EVALUATION OF THE IMPACT OF MICROFINANCING ON POVERTY ALLEVIATION IN NIGERIA

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DECLARATION

I declare that the work dissertation entitled "Evaluation of the impact of *Microfinancing on poverty alleviation in Nigeria" has been performed by me in the* department of Business Administration Under the supervision of Mal. Zubairu Mohammled (Major) and Mr. J.C Onu (Minor). The information derived from the literature has been duly acknowledged in the text and a list of Bibliography provided. No part of this dissertation was previously represented for another degree of Diploma at any University.

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SIGNATURE **DATE**

CERTIFICATION

This dissertation entitled "Evaluation of the Impact Microfinance on Poverty Alleviation in Nigeria" by Nathan Markus meets the regulations governing the Award of Degree of MBA Business Administration of Ahmadu Bello University and is approved for it's contribution to knowledge and literacy presentation.

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DEDICATION

This work is dedicated to my late loving mother, Mrs Martha Markus. She was key to my educational background but never survived to see a logical conclusion of her efforts. To this I owe her, because of this, I will effect my generation positively. Mama thank you may you continually rest in perfect peace.

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For every effort like this, over time is without roots somewhere else. This work is no exception.

I give all the glory to the Almighty God to whom all things are possible. He known the end from the beginning I glorify him.

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ABSTRACT

The growing awareness of the potential of microfinance in poverty reduction, economic growth and development, coupled with the emergence of several highly successful and fast growing microfinance institutions, has effectively put the issue of microfinance on the political agenda of most developing countries. Well performing financial institution have basic role to play in fostering development. This study evaluates the impact of Microfinance on poverty alleviation in Nigeria. Both primary and secondary data were used. Descriptive analysis were used for the study for it's convenient for this research. The study revealed that Microfinance Bank has impacted on poverty on by lending to the poorest of the poor in the rural areas, and that Microfinance bank has helped in supporting the borrowers to succeed. The study recommend that government should provide low interest credit facility to microfinance institutions to enable them meet up with the challenges of increase in patronage.

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CHAPTER ONE

INTRODUCTION

1.1 *Background to the Study*

In established political environment and enabling macro economy, the provision of micro finance is an important component of any effort to improve the livelihood of the poor in any society. In recent years there has been renewed interest in micro finance by both policy makers and practitioners. This interest is based on its valued contribution to effort aimed at improving the livelihoods of the rural population through policies and program geared towards addressing inequalities arising from various countries' socio-political record.

In Nigeria the practice of micro finance is culturally rooted and dates back to several centuries. The traditional micro finance institutions provide access to credit for rural and urban, low-income earners. The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the un-sustainability of government sponsored development financial schemes contributed to the growth of private sector led micro finance in Nigeria. Before the emergence of formal micro finance institutions, informal micro finance activities flourished all over the country.

These informal micro finance firms were in the forms of Traditional groups that work together for the mutual benefits of their members. These groups provided savings and credit services to their members. The informal micro finance arrangements operate under different names: "Esusu" among the Yoruba's of western

Nigeria, "Etoto" for the Igbo's in the east and "Adashi" in the North for the Hausas. Central Bank of Nigeria (CBN) (2000).

The main features of these informal schemes are savings and credit components, informality of operations and high interest rates in relation to the formal banking sector. The informal associations that operate traditional micro finance in various forms are found in all the rural communities in Nigeria. Otu et al (2003). They also operate in the urban centers. However, the size of the activities covered under the scheme has not been determined.

The non-traditional, formalized micro finance institutions are operating side by side with the informal services. The financial services provided by the micro finance institutions in Nigeria include savings, credit and insurance facilities.

In order to enhance the flow of financial services to the poor, Nigerian government has in the past initiated a series of publicly financed micro/rural credit programmes and policies targeted at the poor. Notably among such programmes were the rural banking programme, sectoral allocation of credits, a concessionary interest rate and agricultural credit guarantee scheme. Other institutional arrangements were the establishment of the Nigeria Agricultural and Co-operative Bank limited (NACB) in 1973 with the sole purpose of providing specialized credit facility for agriculture and rural development; it is in the light of this that this study intend to evaluate the impact of microfinance on poverty alleviation in Nigeria.

1.2 Statement of the Problem

Well functioning financial markets have basic role to play in fostering development. They can be a principle means for the poor to get access to financial assets; through facilitating saving, they can be of importance in reducing the vulnerability associated with uneven and unpredictable year-to-year changes in circumstances, and they can help convert illiquid assets into liquid once in the event of emergencies. Non the less any poverty reduction programme must seek to address the efficiency and inadequacies of financial market since they rarely effectively discharge the expected function it is therefore not unexpected that government all over the developing world had at one time or the other intervened to make sure that the less privilege in the society have improve access to financial market.

In Nigeria, government interventions through a multiplicity of credit institution over the year have not resulted in significant improvement in rural financial intermediation. Several credit schemes have collapse due to poor loan quality, high transaction cost, wide spread delinquency and default and management deficiencies. Ijose and Abaelu, (1927). The liberalization of the financial system since the introduction of structural adjustment programme has tended to exacerbate the financial problems of the rural sector. Loanable funds from government sources have dwindled considerably .The cost of borrowing has escalated substantially and the financial expense for business enterprises has multiplied several folds irrespective of the scale of operation; due to the havoc of inflation. Thus only a limited number of entrepreneurs are in the position to meet their financial requirements. The private sector seems to be brazing up for the challenge through the formation of the informal

financial groups and the participation OF NGOs including donor agencies. Available literature indicates that lender resort to the disbursement of credit to group rather than individuals as a way of overcoming the problems of high transactions cost and loan default and as away of extending their coverage of beneficiary of small loans. However, results have been mixed, with failure out numbering successes. Braverman and Guasch, (1989), Huppi and Feder, (1990). With the experiences encountered previously, the challenges are:

i. What is the outreach level that the private sector driven microfinance institutions in Nigeria will showcase if allowed to provide microcredit services to the poor?

ii. What is the level of continuity that is expected if private sector is given the leadership role in Nigeria microfinance institution?

1.3 Objectives of the Study.

The general objective of the study was to examine privately driven Microfinance in Nigeria. It aimed at viewing how the privately owned microfinance in Nigeria has faired over the years attempting to partake in poverty alleviation and women empowerment. Particularly, Other Specific objectives are:

i. To find out the level of outreach private sector driven microfinance institutions have earned over the years.

ii. To determine the level of efficiency that should be expected from privately owned microfinance institution in Nigeria.

iii. To contribute on the existing scholarly processes on microfinance.

iv. To proffer solution to the problems experienced in Nigeria microfinance scheme.

1.4 Hypothesis of the study

In order to achieve the objective of the study, the following hypothesis were formulated.

H_o = microfinance bank have assisted in poverty reduction in Nigeria through widespread of micro loan.

H_1= microfinance bank have helped to improve the living standard of rural women in Nigeria.

1.5 Significance of the Study.

Microfinance arouses enthusiasm among donors, practitioners, researchers, and the state. This interest is based on the success of a few famous financial institutions in mobilizing savings and distributing large amounts of credit, with high repayment rates and good outreach on a rather sustainable basis. Microfinance has allowed millions of households usually excluded from classical financial services to begin their own economic activities or to reinforce existing efforts and become micro entrepreneurs. Yet, three main issues have to be clarified. First, a large number of the poor households still lack access to financial services (outreach); Second, most of the microfinance institutions still have to demonstrate their capacity to reach a break-even point that would allow them to work without being subsidized (sustainability); and time,

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good institutional design, and a favorable environment which are necessary prerequisite to build efficient financial institutions.

The study was design to aid government in policy making, implementation and regulation on microfinance in Nigeria. It was also meant to help microfinance firms acquire evaluation techniques for proper accountability and management of their resources. Furthermore, the study was expected to spur scholarship on microfinance.

1.6 Scope of the Study.

The study examine four privately owned nongovernmental organizations (NGO) such as (Lift Above Poverty Organization (LAPO) and Self-Reliance Economic Advancement Programme (SEAP)) /non bank financial microfinance institution such as Mutual Alliance Savings And Loan ltd. and Alliance Community Bank Limited (ACBL) these institutions were used for this study on the basis of their proper record of operation, such as; having general information of the institution, availability of outreach, and impact data. These records were limited for the period of (2 successive years of data minimum), availability of financial report (minimum 2 successive years of report), and availability of audited financial statements (minimum 2 successive years of audited financial statements including Auditors' opinion and notes). The study covered a period of four years of operations from 2003 - 2006. The periods considered for the study is quite recent as such we were able to make relevant analysis in line with the millennium. Further more, the period considered is in line with the new government policy of given the private sector the driving role in the economy.

1.7 Limitation of the Study

We were unable to source out all up to date information from the institution because of disparities in the age of the institutions. As such the researcher was constraint in making vivid comparative analysis of the trend of operation over the years. The firms' inability to prepare well packaged financial record made it difficult for us in making accounting ratio adjustment. Records had to be sourced from the firms' additional information. Other limitations encountered were in the area of accessibility to the institutions under study and time.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

Recognizing the objective of the study is to assess microfinance attempting to partake in poverty alleviation. This chapter is devoted to literature review and theoretical framework. It is covered under the following subheading: conceptual issues of microfinance bank, empirical review of microfinance bank, theoretical framework.

2.2 Conceptual Framework

Micro finance according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) describe microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. The terms micro-credit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998) states "micro-credit refers to small loans, whereas microfinance is appropriate where Microfinance Institutions supplement the loans with other financial services (savings, insurance, etc)". Therefore micro credit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

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2.2.1 Type of Micro Finance Practiced By Private Firms

In a study conducted in India by Dasgupta and Rao (2003). Microfinance forms of practice in India are divided into individualistic and cooperation. They of the view that the individualistic is made up of direct, people participation and indirect; people participation was subdivided into money lender and local institutions. On the other hand co-operation is made up of institutions and solidarity groups; the institution is made up of self helped group and cooperatives; the solidarity group is made up of Grameen bank, common goal group and joint liability group. However Self-Help Groups (SHGs), usually at the command of certain developmental non-government organizations (NGOs), have quietly mushroomed in most districts of India over the last few years. Millions of poor, predominantly women, are now members of thousands of SHGs. The 1990s saw a proliferation of women SHGs across India, particularly in the South (Narayana, 2002). These groups were designed not only as a strategy for poverty alleviation, but also to increase women's access to resources and their power in household decision-making (Sundram, 2001). On the other hand the Nigerian typology of privately owned microfinance is subdivided into formal and informal.

1. *The Informal Microfinance:*

In general, three broad types of informal financed are originated in Africa (Aryeetey and Udry,1994). These are:

a. Primary savings mobilization units, with little or no lending;

b. Primarily lending units that are hardly involved in savings mobilization; and

c. Units that mobilize deposits and do a considerable amount of lending, albeit mainly to members of distinct associations or groups which may include:

i. Self-help financial groups that include different levels of savings and credit associations, including Rotating Savings And Credit Associations (R O S C As) and non-rotating ones;

ii. Commercial lenders;

iii. Friends, family and non-commercial lenders;

iv. Money keepers and savings collectors; and

v. Licensed cooperative or unions.

1 *The Formal Microfinance*

Akanji (2004) is of the view that "formal micro-finance model is built around formal financial

Akanji (2004) is of the view that "formal micro-finance model is built around formal financial institutions such as the commercial banks, rural/village/community bank etc. most of the formal institutions that purvey credit to the poor had not been successful. The reasons adduced for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institution. The Grammen experience is an example of that model that has been able to transform from informal to formal model of purveying micro-credit to the poor. The credit need of the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problem of no collateral. The formal micro

credit operators have found that per-client costs are high and expensive to reach groups of client physically and in part because poorly developed infrastructure increases the expense of delivering even basic needs. In addition, most programs offering micro-finance services have a small capital base and do not have access to the level of financing that would be required for significant for significant scaling up."

Jansson (2006) underlines more specific typology of microfinance as: multipurpose financial institutions, specialized financial institutions, specialized nongovernmental organizations, general nongovernmental financial organizations. Not mentioning finance companies and savings houses/banks, in a recently published research, Forster, Greene and Pytkowska (2003) identify "four main microfinance models in Central and Eastern Europe and the New Independent States: credit unions, nongovernmental organizations (NGOs), downscaling commercial banks, and microfinance banks".

2.2.2 Experience of Some Micro Finance Models.

In many low-income countries, the informal financial sector exists side by side with the formal one. This is known in the literature as financial dualism (Aryeetey and Gockel, 1991). However, policy-makers in these countries, do not clearly understand the influence of the informal financial sector- hence they view the sector as a "black box" (Hyuha, Ndanshau and Kipokola, 1993). Nevertheless, an understanding of the economics of this sector is a prerequisite for satisfactory financial policy analysis (Aryeetey and Udry, 1994). What is essential now is for the various less develop governments to obtain a fuller understanding of informal financial operations for the development of policy, especially in view of its growing significance. As noted by

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Aryeetey (1995:4), policy-makers need to be aware of the allocative and dynamic effects of a large informal segment on macro-management through money creation. This requires knowledge of who is involved and what roles the various actors' play. Equally important are a more realistic picture of its size relative to the formal financial sector and the implications of this for the whole developing countries financial system.

It should be emphasized that the informal financial sector is better positioned than the formal one to resolve the three related problems that face the financial sector generally. The first problem pertains to adverse selection; that is, a lender's inability to distinguish a potentially good borrower from a bad one at reasonable cost. The second is moral hazard, in which prohibitive monitoring costs arise from an uncertain environment (for example, random production, a consumption shock, or bad luck), which might negatively affect the returns on a borrower's activities and capacity to repay. Third, the lender faces the problem of enforcement, since, in the event of default, the lender must recover the principal and interest either from the borrower's returns or from the collateral specified in the loan contract (Bell, 1990).

In spite of this comparative advantage that the informal financial sector has, the literature is replete with evidence of connections between the two sectors. However, these connections are not properly understood even though they provide the key link between macro-economic policy and aggregate saving and investment. Aryeetey and Hyuha (1991) have expressed the view that financial and monetary policies can only be effective if strong links are established between the formal and informal segments of the financial market. In addition, the view is increasingly being expressed (Olisadebe and Ajaikaye, 1996; Aryeetey, 1995) that the continual disregard of

informal finance in financial and monetary policy matters is inappropriate for the development of an efficient financial system.

2.2.3 Impact of Microfinance

Microfinance has a very important role to play in development according to supporter of Microfinance. UNCDF (2004) states that studies have shown that Microfinance plays three key roles in development. It:

- ♦ helps very poor households meet basic needs and protects against risks,
- ♦ is associated with improvements in household economic welfare,
- ♦ helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1999) illustrates the various ways in which "Microfinance, at its core combats poverty. She stated that Microfinance creates access to productive capital for the poor, which together with human capital, addressed education/training, and social capital. These enable people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999). In furtherance to her view she stated that microfinance is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. In addition Littlefield and Rosenberg (2004) stated that the poor are generally excluded from the financial services sector of the economy so Microfinance institutions have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, Microfinance Institution can become part of the formal financial system of a

country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals (MDGs). Simanowitz and Brody (2004) state, "microfinance is a key strategy in reaching the Millennium Development Goals and in building global financial systems that meet the needs of the most poor people." Littlefield, Murduch and Hashemi (2003) state "microfinance is a critical contextual factor with strong impact on the achievements of the MDGs...microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale". Referring to various case studies, they showed how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women. At an international workshop organized by USAID Prisms (2005) grouped microfinance impact in to three. Prisms commented as "We also understand that in Nigeria, as around the world, most microfinance activities can be grouped into three areas: financial services (loans, deposits, leasing, etc.); non-financial services (classes on literacy, numeracy, nutrition, health, etc.); and business development".

2.3 Empirical Review of Microfinance Bank

2.3.1 Problems Faced By Micro Finance Institution in Africa

In opposition to the reported positive result, are also the limited systematic, socio-economic and/or cross-cultural comparative studies of the ways in which micro lending programmes provide solutions to rural problems particularly those faced by

women. Dhonte et al., (1994) have observed this vacuum, particularly in rural micro finance programmes funded by the European Commission. The cause of this vacuum is probably due to the fact that impact evaluation is complicated, time-consuming and costly for micro lending institutions. If micro lending institutions are to be sustainable, they may not have the time, funds and expertise to carry out impact assessments. Therefore such studies may need to be funded and organized by the donors or governments. In spite of the limitations, a number of misconceptions or myths have permeated the current political rhetoric and euphoria regarding micro lending. This has encouraged its misconception as the panacea for poverty eradication, rural development and women empowerment. The following review reveals five popular myths such as discussed below.

a. Micro Finance As an aid in Assisting the Poorest of the Poor.

The general consensus among development agencies is that micro lending programme assists the poorest of the poor. However, there seems not to be a trade-off between reaching the poorest of the poor, and primarily women, and reaching a large number of people, thus making it a scale and not an exclusive focus that determines whether outreach to the poorest poor really takes place. The reality is that these programmes rarely reach the poorest of the poor. The tiny loans required by the poorest people are too expensive to deliver, especially in hard-to reach or remote rural population. Therefore, micro lenders under pressure from donors to become financially self-sustaining in the shortest period are drawn toward less poor borrowers who can take out larger loans. Available literature suggests that prioritization of cost-efficiency and financial sustainability requirement by women donors may soon further

dilute the potential contribution of micro lending to the poorest poor. Montgomery (1996) has maintained that this overriding concern with repayment rates puts further pressure on credit groups to exclude the poorest who are likely to be hit hard by poverty and experience the greatest problems.

It also is also likely that impact of micro lending on women clients varies significantly amongst them. There seems to be a difference between women in different productive activities and those from different social backgrounds, and individual differences between women from similar backgrounds and those within the same sector (Mayoux, 1995). Even within a group, the member background and status vary significantly. Onyuma (2000) noted that well-to-do women in Nairobi use their less-to-do counterparts to get better off in the name of being in group-lending arrangements. The better-off women with ample information of available enterprise development programmes in the city lure gullible (women) friends into forming some non-operating women groups so that they could access credit. Majority of the better-off women are involved in different types of businesses that are probably not badly in need of micro loans. These women convince their friends to attend the preliminary training offered by micro lending programmes involved then apply for, and acquire loans. The truth of the matter is that the gullible women who are being cheated by their cunning friends may not be in need of a loan, or are afraid of securing a credit: after all, they are not involved in any form of business, and may not be interested in initiating one. In this context, these programmes benefit kind-of well-off women but not the poorest of the poor.

Kinyanjui and Munguti (1999) have noted that most micro lending institutions do not need the poorest women because male administrators control them. The motive being that poor women lack permanency since they are subject to divorce, thus unbankable. Sometimes, micro-lending programmes that target the poorest may exacerbate the same poverty situations they were designed to counteract. Some micro lenders attempt to cover the costs of lending to the poorest by charging abnormally high rates of interest. In fact, christen et al. (1995) have reported that most programmes charge interests rates that are significantly way above the inflation rate. The foundation for Development Corporation (FDC) (2003) reported that micro lenders in Philippines charge up to 36% interest. This efficiency approach to lending can be detrimental where there is a weak market for the products that micro entrepreneurs can produce and sell. The donor-driven emphasis on financial efficiency also undermines the potential of micro lending as a poverty-alleviation tool for the poorest poor.

The Grameen bank is one of the most successful micro lending model, which has been replicated worldwide. it is one of the best-know intermediaries that target the poor. The 1997 Micro credit Summit Declaration and Plan of Action defined the poor as those living below the poverty line established by each country, and the poorest as those people in the bottom 50% of that group. Schneider (1997) also identified the poorest of the poor as the hard-core poor who represent about half of the poor and subsist on a per capita income that is less than half of that of the poverty threshold. In fact, these people are so destitute that they cannot service debt, shy away from borrowing and are ostracized by group members when in need of group guaranteeing – the only collateral they may have. Rubenstern (1996) corroborates this argument by revealing that out of the long-term Grameen Bank's borrowers about 54% had moved

close to the poverty line but had not crossed it as response to family needs had eaten into their loan. This author reveals that this bank will not make any subsequent loans while any member in the group is still in default. Hulme and Mosley (1996) supported this argument and concluded that micro lending programmes benefit mostly those just on the poverty line rather than those well below it. Thus the poorest of the poor receive little direct benefit from income-generating initiatives. Therefore, alternative assistance, both in finance and from other sectors need to be developed generating the need for continued innovation by rural developers.

In situations where a savings fund exists amongst group members, savings from poorer members who cannot continue subscribing to the fund have in some cases been withheld whenever they opt to quit the programme (Fernandez, 1998). And where groups maintain forced savings, some members have contributed towards two funds, one to the group's common fund, and their own personal savings account, showing the importance of savings mobilization by micro lenders. Despite this importance, Binns (1998) has observed this savings vacuum and stated that most micro lenders do not offer their clients the opportunities for savings, thus excluding the poorest of the poor from micro lending services. Yet, savings may be the only way the poorest of the poor may use as a depository facility of the last resort. It is believed that even the poorest of the poor needs not only loans, but also saving products. By offering saving services to the poor, micro lenders can also promote greater customer loyalty and loan repayment discipline, thus reducing the cost of funds for on-lending and overall trans-action costs, and reduce the risk of erratic shifts in its liability portfolio. Besides, it goes all the way to enhancing the much-desired financial sustainability of micro lenders.

It should also be emphasized that access to credit means access to assets, and access to assets for those who have no physical assets also means access to factors that increase the returns on assets that are held by the poorest of the poor- their own labor-thus, the returns on their labor have to be maximized. They are maximized not by offering credit for self-employment alone, but also by investment in education and training, nutrition and health and in reduction of hunger. However, Ackerley (1995) observes that most micro lending programmes are known to cut back on support services for the poorest clients, such as business management, skills training and education, and information provision as a way of covering cost. In this context, these programmes are actually serving not the poorest of the poor, but those a little better off. This article maintains that under the system of micro lending, credit remains targeted to enhance economic self-reliance through self-employment. However, it challenges the effectiveness of the micro lending system and questions its ability to reduce poverty and enhance human security since. Proof from South Africa (Bauman, 2002) show that micro lending institution has failed to deliver poverty reduction mechanisms.

b. The Informal Sector as an Engine of Economic Growth.

It is also politically misconceived by multilateral donors that the informal sector is the only answer to joblessness, meaningful economic growth and a refuge from the shock of adjustment reform undertake in most developing countries. Despite substantial research since the 1970s, the meaning and scope of the informal sector remains controversial since its magnitude, nature and composition varies among nations. Also, the extent and degree of regulation and industrialization of a nation's

economic activities determine even the boundaries between informal and formal sectors. An ILO report has used the term informal sector to describe a range of economic units in the urban areas which are largely owned and operated by single individuals with little capital and labor, and which produce and distribute goods and services not in agriculture with a view to generating income and employment. The sector uses labor-intensive technologies, has easy market entry with high level of competition, produces low-quality goods and services, and has limited capacity for capital accumulation and a restricted access to assets, credit and other services. In addition it possesses undeclared and unprotected labor and unstable relationships of production. Part of this definition wrongly assumes that the informal sector is only made up of enterprises that are run in an informal manner in the urban areas and their upcoming slums. However, according to Parker and Torres (1993), most of the informal sector enterprises, for example, in Kenya (78%), Lesotho (80%) and Malawi (90%) are located in rural areas and provided more employment there than in urban areas. It is in these areas that one would find the majority of the poorest of the poor.

Most participants in the informal sector are believed to be women (Liedholm and Mead, 1995). However, 75% of women enterprises in this sector generate income at or below the minimum wage levels and their returns are lower than the average of all the sectors in a country (Daniels et al., 1995); yet, these enterprises are expected to generate enough income for consumption, education and health needs of a house hold and pay laborers. In Kenya, the average rate of return from women-run enterprises is about a quarter of the level earned by men-owned enterprises, yet such enterprises are expected to compete fairly with male-run enterprises. Lastly, the majority of women entrepreneurs in the informal sector are illiterate. In Kenya, for

example, Nyoike (2003) and Daniels et al., (1995) revealed that about 33% of these entrepreneurs have no education. Programmes with a training component have used forced, hurried short-term training as substitute for collateral (Copestake et al., 2000) and a requirement for borrowing. Such training may not impart the much-desired business and management skills of women beneficiaries. Very little attention has been paid to capacity building of micro lenders and this might affect their sustainability. Informal sector lending, therefore, is not a panacea for eliminating the poor poverty. The sector needs much more than loans in order to address all the causes and consequences of urban and rural poverty.

Most economic reform policies designed for developing countries supposedly to address the issue of poverty alleviation, however, have jeopardized the same poor peoples' needs. The very adjustment policies have helped create a burgeoning informal sector by destroying small and medium enterprises, farms and formal-sector jobs. They have also undermined the potential for income-generation in the same sector. The cumulative effect of rising costs, declining demand and competition from cheap imports and increased entrants into this sector, especially products from Dubai (UAE) and Southern Africa, may lead to shrinking profits in informal-sector trade in relatively poor economies, such as Kenya. In Zimbabwe, Gibbons (1995) reported that women traders in the informal sector experienced significant declines in income following the implementation of adjustment programmes, and new entrants into the sector reported earning less than they had previously earned in formal-sector jobs.

Businesses in the informal sector in most developing courtiers operate unprofessionally and are not favored by public policies. It has been reported in Kenya,

that local authority personnel persistently harass informal sector traders (Gray et al., 1995) Due to lack of trade license and non-payment of taxes, these traders experience losses worth thousands of shillings from local authority officials who continuously demolish the make-shift structures from which traders operate their businesses (Ng'ethe and Ndua, 1984; Mutiso, 2003). Other forms of harassment include arresting traders, confiscating their products of trade, frequent demands of bribes to spare them the harassment and frequent theft of their merchandise by street urchins marauding all over Kenya's urban towns. Because of theses forms of harassment, Mukui (1980) concludes that in less than a year, Kenyan traders in this sector can change trade in up to four different types of enterprise. They wish not to be tied up in one location permanently as they want to be able to move more quickly without too much loss, should the authorities pass a warning of intended harassment or in case the market condition changes. The rapidly changing profit margins of their trade coupled with restrictions and harassment sanctioned by most government impede growth of informal sector activities, ostensibly out of concerns for public health, fire hazards and urban aesthetics. Given these features, it would be ironical if the obsession with, and zealous faiths in the informal sector were to be dashed by the very attention it is currently receiving from development practitioners and proponents of micro enterprising-led development.

This research dose not disputes the importance of the informal sector. However, its prevailing vision rather is one of survival, low productivity and little value added. In other words, it represents an inescapable evil when if comes to real economic growth. Expectations that it is the informal sectors that will led to economic growth in poor countries is still bogged down by the nature in which its businesses are

conducted. In Kenya for example, entrepreneurs are sometimes faced by artificial problems. Since the 2000, there has been a rampant case of fire guttering down micro enterprises operating in various large open air market located in the city of Nairobi and Nakuru, which led to loss of goods worth millions of shillings. Press reports indicate that amongst the micro-entrepreneurs themselves, some might have started the fires as an attempt to eliminate fellow entrepreneur and reduce the stiff competition, and some fires could have been instigated by powerful politicians wishing to land- grab the plots on which the market stand. The worst thing is that the formal insurance market is far out of reach of these businesses. Although they have some other informal methods of absorbing their own risk, they never assess risk exposure to their loans. This means trading in the informal sector means taking excessive risk, which can contribute significantly to the impoverishment of those involved.

This research stresses that economic development in poor countries needs a wider perspective ranging from the need for the right national policies for wealth creation, fighting corruption, liberalizing trade, privatizing industry and lowering inflation. Once the right playing field has been leveled, it is then that an enormous amount of development can be achieved at micro level to help the poor who are usually not served by the formal financial system. Micro lending is an important part of that lower –tier. In human terms, it has huge potential, as there are millions of poor traders who do not have access to financial markets, thus given them access to credit to start income-generating activities which is a vital goal. However, pushing for too great an expansion too quickly would weaken the institutional strength currently existing and ruin what so far could become a very successful drive in poor countries. In fact, the long – term success of the informal sector and its credit programmes in

sub-Saharan Africa will be very difficult since even the success of the Grameen Bank is due to a high population density which permits intense loan supervision at minimum cost and some hidden financial and organizational subsidies of its non-credit services-something that is not possible in Africa countries.

c. Micro finance in developing countries contributes to women empowerment.

If micro finance programmes empowers poor women, it should do so in three positive ways (Mayoux1995; Onyuma, 2000): First, by providing independent sources of income outside home and reducing economic dependency of women on their husbands, thus enhancing autonomy. Secondly, the same independent source of income together with women's exposure to new sets of ideas, values and social support should make these women more assertive of their right. Finally, by providing control over material resources, microlending programmes should raise women's prestige and status in the eyes of husbands thereby promoting inter-spouse consultation on household decisions. However, it is evident from the following that microlending programmes have not fully empowered poor women.

Johnson (1997) has reported that whole evolution is about establishing whether the positive objectives planned by a programme have been achieved, impact assessment must look both at positive (expected) and negative (unexpected) outcome. Nonetheless, various impact assessment of microlending on women from Asia mostly provide a picture of positive effects. Schulrer and hashmi (1994) have concluded that due to a stable integration of women into microlending circuits in Bangladesh, there was a remarkable improvement in women's physical mobility, economic security,

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ability to make own purchases, freedom from family domination and violence, political and legal awareness and public participation. Whereas Hulme and Mosley (1996) have espoused that microlending contributes to women's independent income in Sri Lanka, thus given them more bargaining power in their relation with male family members, MkNelly and Watetip (1993)have observed that programmes from Thailand enhance women empowerment through increased self confidence and better co-operation with neighbors while a study of Grameen Bank (Chen, 1996) concluded that women where more conscious of their right, more able to resolve conflict and had more control over decision making at the household and community levels, Pitt and K handker (1996)have reported that credit to women positively affects the schooling of the girl-child, and with exception of land, increases women's assets. However, programmes from Africa have only reported a positive impact on self-confidence of women but with little or no proof of intra-household decision making, increased access to credit or individual asset ownership (vengroff and Creevey, 1994). Ackerky (1995) has also maintained that for microlending to have higher impact, women should have total control over the financial products acquired by them.

Even with the above plausible findings of the impact of microlending on women empowerment, it should be noted that all the positive cases reported are from Asia, where programmes operate as village banks, with few of none from Africa that only give microloans. A thorough scrutiny of impact report reveals some implicit negative impact on clients. Given the fact that some programmes foster group formation and enable women to generate income, it is easy to conclude that they offer potential for political, economic and social empowerment. However, since microlending in itself can not overcome patriarchal systems of control al household and community levels, this

potential is not always realized. Also there exist a severe negative impact on women income and employment. Women control over financial resources is increasingly seen as an important factor in explaining these mixed results. Negative impact, for example through increased workloads and higher social pressure on women to ensure loan repayments, are evident in some programmes (Vengroff and Creevey, 1994). Peace and Hulme (1994) have also maintained that a positive impact on participants' dependants such as welfare and education of children cannot be automatically assumed. In addition, participation in credit schemes can also lead to indebtedness that is unmanageable simply because there are no sufficient profitable income generation activities in which to invest. Finding themselves in such condition, ILO (1998) has noted that women end up being more dependent on husband than they were before joining such credit programmes.

Mutiso (2003) and onyuma (2000) reported that about 39%of women obtained credit and then fully integrated their husband as managers of their business, an arrangement that turned sour in cases where men used by men to start up business in which women had little control or did not understand. Although they worked in those businesses, the women were not paid though loan payments in most cases were done on scheduled. Other findings (Goetz and Gupta, 1996; Ackerly, 1995) also reveal that loan in Bangladesh are invested by male relatives but women still bear formal responsibility for repayment. Intuitively, the loan benefited men more than women.

Positive impact on participants' dependants cannot always be assumed from uptake of credit even where they are able to benefit. Where women employ laborers, it cannot be assumed that they give them better wages or working condition than men

do (Mayoux, 1995), since even where women employ daughters and daughters-in-law they are mostly engaged in the business as unpaid family workers, thereby increasing their workload. Hulme and Mosley (1996) have also observed that women borrowers from micro lending institutions do not induce dramatic technological changes or much employment outside the family. It means that such women enterprises may have no prospects of growth in terms of increase in the number of employees. Although increased family income channeled through women may benefit children through education, this is only true where a programme has an education component. Moreover, women still prioritize the interest and education of the boy-child as opposed to the girl-child (Mayoux, 1995), illustrating that borrowing alone does not necessarily empower women.

In cases where women have achieved autonomy from male counterparts, such increased autonomy has been temporal and led to withdrawal of the male support when husbands demand that the women abandon their enterprises. Women's refusal to submit to such demands has resulted into broken families (UWFCT, 1993). In other cases, there have been few benefits or improvements in various aspects of women's well being because of greater recognition of their role by households or the community. Mongbo (1997) has reported that advantages gained by most women clients from Benin also increased their financial responsibilities when their husbands noticed that the wives were involved in-lucrative activities.

Similarly, Onyuma (2000) has reported that due to women's financial success in the community, they have been forced by local leaders to give hefty financial contributions toward public fundraising. The fish-mongering business that women in HCDO-a micro credit organization operating in Rachuonyo (Kenya) - do is usually

male-dominated and women whose husbands are also in this business have received quarrels and resentments from their husbands who are in fear of competition. They also have problems dealing with large sums of cash from this lucrative business and the majority of them prefer saving money in their houses-an activity that has led to husbands taking part or whole amount in case they get access to it. Women also complained of bribery and extortion by the local administration, especially local Chiefs in Deny, before they (women) are endorsed as eligible loan applicants.

Micro financiers use alternative substitutes to conventional collateral like joint group liability where group members ensure repayment compliance from fellow members. They however ignorer the already existing self-help groups in the community. Nevertheless, Besley and Coate (1995) have hypothesized that several factors can undermine the repayment performance of group lending under joint-group liability. Since the risk of loan default by an individual is shared by her peers, a woman may choose a riskier project than she would with an individual credit arrangement counting on the other members to pay her loan, and repayment incentives for a good borrower may vanish under this model if a member expects that a significant number of peers will default. Fernandez (1998) has observed that the most enterprising poor women do not wish to participate in join-group lending model since women operating individually succeed better without group support, thus they seem to prefer individual rather than group loans. In many contexts, moreover, group formation has also been problematic to poor women (Mayoux, 1995). In fact, most of them do not like the group lending mechanism since they have no time to become group members and are therefore locked out of membership (Copestake et al., 2000). The implication is that the group-lending strategy is not an absolute requirement since most saving and credit

women groups may be discriminating against very poor and disadvantaged women as evidenced by their preference to obtain credit individually.

The perceived success of most micro lenders from recruitment of clients, investment of loans, recovery rates on invested loans have made micro lending a new model for poverty alleviation and sustainable development. However, Rah man (1999) has linked the success of this bank to loan recycling of borrowers as the bank emphasizes increasing the number of loans disbursed and loan recovery, thereby imposing intense pressure on poorer clients for timely repayment. It means that many borrowers may maintain regular repayment schedules but do so through a process of loan recycling – paying off previous loans with new loans, thereby increasing debt liability burdens on poor women. Thus, the impact of micro lending on women empowerment cannot be inferred from continuous take-up of loans or repayment rates. It may also be possible that women repay loans through taking some loans from other sources such as friends or relatives, shylocks or loan sharks, thus getting into serious debts.

In some regions, it is also possible for women to participate through their groups in more than one micro lending program, such that they may be using funds from one programme to repay credit from the other. This implies that most micro lenders may be using women as unpaid debt collectors. Some programs use women clients for the micro lenders' own gain (Mongbo, 1997) where each branch employs a client as unpaid cashier for ten months before starting to pay them small amounts deducted from profits made. Thus, if the programme registers losses or makes no profit, then the women will not be paid. Such vices are responses to political pressures from donors for micro lenders to achieve financial sustainability. In addition, Ebdon

(1995) has noted that increased funding for large programmes has led to the squeezing out of smaller ones in the same area, which may have been challenging gender subordination on a wider basis. The scope, to which this results from women's own decision to switch allegiance because of better micro lending terms or pressure from men to get access to credit while maintaining their own power, remains unclear. There is overwhelming evidence that the poor do not only use credit for income generation activities, as there is fungibility between household and micro enterprises activities. Binns (1998) has reported that up to 50% of the money disbursed to women usually end up in consumption. This is particularly the true for poor women who are generally responsible for the everyday need for food, health, and education of their family. In Nigeria, Oyatoye (1983) reported that school fees and consumption purposes accounted for 60% and production credit for farming and trading account for 40% of the use of the informal credit. In Madagascar, 62% of the informal rural credit to women was used for consumption (Zeller, 1996) it is also reported in Bangladesh and Gambia (Zeller, 1996) that 35% of informal credit was disbursed for food, health and social event. Similar result has been reported from China (Zeller et, al 1996) and India (Fernandez, 1998). Although most micro lending programmes operating in poor countries do not disburse consumption loans, others elsewhere have recognized the importance of including them in credit packages for the poor. This is due to the fact that consumption and production in rural households are intertwined and inseparable. Heidhues (1992) note that consumption loans are oft en helpful because they preserve the productivity of labor, which is the main factor of production in poor rural households. IFAD (1988) has renamed consumption loan as working capital loan. In fact investment in human capital supported by these working capital loans can better

contribute to the reduction of poverty based on surveys in Benin and Cameroon (Heidhues, 1992), the presence of human capital loan dose not necessarily interfere with the sustainability of a financial market development, since the repayment performance between consumption and productive loan do not vary much. The researcher is of the view that the poor women do not only need loans for business but also for consumption loans, since a wide variety of loans for food, health and clothing are, in their nature, working capital loans, as they enable the poor to meet their consumption needs and maintain their family labour force over a complete production cycle.

The conclusion holds even for agricultural loans. Poor women as smallholders cannot compete with cheap food imports and end up diverting the use of credit. Where the poor women borrow agricultural inputs, it is men who manage and dispose of agricultural products (Henn, 1983). It can be argued that the non-contractual nature of informal-sector trade reinforces women's reliance on male family members as enforcers in the marketplace. This review, therefore, concludes that the impact of micro lending to women can only be enhanced when credit is availed for a variety of purposes and women actually control the financial resources acquired in their names. Increased control is likely to empower women, facilitate their entrepreneurship, assist them in their reproductive tasks and ease their repayment burden. Also, impact may be high when the use of credit by the poor is diversified and voluntary.

d. Micro finance-NGOs as Development Conduit for Assisting Developing Countries.

Another misconception by bilateral and multilateral donors is that all Third World governments are corrupt, inefficient and mismanaged their economies.

Therefore, any development assistance to alleviate poverty or stimulate the economy is best channeled through NGOs if such assistance is to reach the intended people. By 1999, there were 150 micro lending programmes in Kenya, out of which 130 were NGOs (ICEG, 2001). The irony is that most of the poor are not aware of the existence of micro lending programmes operating in their localities (Karanja, 1996; Oketch, 1999; Mutiso, 2003). It is true that much progress has been experienced though NGOs as they help poor people, for example, to start income gènerating activities for self employment or initiate rural development programmes. However, Amin, et al. (1998) have noted that while NGOs are doing a good job, it would perhaps be too much to expect that they could make all rural women empowered and resourceful, and bring real economic growth. Despite the surge of NGO activities in recent years, they still tend to embrace only a negligible portion of the needy poor. Thus governments and donors should not expect NGOs to be the vehicle via which to achieve poverty eradication, rural development, and enhancement of the economic power of women. Developing countries should, therefore, initiate their own poverty alleviation plans and other development programmes. They need to have a large network of credit programmes for the rural poor to increase their economic solvency and women empowerment. It is only through emancipation of women from the clutches of poverty bondage that society will be free from the rots it faces in the journey towards socio-economic development.

Without such focused socio-economic strategies, many developing countries will lose out because they pursued a model of NGO-based development. However, believing that the market or state can do everything is also equally wrong. Although initiating and promoting development projects is the role of the public sector, figuring

out what that role is, and doing it well, is what development is all about today. However, the catch is that many NGOs are very difficult to track down as they get in touch intermittently and erratically. Some of them even change their objectives after some time, while others are operated as personal businesses and do completely nothing to the very poor they claim to be assisting. In fact, those in Kenya are resisting the public call that they account for funds they receive from financiers and how they utilize such funds. Some NGOs are also fraudulent in their dealings. Fernandez (1998) has documented that in some of the credit schemes operated by NGOs, there have been cases of cheque forgeries by their staff members whenever groups issue cheque from their common fund. In other cases, some programs staff members have convinced women group to loan them some money and later resigned from these NGOs without paying back. Onyuma (2000) also observed that some women working for some micro lending NGOs in Korogocho slums in Nairobi, Kenya, either liaise with shrewd clients to include their names or those of their daughters for credit, or sign for additional credit, which is later handed to the same staff for trading. Though such loans are repaid on schedule, they are abused by staff members and never help the intended beneficiaries.

One micro lender from Nakuru town in Kenya known as "Ebony Grove for Finance" uses market women's name to request for funding and then dump them when funds are obtained. It even requested gullible borrowers to subscribe to residential land purchase funds, which they have never been allocated. Once funds are received from donors, they are used in funding the executive director's personal expenditure and very little is disbursed to traders. Upon depletion, the organization relocates to a new office location and even changes its name. Financiers of NGOs

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need to insist for more regular updates on what different micro lending NGOs and people they are involved with in various areas are doing as proof that these programmes are financially sustainable and that the donors are not just pouring money into bottomless schemes. The reason is that a lot of funds intended for poverty eradication, HIV/AIDS awareness campaigns, feeding the hungry, civic education and gender sensitization, or other noble actions, may be going to waste since majority of NGO administrators just enrich themselves. Donors need to consider these sentiments when designing development strategies for Third World nations and stop believing that funds disbursed though NGOs will always reach the intended beneficiaries.

e. Lack of Credit is the Main Constraint Facing Women Entrepreneurs.

The last myth of micro credit is that a major factor constraining success of women run businesses is lack of access to credit. Many studies have reported it as the number one constraint facing women traders, for example 76% of women in Bangladesh, 59% in Philippines (ILO, 1997), and 92% in Kenya (Gray et al., 1995). However, a deeper insight into this problem reveals evidence that even with the availability of easy access to various sources of formal credit, most women still rely on informal sources of credit like moneylenders, spouses, friends and relatives (Mutiso, 2003), pawnbrokers, shylocks and rotating saving and credit associations (RoSCAs), and accumulating, savings and credit associations (ASCRAs) (Ouma and Atieno, 2001). Fernandez (1998) reported that despite being in a group lending operations, some women in micro enterprise programmes in India still rely on money lenders since some programmes lack adequate capital to meet all members demand for credit simultaneously. The Micro credit Summit (1997) noted however that these

moneylenders could charge up to 10% interest per day (120 per year), thus passing these exorbitant rates to their borrowers thereby enhancing their poverty and that of their future generations who inherit the debt burden. On the other hand, formal credit sources are even less receptive to women entrepreneurs and virtually exclude poor women as their clients due to institutional red-tape involved in loan application and disbursement, heavy collateral requirements whose title women generally lack, and discriminatory perception of female entrepreneurs.

Further evidence show that working capital is not quite a significant factor affecting businesses as was reported by Naituli (2003) of enterprises operated by Kenyan women from Meru district, who were also not pursuing growth objectives. Indications also reveal that some people borrowed so that they could become members of the peer group, not the other way round, or because they wanted to be in business. The reason is that these peer groups help introduce them into networks, access other services, identify new markets and have better 'social life. Thus, the micro credit element can only be effective if it is a one-piece of an integrated incubator-type of programme for entrepreneurs-one tool in the toolbox. However, in itself, it is not the magic product for the poor. Although micro lending can increase income and contribute to household and individual security, Johnson and Rogaly (1997) have emphasized that credit alone is not a panacea for eradicating poverty empowering women. Despite the evidence, provision of access to financial and business resources is still a core component of many development programmes and has been politically popularized by donors in many developing countries.

Understanding how to alleviate poverty is a central worry of development economies. Bruno, Squire and Ravallion (1995) indicated that there are sufficient evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty. Such program can have a short-run or long run perspective. Timothy Besley (1997) took a short run perspective on program design for alleviating poverty, assuming that income-earning abilities are fixed. He took two disparate approaches to program design, which he called the technocratic and the institutional. The technocratic approach usually associated with economists, focusing on targeting, exploring the theoretical and empirical implications of trying to direct limited resources to people with the greatest need. These efforts emphasize the difficulties of identifying target groups and use creative approaches to program design that substitute for detailed information required to achieve first-best results. Central to such explorations are the incentive effects of program design, which underscore the need to know key behavioral parameters, such as labor supply responses, in order to formulate policy.

The institutional approach is more common among non-economists. For them the question of why program for the poor do or do not work has much more to do with social institutions than with policy design. In this view antipoverty policies fail because the poor lack political power or because administrative incompetence or corruption keeps governments from delivering services. Thus improving the lives of the poor requires developing institutions, improving government performance, and changing political structures and attitudes towards the poor.

2.3.2 Balancing Social Impact with Financial Objectives

Although the link between financial sector depth and poverty reduction is now widely accepted, the extent to which access to financial services directly impacts on the poor, and the mechanisms through which this impact occurs, are still imperfectly understood. The key question was summed up is as follows: can the financial system also accelerate the reduction of poverty through targeted interventions designed to broaden the *distribution* of financial services?'

The discussion in the literature to date on the role of the financial sector might be summarized as follows:

- Financial depth is a major contributor to economic growth (King and Levine,1993; Levine, Loayza and Beck, 2000; Levine, 2005);
- The poor benefit as much as the rich from economic growth (Dollar and Kraay, 2002);
- Some are skeptical about whether financial depth is in itself pro-poor, or in itself reduces inequality (Greenwood and Jovanovic, 1990);
- But an increasing number of studies in recent years are concluding that:
  - financial depth contributes to lower inequality (Li, Squire and Zou, 1998; Clarke, Xu and Zou, 2003);
  - financial depth contributes to lower poverty (Honahan, 2004a);
  - financial development has a positive impact on changes in inequality and changes in poverty; it is a causal factor in pro-poor growth (Beck, Demirgüç-Kunt and Levine, 2004);
  - The studies to date say a lot about the causality and its direction, but relatively little about the **mechanisms** through which financial sector development (FSD)

contributes to lower poverty and inequality; some point to the alleviation of credit constraints for poorer households Li, Squire and Zou, 1998; Clarke, Xu and Zou, 2003); others place more weight on the impact on firms (Beck, Demirgüç-Kunt and Levine, 2004; Beck, Demirgüç-Kunt, Laeven and Levine, 2004); others emphasis the economic effects of the legal, regulatory and informational infrastructure (Honahan, 2004b);

- for any sector, including finance, measuring impact on poverty requires a sector-specific approach that distinguishes between: (a) impact on growth in general; (b) impact specifically on pro-poor growth; and (c) direct impact on poor communities and households (EME, 2004);
- Those who emphasize the growth impact of FSD (like the second two sub-bullets above), when they deal at all with access, tend to focus on the access of **firms**;
- Those who emphasize the direct pro-poor impact of FSD (like the first sub-bullet above), when they deal with access, tend to focus on the access of **households**;
- there is, however, a certain shadow – it is not always clear whether the focus of specific studies is on access by firms or access by households, perhaps because access is not their primary interest and / or micro-enterprises are virtually indistinguishable from households;
- There are some interesting studies which throw light on the direct impact of FSD on poverty, especially on the correlation between access to credit and child labour (Deheejia and Gatti, 2002; Beegle, Deheejia and Gatti, 2003);
- There is also a considerable body of work done in the USA which shows or postulates positive links in the USA between access to financial services and poverty alleviation, asset building and equality (Solo *et al.*, 2005).

2.4 Theoretical Framework

Modern Theories of Financial Intermediation

First issue that has been considered in studies on financial intermediation is the informational asymmetries argument. These asymmetries can be of an *ex ante* nature, generating adverse selection, they can be interim, generating moral hazard, and they can be of an *ex post* nature, resulting in auditing or costly state verification and enforcement. The informational asymmetries generate market imperfections, i.e. deviations from the neoclassical framework. Many of these imperfections lead to specific forms of transaction costs. Financial intermediaries appear to overcome these costs, at least partially .Diamond and Dybvig (1983) consider banks as coalitions of depositors that provide households with insurance against idiosyncratic shocks that adversely affect their liquidity position. Another approach is based on Leland and Pyle (1977). They interpret financial intermediaries as information sharing coalitions. Diamond (1984) shows that these intermediary coalitions can achieve economies of scale. Diamond (1984) is also of the view that financial intermediaries act as delegated monitors on behalf of ultimate savers. Monitoring will involve increasing returns to scale, which implies that specializing may be attractive. Individual households will delegate the monitoring activity to such a specialist, i.e. to the financial intermediary. The households will put their deposits with the intermediary. They may withdraw the deposits in order to discipline the intermediary in his monitoring function. Furthermore, they will positively value the intermediary's involvement in the ultimate investment (Hart, 1995).

Also, there can be assigned a positive incentive effect of short-term debt, and in particular deposits, on bankers (Hart and Moore, 1995). For example, Diamond and Rajan (2001) show that deposit finance can create the right incentives for a bank's

management. Illiquid assets of the bank result in a fragile financial structure that is essential for disciplining the bank manager. Note that in the case households that do not turn to intermediated finance but prefer direct finance, there is still a "brokerage" role for financial intermediaries, such as investment banks (Baron, 1982). Here, the reputation effect is also at stake. In financing, both the reputation of the borrower and that of the financier are relevant (Hart and Moore, 1998). Dinç (2001) studies the effects of financial market competition on a bank reputation mechanism, and argues that the incentive for the bank to keep its commitment is derived from its reputation, the number of competing banks and their reputation, and the competition from bond markets. These four aspects clearly interact (Boot, Greenbaum and Thakor, 1993).

The "informational asymmetry" studies focus on the bank/borrower and the bank/lender relation in particular. In bank lending one can basically distinguish transactions-based lending (financial statement lending, asset based lending, credit scoring, etc.) and relationship lending. In the former class information that is relatively easily available at the time of loan origination is used. In the latter class, data gathered over the course of the relationship with the borrower is used (Lehman and Neuberger, 2001; Kroszner and Strahan, 2001; Berger and Udell, 2002). Central themes in the bank/borrower relation are the screening and monitoring function of banks (*ex ante* information asymmetries), the adverse selection problem (Akerlof, 1970), credit rationing (Stiglitz and Weiss, 1981), the moral hazard problem (Stiglitz and Weiss, 1983) and the *ex post* verification problem (Gale and Hellwig, 1985). Central themes in the bank/lender relation are bank runs, why they occur, how they can be prevented, and their economic consequences (Kindleberger, 1989; Bernanke, 1983; Diamond and Dybvig, 1983). Another avenue in the bank/lender relationship is models for competition between banks for deposits in relation to their lending policy and the probability that they fulfill their obligations (Boot, 2000; Diamond and Rajan, 2001).

Second is the transaction costs approach (examples are Benston and Smith, 1976;

Campbell and Kracaw, 1980; Fama, 1980). In contrast to the first, this approach does not contradict the assumption of complete markets. It is based on nonconvexities in transaction technologies. Here, the financial intermediaries act as coalitions of individual lenders or borrowers who exploit economies of scale or scope in the transaction technology. The notion of transaction costs encompasses not only exchange or monetary transaction costs (Tobin, 1963; Towey, 1974; Fischer, 1983), but also search costs and monitoring and auditing costs (Benston and Smith, 1976). Here, the role of the financial intermediaries is to transform particular financial claims into other types of claims (so-called qualitative asset transformation). As such, they offer liquidity (Pyle, 1971) and diversification opportunities (Hellwig, 1991). The provision of liquidity is a key function for savers and investors and increasingly for corporate customers, whereas the provision of diversification increasingly is being appreciated in personal and institutional financing. Holmström and Tirole (2001) suggest that this liquidity should play a key role in asset pricing theory. The result is that unique characteristics of bank loans emerge to enhance efficiency between borrower and lender. In loan contract design, it is the urge to be able to efficiently bargain in later (re)negotiations, rather than to fully assess current or expected default risk that structures the ultimate contract (Gorton and Kahn, 2000). With transaction costs, and in contrast to the information asymmetry approach, the reason for the existence of financial intermediaries, namely transaction costs, is exogenous. This is not fully the case in the third approach.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter covers the methodology adopted for this study. The procedure used in the study is described under the following heading: the research design, population of the study, sample and sampling technique, sources of data, method of data collection, method of data analysis, justification of the research method and procedure for data analysis.

3.2 Research Design

The research design for this study is the Ex post facto design which is aimed at investigating the microfinance institution based on availability of data.

3.2.1 Population of Study

The population being studied consisted of all microfinance firms in Nigeria. It was made up of both the formal and the informal type of microfinance. Amongst this population were the registered and the unregistered microfinance. The firms were randomly selected without replacement.

3.2.2 Sample and Sample Technique

Since the research was aimed at looking at the impact of microfinance bank on poverty alleviation in Nigeria. Abuja the federal capital of Nigeria was considered as an ideal place to conduct the research being that it is the federal capital of Nigeria having all various classes of customers cutting across the country and having wide

range of microfinance banks. Abuja was viewed as a Summary of other States in Nigeria since all the states are represented there. A sample of 60 customers was picked randomly. The customers selected for the study were randomly selected. Ten each were selected from four area councils namely Abuja Municipal area council, Bwari area council, Gwagwalada area council, and Kuje area council. Kwali area council and Abaji area council. The selection was randomly made at the premises of microfinance banks located within these area councils.

3.3 Sources of Data

Data were collected from literatures, banks, and the small medium enterprises (SME). Primary data were collected through questionnaire/interview while secondary data were collected from literatures. For precaution to be taken, the instruments used were made simple to read and understand by customers. Questionnaire was administered to the bank customers (see appendix 1). The questionnaire asked questions on services rendered to the customers by the banks.

3.4 Method of Data Analysis

Although various method of analysis has been used by various individual who embarked on studies on consolidation, a descriptive analysis was most convenient for this research. The research was to look at the short run situation after consolidation which was constraint in terms of availability of data. Method adopted by previous studies was base on availability of data overtime.

Mean

This is the average of the data values. The formula used for this study is:

$$\overline{x} = \frac{1}{n}\sum_{i=1}^{n} x$$

Minimum

This showed the smallest value in this variable.

Maximum

This showed the largest value in this variable.

Range

This showed the difference between the largest and smallest values for a variable. If the data for a given variable is normally distributed, a quick estimate of the standard deviation can be made by dividing the range by six.

Normality test

This test for normality, developed by Martinez and Iglewicz (1981), is based on the median and a robust estimator of dispersion. They have shown that this test is very powerful for heavy-tailed symmetric distributions as well as a variety of other situations. A value of the test statistic that is close to one indicates that the distribution is normal. This test is recommended for exploratory data analysis by Hoaglin (1983). The formula for this test is:

$$I = \frac{\sum_{i=1}^{n} xi - \bar{x}}{(n-1)s^2_{bi}}$$

Where s_{bi}^2 is a biweight estimator of scale

Martinez-Iglewicz (10% Critical and 5% Critical)

The 10% and 5% critical values are given here. If the value of the test statistic is greater than this value, reject normality at that level of significance.

Martinez-Iglewicz Decision (5%)

This reports the outcome of this test at the 5% significance level.'

Standard deviation

The sample standard deviation, *s*, is a popular measure of dispersion. It measures the average distance between a single observation and its mean. The use of *n-1* in the denominator instead of the more natural *n* is often of concern. It turns out that if *n* (instead of *n-1*) were used, a biased estimate of the population standard deviation would result. The use of *n-1* corrects for this bias. Unfortunately, *s* is inordinately influenced by outliers. For this reason, you must always check for outliers in your data before you use this statistic. Also, *s* is a biased estimator of the population standard deviation. An unbiased estimate, calculated by adjusting *s*, is given under the heading *Unbiased Std Dev.*

$$\sqrt{\frac{\sum (x-\bar{x})^2}{(n-1)}}$$

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter covers data presentation and analysis. Chapter is discussed under the following: presentation of data under this section the bio data which captures the information about the respondent will be discussed and the overview of the responses made by the respondent will also be analyzed , analysis of data, testing of hypotheses, and summery of findings.

4.2 Presentation of Data

4.2.1 Bio Data of Respondents

The respondents to the questionnaire were made up of 60 microfinance bank customers. These were selected randomly from the microfinance bank premises located in various area councils of Abuja. From the answers proffered by these customers, it was discovered that each of the customer had patronized different microfinance bank for different years independent of the other. However, a range was set up to harmonize the information. Also the occupation, ad sex of the respondent of the study has been outlined in the tables below.

Table 4.1: customers Years range of patronage of microfinance banks

	AMAC	BWARI	G/LADA	KUJE	ABAJI	KWALI	Total	%
1-2	3	3	7	8	4	3	28	46.7
3-4	5	2	2	1	3	6	19	31.7
From 4 and above	2	5	1	1	3	1	13	21.6
Total	10	10	10	10	10	10	60	100

Source: questionnaire

The table above clearly showed that more of recent microfinance bank customers answered the questionnaire. This we can see in table 4.1. It also showed that few of those who have participated for along time especially above fours years participated in answering the questionnaire. While the above table can not be used to generalize that high patronage of microfinance is most recent,.however, we can say that this table further clarified recent government intervention to make microfinance acceptable to the public.

Table 4.2: Customers occupation

Area council	**AMAC**	**BWARI**	**G/LADA**	**KUJE**	**ABAJI**	**KWALI**	total	%
Famer	2	2	4	7	6	3	24	40
Self employed	5	2	5	3	2	2	19	31.7
Student	2	3	1	-	1	2	9	15
Employee	1	3	-	-	1	3	8	13.3
Others	-	-	-	-	-	-	-	-
	10	10	10	10	10	10	60	100

Source: questionnaire

The above table showed that amongst those who participated in answering the questionnaire, we had more farmers then self employed as the major people who answered the questionnaire. This we can see in table 4.2. While we might not generalized, the high participation of farmers and self employed tend to have shaded light on the fact that farmers and self employed are being captured by microfinance.

Table 4.3 Sex of the customers

Area council	% Male		%Female	
AMAC	20	2	80	8
BWARI	30	3	70	7
GWAGWALADA	50	5	50	5
KUJE	30	3	70	7
ABAJI	30	3	70	7
KWALI	60	6	40	4
Total	**37**	**22**	**63**	**38**

Source: Questionnaire

The above table showed that more female participated in answering the questionnaire and few male participated. The above has shown that women patronize micro finance bank compared to the men folks. However in the case of kwali we can say that men participated in answering the question compare to women. It might not absolutely correct that women participate in microfinance patronage more to men because such assertion might be subject to research.

4.3 Analysis of Data

Table 4.3.1 Summery Of Responses

	% Quest 1	% Quest 2	% Quest 3	% Quest 4	% Quest 5	% Quest 6	% Quest 7	% Quest 8	% Quest 9	% Quest 10	% Quest 11	% Quest 12%	total
Strongly agreed	13.3	30	40	30	16.7	10	10	0	0	0	8.3	10	168.3
Agreed	61.7	35	60	33.3	51.7	63.3	43.3	56.7	20	100	51.7	35	611.7
Undecided	8.3	35		15	31.6	10	21.7	26.7	25	0	13.3	45	231.6
Disagreed	16.7			21.7		16.7	25	16.8	55	0	23.3	10	185.2
Strongly disagreed	0	0	0	0	0	0	0	0	0	0	0	0	0
total	100	100	100	100	100	100	100	100	100	100	100		1196.8

Source: Questionnaire

The research was essentially meant to describe the impact of microfinance on poverty alleviation in Nigeria. Based on the questionnaire, the answers provided by the customers enabled us to make this analysis. Most of the question answered showed that the bulk of the respondent agreed to almost all statement except for the second question where there was no clear cut distinction between agreed and undecided, and the ninth question where it was disagreed that Microfinance bank has been removing 5% of participant households from poverty annually. Other exceptional case was in the case of the tenth question where all respondent agreed that Microfinance bank help the poor in setting up business.

By implication, the responses made have shown that: Microfinance bank lend only to the poorest of the poor in the rural areas, Microfinance bank help and support the borrower to succeed, Borrowers pay little interest On loan, the absence of standardized information, standard lending tools, such as financial statements or credit

histories, does not exist in microfinance bank, Microfinance bank provide loans for entrepreneurial activity, Microfinance bank loan is collateral-free, Microfinance bank loan is collateral-free, Microfinance bank have local information which helps them to appraise credit needs. Microfinance bank help the poor in setting up businesses, Members are poorer than Nonmembers, and the process of loan application is very simple.

While it might be true in the area where questionnaire was administered, it might not be true in the case of other areas yet to be used for this study. To accept that the issue agreed upon by these respondents should be generalized as what is seen in other areas, will call for further study.

The median and the mode further showed the same view that is that bulk of the respondents to the questionnaire seemed to have express some form of acceptance on almost all the questions except for the ninth statement which showed that the majority of the respondent disagree with the statement that Microfinance bank has been removing 5% of participant households from poverty annually and the twelfth statement which showed that the respondent were undecided on The simplicity of process of loan application. the average view of the third and the tenth question, showed that there was a clear acceptance of the statement that Microfinance bank help and support the borrower to succeed and that Microfinance help the poor in setting up businesses, and building up assets, consumption smoothing and risk management. Average view to question one, two, four, Five and six showed that there is near acceptance on the view that Microfinance bank lend only to the poorest of the poor in the rural areas, that Microfinance bank remain focused on women development, that borrowers pay little interest, that the absence of standardized

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information, standard lending tools, such as financial statements or credit histories, exist in microfinance bank, and that Microfinance bank provide loans for entrepreneurial activity. The average response to question seven, eight, nine, eleven and twelve showed that the respondents were undecided on the statements that Microfinance bank loan is collateral-free, Microfinance bank have local information which helps them to appraise credit needs, Microfinance bank has been removing 5% of participant households from poverty annually, Members are poorer than nonmembers; The process of loan application is very simple.

The maximum views to nine statement read strongly agree which is denoted as (5) while three statements (8, 9 &10) had their maximum as agree (4). This is summarized in table 4.4 below.

TABLE 4.4: summary of descriptive analysis of responses

	∑	Mean	Standard Deviation	Minimum	Maximum	Range	Median	Mode
question 1	223	3.72	0.9036961	2	5	3	4	4
question 2	237	3.95	0.8114645	3	5	2	4	
question 3	264	4.4	0.4940322	4	5	1	4	4
question 4	223	3.72	1.121314	2	5	3	4	4
question 5	231	3.85	0.684576	3	5	2	4	4
question 6	219	3.65	0.860134	2	5	3	4	4
question 7	203	3.38	0.975838	2	5	3	4	4
question 8	204	3.4	.7635778	2	4	2	4	4

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question 9	159	2.65	0.798834	2	4	2	2	2
question 1(	240	4	0	4	4	0	4	4
question 1'	207	3.45	0.946447	2	5	3	4	4
Quest12	207	3.45	0.811465	2	5	3	3	3

Source: questionnaire

4.4 Tested Hypotheses

Question four, six, seven, nine, eleven and twelve proffered answer to the first hypotheses which state that microfinance bank have assisted in poverty reduction in Nigeria through widespread of micro loan. In response to the hypotheses it was agreed that borrowers pay little interest on loan; that the absence of standardized information, standard lending tools, such as financial statements or credit histories, exist in microfinance bank, on the other hand, the response was undecided on the issues of Microfinance bank loan is collateral-free, Members are poorer than nonmembers and that The process of loan application is very simple. It was clearly disagreed that Microfinance bank has been removing 5% of participant households from poverty annually. The disagreement shown in response to the statement that microfinance bank has been removing 5% of participant households from poverty annually clearly shows that microfinance has not been able to reach out to wide range of those in need. This is calling for increase in microfinance activities in the country so as to meet up with the challenges of increase in population; is also calling for opening up of branches of microfinance bank in other to reach the poorest of the poor; and making credit

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facility available to the microfinance banks by the central bank at the lowest interest rate.

In answering the second hypotheses that microfinance bank have helped to improve the living standard of rural women in Nigeria; the majority response showed a near acceptance to that view. This form of acceptance clearly showed that the microfinance bank seems to be on track improving the living standard of rural women in Nigeria.

4.5 Summary of Findings

From the responses made, we found out that Microfinance bank has been lending to the poorest of the poor in the rural areas, that Microfinance bank help and support the borrower to succeed, that Borrowers pay little interest On loan, that the absence of standardized information, standard lending tools, that such as financial statements or credit histories, does not exist in microfinance bank, that Microfinance bank provide loans for entrepreneurial activity, that Microfinance bank loan is collateral-free, that Microfinance bank loan is collateral-free, that Microfinance bank have local information which helps them to appraise credit needs. That Microfinance bank helps the poor in setting up businesses, that Members are poorer than Nonmembers, and that the process of loan application is very simple.

CHAPTER FIVE

SUMMARY CONCLUSSION AND RECOMMENDATION

5.1 Summary

This study evaluated the impact of microfinance on poverty alleviation in Nigeria. In line with the above reasons stipulated for the study, two hypotheses were formulated these are:

H_0 = microfinance bank have assisted in poverty reduction in Nigeria through widespread of micro loan.

H_1= microfinance bank have helped to improve the living standard of rural women in Nigeria.

In view of the above hypotheses, questionnaire was used so as to assess data that describe the impact of microfinance on poverty alleviation in,Nigeria. A descriptive analysis was used to analyze the study.

We found out that Microfinance bank has been lending to the poorest of the poor in the rural areas, that Microfinance bank help and support the borrower to succeed, that Borrowers pay little interest On loan, that the absence of standardized information, standard lending tools, that such as financial statements or credit histories, does not exist in microfinance bank, that Microfinance bank provide loans for entrepreneurial activity, that Microfinance bank loan is collateral-free, that Microfinance bank loan is collateral-free, that Microfinance bank have local information which helps them to appraise credit needs. That Microfinance bank helps the poor in setting up businesses, that Members are poorer than Nonmembers, and that the process of loan application is very simple.

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5.2 Conclusion

The findings assisted to affirm that microfinance institutions are potential in provision of credit facilities, withdrawal of idle cash from circulation and a potential means of poverty alleviation. While it finding might be true in area where questionnaire was administered, it might not be true in the case of other areas yet to be used for this study. To generalize this view, it is very important that a further study will be conducted.

5.3 Recommendations

For microfinance bank to meet up with the challenges it has currently in trying to alleviate poverty amongst the poor, the following recommendations made.

1. Government should make policy that will encourage private firms to participate in the provision of microfinance facility. The state should also offer regulatory and economic framework to allow private institutions, particularly microfinance institutions, to develop without constraint.

2. To protect the clients and strengthen the institutions, microfinance must have a clear juridical and regulatory framework. Microfinance institutions are rather new, but they are rapidly increasing. Monitoring them represents a huge challenge. The framework should be defined act by act in order to remain flexible and adaptable to changes and failures.

3. Government should provide low-interest credit facility to microfinance institutions to enable them meet up with the challenges of increase in patronage.

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4. Financial regulatory body should provide training and modern technology to enable microfinance institutions keep adequate record so as to ensure adequate sustainability.

5. Government should provide infrastructural facilities that can open up and should ensure that there is political stability so that establishment of microfinance institution will be encourage

6. We recommend that further research of microfinance institution should be made so that it will examine mare microfinance institution and will examine the impact of the firms facilities on their clients

7. That women group should be organized in such a way that they can be easily monitored. After loan facility has been access.

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