers).

	Frequency	Percent	Total

Age	18- 28 yrs.	37	26.6	
	29- 39 yrs.	64	46.0	
	40- 49 yrs.	26	18.7	
	50 and above	12	8.6	139
Sex	Male	75	54	
	Female	64	46	139
Status	Single	37	26.6	
	Married	81	58.3	
	Divorced	12	8.6	
	widow or widower	8	5.8	
	Separated	1	.7	139
Qualification	primary school	6	4.3	
	secondary school	39	28.1	
	OND	32	23.0	
	HND	27	19.4	
	University	35	25.2	139

Source: Field Survey, 2011

In the Table (table 4.1.1b), it shows that microfinance banks have more male clients than female in all qualification counts. The numbers of male are -Primary school 2, secondary school 7, OND 6, HND 0 and University 5 between the age bracket of 18-28years while the female are- Primary school 0, secondary school 7, OND 4, HND 1 and University 5 between the age bracket of 18-28years. Also, between 29-39 years the male population are- Primary school 1, secondary school 11, OND 3, HND 8 and University 9 while the female population are - Primary school 0, secondary school 7, OND 11, HND 6 and University 8 .

Table 4.1.1(b): Table of user of microfinance facilities

				Age			
				18-28 yrs	29-39yrs	40-49yrs	50 and above
				Count	Count	Count	Count
Qualification	primary school	Sex	Male	2	1	2	0
			Female	0	0	0	1
	secondary school	Sex	Male	7	11	3	1
			Female	7	7	3	0
	OND	Sex	Male	6	3	5	0
			Female	4	11	3	0
	HND	Sex	Male	0	8	6	3
			Female	1	6	1	2
	University	Sex	Male	5	9	1	2
			Female	5	8	2	3

Source: Field survey, 2011

In Table 4.1.2 below, Out of 172 respondents of non-users of microfinance facilities 53(30.6%) are between the age range of 29-39 years. 56(32.4%) ranges between 18-28 years. 104(60.1%) of the non-users of the MFBs did not attend tertiary institution while in user of MFBs (94)67.6% attended tertiary institution. This further shows that users of microfinance are more educated than the non-users.

Table 4.1.2: Profile of the Non users of microfinance credit facilities

		Frequency	Percent	Total
Age	18- 28 years	53	30.6	
	29- 39 years	56	32.4	
	40- 49 years	43	24.9	
	50 and above	19	10.9	171
Sex	Male	116	67.1	
	Female	57	32.9	173
Status	Single	61	35.3	
	Married	103	59.5	
	Divorced	2	1.2	
	widow or widower	3	1.7	
	Separated	2	1.2	172
Qualification	primary school	59	34.1	
	secondary school	45	26	
	OND	7	4.0	
	HND	40	6.9	
	University	21	28.38	172

Source: Field Survey, 2011

4.1.3: Structure and Activities of Microfinance Bank.

The structure and activities of selected Microfinance Bank in the survey location is shown in the Table (4.1.3-9) below. Table 4.1.3 below shows the legal Structure of the selected Microfinance Bank. The Unit MFBs is authorized only to operate in one location. It minimum paid up capital was reviewed from 5million to N20 million (twenty million Naira) and is prohibited from having branches and cash centers while the State Microfinance Bank is authorized to operate in one State and is allowed to open branches within the same State. It has minimum paid up capital of N100 million (one hundred million Naira) and is only allowed to open branches within the same State or the FCT, subject to prior written approval by the CBN for each new branch.

In each Senatorial Zone in the survey state, both unit and state MFBs is surveyed. Nenzit MFB Ltd is a unit bank while Gworok MFB Ltd in the Southern Senatorial Zone of Kaduna

State. Kada MFB Ltd is a unit bank while Kadpoly MFB Ltd in the Central Senatorial Zone of Kaduna State. ABU MFB Ltd is a unit bank while Nakowa MFB Ltd in the Northern Senatorial Zone of Kaduna State. The ownership structure of the survey MFBs is Limited Liability expect for Kad Mfb Ltd which is owned by partners.

The source of fund is basically shareholders fund but institutional Microfinance bank (ABU MFB and KADPOLY MFB) also source fund from their institution. These institutional MFBs are mainly interested in providing services to its institution, staff and businesses that service its community. Small holder’s farm and petty trader is the common target business for the survey MFBs. In Kada and Nakowa MFBs business activities targeted also include Vulcanizes/motor mechanics, GSM Accessories sellers, supermarket shops, manufacturing activities.

Table 4.1.4: Legal and Ownership Structure of Selected MFBs, its Targeted Business and their Source of Fund

Names of MFB Visited	Location	Legal Structure	Structure of Ownership	Target Business	Source of Fund
Nenzit MFB Ltd	Southern	Unit Bank	Limited Liability	Petty traders	Shareholder Fund
Gworok MFB Ltd	Senatorial Zone	State Bank	Limited Liability	Small holder farm, Service related Business	Shareholder Fund
Kada MFB Ltd	Central Senatorial Zone	Unit Bank	Partnership	Small holders Farm, Petty Traders, Vulcanizes/motor mechanics, GSM Accessories sellers, supermarket shops, Manufacturing activities.	Shareholder Fund,
Kadpoly MFB Ltd		State Bank	Limited Liability	Institution (Kaduna polytechnic) Staff and petty traders.	Shareholder Fund, Institution
ABU MFB Ltd	Northern	Unit Bank	Limited Liability	Institution (ABU)Staff	Shareholder Fund, Institution
Nakowa MFB Ltd	Senatorial Zone	State Bank	Limited Liability	Small holders Farm, Petty Traders, Vulcanizes/motor mechanics, GSM Accessories sellers, taxi/bus driver, Manufacturing activities, service related business.	Shareholder Fund, commercial Banks

Source: Field Survey, 2011.

The range of facilities offered by the selected MFBs in the study area is shown in Table 4.1.5. All the selected MFBs offer small loans (minimum of five thousands Naira) except for instructional MFBs ABU MFB and KADPOLY MFB which offers large loan (minimum of one hundred thousand and fifty thousand Naira respectively). All the survey MFBs offers savings opportunity to its customers these are fundamental to the intermediation functions of MFBs within its community and sphere of their operation (Mohammed, 2011).

Only Kada MFB offer money transfer services. Kada MFB has a working oversight relationship with mainstream commercial banks that provides the transfer services on behalf of its customers. Kada and Nakowa MFBs also offer commodity trade as a product to their customers. Access to loans in the selected MFBs is predicated upon meeting certain requirements, these includes a Guarantor with a postdated cheque of the amount loan of any of the five most rate commercial banks in the country. For the institutional MFBs, staff of the institution can access only for business using their appointment identity and copy of their appointment letter.

The maximum tenor of loan is one year except for ABU MFB which is negotiable. The rate of interest charged by each of the selected MFBs for this tenor is 20 %(Nenzit MFB Ltd), 12% (Gworok MFB Ltd), 5% (Kada MFB Ltd), 20%ABU MFB Ltd and 12% (Nakowa MFB Ltd) as showed in Table 4.2.3. These show that interest rate varies with MFBs and also it was affirmed that these rate can be negotiated given the tenor and nature of proposed investment.

With respect to the credit methodology, the surveyed MFBs all adopted individual lending and Group lending (except for Kada MBF who don’t do use group lending as a credit methodology) Kada and Kadpoly MFBs also include cooperatives lending.

Table 4.1. 5: Maximum loan tenor, General rate of interest, minimum loan given and its credit methodology.

Names of MFB Visited	**Maximum loan Tenor**	**General rate of interest**	**Minimum loan**	**Credit methodology**
Nenzit MFB Ltd	One year	20% and above	Five thousand Naria only	Individual lending
Gworok MFB Ltd	One year	12%	Twenty thousand Naria	Individual lending, Group lending
Kada MFB Ltd	One year	5%	Five thousand Naria only	Individual lending, cooperative lending.
Kadpoly MFB Ltd	One year	5%	Fifty thousand Naria only	Group lending , Individual lending, cooperative lending
ABU MFB Ltd	One year and above	20% and above	One hundred thousand Naria Only	Individual lending Group lending,
Nakowa MFB Ltd	One year	12%	Five thousand Naria only	Individual lending, Group lending

Source: Field Survey, 2011.

The Table 4.1.6 shows that out of 139 respondents 76(54.7%) experimental group (user of MFBs) accessed small loan, 76(54.7%). This further explains why the change in income was mainly amongst the lower income range of the beneficiaries' business. Large loan accounted for 47

(33.8%). It worthy to note that what accounts for as small or large loan varies with MFBs (Table 4.1.5).The researcher observed that savings were mandate by 11(27.9%) of the respondentss as criteria to access loan from its MFB. Loan insurance services accounted for 3 (2.2%) of the survey respondents while money transfer accounted for 1(.7%). Loan insurance and money transfer is not amongst the assign duties of the MFBs.

The researcher also observed that all the survey MFBs pay salaries for its surrounding local government (especially the non -institutional MFBs) while the institutional MFBs pay their causal staff salaries. These salaries serves as a determinate to the size of loan the client can access. Payment of salaries to the local government is one of the duties of MFBs assign by the Central Bank of Nigeria to help MFBs.

Table 4.1.6 Range of Products Offered by Microfinance Banks

Activities	Frequency	Percent
Small loan	76	54.7
Large loan	47	33.8
Savings opportunities	11	7.9
Insurance	3	2.2
Money transfer	1	.7
Foreign exchange	1	.7
Total	139	100

Source: Field survey, 2011

The service/product offered by the survey microfinance banks are mainly target towards petty traders which comprise of 36(25.9%) of the respondents. Petty trading includes kiosk owner (small scale provision and food stuff), baked bean sellers, textile materials dealers and small holding farmers 21(15.1%), service related business 19(13.7%), fish/poultry framing 14(10.1%), supermarket shop 12(8.6%), buying and selling produce and manufacturing 6(4.3%) respectively, commercial framers and bus/taxi drivers 5(3.6%) respectively and vulcanizes/mechanics 3(2.2%)

Table 4.1.7: Target Beneficiaries of Microfinance Banks

Beneficiaries	Frequency	Percent
small holding framers	21	15.1
petty traders	36	25.9
vulcanizes/mechanics	3	2.2
fish/poultry framing	14	10.1
GSM accessories	11	7.9
Taxi/bus Drivers	5	3.6
supermarket shops	12	8.6
buying and selling of farm produce	6	4.3
commercial farming	5	3.6
Manufacturing	6	4.3
service related business	19	13.7
Total	139	100.0

Source: Field Survey 2011

Table 4.1.8 shows that 38(27.3%) of the 139 respondents are charged 7%, 33(23.7%) 5% interest, 27(19.4%) 10-12% interest and 20(14.4) 13-19%, above 20% respectively these interest rate are on a monthly repayment plan through reducing balance method. These shows are wide variation in interest rate which was attributed to the different source of fund. For instant the researcher found out that loan facilities sponsored by the state government, NAPEP are for a target group and their rate of interest which fall amongst 5 to 7% which count for about 51% of the respondents.

Table 4.1.8: Rate of Interest

	Rate of interest	Frequency	Percent
	5%	33	23.7
	7%	38	27.3
	10-12%	27	19.4
	13-19%	20	14.4
	20% and above	20	14.4
	Total	138	99.3
Total		139	100.0

Source: Field survey, 2011

4.2: Impact of selected MFBs on business of respondents.

The table 4.2.1(a) shows the impact of selected MFBs on business of respondents. The issues investigated here is whether the income of beneficiary did change, whether the beneficiary is still in business but not making profit, whether the respondents has been able to expand his business and whether the beneficiary has changed the nature of his business.

The survey shows that 34.5% of the respondents experienced positive change in their income. For instance, table 4.2.2 shows the income of the beneficiaries before and after accessing the loan. This table shows that more people in various income categories increased after accessing the loan than before accessing the loan. Before the loan, the mean maximum and minimum income of beneficiary was N71, 695.72, 1,254,000 and 2,500 respectively. But after accessing the loan, the mean, maximum and minimum income was N102, 209.32, 1,500,000.00 and 5,000 respectively, which were generally higher than statics before accessing the loan.

Table 4.2.1b: Selected MFBs and Business activities of Beneficiaries

Impact of loan	**Frequency**	**Percent**
change in income	48	34.5
in business but not making profit	13	9.4
no longer in business	1	.7
business expansion	53	38.1
change in nature if business	20	14.4
Total	138	99.3

Source: Field Survey, 2011

The survey revealed that 38.1% of the respondents experienced an expansion in business. This expansion is mainly recorded on beneficiaries who engaged in business activities like petty trading, poultry framing and service related business that accessed large loan from their MFBs. For instance a poultry framer in the Southern Senatorial Zone experienced an expansion in business (increased his poultry house and employed more staff) when he gotten a loan from his bank. Increase in output by framers who accessed group loan sponsored by state government also experienced expansion. These beneficiaries were able to get trainings from instructors on better framing technique and farm implement like tractors which enabled them cultivate more land in turn increased their output at the end of the framing season.

The study also revealed that 14.4% of business activities experienced a change in nature of business which is attributed to more access to fund. A business Centre who had only photocopier in the Central Senatorial Zone in the study acquired desktop systems for type setting as a result of the facilities accessed from his MFB.

Table 4.2.2: Frequency Table of Annual Income of Beneficiaries before and after accessing Loans from selected MFBs

Income Range (N)	Frequency before		Frequency after	
≤ 5,000	27	19.4%	22	15.1%
5,001-10,000	6	4.3%	6	4.3%
10,001-20,000	20	14.3%	6	4.3%
20,001-30,000	16	11.4%	18	12.9%
30,001-40,000	8	5.6%	12	8.5%
40,001-50,000	16	11.5%	13	9.2%
50,001-60,000	7	5.0%	3	5.7%
60,001-70,000	6	4.3%	3	2.1%
70,001-80,000	3	2.1%	12	8.5%
80,001-90,000	5	3.5%	3	2.1%
90,001-100,000	3	2.2%	5	3.6%
100,001-110,000	2	1.4%	2	1.4%
110,001-120,000	0	-	1	.7%
120,001-130,000	3	2.1%	0	-
130,001-140,000	0	-	1	.7%
140,001-150,000	2	1.4%	4	2.8%
150,001-160,000	0	-	2	1.4%
160,001-170,000	0	-	1	.7%
170,001-180,000	3	2.9%	0	-
180,001-190,000	1	0.7%	1	.7%
190,001-200,000	0	-	3	2.2%
200,001-250,000	2	1.4%	4	2.9%
250,001-500,000	8	5.6%	8	5.6%
500,001-750,000	0	-	4	2.8%
750,001-1,000,000	0	-	0	-
1,000,001-1,250,000	0		0	-
1,250,001-1,500,000	0	-	1	0.7%
Total	**139**	**100%**	**139**	**100%**
Mean	71,695.72		102,209.37	
Minimum income	2,500		5,000	
Maximum income	1,254,000		1,500,000	

Source: Field Survey, 2011

Table 4.2.2 shows the Income of beneficiaries before and after accessing loan from selected MFBs. From the table it is observed that there is a shift from the income range of less than or equal to twenty thousand Naira from 53(38%) to 34(23.7%) which implies a positive change in the sampled respondents income after accessing loan. Also, Income range between ≥20,000 ≤40, 00.00 shows a shift from 24(17%) before accessing the loan and 30(31.4%) after accessing the loan .These changes in income is majorly noticed in the lower income range. The higher income range ≥100,000 experienced a shift after accessing the loan from 21(15.11%) to 29(20.86%).

To further evaluate the impact before and after accessing the loan the series is subjected to statistical test. The paired sample t ratio of 6.731 revealed that there is significant. Hence, the beneficiaries of the selected MFBs experienced an improvement in income after accessing the loan than before. It implies that there is a significant of total income after access the credit facilities. Thus, Hypothesis one is accepted.

The study revealed that 9.4% of business of beneficiaries is in business but not making profit. This is attributed to the high rate of interest and the repayment plan. It's worthy to note that these loans are financed by selected MFBs fund not State Government or National Poverty Alleviation Programme (NAPEP). Less than 1% of business of beneficiaries is no longer in business which is very non significant.

4.3.3: Double Difference Estimator (DD) Model

This Study also used the Double Difference Estimator model which compares outcome between experimental group and control group. The advantage of the DD model is that it nets out the effect of addictive fixed factors and common trends on the outcome indicators. The Double Difference Estimator Model measured potential programme impacts. The use of the model enabled the researcher to get information on both the control group and experimental group. When the sample sizes are small, there are two technical changes for testing the difference between means. At 5%

level of significance whether there is an impact on users and non users of MFBs facilities. Testing the hypothesis below

$H_0 : \mu_1 = \mu_2$ Null hypothesis: There is no difference between income of beneficiaries and non-beneficiaries of selected MFBs.

$H_1 › \mu_1 = \mu_2$ Alternative hypothesis: There is difference of income of beneficiaries from non beneficiaries of selected MFBs.

Using double difference estimator model

$$DD = (Y_{p1} - Y_{p0}) - (Y_{np1} - Y_{np0})$$

$$= (102{,}209.37 - 71{,}695.72) \quad - \quad (28{,}095.20 - 1{,}700.193)$$

$$= 30{,}513.65 - 26{,}395.007$$

$$= 4118.64$$

This result shows a positive difference using the Double difference estimator in the income of beneficiaries. Thus, we reject the null hypothesis.

4.3: Problems and Prospects of Selected Microfinance Bank.

The issues investigated here is the Challenges and Problems of microfinance operators as it relates to default, overhead cost, difficulty in monitoring, clients business mortality, incidence of loan size and access to fund for daily transaction. Furthermore, the challenges faced by users/customers of microfinance bank are also investigated which include rate of interest and bank charges, process of documentation, inflexibility of MFBs to small borrowers and easy access to large loan.

Table 4.3.1: Challenges and Problems of microfinance operators

Challenge/ Problems Of Operators	Frequency	Percent
High default	1	9.09
High overhead cost	2	18.18
Difficulty in monitoring	2	18.18
Client business mortality	2	18.18
Growing incidence of loan size	4	36.36
Total	11	100.0

Sources: Field survey, 2011

The table 4.3.1 presents the data analysis of the challenges and problems faced by the operators of the Microfinance Bank. A multiple choice questionnaire was used and the response indicates that the most challenge faced by microfinance operators is the Growing incidence of loan which represents 4(36.36%). For example in ABU Mfb the volume of loan outstanding in 2007 was Sixty Eight Million Two Hundred and Seventy Thousand Naira only (N68,270,000.00) but has increased to the tune of Six Hundred and Thirty Million ,Seven and Thirty six thousand Naira Only(N630,736,000.00).

High overhead cost accounts for 18.18% these was attributed to the Meeting with the CBN Official and the Microfinance Stakeholder committee held in 2009, which mandate the operators to employed a percent of professionals in its daily operations. Difficulty in monitoring and Client business mortality rate represents (18.18%) respectively while default rate represents 1(9.09%) this was mainly experienced with loan sponsored by state government and NAPEP. It was observed that these loan (state government and NAPEP sponsored loan) beneficiaries where not determined by any professional guideline but based on the favored list of the above agencies.

One of the major difficulties that has confronted the user of microfinance bank (table 4.3.2) is the inflexibility of Microfinance banks to small borrowers which accounted for the highest percent 28.1% of challenge face by customer while risky averse to the poor accounted for 21.6% . For example is case in Northern Senatorial zone of a petty trader who's one of his shop was burnt during the crisis, he lamented that interest rate was calculated and cumulated even when his bank (MFBs) saw the loss he incurred.

Tedious process of documentation accounted for 21.6%. For example in the Central Senatorial Zone a business man who is engaged in service related business (business center) said it took him six month to process and access a loan facility from his Mfb and his reasons for the loan couldn't be attained because of time lag difference. High interest rate accounted for 13.7% of the respondents while 12.2% was accorded to too much bank charges this supported table 4.2.2. Not easy to access large loan accounted for 1.4% of the respondents. The researcher observed that interest rate is charge on monthly on a reducing balance method basis which has a negative impact on their business.

Table 4.3.2: Challenges faced by users/customers of microfinance banks.

Disincentives	Frequency	Percent
Too much bank charge	17	12.2
Tedious process of documentation	30	21.6
High interest rate	19	13.7
Risky averse to the poor	30	21.6
Inflexibility of MFBs to small borrowers	39	28.1
Not easy to access large loan	2	1.4
Total	139	100.0

Source: Field survey, 2011

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This evaluated the impact of microfinance banks on the beneficiaries in Kaduna State. The activities offered in the MFBs in the study include Small Loans, Large Loan, Savings Opportunities, Insurance, Money Transfer and Foreign Exchange. The study reveals also that there is a significant difference (in terms of income, business expansion and improved profit) in the number of businesses who use microfinance products than those that did not use Microfinance Credit. The major challenge faced by microfinance operators is the Growing incidence of loan while inflexibility of Microfinance banks to small borrowers is the major challenge of borrowers.

Microfinance is an instrument that under the right conditions fits the need of a broad range of population thus bringing about economic development. Empirical indications are that the target users are middle class persons (public liability companies, state government and local government salaries earners). There are people in this group (middle class) who were excluded from using of microfinance product because they are not salary earners nor in a co-operative or government approved group.

5.2 Conclusion and policy implications

This study has provided an insight into the activities and role of microfinance banks and its ability to bring about economic growth. It is concluded that microfinance bank is a vital instrument for economic growth when properly restructured.

It was concluded that there is a need to restructure the product offered by microfinance bank and there is a need to increase they operations size for the banks (operators). It is concluded that the new reviewed microfinance policy framework when fully implemented will increase the capacity of microfinance banks to meet their target objectives.

Also, it is observed that interest rate is neither market demand nor policy determined but based on negotiation skill of the customer and nature of business intended. This has endangered professionalism on the part of the operator.

This study concluded that the policy framework be reviewed so that the constraints and barriers in accessing micro-credit for enterprise development by micro entrepreneur be handled. These constraints and barriers can be summarized as internal constraints and barriers, social cultural constraints, and non-supportive policy constraints. The internal constraints are those factors that are inert to the micro entrepreneurs, such as lack of mental access in which they do not believe in micro credits and MFBs due largely to ignorance, fear of the consequence of default, and the myth that “bank facilities are meant only for the rich”. These barriers and constraints are largely cultivated by environmental reinforcements planted and nurtured by the myths surrounding conventional banking. More-so, repayment should include a grace period with reasonable schedule instead of weekly payment period that is commonly found among the microfinance banks in Nigeria.

5.3 Recommendations

This study has made the following recommendations:

i. Product design issues: incorporating approaches into microfinance banks that are tailored towards clients needs can increase positive impact and avoid inflexibility on the part of the operators. (Ironically the design activities of microfinance banks often serve a limit the horizon of a number of the middle class and confine them to low return activities. The study suggests that greater flexibility in loan size and repayment schedules could significantly increase the impact of microfinance.)

i. Microfinance product should be combined with other development tools to affect its effectiveness. Reversing the down ward spiral which enhances economic development will require a comprehensive approach. Isolating individual development target would be mistaken, since sustained progress in any one area depends on advances in all area of economic development (UNICEF, 1999).

ii. A review of the existing microfinance regulatory policy and framework, using recognized economic development/ poverty assessment tools, these would aid the determination of the current levels of clients presently served.

iii. A percentage of state and local government funding to microfinance banks should be allocated directly to programs that target local financial market. This fund disbarment should not be politically influenced but market demand oriented, also the percentage of fund allocated should be increased over the next ten years until basic development / poverty reduction tools are in place.

iv. The decisions on whether and how to intervene in local financial markets should be taken with prior knowledge of the working of those markets. Thus, government agencies instituted to aid economic development and poverty reduction via the microfinance bank should make informed decision on whether their work is likely to augment or impact development and poverty reduction agenda

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APPENDICES

Appendix A: Questionnaire non user of MFBs facilities (control group).

BIO-DATA

l) Age:

18-28Yrs ☐ 29-39Yrs ☐ 40-49Yrs ☐ 50 and above ☐

2) Sex: Male ☐ Female ☐

3) Senatorial Zone: North ☐ Central ☐ Southern ☐

4) Level of Education: Primary ☐ Secondary ☐ OND ☐ HND ☐ University ☐

5) Marital Status: Married ☐ Single Divorced ☐ Widow or Widower ☐ Separated ☐

6) Occupation:

Small holding ☐ Farmers ☐ Petty traders ☐ Vulcanizes/ motor mechanics ☐ Fish framing ☐ GSM accessories selling ☐ Taxi/bus drivers ☐ Supermarket shops ☐ Buying and Selling of farm produce ☐ Commercial farmers ☐ Manufacturing activities ☐ Services related business ☐

others [specify] ________________

7) Do you have Children/Wards? Yes ☐ No ☐

8) If yes, how, many Children/ward do you have? -

1-3 ☐ 4-6 ☐ 7-9 ☐ 10-12 ☐ 3 and above ☐

INFORMATION REGARDING LOAN OR. CREDIT:

9) Are you a client in any Credit scheme?

Yes ☐ No ☐

10) If yes, which?

Commercial banks ☐ co-operative loan ☐ family ☐ friends ☐ Village money lender ☐

other (specify)__________________

11) Are you in a group or as an individual?

As an individual ☐ in a group ☐

12) Is there sharing of responsibility among the group members?

Yes ☐ No ☐Partly ☐Averagely others (Specify)____________________________

13) What other services to you get from them?.

Saving only ☐ Loan only ☐ Savings and Loan Training ☐ Participate in organizational activities Others (Specify)-_______________________________________

14) Do you save in that scheme?

Yes ☐ No ☐

15) If yes, how much amount are you saving per month?

NI, 000-5,000 ☐ N 5,001-10,000 ☐N10, 001-20,000 ☐ N20, 001-30,000 ☐

N30, 001-40,000 ☐ 40,001 and above ☐

16) Have your business experience an increase in income?

Less than N 7,500 ☐N7, 501 - 14,000 ☐ N14, 001-29,000☐ 29,001-39,000 ☐

N40, 000 and above ☐

IMPACTS

17) Has your standard of living increased since you started your business?

Not at all ☐ less than Average ☐Average High ☐ Very High ☐

18) Has your income increased since you started your business?

Not at all ☐ less than Average ☐ Average High ☐Very High ☐

19) Has your children/ward schooling years increased?

Not at all ☐ less than Average ☐Average High ☐Very High ☐

20) Has your access to electricity increased?

Not at all ☐ less than Average ☐Average High ☐Very High ☐

21) Has your access to portable water4ncreased?

Not at all ☐ less than Average ☐ Average High☐ Very High ☐

22) Has your access to primary health increased?

Not at all ☐ less than Average ☐Average High ☐Very High ☐

23) Has your business output change, type of house your living?

Not at all ☐ less than Average ☐Average High ☐Very High ☐

24) Has your experience change the numbers of persons per room?

Not at all ☐ less than Average ☐Average High ☐Very High ☐

Appendix B: Questionnaire for user of MFBs facilities (experimental group).

CUSTOMERS

Dear Respondents,

This questionnaire is purely for academic purpose. It is specifically designed for a Master Degree Research Programme [M.Sc] in the Department of Economics, Ahmadu Bello University. Evaluation of Micro Finance Banks on beneficiaries, {a Case Study of Kaduna State}. Your response shall be treated with utmost sense or responsibility, respect and the highest level of confidentiality. At your Discretion, anonymity in terms of individual and institutional identity is guaranteed.

Please, your sincere response is highly requested, while we thank you most sincerely in your valued co-operation.

Profile

l). Age: l-28yrs ☐ 29-39yrs ☐ 40-49yrs ☐ 50 and above ☐

2). Sex: Male ☐ Female ☐

3. Marital Status: Single ☐ Married ☐Divorced ☐Widow or Widower ☐Separated

4. Educational Qualification: Primary☐ Secondary ☐ND ☐HND ☐University ☐

Objective- Evaluating the impact of Microfinance Banks on business of beneficiaries.

.5. Nature of business activity [please select]

Small holding ☐ Farmers ☐ Petty traders ☐ Vulcanizes/motor mechanics ☐Fish farming ☐GSM accessories selling ☐ Taxi/bus drivers ☐ Supermarket shops ☐ Buying and Selling of farm produce ☐ Commercial farmers ☐ Manufacturing activities ☐ Services related business☐ others [specify}

____

6. What are reasons why you needed a loan? {Please select}

Household consumption ☐to protect against farm risk ☐to start a small business ☐

To purchase equipment ☐ mall scale commercial farming ☐ s sistence farming ☐ rep debt ☐

Others [specify] ____

7. Which of the following range of credit product do you really need? [please select]

Small loans ☐ large loans ☐ avings opportunities ☐ nsurance ☐ n ney transfer ☐

Foreign exchange transaction ☐ others [please select] ____________________________________

8. What did you use as collateral to obtaining a loan? [Please select]

Cash-in-account ☐ and property ☐ tatement of financial account ☐ Certificate of occupancy ☐

Guarantor ☐ Level of education ☐ llateral not require ☐ c tivated farm land ☐

others [specify] ____

9. How was the loan collected? [Tick]

Group loan ☐ ndividual loan ☐ illage money lender ☐ operative society ☐

others [specify] _____________

ii. Is there a sharing of responsibility among the group

More male ☐ more female ☐ veragely ☐

10. What is the duration of loans? [tick]

Less than three month ☐ Three.month ☐ ix month ☐ e year ☐ ove one year ☐

11. What was the rate of interest on any loan? [tick]

5% 7% ☐ 10-12% ☐ 3-19% ☐ 20% and above ☐

12, How do you consider the interest rate above?[tick]

High ☐ low ☐ Moderate

13. What was your total earning? [specify]

Before the loan N____________________

After, the loan N____________________

14. How far have you gone with the loan repayment? [tick]

Paid all ☐Paid part ☐paid nothing ☐

15. What are the things you have been able to achieve since taking the loan? [please select]

Pay school fees for children☐ Built a small personal house ☐Afford hospital Bills ☐ Acquire a bicycle/motor cycle / motor car ☐ Have personal saving ☐Change from pit latrine to lavatory ☐ Access to good water access☐ to electricity ☐ access to home appliances [Radio, television] Access to communication [GSM, Phone] ☐Able to fee the family well ☐

others [specify]_______________

16. What is the direct impact of the loan on your business? [Please select]

Change in average monthly income ☐ in business but not making profit ☐no longer in business☐ business expansion ☐change in nature of business ☐ others [specify]

17. Would you like to repeat the loan in the same amount or increased amount? [tick]

Same amount ☐increased amount ☐does not wish to repeat ☐

18. Which of the following most as a disincentive to you with microfinance banks? [Please select]

Too much bank charge ☐tedious process of loan documentation high☐ interest rate ☐

MFBs are too risk averse to the poor ☐Inflexibility of MFBs to the problem of small borrowers ☐

Others [specify] ____________________

Appendix C: **Questionnaire for operators of MFBs.**

OPERATOR [MFBs]

Dear Respondents,

This questionnaire is purely for academic purpose. It is specifically designed for a Master Degree Research Programme [M.Sc] in the Department of Economics, Ahmadu Bello University. An Evaluation of Micro Finance Banks beneficiaries {a Case Study of Kaduna State}. Your response shall be treated with utmost sense or responsibility, respect and the highest level of confidentiality. At your Discretion, anonymity in terms of individual and institutional identity is guaranteed.

Please, your sincere response is highly requested, while we thank you most sincerely if your valued co-operation.

Objective- Evaluating the activities of Microfinance Banks.

1. When did you commence operation as a microfinance bank?

2006 ☐ 2007 ☐ 2008 ☐ 2009 ☐ 2010 ☐

2. Which of the legal structure below is applicable to your bank?

Unit bank ☐ State bank ☐ Others [specify] ____

3. Which of the ownership structure below is applicable to your bank?

Sole proprietorship ☐ Partnership ☐ Limited Liability ☐ Public Liability Company ☐ Others _________

4. Who are your target business beneficiaries'? [please select]

Small holding Farmers ☐ Petty traders ☐ Vulcanizes/ motor mechanics GSM accessories sellers Taxi/bus drivers ☐ Supermarket shops ☐ Commercial farmers ☐ manufacturing activities ☐ Services related business ☐ others [specify] ______________

5. What are your sources of funds [please select]

Share holders fund ☐ Foreign Aid ☐ Direct grants from government Private donors ☐

Grants from CBN ☐ Borrowing from commercial banks ☐ Borrowing from commercial banks ☐

Others____________________

6. What is the range of facilities or product offered by your bank?[please select]

Small loans ☐ arge loans ☐ Savings ☐ insurance ☐ money transfer ☐ Foreign exchange transaction ☐ hers [please select] ____________________

7. What are the requirements for obtaining a loan from your banks? [Please select]

Cash-in-account ☐ Land property ☐ tement of financial account Ce ☐ ificate of occupancy ☐

Guarantor ☐ Level of education ☐ thers [specify] ______________________

8. In what other way do you provide loans apart from cash?[please select] Farm inputs ☐ ICT ☐ Technical support ☐ Client training ☐ Consultancy ☐ thers [specify] __________________

9. What is the minimum amounts you provide as loan in cash?[specify]

Less thanN5, 000 ☐ N5, 000 —Nl0, 000 ☐ I 0, 001- N20, 000 ☐ 20, 00l-50,000 ☐

N50, 00l-N100, 000 ☐ Nl00, 00l-N150, 000 ☐ 50, 001 and above ☐

10. What are the reasons often used by your client for their need of loan? [please select]

To be able to build asset ☐ to purchase equipment/machin ☐ stabilize consumption ☐ Protect against risk ☐ to grow small business ☐ subsistence farming ☐ commercial framing ☐ Buying and selling business ☐ other [specify] _____________

11. What problems have you encountered in the course of providing services to your clients? [Please select]

High rate of repayment default ☐ High over head cost ☐ Difficulty in loan monitoring ☐ High client business mortality Gr ☐ ving incidence of nonperforming loan Insta ☐ ility in monetary policy others [specif ☐ _____________

12. What is the tenor of loans? [Tick]

Less than three month ☐ Three month S ☐ month O ☐ year a ☐ ve one year ☐

13. What is the rate interest on the above tenor? [Please specify]

Less than three month ☐ Three month ☐ Six month ☐ ne year ☐ above one year ☐

14. What is the general rate of interest on any loan? [tick]

5 % ☐ 7% ☐ 10-12 % ☐ 20 % and above ☐

15. Which of the following repayment condition do you apply'? [tick] weekly installment repa ☐ ment monthly re ☐ ayment quarterly ins ☐ allment repayment annual install ☐ ent repayment single ☐ eekly repayment single monthly repa ☐ ment single quarterly re ☐ ayment single annual repayment others[specify]__________ ☐

16. What method do you adopt for credit/loan pricing?

Market based ☐ Tenure based ☐ monetary policy based ☐ndividual customer negotiation ☐

17. Which of the credit methodology below do you use? [tick]

Group lending☐ individual lendin☐ co-operative lendi☐g use of village money le☐ders others [specify] ____________________

18. IMPACT INDICATOR. LOAN AND DEPOSIT 2006-2010

Microfinance Institution Code: _______________________

Location:

INDICTOR	**2006**	**2007**	**2008**	**2009**	**2010**
Volume of loans outstanding					
Number of loans					
Minimum loan size					
Average outstanding loan					
Number of Saving Accounts					
Volume of Saving					

Appendix D: Paired Samples Statistics for beneficiaries

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total earning before	71695.72	139	136643.668	11589.965
	Total earning after	102209.37	139	178243.662	15118.430

Appendix E: **Paired Sample Test for beneficiaries**

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Total earning before – total earning after	-30513.647	53443.928	4533.055	-39476.873	-21550.422	-6.731	138	.000

Appendix F: Paired Sample Test for beneficiaries (experimental group) and non beneficiaries (control group)

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Income of non user	28075.20	139	20044.982	1700.193
	Income of user	102209.37	139	178243.662	15118.430

Appendix G: One Sample t Test of Control group

N	Mean	Std. Deviation	Std. Error Mean
175	57959.7886	91211.02124	6894.90512

Appendix H: **Income series for beneficiaries (experimental group) and non-beneficiaries (control group) of MFBs.**

Income Range (N)	Frequency of control group		Frequency experimental group	
≤ 5,000	28	16%	22	15.1%
5,001-10,000	13	7.4%	6	4.2%
10,001-20,000	18	10.3%	6	4.2%
20,001-30,000	21	12%	18	12.9%
30,001-40,000	11	6.3%	12	8.5%
40,001-50,000	24	13.7%	13	9.2%
50,001-60,000	15	8.6%	3	5.7%
60,001-70,000	9	5.1%	3	2.1%
70,001-80,000	5	2.9%	12	8.5%
80,001-90,000	4	2.3%	3	2.1%
90,001-100,000	2	1.1%	5	3.6%
100,001-110,000	1	0.6%	2	1.4%
110,001-120,000	1	0.6%	1	.7%
120,001-130,000	3	1.7%	0	-
130,001-140,000	1	0.6%	1	.7%
140,001-150,000	3	1.7%	4	2.8%
150,001-160,000	2	1.1%	2	1.4%
160,001-170,000	2	1.1%	1	.7%
170,001-180,000	0	-	0	-
180,001-190,000	6	3.4%	1	.7%
190,001-200,000	2	1.1%	3	2.2%
200,001-250,000	3	1.7%	4	2.9%
250,001-500,000	2	1.1%	8	5.6%
500,001-750,000	0	-	4	2.8%
750,001-1,000,000	1	0.6%	0	-
1,000,001-1,250,000	0	-	0	-
1,250,001-1,500,000	0	-	1	0.7%
Total	**175**	**100%**	**139**	**100%**
Mean	57959.7886		102209.37	
Minimum income	3200		5000	
Maximum income	980,000		1500000	

Source: Field Survey 2011

Appendix I: Abbreviations

ABU	Ahmadu Bello University
CBN	Central Bank of Nigeria
EIU	Economist Intelligence Unit
ERI	Economic Research Institution
GCIR	Global Competitive Index Report
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
HDI	Human Development Index
HDR	Human Development Report
MDGs	Millennium Development Goals
MFB	Microfinance Bank
MCP	Microfinance Certification Programme
MFI	Microfinance Institution
MFIP	Microfinance Institution Program
NEC	National Economic Council
NES	National Economic Society
NGO	Non- Government Organization
QLI	Quality- of – Life
UN	United Nations
UNDP	United Nation Development Program
IILJ	Institute for International Law and Justice