# PERFORMANCE APPRAISAL OF MICROFINANCE BANKS IN ANAMBRA STATE, NIGERIA

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**NNAMDI AZIKIWE UNIVERSITY, AWKA**

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**BEING A Ph.D. DISSERTATION PRESENTED TO THE DEPARTMENT OF ECONOMICS, FACULTY OF SOCIAL SCIENCES, NNAMDI AZIKIWE UNIVERSITY, AWKA**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DOCTOR OF PHILOSOPHY (Ph.D.) DEGREE IN ECONOMICS**

**SUPERVISOR: DR. SAMUEL, OSELOKA OKAFOR**

**DECEMBER, 2019.**

# CERTIFICATION

This is to certify that this doctoral dissertation titled “Performance Appraisal of Microfinance Banks in Anambra State, Nigeria” was carried out by Maduka, Olisaemeka Dennis with registration number 2011727003P in partial fulfillment of the requirements for the award of Doctor of Philosophy (Ph.D) degree in Economics.

______________________ ____________________

Maduka, Olisaemeka Dennis Date

# APPROVAL

This doctoral dissertation titled "An Appraisal of Microfinance Banks in Anambra State" was carried out by Maduka, Olisaemeka Dennis with the registration number 2011727003P in partial fulfillment of the requirements for the award of Doctor of Philosophy (Ph.D.) degree in Economics and approved by the undersigned on behalf of the School of Postgraduate Studies, NnamdiAzikiwe University, Awka.

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## DEDICATION

This dissertation titled: Performance Appraisal of Microfinance Banks in Anambra State, Nigeria is dedicated to Our Lady of Perpetual Help and the family of Late Mr. Anthony ChigbataoguMaduka for their interest in education.

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Maduka, Olisaemeka Dennis

December, 2019

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| | | |
|---|---|---|
| ACGSF | - | Agricultural Credit Guarantee Scheme Fund |
| ASA | - | Association for Social Advancement |
| ATM | - | Automated-Tellers-Machines |
| BoA | - | Bank of Agriculture |
| BRAC | - | Building Resources Assets Communities |
| CAMEL | - | Capital Adequacy, Asset Management Capacity, Earnings, Liquidity |
| CBN | - | Central Bank of Nigeria |
| CDs | - | Community Banks |
| CGAP | - | Consultative Group to Assist the Poor |
| DFRRI | - | Directorate of Food, Roads and Rural Infrastructure |
| DMBs | - | Deposit Money Banks |
| EFINA | - | Enhancing Financial Innovation and Access |
| FCT | - | Federal Capital Territory |
| FEAP | - | Family Economic Advancement Program |
| FNDP | - | First National Development Plan |
| FOCCAS | - | Foundation for Credit Community Assistance |
| HDI | - | Human Development Index |
| HPI | - | Human Poverty Index |
| ICT | - | Information Communication Technology |
| IDP | - | Interest Draw Back Program |
| MDGs | - | Millennium Development Goals |
| MFBs | - | Microfinance Banks |
| MFIs | - | Microfinance Institutions |
| MPSRF | - | Microfinance Policy Supervisory and Regulatory Framework |
| MSMEs | - | Micro Small and Medium Enterprises |
| NACRDB | - | Nigerian Agricultural Cooperative and Rural Development Bank |
| NAIC | - | Nigerian Agricultural Insurance Corporation |
| NAPEP | - | National Poverty Eradication Program |
| NBS | - | National Bureau of Statistics |
| NBSB | - | National Board for Community Banks |

| | | |
|---|---|---|
| NDIC | - | Nigeria Deposit Insurance Corporation |
| NEEDS | - | National Economic Empowerment and Development Strategy |
| NERF | - | National Economic Reconstruction Fund |
| NGOs | - | Non-Governmental Organizations |
| OECD | - | The Organization for Economic Cooperation and Development |
| OFISD | - | Other Financial Institution Supervision Department |
| OLS | - | Ordinary Least Square |
| PPS | - | Principles of Probability to Size (Probability Proportionate-to-size) |
| RBS | - | Rural Banking Scheme |
| ROSCA | - | Rotating Savings and Credit Associations |
| RUFIN | - | Rural Finance Institution Building Program |
| SHGL | - | Self Help Group Linkage |
| SIDBI | - | Small Industries Development Bank of India |
| SIDO | - | Small Industries Development Organizations |
| SISI | - | Small Industries Services Institute |
| SMEEIS | - | Small and Medium Enterprises Equity Investment Scheme |
| SSI & ARI | - | Small Scale Industries & Agro & Rural Industries |
| UN | - | United Nations |
| UNCDF | - | United Nations Development Fund |
| VC | - | Venture Capital |
| WASME | - | World Association of Small and medium Enterprises |
| WBGFM | - | World Bank Group (Finance and Markets) |

## ABSTRACT

This study is an appraisal of microfinance banks in Anambra State since the formulation of Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) in 2005. A plethora of studies exist on microfinance banks (MFBs) in Nigeria but none attempted its appraisal in line with the MPRSF policy objectives. This study appraisedthe MFBs in areas of employment generation, poverty alleviation, and women empowerment. It also interrogates the constraints to accessibility of MFBs services to households in Anambra State. This study adopts the financial intermediation theory as its theoretical framework and data were collected through survey questionnaire. Using the multistage sampling technique, a total of 500 questionnaire was distributed through the probability proportionate-to-size technique. Four hundred and ten copies of the distributed questionnaire were retrieved and analyzed using descriptive statistics (tables, pie chart, mean score, and percentile) and inferential statistics (ordinary least squares regression). Findings show that services of MFBs impact positively on poverty alleviation, women empowerment and employment generation except procurement services, business monitoring and consulting. Men patronize MFBs more than women and that the total assets, loans/credit as assessed by households have significantly increased since the formulation of MPRSF. The results also show that financial services like internet and mobile banking as well as high interest rate, short repayment period, competition with deposit money banks are constraints to the performance of MFBs. This study recommends that MFBs should acquire appropriate infrastructure on information technology to enhance their internet and mobile banking operations; improve their human capital efficiency in the area of non-financial services; and that the CBN, through its supervisory role, ensure that MFBs provide diversified microfinance services on a long-run sustainable basis to the economically active poor and low income group, thereby creating jobs and reducing poverty.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background to the Study

Microfinance is a category of financial services targeted at individuals and small businesses who lack access to the conventional banking and related services (CBN, 2005; Conroy, 2003). These financial services include credit, savings, and micro-leasing and money transfer and payment services. According to the Consultative Group to Assist the Poor (CGAP), microfinance is defined as a "facility that offers poor people access to basic financial services such as loans, savings, money transfer services and micro-insurance" (www.cgap.org). Indeed, microfinance bank serves the un-banked, bring credit, savings and other essential services within the reach of millions of people who are too poor to be served by regular banks in most cases because they are unable to offer sufficient collateral.

From the explanations above, it can be concluded that microfinance banking is a poverty alleviation scheme which operates by providing financial and non-financial services to economically active but low-income households and their businesses. To realize this poverty mitigation objective, microfinance banks support the poor and low-income households, increase their income to build sustainable enterprises, reduce susceptibility to shocks and generate employment (Leikem, 2012). Central Bank of Nigeria (CBN), (2005) maintained that microfinance banks (MFBs) are aimed at empowering the poor, through the provision of needed financial services. This empowerment, is expected to enable them to engage or expand their scope of economic activities and employment. The global importance of microfinance services in poverty reduction has created a compelling need to design strategies to provide financial services to the vulnerable, poor and low-income groups on a sustainable basis. Due to the peculiar nature and conditions of the poor, these services were initially provided at subsidized rates through non-governmental organizations, donors and government. However, donor and government funds have continued to dwindle in the face of competing alternatives, creating the needs for efficient ways of financial and non-financial services delivery.

Credit is considered essential input to increase economic performance and productivity. It is believed that credit boosts income level, increase employment at the household level and thereby alleviates or reduces poverty. Credit enables poor people to overcome their liquidity constraints and undertake investment. MFB services, including savings and loans enable the Micro, Small and Medium Enterprises (MSMEs) to acquire basic infrastructure, access raw materials and other productive input,enhance employment capacity, productivity and profitability. The link between microfinance banking institutions and the economy is such that MFBs with high outreach have a greater likelihood of having a positive impact on poverty alleviation and living standard because they guarantee sustainable access to credit by the poor (Rhyne & Otero, 1992).

After a series of failed policies by successive governments from the First National Development Plan (1962-1968), to the National Economic Empowerment and Development Strategy (NEEDS) (2003-2006), to improve access to credit delivery and flow of financial services with the aim of raising the standard of living through employment generation, women empowerment, and other objectives, the Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) was launched in 2005 with specific objectives of providing diversified, affordable and dependable financial services to the economically poor who have been excluded by the formal institution, creation of employment opportunities and increasing the productivity and household income of the active poor in the country, thereby enhancing their standard of living, promotion of synergy and mainstreaming of the informal microfinance sub-sector into the formal financial system. It was also meant to enhance service delivery to the micro, small and medium enterprises (MSMEs), mobilization of savings for and intermediation, rural transformation, promotion of linkages between microfinance institutions (MFIs), Deposit Money Bank (DMBs), Development Financial Institution (DFIs) and specialized financial institutions, provision of dependable avenues for the administration of microcredit programmes of government and high net worth individuals on non-recourse basis and promotion of a platform for microfinance service providers to network, exchange views and store experiences.

The importance of MFBs cannot be overestimated because it plays a role in making credit/funds available from the surplus to the deficit sector of the economy through its intermediary role especially to the poor segment of the economy. Some of the roles include:

**i.** Credit Delivery: MFBs have disbursed loans/microcredits to targeted groups to enable them to expand their businesses and other economic activities. More rural dwellers, entrepreneurs and women have benefited from the credit delivery services of MFBs which have enabled start or expand existing businesses.

ii. Financial Inclusion: MFBs have facilitated the rate of financial inclusion in the country. Financial inclusion is the provision of a broad range of high-quality financial products such as savings, credits, insurance, payments and pensions, which are relevant, appropriate and affordable for the entire population and especially for the low-income segment. An inclusive financial sector is characterized by the diversity of financial service providers, level of competition between them and the regulatory environment that ensures the integrity of the financial sector and access to financial services for all.

iii. Boosting MSMEs/ Agriculture: About 60 per cent of poor people in the country live in rural areas, and 80 per cent of them are farmers and artisans (NBS, 2005). Microfinance banks have therefore been the primary sources of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and microenterprise is developed. Governments go into co-operatives to partner with the microfinance banks to raise bulk loans to be disbursed to the beneficiaries, in so doing the banks are increasing and sustaining the number of people going into small businesses.

iv. Wealth Creation and Employment: Agriculture and microenterprise contribute immensely to job creation, and are of particular interest to all microfinance bank in rural areas. Microfinance banks have so far engaged in extending credits and other services to many rural enterprises and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving dying, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban areas, these industries are prominent in rural areas.

v. Improvement in Skill Acquisition and Income Related Activities: Improvement of the condition of women through the provision of skills acquisition and adult literacy is another role played by microfinance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefit analysis in the conduct of businesses, in most cases a profit-sharing agreement is entered between a bank and an entrepreneur and new methods and innovations are passed to the prospective entrepreneur by the banks professionals, while at the end of the production period the proceed is being shared and the entrepreneur if so wishes can continue on his own after the necessary skills and production techniques are acquired. (Umar, 2008).

vi. Poverty Alleviation:Employment and income generation are important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes, and in doing that, promising entrepreneurs are supported, and new ones emerged. The federal governments National Poverty Eradication Programme (NAPEP) and the National Economic Empowerment and Development Strategy (NEEDS) to mention a few.

Experiences from countries have shown that MFBs complement the formal banking sector in extending financial and non-financial services to the economy. In China, Guinea, Benin, India for instance, microfinance industry is moving beyond its primary lending and saving mobilization objectives to multiple new dimensions including the provision of housing, trading, education, health care and community development(Conroy, 2003). Therefore, the importance of MFBs cannot be over-estimated because it stimulates saving culture, assist the economically active poor in accumulating productive assets, empowers women and is an essential strategy for poverty alleviation. Since the formulation of MPRSF and coming from the heels of banking sector consolidation, many community banks converted to MFBs with new ones established. This provided for the emergence of three types of MFBs namely; (i) Unit MFB with minimum paid-up Capital of N20 million and is prohibited from having branches and/cash centres (ii) state MFB operational outreach not beyond a state or the Federal Capital Territory (FCT) with a minimum paid-up capital of N100 million (iii) National Microfinance banks with minimum paid-up capital of N2 billion and is allowed to open branches in all states of the federation and the FCT. Efforts were also made to reform and reposition the subsector to enhance service delivery, these include: withdrawal of operating licences of 103 MFBs in 2010, proposed criminal prosecution of errant directors and management staff, intensified routine examination, zero tolerance for regulatory infractions, review of microfinance policy and establishment of the microfinance certification programme to build capacity in the subsector. These efforts have reflected in the growth and increased activities in the operations of MFBs in Nigeria, as shown in the assets and liabilities in the table below.

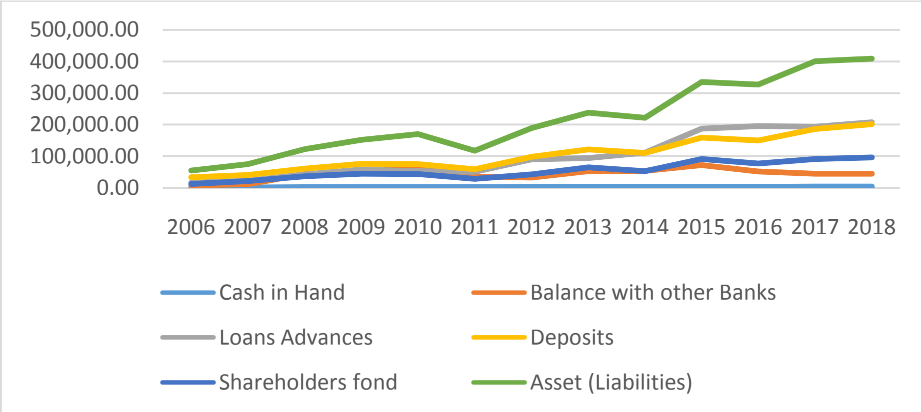
**Table 1: Summary of Assets and Liabilities of Community/MFBs (₦' Million)**

| Year | Cash in Hand | Balance with other Banks | Loans/ Advances | Deposits | Shareholders Funds | Asset (Liabilities) |
|---|---|---|---|---|---|---|
| 2006 | 1,029.27 | 8,614.09 | 16,450.20 | 34,017.70 | 12,829.82 | 55,145.84 |
| 2007 | 1,410.10 | 11,801.30 | 22,850.20 | 41,217.70 | 21,810.70 | 75,549.80 |
| 2008 | 2,292.60 | 43,705.70 | 42,753.06 | 61,568.10 | 37,021.80 | 122,753.80 |
| 2009 | 2,763.54 | 48,404.90 | 58,215.66 | 76662.00 | 45,166.00 | 151,610.00 |
| 2010 | 2,594.40 | 72,315.00 | 52,867.50 | 75,739.60 | 43,997.50 | 170,338.90 |
| 2011 | 1,717.10 | 36,047.50 | 50,928.30 | 59,375.90 | 29,094.80 | 117,872.10 |
| 2012 | 2,854.20 | 32,925.00 | 90,422.25 | 98,789.10 | 42,829.10 | 189,293.35 |
| 2013 | 3,219.60 | 53,516.50 | 94,055.58 | 121,787.60 | 64,939.00 | 237,837.60 |
| 2014 | 3158.38 | 53,826.69 | 112,110.15 | 110,668.41 | 53,039.03 | 221,652.34 |
| 2015 | 3360.39 | 72,357.10 | 187,247.34 | 159,453.38 | 91,376.50 | 334,883.08 |
| 2016 | 3768.95 | 52,614.90 | 196,194.99 | 149,798.38 | 77,868.65 | 326,223.13 |
| 2017 | 4,672.95 | 44,885.89 | 194,024.94 | 186,405.86 | 91,486.51 | 400,611.14 |
| 2018 | 4,658.70 | 44,885.89 | 207,963.32 | 201,721.84 | 96,787.92 | 408,353.01 |

Source: CBN, Statistical Bulletin (2018).

A cursory perusal summary of assets and liabilities of the community/microfinance banks in table 1 indicated increased volume of activities. The cash in hand increased from over ₦1,029 million in 2006 to over ₦4 billion in 2018. The balance with other banks also grew from over ₦8 million in 2006 to over ₦44 billion in 2018. In the same vein, the total loans and advances, deposits, shareholders funds and assets (liabilities) increased tremendously from over ₦16,450 million, ₦34,017 million, ₦12,829 million and ₦55,145 million in 2006 to over ₦207,963 million, ₦96,878 million and ₦408,353 million in 2018, indicating a sustained positive trend with minor shocks in 2011 due to reforms/efforts at sanitizing the sub-sector which led to the revocation of licences of 103 MFBs in December, 2010. As shown in the figure 1.1, between December 2010 and 2011, there was a negative trend in the volume of activities in the microfinance subsector.

**Figure 1.1: Assets and Liabilities of Microfinance Banks (₦' Million)**




## 1.2 Statement of the Problem

The successive governments have through various strategies tried to solve the economic problems of poverty, unemployment and women disempowerment. Some of the strategies and policies include Better Life Programme for Rural Women (BLP), Family Economic Advancement Programme (FEAP), People's Bank of Nigeria (PBN), National Directorate of Employment (NDE), Community Banks (CBs), Poverty Alleviation Programme (PAP), National Poverty Eradication Programme (NAPEP), and Youth Empowerment Scheme (YES).In same vein, MFBs were established in 2005 with specific objectives and as a strategy of poverty alleviation through micro financing. These objectives were expected to be achieved through accessibility of the services of MFBs. According to CBN (2011), policy objectives of MPRSF, include the provision of timely, diversified, affordable and dependable financial services to the economically active poor, generation of employment through the growth and service delivery of MSMEs, women empowerment through gender equality and mobilisation of savings for intermediation and rural transformation. Through the intermediary role of credit/funds mobilisation from the surplus unit to the deficit unit of the economy, the services of MFBs was expected to improve the standard of living of the people. Despite the strategies and policies, Nigeria was ranked by the United Nations (UN), and the World Poverty check as the headquarter of extreme poverty in June 2018 with over 91 million people. The unemployment rate stood at 23.1% with the youth unemployment rate at 36.50%.

Empirical evidence worldwide shows that assessing financial services contribute to both economic growth and wealth creation (CBN, 2004). A study carried out by EFInA (2010) showed that there is a negative correlation between the number of MFBs and financial exclusion.

According to EFInA(2018) over 32.2 million Nigerians representing 46.3% of adults were excluded. Out of 53.7% with access, 36.3% derive their financial service from the formal institutions while 17.1% patronize the informal sector. Moreover, studies have been carried out to apprise the performance of MFBs on poverty alleviation, women empowerment and employment generation through the MSMEs. Studies by Emmanuel and Ikenna (2011); Ngugi and Kerongo (2014), Mbithe (2013); Olowe, Moradeyo and Babalola (2013) were mainly on the MSMEs and employment generation with mixed results. Other researchers focused on women empowerment, poverty alleviation and overall economic development. According to study by Taiwo, Agwu and Ikpefon (2016), the study revealed that MFBs have impacted positively on poverty alleviation in Southwest, Nigeria. The study by Awojuobi (2014) revealed a significant improvement in the women income, employment and empowerment in Nigeria. Adeyemi (2008) identified some challenges facing MFBs to include under capitalization, inefficient management, regulatory and supervisory loopholes, changes in government policies and people's perception of MFBs. Therefore, to further explore the performance of MFBs since the formulation of MPRSF in 2005, this study, an appraisal of MFBs in Anambra state concentrates on the three core objectives of MPRSF since past effects were restricted on one objective. Anambra state is one of the thirty-six states in Nigeria with the second largest concentration of MFBs, with a projectedpopulation of 5,079,131 million people (NPC, 2017). According to the Anambra State Investment Promotion Agency (ANSIPPA), the state economy is highly favourable with large markets, skilled labour force, entrepreneurial ability, the concentration of entrepreneurs and economically active population in three senatorial districts and 177 towns that made up the state. According to Ugwu (2015), Anambra State has the highest GDP per capita among states of the federation with over US$2,500 more than the GDP per capita of Nigeria at US$1150. The total GDP of the state is approximately US$8.6 billion, with an annual growth rate of 5% (NBS, 2018). Despite the potentialities of the state with above features, no study has been carried out to the best of my knowledge to appraise the MFBs in the core areas of poverty alleviation, women empowerment and employment generation.

### 1.3 Research Questions

Following the statement of the problems, the research questions of the study are as follows:

1. Has the MFBs enhanced the job creation capacity of MSMEs in Anambra State?

2. Has the MFBs contributed to poverty alleviation in the state?
3. To what extent have MFBs contributed to women empowerment in the state?
4. Do households have access to financial and non-financial services of MFBs in Anambra state?
5. What are the constraints to accessibility of financial and non-financial services of MFBs in Anambra state?

## 1.4 Research Objectives

1. To investigate the job creation capacity of MSMEs through the services of MFBs.
2. To examine the contributions of MFBs to poverty alleviation in the state.
3. To examine the contributions of MFBs to women empowerment in Anambra State.
4. To investigate the accessibility of financial and non-financial services of MFBs by households in the state.
5. To identify the constraints affecting the accessibility to financial and non-financial services of MFBs in Anambra state.

## 1.5 Research Hypotheses

The formulated hypotheses of the study include the following:

1) **$H_O$:** MFBs have not contributed significantly to job creation by MSMEs in Anambra State.

   **$H_I$:** MFBs have contributed significantly to job creation by MSMEs in Anambra State.

2) **$H_O$:** MFBs have not contributed significantly to poverty alleviation in the state.

   **$H_I$:** MFBs have contributed significantly to poverty alleviation in the state.

3) **$H_O$:** There is no significant contribution of MFBs to women empowerment in Anambra State.

   **$H_I$:** There is a significant contribution of MFBs to women empowerment in Anambra State.

4) **$H_O$:** The households do not have access to financial and non-financial services provided by MFBs in Anambra state.

   **$H_I$:** The households do have access to financial and non-financial services provided by MFBs in Anambra State.

5) **$H_O$:** There are no constraints affecting accessibility of MFBsfinancial and non-financial services in Anambra State.

**$H_I$:** There are constraints affecting the accessibility of MFBs financial and non-financialservices in Anambra state.

## 1.6 Significance of the Study

Microfinancing is a veritable tool for achieving economic development through improvement in the standard of living. This study is significant in various ways. It will contribute to the existing literature on microfinancing in Nigeria and add to the previous researches by addressing the diverse issues on microfinancing, poverty reduction and economic growth.

The study should be of some benefits to those interested in the financial development of the Nigerian economy and practical aspects of public policy. As such, it may prove useful to policymakers, development experts, bankers and the research community and the general public.

The policymakers would benefit from the study as it will expose them to a critical evaluation of the performance of microfinance banks in Nigeria as well as policy measures to improve the performance of MFBs in Nigeria. To the development experts, the study presents a blueprint on the development of the microfinance banking sub-sector of the Nigerian economy as well as the challenges and prospects.

The Central bankers and microfinance bankers and different stakeholders would benefit immensely from the expositions as contained in the study. It will also provide the necessary information to MFBs management and board of directors for the necessary corporate governance strengthening on the MFBs.

The research community would see the study as a reference point for further inquiries on the performance of the MFBs, as well as a conference material for future studies. Finally, the reading public would find it worthy material for exposition into the microfinance subsector in the Nigeria's financial system.

## 1.7 Scope and the Limitations of the Study

The scope of the study is limited to the three senatorial zones in Anambra State. This is due to the concentration of MFBs in the state which is second largest in the country after Lagos state. The state is also of geographical proximity to the researcher. The research questions, objectives and hypotheses were formulated and guided to evaluate or appraise the performance of the microfinance policy in the state in terms of employment generation, improvement in income, poverty reduction and women empowerment. This study is also limited to the demand side of the

MFBs services and cover periods 2006-2018. The period is more than 10 years which is proper for the appraisal of the any policy of the government. But in appraising the performance of MFBs in the areas of poverty alleviation, employment generation and women empowerment, data of various MFBs from 2013 to 2018 were used. This is to accommodate the MFBs which started operation after the years of establishment and reforms.

### 1.8 Organization of the Study

The study is organized into five chapters. Chapter one presents an overview and thrust of the work. Chapter two reviewsrelated literature, highlights the theoretical, empirical literatures on MFBs as well as the justification for the study.Chapter three presents the procedure, the design and techniques of data analysis. The results, discussion of findings and policy implications of the empirical result are discussed in chapter four. While chapter five is the summary, conclusion and policy recommendations.

# CHAPTER TWO

# LITERATURE REVIEW

This highlights the theoretical and empirical literature on MFBs. The review is organized thus: theoretical literature, empirical literature, summary of literature reviewed and justification for the study.

## 2.1 Review of Theoretical Literature

The concepts and theories of MFBs are discussed in this section. The major concepts are microfinance, microfinance banks/institutions (and the services as rendered/provided which impact on the customers/households for achievements of the objectives of the MPSRF framework), poverty alleviation, women empowerment and employment generation.

### 2.1.1 Conceptualization

**a) Microfinance:**

Microfinance can be defined as the provision of financial services to the group (active poor) who are traditionally not covered by or served by the conventional financial institutions. It is characterized by the smallness of loans advanced, absence of asset-based collateral and simplicity of operation (Akinboyo, 2007). This implies that it is a policy by the government to ensure that targeted group/economically active poor assess financial and non-financial services which will enable them to improve on their life-sustaining goods and enhance their standard of living. Microfinance emphasizes the provision of loans (micro-credits) to the economically disadvantaged and active group to help them engage in new productive activities and/or to expand on the existing ones. According to United Nation Capital Development Fund (UNCDF), cited in Adeusi (2015), the government of Nigeria identified microfinance as a useful tool in achieving the three objectives of:

i. A strong and focused emphasis on economic growth.
ii. Better access by the poor to social services and adequate infrastructure and
iii. Targeted interventions to protect the low-income population or the most vulnerable, because it helps poor people to expand their businesses, increase their revenue and augment employment thereby contributing to the economic development of the country through an improved standard of living.

Microfinance is a means of providing the economically active poor and low-income households with financial services such as credit (to help them engage in income-generating activities or expand their small businesses), savings, micro leasing, micro-insurance and payment transfer.

According to Khan and Rohaman (2007), microfinance is a form of financial development that primarily focuses on poverty alleviation, wealth creation, and empowerment through the provision of financial services to the poor. By focusing on particular objectives and targets, it is expected that through the assess, some policy objectives would be achieved for the overall benefit of the economy.

According to Ayodeji, Adesusi and Ibitoye (2013) microfinance banks give access to financial and non- financial services to low-income people who wish to access money for starting or developing an income-generating activity. Ronaldo (2010) describes microfinance bank as a medium supporting entrepreneur and improving economic growth. It provides poor borrowers with access to sustainable livelihood through zero or very low-interest rate.

Microfinance is small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas (Robinson, 1998). Microfinance involves the provision of financial services to the poor and the low-income segment of society. Largely, micro-financing has been identified as a potent instrument for promoting financial inclusion and consequently, poverty alleviation. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of the society. In traditional African societies like Nigeria, there was a dominance of microfinance intermediations in varying dimensions across all socio-ethnic and cultural group. For instance, the Esusu initiative in the Igbo society and Ajo saving scheme in the Yoruba society are classical cases of microfinance. Microfinance institutions provide a wide range of services. Their best -known activity is the provision of credit to poorer households and small enterprises, but many also take deposits. In addition, some offer other financial services, such as insurance, or advice and training to their clients. This training is often linked to the microfinance institutions main activities: training in business management, for example, might make the loan more valuable to the borrower and also enhance the chances of repayment. Sometimes microfinance institutions are used as a vehicle to provide other services and education, for example, in the area of health awareness (Hardy, 2002). In order to alleviate poverty, empower women and create jobs in the country, various microfinancing schemes have been initiated both in pre and post-Structural Adjustment Programme (SAP) era. Among which are: the various traditional and informal financial institutions which involve the accumulation of capital by a group and allocating the funds to one another on a rotational basis. The traditional microfinance institutions provide access to credit to the economically active population/groups with the sole aim of improving their life and economic status. Other providers of microfinance services include saving collectors and cooperative societies (CBN, 2005). According to Wrenn (2005), the importance of microfinance in the field of development was reinforced with the launch of microcredit summit in 1997. The summit aims to reach 175 million of the world's poorest families, especially women with credit for the employment and other financial and business services. The United Nation also declared the year 2005 as the international of microfinance which enhanced the formulation of MPRSF in December, 2005 and the establishment Microfinance Banks in Nigeria.

**i. Microfinance and its role in development**

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) cited in Wrenn (2005) states that studies have shown that microfinance plays three key roles in development. It:

a) helps very poor households meet basic needs and protects against risks,
b) is associated with improvements in household economic welfare,
c) 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 states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organisation building, enables 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.

The aim of microfinance according to Otero (1999) 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. Littlefield and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so MFBs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFBs 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).

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. Simanowitz and Brody (2004) state, "Microfinance is a key strategy in reaching the MDGs 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 show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003).

However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realise that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that "most contemporary schemes are less effective than they might be". They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance. Rogaly (1996) finds five major faults with MFBs. He argues that:

a) they encourage a single-sector approach to the allocation of resources to fight poverty,
b) microcredit is irrelevant to the poorest people,
c) an over-simplistic notion of poverty is used,
d) there is an over-emphasis on scale,
e) there is inadequate learning and change taking place.

Wright (2000) states that much of the scepticism of MFBs stems from the argument that microfinance projects "fail to reach the poorest, generally have a limited effect on income…drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor". In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from "more pressing or important interventions" such as health and education. As argued by Navajas (2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty. Considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people it benefits (Chowdhury, Mosley &Simanowitz, 2004). Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programmes on poverty. This is so she argues, because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of 'poverty', how it is measured and who constitute the 'poor' "are fiercely contested issues".

### ii. The impact of microfinance on poverty

There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simanowitz (2001) cited in Wrenn (2005). The argument is that if the market can provide adequate proxies for impact, showing that clients are happy to pay for a service, assessments are a waste of resources. However, this is too simplistic a rationale as market proxies mask the range of client responses and benefits to the MFBs. Therefore, impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFBs so that they can improve their services and the impact of their projects (Simanowitz, 2001).

Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a significant difference between increasing income and reducing poverty (1999). He argues that by increasing the income of the poor, MFBs are not necessarily reducing poverty. It depends what the poor do with this money, oftentimes it is gambled away or spent on alcohol (1999), so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to “sustain a specified level of well-being” by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

It is commonly asserted that MFBs are not reaching the poorest in society. However, despite some commentators’ scepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield, Murduch and Hashemi (2003) “various studies…document increases in income and assets, and decreases in vulnerability of microfinance clients”. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw “significant improvements in their economic well-being and that half of the clients graduated out of poverty” (2003).

Dichter (1999) states that microfinance is a tool for poverty reduction and while arguing that the record of MFBs in microfinance is “generally well below expectation” he does concede that some positive impacts do take place. From a study of a number of MFBs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the household are the most common impact of MFBs programmes.

Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that “there is clear evidence that the impact of a loan on a borrower’s income is related to the level of income” as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the “middle and upper poor” (1996). However, they also show that when MFBs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996).

Mayoux (2001) states that while microfinance has much potential the main effects on poverty have been:

i. credit making a significant contribution to increasing incomes of the better-off poor, including women,
ii. microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Hulme and Mosley (1996) show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves.

Johnson and Rogaly (1997) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries’ overall vulnerability.

**b) Microfinance Bank**

Microfinance bank is a financial institution established and licensed by the apex monetary authority (CBN) for the provision of microfinance service such as savings, credits/loans, fund transfer and other non- financial services needed by the economically active group, MSMEs and women which will enhance their economic activities and enable them create wealth thereby playing a pivotal role in economic development and poverty reduction. The MFBs are the basic instrument through which the whole concept of microfinance is executed. The objectives of microfinance banks according to CBN (2005) include: promotion of rural development through financial intermediation, stimulation of productive activities in rural sector, developing banking habit in rural areas, providing affordable and diversified, dependable and timely financial services to the economically active poor, employment creation, render payment services for example gratuities and pension on behalf of government, increase access to credit and enhance local capacity to provide technical assistance on sustainable basis. The financial services as provided by MFBs can be grouped as follows: (a) Micro credits/loans which are usually shorter than traditional commercial loans with terms ranging from six months to one year with payments interests. Typical micro-credit products can be classified as income-generating loans, mid-term loan, emergency loan and individual loan (b) Micro savings - This enables the customers, individuals to save money without minimum balance. It allows people to retain money for future use and unexpected costs. Other services of MFBs include:

a) Micro leasing: Micro leasing enables customers who cannot afford to buy at full cost to lease equipment, agricultural machinery or other assets.
b) Money transfer- This is a service for transferring money from one person to another. This service is rendered by the MFBs, especially facilitating funds from urban to rural areas.
c) Other financial and non-financial services/ products of MFBs include pre-loan training, business consulting, financial management, business monitoring and micro insurance.

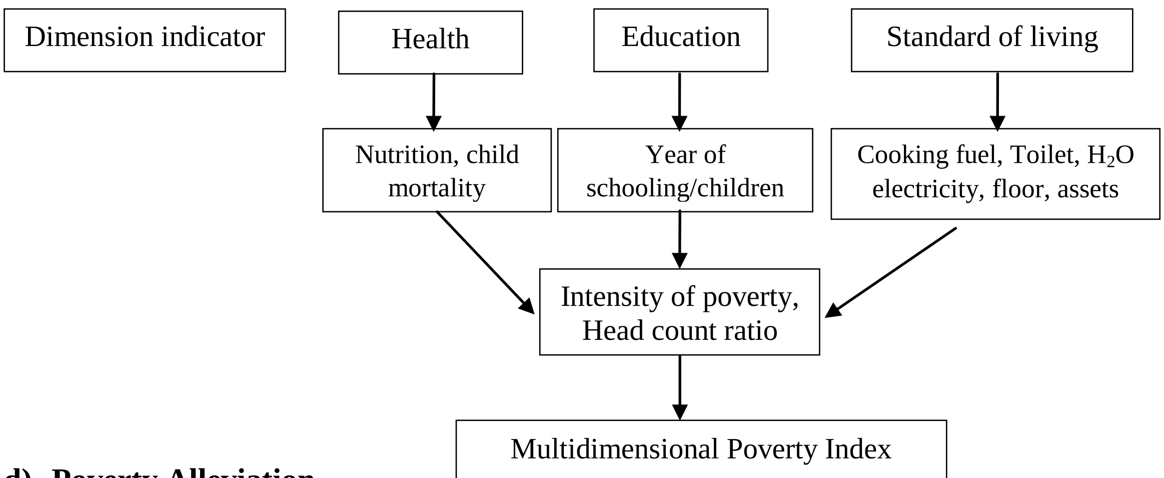
**(c) Poverty**

According to Ezeilo (2017), poverty can be defined in different ways including lack of money or limited income, living substantially lower than the general standard of living in the society, lack of access to basic needs and goods; a result of lack of, or impaired access to, productive resources; an outcome of inefficient use of common resources; and a result of deprivation. Poverty as lack of access to basic needs and goods is essentially economic and consumption-oriented. The International labour Organisation (ILO) (1995) cited in Ezeilo (2017) opines that people are considered poor when their level of living, measured in terms of income or consumption, is below a particular standard. Consequently, the poor are seen as individuals or households in a particular society incapable of purchasing a specified set of basic goods and services. Extreme poverty can range from landlessness, earning less than $1 per day, to being on the bottom half of those living under the poverty line, to income under a certain threshold. The Organisation for Economic Co-operation and Development (OECD) (2001) reported that poverty encompasses different dimension of deprivation that relate to human capacities, including consumption and food security, health, education, rights, voice, security, dignity and decent work. This means that poverty is a multidimensional concept. The UNDP (1995) opined that poverty is the denial of opportunities and choice. The UNDP definition of poverty is in terms of human development and introduced measures such as Human Development Index (HDI) and Human Poverty Index (HPI). The HDI centres on three areas of human deprivation, namely longevity, living standard and educational attainment. Life expectancy at birth is used to measure as a measure of longevity; educational attainment is measured by the combination of adult literacy, while living standard is measured by the real Gross Domestic Product (GDP) per capita. The HDI is made up of five weighted component.

An international poverty line is typically used in a cross country comparism of poverty levels an in international agreements. The first target under Sustainable Development Goal (SDG) I of the 2030 Agenda for SDG reads: “By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day”. This target refers to the international poverty line-which was set in the late 1990s at one dollar a day in purchasing power parity based on an average of national poverty line in low income countries and which has been revised over time. The latest revision took place in September, 2015 when the International poverty line was increased to $1.90 to ensure that the ‘goal post’ used to measure extreme poverty were not changed. The increase reflects the fact that at the time the purchasing power estimates were revised, we face a weaker dollar relative to the currencies to most developing countries than when the preceding lines was defined.

The most comprehensive measures of poverty is the Multidimensional Poverty Index (MPI) developed in collaboration with the Oxford Poverty and Human Development Initiative (OPHI). The MPI emerged from the MDG indicators but instead of combining country’s aggregate across indicators it used information at the level of household to ensure counting of overlapping deprivations and number of people that contend with them. The index identifies deprivations across the same three dimensions as the HDI (see figure below) and shows the number of people who are multidimensional poor (suffering deprivations in 33% or more of weighted indicators) and the number of deprivations which poor households typically contend with. It can be deconstructed by region, ethnicity and other grouping as well as by dimension, making it apt tool for policy makers (UNDP, 2016).

Figure 2.1: Multidimensional Poverty Index




Source: UNDP (2016)

**d) Poverty Alleviation**

Poverty alleviation is an economic measure or initiative embarked by the government to improve and lift people out of poverty and enhance their standard of living. The effectiveness of any poverty alleviation program depends on identifying the causes of poverty and dealing with the causes and not the symptoms (Uwajumogu, 2010). Among the approaches to the solution of poverty is the provision to the poor, economic active and low-income individuals access to financial services that will enable them to move away from the subsistence living to a future-oriented outlook on life and increased investment in nutrition, education and living expenses (Westover, 2008). Microfinance has proved to be a veritable and sustainable tool for poverty alleviation in the developing economies. The World Development Report 2000/2001, cited in Uwajumogu(2010), identified two ways by which the provision of financial services in general and microfinance, in particular, can have an effect on poverty. Microfinance can strengthen poor people's economic activities by investing in assets more affordable and thus allowing them to engage in profitable business ventures. It has an income-generating effect which will have multiplier outcome on the well-being of the individual. Again, the access to microfinance services will improve poor household's risk management and reduce their vulnerability in the face of economic shocks like inflation, disasters and income fluctuations (World Bank, 2000).

Successive governments in the country have embarked on different microfinancing programmes to the targeted population with the sole aim of poverty alleviation. For example, the formulation of MPSRF in 2005. Other efforts to alleviate poverty in the country since independence include; Poverty Alleviation Programme (PAP) in the year 2000, National Poverty Eradication Programme (NAPEP) in 2003 and various direct and indirect intervention programmes of successive governments.

**e) Women Empowerment**

Women empowerment is the ability of women to improve on the socio-economic activities and participate in the decision-making process when supported by the external factors or government. Microfinance helps women by contributing to their household incomes by pursuing activities like tailoring, farming, petty trading and acquisition of assets. It also contributes to increased savings by women in their name and enhances increased control by women on the running of family enterprises. Women are considered to be more prudent with the management of resources, and they hardly default in loan repayment compare to men. The United Nations (UN) in 2005 initiated the international year of micro-credit for the promoting of financial inclusion for women. The hypothesis by economists is that by assessing micro-credits, loans and other services from MFBs the economic potentials of women are enhanced. Therefore, access to MFBs can lead to economic empowerment of women. Loans contribute or can support business expansion and acquisition of assets which lead to an increase in profit. The profit from business can be used for the education of children and to improve healthcare and proper feeding of the family. The savings can also reduce their vulnerability. Women's empowerment through microfinance participation can lead to their social and political empowerment through the community (Awojobi, 2003), cited in Uwajuogbu(2010).A key objective of many microfinance interventions is to empower women. Mosedale (2003) states that if we want to see people empowered it means we currently see them as being disempowered, disadvantaged by the way power relations shape their choices, opportunities and well-being. She states that empowerment cannot be bestowed by a third party but must be claimed by those seeking empowerment through an ongoing process of reflection, analysis and action.

Kabeer(1999) quoted in Mosedale (2003) states that women need empowerment as they are constrained by "the norms, beliefs, customs and values through which societies differentiate between women and men”. She also states that empowerment refers to the “process by which those who have been denied the ability to make strategic life choices acquire such an ability”, where strategic choices are “critical for people to live the lives they want (such as choice of livelihood, whether and who to marry, whether to have children, etc)”. Therefore, MFBs cannot empower women directly but can help them through training and awareness-raising to challenge the existing norms, cultures and values which place them at a disadvantage in relation to men, and to help them have greater control over resources and their lives.

Littlefield, Murduch and Hashemi (2003) state that access to MFBs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. However, they also state that just because women are clients of MFBs does not mean they will automatically become empowered. Hulme and Mosley (1996) also make this point when they refer to the “naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women”. However, with careful planning and design women’s position in the household and community can indeed be improved.

Hulme and Mosley (1996) state that microfinance projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that wasn’t there previously. From studies of the Grameen Bank and BRAC they show that clients of these programmes suffered from significantly fewer beatings from their husbands than they did before they joined the MFB. However, in a separate study of a BRAC project, Chowdhury and Bhuiya (2004) found that violence against women actually increased when women joined the programme, as not all men were ready to accept the change in power relations, and so resorted to violence to express their anger. This violence did decrease over time. The study found that when the violence did rise, the members, because of their increased awareness, reported back to the group on their martial life and got support from the group (Wrenn, 2005).

Jeffery Sachs (2005) in a visit to a BRAC project was amazed to find that women he spoke to had only one or two children, when he was expecting them to have five or six as he had become accustomed to for Bangladeshi women. When he asked those with no or one child how many children they’d like to have, the majority replied two. He calls this a “demonstration of a change of outlook". He refers to a new spirit of women's rights, independence and empowerment among clients, showing the positive empowerment effects the project has had on the women.

Osmani (1998) analysed the impact of credit on the well being of Grameen Bank women clients. The project was found to have increased their autonomy in that they were able to spend family income more freely than non-clients. They had greater control over family planning, but the project was not shown to have had an impact on clients' control over other decision-making but they were found to have greater access to household resources than non-clients did.

However, Johnson (2004) states that having women as key participants in microfinance projects does not automatically lead to empowerment, sometimes negative impacts can be witnessed. She refers to increased workloads, increased domestic violence and abuse. This leads her to ask a crucial question of whether targeting women is just an efficient way of getting credit into the household, since women are more likely than men to be available in the home, attend meetings, be manageable by field staff and take repayment more seriously, even if they do not invest or control the loan themselves? Or on the other hand, if such targeting is fully justified on the grounds of enhancing gender equity. She claims the answer is probably somewhere between the two alternatives. She argues that MFBs must analyse both the positive and negative impacts their interventions are having on women, and that MFBs need to work with men to help pave the way for a change in attitudes to women's enhanced contribution to the household (2004). The Federal Ministry of Women Affairs and Social Development is one of the ministries of the government that promote the development of women, gender inequality and women empowerment programmes. Therefore, women can become agents of change and economic transformation if empowered through microfinancing programmes. Some of the women empowerment programmes in the country include Better Life for Rural Women, Family Economic Advancement Programme (FEAP) among others.

**f) MSMEs and Employment Generation**

MSMEs are globally recognized as an employment hub of any economy and hold a strong linkage with the entire range of economic activities structured across other vital sectors. They constitute a large size of the informal sector of the economy which provides jobs to more than 90% of citizens in developing economies. The definition of MSMEs varies from one nation to another, and from one multilateral institution to another. In Nigeria, the Small and Medium

Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (NBS) (2010), define micro-enterprises as those enterprises whose total assets (excluding land and buildings) are less than five million Naira with a total workforce not exceeding ten employees. Small enterprises are those whose total assets (excluding land and building) are above five million naira but not exceeding fifty million with a total workforce of above ten, but not exceeding forty-nine employees. Medium are those enterprises whose total assets (excluding land and building) are above fifty million naira, but not exceeding five hundred million naira with a total workforce of between 50 and 199 employees see table (2.1)

**Table 2.1: Structure of MSMEs in Nigeria**

| Size Category | Employment | Assets | % National distribution |
|---|---|---|---|
| Micro | Less than 10 | 5 million | 95.87 |
| Small | 10-49 | 5.50 million | 3.12 |
| Medium | 50-199 | 50-500 million | 1.11 |

Source: NBS & SMEDAN (2010)

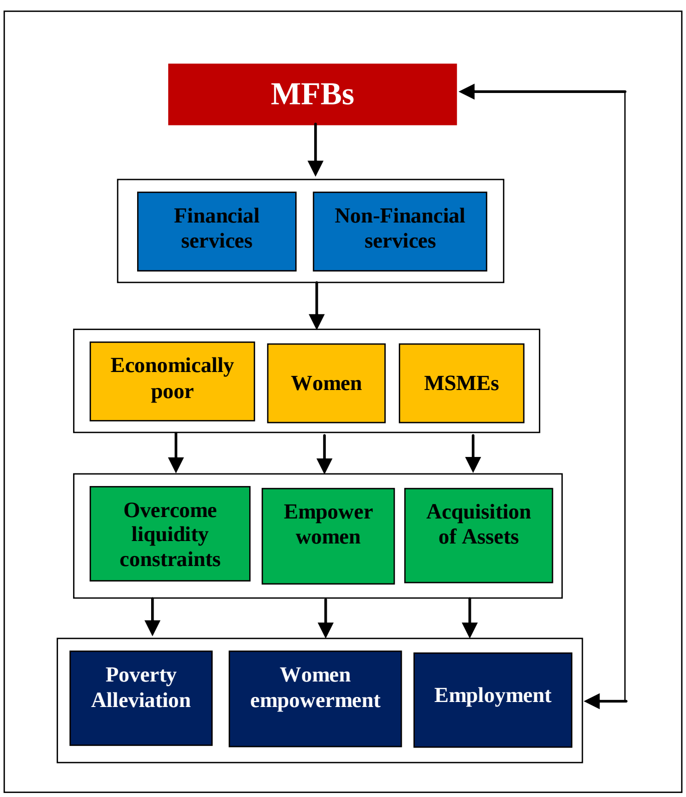
According to Afolabiand Oni (2003), cited in Egbuogu (2015), the definition of MSMEs varies across nations and continents depending on factors such as the number of employees, operational capital, rate of turnover, asset base, amongst others. Mukras (2003) posited that MSMEs in Nigeria are characterized by high labour intensity, ease of entry and exit, small start-up and operational capital, low labour skill requirements, and they trigger entrepreneurial and indigenous technological development.

One of the policy objectives of MFBs is to enhance service delivery to MSMEs. It is a good way of supporting entrepreneurs. Therefore, to address the problem of growth and survival of MSMEs and to make them the engine of growth in Nigeria, governments have over the years (1960-date) introduced a variety of financing schemes and programmes intending to provide a guarantee for credits to MSMEs and manufacturers(Adewale, 2015). Among the schemes and programmes include; the establishment of the Small Scale Industries Credit Scheme (SSICS), the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund NERFUND. Also, according to CBN as cited in Adewale(2005), other policy measures taken by government to reduce the financial burden of MSMEs over the years include: pioneer status or income tax Relief act, capital allowance to aid capital formation, tariff measures, export promotion incentive, foreign exchange facility and also the launching of Micro, Small and Medium Enterprises Development Fund (MSMEDF) of ₦220 billion through the CBN in 2013. Therefore, the MFBs were established to complement the above schemes and the need for the proper utilization of Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

### 2.1.2 Conceptual Framework

The conceptual framework of the study which defines the multidimensional link between the services of MFBs and the performance of the economy is discussed in Figure 2.2 below. The appraisal is based on the ability of the services of MFBs to impact positively on the economy through poverty alleviation, employment and women empowerment.

Figure 2.2: Conceptual framework of the performance of MFBs through the provision of financial and non-financial services.



Source: Researcher's Contribution

As shown in Figure 2.2 above, the MFBs through the provision of financial and non-financial services can help achieve some of the MPRSF objectives. This is done through women empowerment, overcoming of liquidity constraints and acquisition of Assets. The result is poverty alleviation, women empowerment and employment i.e. the policy objectives of MPRSF.

### 2.1.3 Review of Basic Theories

The basic theories relating to micro-financing were reviewed in this sub-section. Five basic theories were examined: microfinance theory of change, financial intermediation theory,life cycle theory on firm finance and investment, supply-leading and demand following hypotheses and asymmetric information theory.

#### a) Microfinance theory of Change

Microfinance theory of change explains the benefits of accessing microfinance services. Access to appropriate services like credits/loans, savings, insurance, pre-loan training etc. and the use of the services will in short-run increase the business turnover and employment, education for children, increase income-related activities of women and households, improve home facilities, assets and enhance consumption smothering. The continuous access to the services will have a long-run effect or potential outcome of the ability to cope with risk-reduced vulnerability, poverty reduction and improved standard of living of the people (Shina &Simanowitz, 2014) A theory of change sets out the steps to the implemented, and what needs to happen, to achieve result, or address a particular problem.

**Figure 2.3: Elements of a Microfinance theory of change**

| Access to appropriate services | Use of services | Short-term outcomes | Client retention | Long-term outcome |
|---|---|---|---|---|
| • Credit amount and terms match needs and cash flow<br>• Ability to repay saving transactions<br>• Renewal of insurance and reasonable procedure for any claims. | • Credit used for business, agriculture<br>• Credit used for consumption<br>• Savings (increase or withdrawal)<br>• Timely payout of insurance<br>• Use of products etc. | • Increase in business turnover, employment<br>• Children attend school<br>• Home facilities increased assets<br>• Consumption smothering | • Continued use of serves vs exit<br>• Graduation also a potential outcome | • Better ability to cope with risk-reduced vulnerability<br>• Reduced poverty |

Source: Social performance task force (2014).

According to Dunford(2012), the theory involves three steps; accessing the credit/loan from or (save it) with a microfinance bank or related institution; investing the fund in a viable business and finally, managing the business to yield a significant return on the investment. When people from poor but active households tap microfinance services and invest in micro-enterprises, it will yield sufficient returns on investment to increase household income and consumption-leading to poverty alleviation. One of the advantages of the microfinance theory of change is its emphasis on the role of micro-financing in poverty alleviation and adherence to the steps will yield desired results.

The validity of the microfinance theory of change is questioned on the ground that most of the poor and active households do not tap MFBs services even when they are available. In Anambra state, for instance, most of the households, micro-entrepreneurs even rural dwellers are more disposed to the conventional financial institutions. Those who have access are discouraged from the high-interest rate for the services and even when given credit (or those who have access), may not invest part or any of the credits (loans/or savings) in businesses for profits. Finally, most of the micro-enterprises in which loans or savings are invested remain quite small with modest returns on investment and generally it is not sufficient to lift the household out of poverty. This does not mean that microfinance is a failure, but the microfinance theory of change is inadequate because it does not describe the full value of microfinance for the majority of poor, active households.

b) **Financial Intermediation Theory:**

The financial Intermediation Theory, which underpinned the study, was propounded by Gurley and Shaw in 1960.

Some of the basic assumptions underlying the theory are:

i. Transaction costs and asymmetric information
ii. Financial intermediaries are designed to account for institutions which take deposits or issue insurance policies and channel funds to the deficit units.
iii. The financial institutions have a comparative informational advantage over ultimate savers and investors.

According to the theory of financial intermediation, financial intermediaries are active because market imperfection prevents savers and investors from trading directly with each other in an optimal way. The most important market imperfections are the informational asymmetries between savers and investors. Financial intermediaries, banks including MFBs, specifically, fill-in as agents and as delegated, monitors information gaps between ultimate savers and investors.

This is because they have a comparative informational advantage over ultimate savers and investors. Financial intermediaries exist in imperfect markets that are characterized by asymmetric information. In financial markets, there are informational differences between the lenders and the borrowers. Typically, the depositors are risk-averse and are uncertain about their future needs of consumption and thus, do not know to whom to lend money.

In application and reality, when the assumptions are relaxed, some inherent difficulties emanate. The weaknesses include: Financial intermediaries are relatively stable over time. However, the agents that are able and willing to perform them are not necessarily so. And neither are the focus and the instrument of the financial supervisors. Moreover, in the theory, risk appears as a negatively operating, almost as a peripheral factor. It is thought to result in adverse selection, credit rationing and moral hazard, which results in effects that frustrate the optimal allocation of savings.

**c) Asymmetric Information Theory**

Asymmetric information also referred to as the theory of imperfect information, is present whenever one party in an economic transaction possessed greater knowledge than the other person. The concept of asymmetric information started with the works of Nobelists George A. Akerlof, Micheal Spence and Joseph Stiglitz. Then Michael Rothschild and Stiglitz in 1976 studied the effect of imperfect information using the insurance market. Other contributions to the theory of asymmetric information include Stiglitz and Weiss (1981), where they studied the effects of rationing credit to the market. The idea behind imperfect information theory is that microcredit market is characterized by information asymmetry, which makes it too costly for banks to obtain accurate information on the borrowers and monitor them.

Information is the critical resource for decisions regarding the relationship existing between the principal and agent (that is, microfinance banks and borrowers, customers in this case). In the financial market, information must be symmetrical if ideal balance must be maintained, but this is hardly the case. Financial market exhibit asymmetric information because one of the parties involved will have more information than the other and will have the ability to make a more informed decision. Asymmetric information gives either the buyer or seller a better opportunity to make a profit over the purchase or sale of financial security. When it comes to borrowing or lending money, asymmetric information occurs when the borrower has more information about his financial state than the lender does. The lender is uncertain whether the borrower will default on the loan. The lender can look at the borrower's credit history and salary levels, but this provides limited information compared to what the borrower knows about his financial status. This means that the borrower has more information regarding his risk profile (such as borrower's investment choice, honesty, risk tolerance, capacity and willingness to repay the loan) which is largely unknown to the banks. In order to protect itself from the apparent risk associated with such lack of information, the bank deliberately charges high-interest rate to take care of the high risk of loan due to information asymmetry.

One of the strengths of asymmetric information theory is that it acknowledges the meaning of information as a market determinant. It emphasizes the meaning of information and its introduction as an economic theory started discussions on the validity of some traditionally held economic theories (Rothschild &Stiglitz, 1976).

Another major strength of asymmetric information theory is that it is simple to understand and utilize, and it can be applied over multiple disciplines and not just economics. For example, it has been used to analyze the effects of forgeries on the market of art paintings.

One of the problems of asymmetric information is that it may lead to adverse selection behaviour.This is a situation whereby one party has different information but is qualified to participate in a transaction which will increase the overall risk of the loan. This may contribute to frustrating access to micro-credit to those qualified but cannot provide adequate information to MFBs.

According to Tucker and Lean (2003), in a perfect market setting, with perfect and costless information available to both parties, and no uncertainties regarding present and future condition, the principal-agent relationship does not suffer from the market failure of information asymmetry. Information is distributed symmetrically between the bank and the firm if not, it gives the banks the notion that they are working in an information disadvantaged position which might result in the adverse selection decision.

Secondly, asymmetric information may result to the problem of moral hazards. The latter arises because it is too costly for banks to effectively monitor small firms' projects, thereby resulting in equilibrium credit rationing and a shortfall in debt provision. Banks credit rationing may be influenced by borrower's observable features, firm characteristics and loan characteristic (Mordi et al. 2014).

Altman (1968) noted that information asymmetry might result in Type I and Type II errors being committed in credit disbursement. Type 1 error is when a good credit application is turned down due to information asymmetry, while Type II error occurs when a poor credit application is accepted. Micro entrepreneurs suffer Type I error as most of their loans are turned down due to lack of sufficient information.

Micro entrepreneurs also suffer information asymmetry by their inability to provide quality financial information about their operations. Newer start-ups may be unable to provide evidence of sound financial performance track record and strong collateral (Tucker & Lean, 2003). The value of collateral offered by a firm influences the credit offered by the bank. According to Chan and Kanatas (1985) and Coco (2000), cited in Metu (2017), collateral reduces the information asymmetry between the enterprise and the financial institution.

**d) Supply-Leading and Demand-Following Hypotheses**

It is a well-established fact that a developed financial system is a factor in the growth and development of an economy. A well-developed financial sector is relevant to facilitate growth in the real sector which resultantly leads to economic growth. The primary role of financial intermediation is the channelling of funds from the surplus units to the deficit units of the economy. Schumpeter (1911) established a nexus between economic growth and finance, and this has led to the controversy of supply leading and demand following hypotheses. According to Edori, EdoriandNeedam (2017), the theory of financial intermediation is seen in the works of Goldsmith (1969). Explaining the supply leading hypothesis, Mackinnon and Shaw (1973) attributed the role of economic development to the financial market through the quality and quantity of financial services rendered which will stimulate economic development. The central argument in the supply-leading hypothesis is that financial deepening is a determining case of economic development (Adeyeye, Fapetu&Migiro, 2017). A well-developed financial sector is a pre-condition for economic development; it minimizes transaction costs and asymmetric information; thus, improvement in financial intermediation. The existence of a well-developed financial sector enhances the creation of financial services as well as accessibility to them in anticipation of their demand by participants in the real sector of the economy. The supply-leading hypothesis presumes that the economy responds to growth in the real sector, facilitated by financial development. Robinson (1952), in his demand-following hypothesis, stated otherwise that financial deepening is dependent on growth that occurs in the economy. There will only be an increasing demand for financial services only when the economy progresses. Singh (1999) cited in Adeyeye (2017), as an economy expands, there is a rise in macroeconomic activities which resultantly develops the financial sector. The theory of financial development and intermediation according to Patrick (1966) assumes that the supply leading hypothesis holds in an economy in the early developmental stage and as the economy grows, it fades away and then demand- following hypothesis prevails. The weakness of the financial intermediation and development theory is that it may not be applicable in any economy that is still facing the challenges of growth with weak financial sector as the case in most economies in Africa.

According to Koneous and Randhawa (2004) cited in Metu A.G (2016), the supply leading hypothesis entails providing loans in advance of the demand for credit for investment and consequently, economic growth. This theory emanated from the general belief of increased government participation in the economy and playing a leading role as suggested by theKeynes (1936) after the Great Depression. Through the provision of credit to the poor by government and relevant institutions, the poor will be enabled to play active economic roles. Through government intervention through subsidized credit, the poor farmers, micro-entrepreneurs, women will be empowered to be productive and contribute to the development of the economy. This is in contrast to the classical economists that suggested restricted government roles in the economy. The classical economists advocated for a free market economy which government should play a minimal role in the economy but the supply leading finance hypothesis argued that government owes it as an obligation to promote development through the provision of subsidized credit to the poor, with government subsidizing credit to the poor, with government subsidizing credit, the poor would increase their productivity to the point that they will be able to save and use less of such credit. Therefore, they may not need such credit in the future after they must have acquired assets or their income-related activities must have improved.

**e) Microfinance Theory**

Fisher and Maitreesh(2010), were the early theorists who formulated the first wave of microfinance theory which is basically based on joint liability. By joint liability, if a member of the group defaults in the repayment of the loan, the group members are contractually required to repay in her stead. Such repayment can be enforced through the threat of common punishment, typically of the denial of future credit to all the members of the group. Ghatak andGuinnane (1999) cited in Adewusi (2015), reviewed the critical mechanisms proposed by the various theories which joint liabilities could improve repayment rates and the welfare of the credit-constrained borrowers. They all have the perception that joint liability can help alleviate the major problems facing lenders, among which are screening, monitoring, auditing and enforcement by utilizing the local information and social capital that exist among borrowers. Joint liability can do better than conventional banks for two reasons:

i. Members of a close-knit community have more information about one another than an outsider.
ii. A bank has limited scope for financial sanctions against the poor people who default on a loan since, by definition, they are poor. However, their neighbour may be able to impose powerful non-financial sanctions at a low cost.

Other microfinance theories have gone off in other directions aside from the joint liability among which are: frequent repayments and sequential lending. Infrequent repayment approach, borrowers are allowed to repay their loans in regular instalments beginning soon after the loan is given out. This aspect of the repayment schedule is usually explained as inducing fiscal discipline among borrowers. Jain and Manuri (2003) also cited in Adeusi (2015) argue that an alternative rationale for this loan repayment structure lies in difficulty in monitoring borrower's action. The potential for moral hazard leads microfinance institution to use innovative mechanisms such as regular scheduled repayment which indirectly co-opt the better informed informal lenders.

Conversely, this instalment repayment structure allows informal lenders to survive. Another mechanism of microfinance is the sequential lending; loans are not given out to all borrowers simultaneously until a particular borrower repays them before it can be extended to another. This creates an additional stake for the member who comes in later to monitor the previous one.

**f) Life Cycle Theory on Firm Finance and Investment**

The hub of the theory is that the financial needs and financing options change as the business grows, becomes more experienced and less information opaque. In particular, Xiao (2014) documented that nascent firms mainly rely on informal lending channels such as funding from family members, friends and trade partners. As firms grow, Xiao continued, they gain access to financial intermediaries. When they grow further and become established corporations, firms can borrow from the corporate bond market. Different from a constant fixed cost or constraint assumptions, firm growth extends its access to external financing channels and lowers its future cost of capital. The expectation of the evolution of its external financing opportunities thus may be crucial in firm growth decision. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced, and more information transparent, it will likely gain access to public equity (PE) or long-term debt. Problems related to financing are dominant in the literature with regard to small firms. Studies abound describing inadequate financing as the primary cause of MSMEs failure (Jones, 1979;Wucinich, 1979;Welsch& White, 1981;Gaskil&Van Auken,,1993;Van Auken&Neeley, 1996; Coleman, 2000, Owualah2007). The capital structure of small firms differs significantly from larger firms because small firms rely more on the informal financial market, which limits the type of financing they can receive. The small firm's initial use of internal financing creates a unique situation in which capital structure decisions are made based on limited financing options. It is widely accepted that small firms have different optimal capital structures and are financed by various sources at different stages of their organizational lives (Berger &Undell, 1998).

### 2.1.3 Review of Other Related Theoretical Literature

**a) Evolution of Microfinance Bank in Nigeria**

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the Ajo (Yoruba) 'or *'Akawo'* (Igbo) and *Adashe* (Hausa) in Nigeria; "*susu*" of Ghana; "Chit funds" in India, "*tandas*" in Mexico, "*arisan*" in Indonesia, "*cheetu*" in Sri Lanka, and "*pasanaku*" in Bolivia, as well as numerous savings clubs and burial societies found all over the world. Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by deposit money banks, a way to obtain financial services through cooperatives and development finance institutions. For many observers, microfinance is a collection of banking practices built around providing small loans (typically without collateral) and accepting tiny savings deposits which is nothing short of a revolution or a paradigm shift.

According to CBN (2013) one of the earlier and longer-lived microcredit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly, but by the 1840s it had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak, they made loans to 20% of all Irish households annually. In the 1800s, various types of larger and more formal savings and credit institutions emerged in Europe, organized primarily among the rural and urban poor. These institutions were popularly known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

It is a known fact that many economically active poor in the world operating microenterprises and small businesses do not have access to adequate financial services. To meet this substantial demand for financial services by low-income micro-entrepreneurs, microfinance practitioners and donors alike must adopt a long-term perspective. This has given rise to the various discussions on microfinance. Microfinance has evolved as an economic development approach intended to benefit low-income people. This is because in addition to financial intermediation, many of the early providers of micro-credit (the NGO-MFIs) provided credit plus social intermediation services such as group formation, capacity building for group development, capacity building programs in health, sanitation and social empowerment (such as self-confidence), and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often included both financial and social intermediation.

In the 1970s, government agencies were the predominant providers of credit to those with no previous access to finance or people who had been forced to pay usurious interest rates or were subjected to rent-seeking behaviour. Governments and the international donor community believed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up or supported credit unions inspired by the Raiffeisen model developed in Germany in 1864. The focus of these cooperative financial institutions was mostly on savings mobilization in rural areas in an attempt to "teach poor farmers how to save". At that time, little was known about the intricate systems that the poor utilize in accessing savings and credit facilities.

Towards the late 1970s, non-governmental organizations (NGOs) focused on community development started providing income-generating loans/grants to their members to enable them to acquire farm inputs, carry out development projects (such as boreholes) and provide small loans to their members with subsidized credit. These NGOs that provided grants/loans to their members and beneficiaries were commonly referred to as micro-credit institutions in the first instance and later microfinance institutions (sometimes NGO-MFIs for short). These were mainly supported by donors.

Beginning in the mid-1980s, the subsidized, targeted credit model supported by many donors was the object of steady criticism, because some programs accumulated large loan losses and required frequent recapitalization to continue operating. Even those that were operationally sustainable were unable to expand as their only source of funding was the donor community. It, therefore, became evident that market-based solutions were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Emphasis shifted from the rapid disbursement of subsidized loans to target populations, towards the building up of local, sustainable institutions to serve the poor.

Professor Mohammed Yunus of Bangladesh is one of those that led the way for a more long-term approach than the unsustainable income-generation approaches to community development with a pilot group lending scheme for landless people. This became the Grameen Bank, which now serves more than 2.4 million clients (94% of them women) and is a model for many countries. In Latin America, ACCION International Supported the development of solidarity group lending to urban vendors, and *FundacionCarvajal* developed a successful credit and training system for individual micro-entrepreneurs. Changes also occurred in the formal financial sector. Bank Rakyat Indonesia, a state-owned, rural bank, moved from providing subsidized credit and took an institutional approach operated on market principles. In particular, Bank Rakyat Indonesia

(BRI) developed a transparent set of incentives for its borrowers and staff, rewarding on-time loan repayments and relying on voluntary savings mobilization as a source of funds.

Back home in Nigeria, in the early 1990s, Country Women of Nigeria (COWAN), Farmers' Development Union (FADU), Development Exchange Centre (DEC) Bauchi, Lift Above Poverty Organization (LAPO), Nsukka Self-Help Organization (NALT-NUSHO), Imo Help Organization (ISHO), Development Education Centre (DEC) Enugu, among others, became the icons of the industry. The emergence of the Community Development Foundation (CDF) opened up a window of opportunity for the emergence of Community-Based Organizations (CBOs) who were financial service providers. CDF provided wholesale credit for on-lending along with the grant-supported capacity building. This led to the development of existing CBOs and emergence of new ones among which are Otia foundation in Otukpo, Outreach Foundation in Lagos, Rahama Women's Cooperative Society in Bauchi and Women's Development Initiative Kano, to mention a few CBN (2013).

Since the 1980s, the field of microfinance has grown substantially. Whereas the 1970s and much of the 1980s were characterized by an integrated package of credit and training (which required subsidies), microfinance NGOs began to explore ways of partnering with formal financial institutions such as the deposit money banks (DMBs). Some partnerships were successfully forged, notable among them was the Guaranty Trust Bank partnership with FADU and COWAN to disburse and collect loans through smart cards; and the LAPO - UBA partnership for on-lending funds midwifed by Growing Business Foundation.

As a way to serve some of their beneficiaries through individual products in savings and credit among other reasons, some of the NGO-MFIs took advantage of the Community Banking Act to float community banks. Some of the NGO-MFI floated community banks include LAPO Community Bank and DEC Community Bank, Enugu.

In the early 2000s, transformation became the machinery for change, thus allowing NGO- MFIs to become regulated financial institutions either as banks (as was the case in Kenya) or as non-bank financial institutions (as was the case in India). Recently, LAPO transformed from an NGO-MFI into a full-fledged microfinance bank. The underlining factors in these moves were the need for these entities to provide deposit services to their large clientele, a desire to access market funding, dwindling access, to donor funding, increasing pressure to attain not only operational sustainability but financial sustainability as well and increased governance challenges.

**b) Reasons for establishing MFBs in Nigeria**:

The establishment of MFBs is justified because previous efforts made by successive governments to facilitate access to finance/credit to small business, disadvantaged and targeted groups did not yield the desired result. The Deposit Money Banks (DMBs) consider credit to the active poor, MSMEs and other groups as risks. Other efforts and policies of government towards achieving this object have failed. For example, the failure of community banks to live up to the expectations necessitated the MPRSF in 2005. The community banks like the commercial banks had weak internal institution capacity due to poor management, weak internal control mechanism as the absence of deposit insurance scheme. Most of the Community Bank (CBs) also have weak capital base to adequately provide succour for the risk of lend to micro-entrepreneurs without collateral. According to (CBN, 2005) out of 600 community banks in the country, only 75 had N20 million share capital.

Moreover, the total asset of 615 community banks out of 7,533 community banks that rendered their returns as at 2004 stood at N34.2 billion while their total liabilities stood at N21.4 billion for the same period. The need to utilize the fund appropriately for small and medium enterprises equity investment scheme (SMEEIS) led to the establishment of MFBs. The reasons for the transformation of the community banks (CBs) into MFBs can be attributed to the following according to Ayodeji, E.A. (2015).

i. The communal ownership of CBs makes them shareholders in poverty alleviation/microfinance intermediation.
ii. Development and appreciation of the need to cultivate the habit of saving funds mobilization for development purposes.
iii. Community banks are targeted at grassroots communities which engender their loyalty and pride.
iv. It is cheaper for the government to support the CBs as it will make them more self-sufficient and better developed in the short, medium and long terms.
v. Community banks should be seen as helping commercial banks in the task of making the economy grow in all sectors, the more community banks are empowered to be more

effective saving mobilizers and credit manager at the grass-root level, the better it will be for the entire economy.

vi. The acceptance of NDIC to insure CBN licensed community has added a further guarantee to the safety of the depositors' funds.

vii. The community banks already held business relationships with the emerging universal banking, thus paving the way for smooth linkage and partnership.

### c) Profile of Microfinance Services in Nigeria

MFBs in Nigeria was established with the launch of Microfinance Policy Regulatory and Supervisory Framework (MPRSF) in December 2005 coming from the heels of the banking sector consolidation. An assessment of the microfinance bank sub-sector following the launch of MPRSF revealed some improvements. These include increased awareness among shareholders such as government, regulatory authorities, investors, development partners, financial institutions and technical assistance providers on microfinance. At the inception, there are about 928 MFBs in Nigeria, licensed by the Central Bank of Nigeria.

Currently, there are three categories of MFBs operational in Nigeria: National MFBs with NGN 2.0 billion capital base requirement, State MFBs with NGN100.0 million capital base requirement and Unit MFBs with NGN 20million capital base requirement. There are about 916 MFBs in Nigeria, out of which 819 (89.4%) are unit, 92(10.1%) state and 5(0.5%) national microfinance banks. The geographical location and state by state distribution of MFBs are shown in Table 2.1.

**Table 2.2: Geographical Distribution of MFBs in Nigeria**

| Zones | No. of MFBs | % of Total | Poverty Rate (%) | Unemployment Rate/Job creation |
|---|---|---|---|---|
| North West | 108 | 11.8 | 86.9 | 3.8m/24% |
| North Central | 164 | 18.0 | 40.6 | 3.2m/27% |
| North East | 48 | 5.3 | 81.3 | 2.6m/27% |
| South West (Lagos) | 322(165) | 35.3 | 21.9 | 2.9m/14% |
| South-South | 102 | 11.2 | 40.1 | 5.3m/32% |
| South East (Anambra) | 172(79) | 18.5 | 34.2 | 2.8m/23% |
| Total | 916 | 100 | | |

**Source:** Association of Non-Bank Microfinance Institution Nigeria (2014); NBS 2018 &

Researchers Compilation.

The table 2.2 above also reflected the poverty and unemployment rates in each zones in the country. South West and South East zones with the highest number of MFBs have also lowest poverty and unemployment rates in the country with (21.9, 14%) and (34.2, 23%) respectively.

**d) Models of Microfinance:**

Microfinance adopts many models all over the globe to provide financial services to the people. According to the World Bank policy research paper (2005), the models are:

1. **Community Banking Model**: this model treats the whole community as one unit and establishes semi-formal or formal institutions through which microfinance is dispensed such institutions are usually formed by extensive help from Non-Governmental Organization (NGOs) and other organization, who train the community members in various financial activities of the community bank, closely related to the village banking model. In many cases, community banks are also part of a larger community development programme which uses finance as an inducement for action. Village banks are community-based credit and savings associations. Community banking enables people banks on themselves, provide a way to save and help people build and finance a small business.
2. **Co-operative Model:** The difference between the co-operative model association or community banking model is their ownership structure which does not include the poor. A co-operative is an association of persons belonging to the same local or professional community united voluntarily to meet their common economic, social and cultural needs and objectives.Some co-operatives include member-financing and savings activities in their mandate. Members also participate in all major decisions and democratically elect officers from among themselves.Monitoringof the administration of the co-operatives creditworthiness and loan security are a function of cooperative membership within which member savings and contribution are assumed to be a key factor. The cooperatives reach significantly more individuals and families in microfinance sector them other financial institutions. They have helped to improve access to finance for all. Financial cooperatives contribute to the social development and improve living conditions in communities by creating sustainable local prosperity, being the primary driver for

economic growth, making members more resilient to external shocks and bringing good dividends in terms of increases tending and assured recovery.

3. **Grameen Model:** This is one of the most modern and tailored versions of microfinance. Professor Muhammed Yunus founded it. It focuses on standardization and discipline and has been highly successful in its banking service to the poor as well as in its poverty alleviation programme. It extends banking facilities to the economically active poor who are excluded from the formal financial service. It is based on the assumptions that the poor have skills which remain untapped or underutilized it promotes credit as a human right and is targeted at the poor, particularly poor women, it is distinctive that it is not based on any collateral or legally enforced contract but on trust. The bank has successfully and succeeded in improving the livelihoods, reducing poverty and driving developing. It emerged as a business sector when it becomes evident that the poor can pay bank their loan on time and can same money provided they can access the financial services. The interesting features of the Grameen Model are that it provides service at the doorstep of poor based on the principle that bank should go to the people, it gives high priority to building social capital through formation of groups centres, develops leadership qualities and undertakes a process of discussion among borrowers.
4. **Intermediary Model**: There are restrictions mandated by microfinance, should be more flexible to beneficiaries without requiring collateral and without endangering financial sustainability. It should allow individual loans, drop saving requirement, have less rigid repayment schedules so that the recipients can invest in high projects with longer gestation period like agriculture and eliminate costly meetings with MFBs staff. These are the critical premises of microfinance: Harness of local information and social capital, the appointment of loan intermediaries as third parties within the local community with information concerning borrowers and with some ability to impose sanction on non-performers will help on a great way. Therefore, intermediary model of credit lending position is an institution between the lenders and borrowers. The intermediary plays the role of generating credit awareness and education among the borrowers. The advantage of this model is that it has features of encouraging borrower repayment incentives, for instance, eligibility of future loans is linked to the repayment of current loans, and the sizes grow progressively with successful repayment, safe borrowers would make a

positive contributions social surplus. The success of this model will crucially depend on the agent recommending good borrowers.

5. **Individuals Banking Model:** The traditional group-based tending model is discovered be too restrictive as a result many institutions have started to shift towards various alternative models including group-based loans with individual liabilities where repayment is still weekly during a group meeting or by simply shifting to a model that extends an individual liability loan.

**e) Problems of MFBS in Nigeria**

According to CBN (2003) cited in Babajide (2012),MFBs are faced with problems hindering its performance inline within the objectives for which they were established. Some of the factors are as explained below.

i. Lack of Public Confidence: Despite various reforms in the MFBs, most people are still not patronizing MFBs especially in rural areas. Many still prefer commercial banks to MFBs in assessing banking services.
ii. High Operating Cost: Inline with the directives of CBN, most MFBs are established in remote areas where there is no basic infrastructure like electricity, access road etc., again the MFBs in those areas serve micro savers. The burden of providing those basic infrastructure lies on the MFBs with high operating costs and harsh business environment. This puts them at a disadvantaged position with the deposit money banks.
iii. Corruption, Embezzlement and Fraud: Most liquidated MFBs and community banks faced with sharp practices which flourished in the institution.
iv. Lack of Skilled Human Capital/ Inadequate Experienced Staff: The institution is confronted with inexperienced and unskilled staff unlike the commercial banks, the poor remuneration of MFBs staff have also led to the recruitment of poorly, skilled manpower. Most staff in MFBs are retired, fired and rejected staff from the commercial bank. These situations have compromised the effectiveness of MFBs objectives.
v. Repayment Problem: There are high incidences of loan default among MFB borrowers. Most borrowers do not repay their loans; this affects the operation of the banks.

**f) Microfinance Banks Objectives**

According to CBN (2004), the objectives of MFBs as listed by MPSRF include:

i. Promote rural development through financial intermediation.

ii. Stimulation of productive activities in the rural sector.
iii. Develop banking habit in rural dwellers and ensuring the development of an integrated national financial system.
iv. Improve the economic status of small-scale producers in the rural and urban areas.
v. Provide diversified, dependable and timely financial services to the economically active poor.
vi. Create employment opportunities.
vii. Render payment services such as salaries, gratuities and pension on behalf of various tiers of government.
viii. Increase access to credit as well as productive assets and enhance opportunities for ownership through savings mobilizations.
ix. Increase the financial capacity of participating organization to provide microfinance services to the economically active poor.
x. Develop co-operation and collaboration between the different actors in the microfinance sector and promote an appropriate regulatory framework.
xi. Contribute to the development of knowledge, expertise and information in microfinance.
xii. Enhance the local capacity to provide technical assistance on a sustainable basis and ensure the continuity of the initiatives taken in the pilot programme.

**g) Microfinance strategies**

According to CBN (2004),microfinance strategies include:

i. License and regulate the establishment of microfinance banks.
ii. Promotes the establishment of NGO-based MFIs.
iii. Promote the participation of government in the microfinance industry by encouraging states and local government to devote at least one per cent of their annual budget to microcredit initiatives administered through MFBs.
iv. Promote the establishment of an institution that supports the development and growth of microfinance service providers and clients.
v. Strengthens the regulatory and supervisory framework for MFBs.
vi. Promotes sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions.
vii. Mobilizes domestic, savings and promote the banking culture among low-income groups.

viii. Strengthens the capital base of the existing MFBs.
ix. Broadens the scope of activities of microfinance institutions.
x. Collaborates with donor's to co-ordinate and monitor donor's assistance in microfinance in line with the provision of microfinance policy.
xi. Increase in the capital base of community banks (now Microfinance Banks).

**h) The targets for the MFBs**

According to CBN (2004) the targetsof the above policy measures are:

i. Cover the majority of the poor but economically active population by 2020, thereby creating millions of job and reducing poverty.
ii. Increase the share of microcredit as a percentage of total credit to the economy from 0.9% in 2005 to at least 20% in 2020: and the share of microcredit as a percentage of GDP from 0.2% in 2002 to at least 15% in 2020.
iii. Promote the participation of at least two-third of the state and local government in micro-credit financing in 2015.
iv. Eliminate gender disparity by improving women's access to financial services by 5% annually.
v. Increase the number of linkage among universal banks, development banks, specialized financial institutions and microfinance banks by 10% annually (CBN, 2005).

**i) Microfinance Policy Objectives**

According to CBN (2005), the specific objectives of microfinance policy over the years include:

i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system.
iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.

iv. Contribution to rural transformation.

v. Promote linkage programmes between universal/development banks, specialized institutions and MFBs (CBN, 2005).

**j) Overview and Trends of Microfinance Banks activities in Nigeria**

According to the World Bank Group (Finance and Markets) WBGFM (2017) MFBs were established within the regulatory framework for financial intermediation in Nigeria to increase access to financial services for underserved segments of the population. The intention is to provide a wide range of financial services to a much larger segment of the population than is serviced by the deposit money banks (DMBs) with ‘mainstream’ banking licenses. According to the CBN’s microfinance policy, supervisory and regulatory framework issued in 2005, the purpose is to “enhance the provision of diversified microfinance services on a long-term sustainable basis for the poor and low income groups”

The importance of promoting and regulating MFBs came into focus in 2004/2005 at the time of the tenfold increase in minimum capital for DMBs (from NGN 2.5 billion to NGN 25 billion), introduced as of end-December 2005. This minimum capital increase resulted both in the fall in the number of DMBs from 89 to 25 (initially) and in an increase in the ‘gap’ (as measured by asset size) between the large ‘megabanks’ and the small CBs, most of which were subsequently re-licensed as MFBs. The intention behind the CBN’s microfinance policy, regulatory, and supervisory framework was to enable smaller microfinance institutions (MFIs) to formalize and grow, and thereby contribute to lessening this gap (World Bank, 2017).

Emphasis was placed on promoting a set of smaller formal deposit taking intermediaries, called MFBs.The purpose was to service those clients that were not being serviced by the DMBs in an attempt to overcome the limited outreach of financial services being provided by other institutions, such as CBs, credit-only MFIs (usually NGOs), cooperative associations, unregistered societies, etc. The regulatory framework for MFBs aimed to fill this gap through a stratified licensing framework whereby MFBs enter as Unit institutions (minimum capital NGN20 million) and can then graduate to Statewide license (minimum capital NGN100 million) and eventually to a National license (minimum capital NGN2 billion). Conceptually, this approach raised issues of risk, as supervising a large number of small institutions implied stretching supervisory capacity, and regulatory arbitrage, due to the relatively low minimum capital requirement for MFBs compared to DMBs which required a minimum capital of NGN25 billion.

The aspirations of the CBN's 2005 strategy (as updated in 2011) have only marginally been achieved, despite the large number of licensed MFBs. Although the policy attracted a number of new entrants, most of the 984 MFBs as of 2016 are CBs that were re-licensed as MFBs. Of these institutions, 867 are Unit MFBs, 109 are State MFBs whose licenses allow them to operate across a particular state, while only 8 National MFBs have been licensed to operate nationwide (Table 2.3). The number of State MFBs has doubled since 2013 to 109 in 2016, while the number of National MFBs rose from 2 in 2013 to 8 in 2016.

**Table 2.3: Evolution in the number of licensed MFBs by tier, 2013–2016**

| **Tier of MFB** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|
| Total | 825 | 884 | 960 | **984** |
| National | 2 | 6 | 7 | 8 |
| State | 52 | 94 | 95 | 109 |
| Unit | 771 | 784 | 858 | 867 |

Source: CBN (2016).

Despite the large overall number of MFBs, the eight large National MFBs hold a market share of 44 percent of the sector's assets and 38 percent of deposits.The average assets and deposits of these few National MFBs far outweigh those of the State and Unit MFBs (Table 2.4) below. Of the credit provided by the MFBs, 52 percent was intermediated by the 8 National MFBs, 21 percent by the 109 State MFBs, while the 867 Unit MFBs only provided 28 percent. The inability of many small MFBs to harness economies of scale limits their business potential, while at the same time their oversight poses a disproportionate work burden on the supervisor.

**Table 2.4: Relative market share and average size as regards assets and deposits**

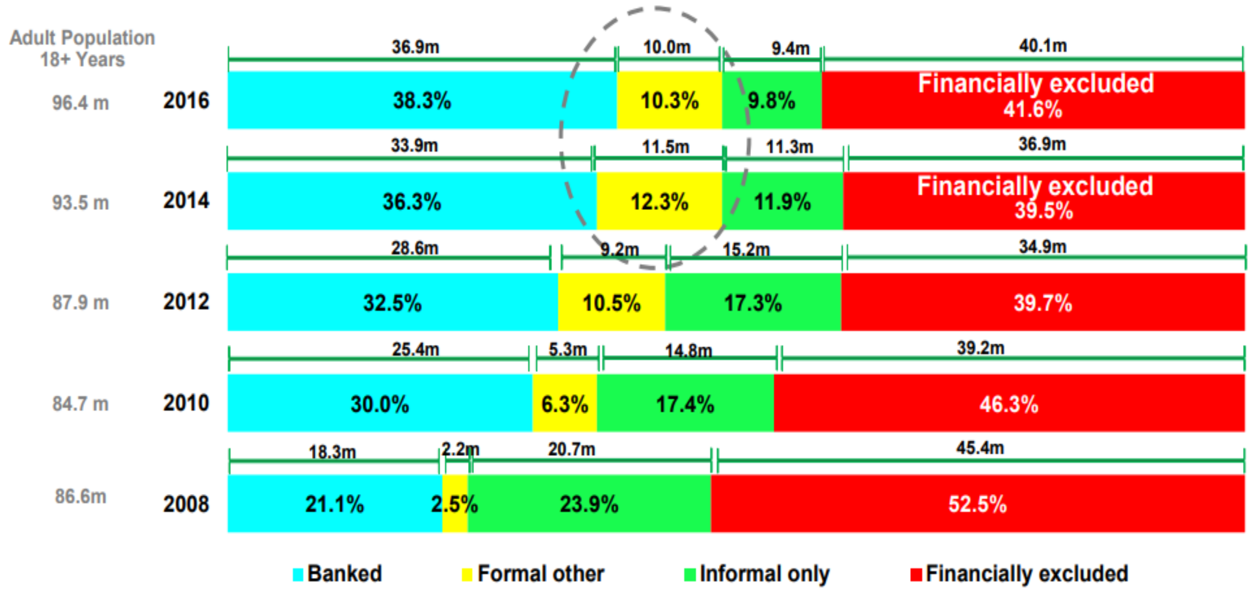
| **Data for end-2016** | **Number licensed** | **Assets (NGN, billions)** | **Market share (%)** | **Average assets per institution (NGN, billions)** | **Deposits (NGN, billions)** | **Market share (%)** | **Average deposits per institution (NGN, billions)** |
|---|---|---|---|---|---|---|---|
| Total MFBs | 984 | 331 | 100 | 0.34 | 152 | 100 | 0.15 |
| National | 8 | 142 | 43 | 17.75 | 57 | 38 | 7.12 |
| State | 109 | 80 | 24 | 0.73 | 38 | 25 | 0.35 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Unit | 867 | 109 | 33 | 0.13 | 57 | 37 | 0.06 |

Source: CBN (2016).

Despite their number, the services provided by MFBs have achieved little in terms of expanding credit provision. The total credit provided by MFBs at the end of 2016 (NGN 198 trillion) amounted to only 1.1 percent of credit provided by the DMBs (NGN 16,117 trillion) (CBN, 2016).The contribution of MFBs is more significant in terms of increasing the number of adults who have access to formal financial services, although their net contribution to formal financial inclusion has recently been declining. MFBs contribute significantly to the access of the population to formal financial services, and the number of depositors has been increasing at all levels. Nevertheless, recent surveys undertaken by Enhancing Financial Innovation and Access (EFInA) indicate that the net addition of formal financial institutions other than DMBs to adults over 18 years with formal accounts declined from 11.5 million in 2014 (equivalent to 12.3 percent of those financially-included) to only 10.0 million in 2016 (equivalent to 10.3 percent of those financially-included) (Figure 2.4). EFInA also reports that the proportion of those financially-included serviced by MFBs is only 38.3% percent – i.e. that MFBs only provide services to about a third of those included in the “formal other” category in Figure 2.4.

**Figure 2.4: Trends in financial access 2008–2016**




Source: EFInA, World Bank (2016).

**k) Specialized Microfinance Programs and Schemes in Nigeria**

**1. The Agricultural Credit Guarantee Scheme Fund (ACGSF)**

The ACGSF was established by Decree 20 in 1977 to provide a guarantee in respect of loans granted by any bank for agricultural purposes, with the aim of increasing the level of banks' credit to the agricultural sector. It was designed to address the low recovery rate on agricultural lending which discouraged the banks. Under the Scheme, a refund of 75% of any amount in default (principal and interest) net of any amount realized from the collateral held is made to the bank. The Scheme has a capital base of N3.0 billion subscribed by the Federal Government of Nigeria and the Central bank of Nigeria in the ratio of 60:40. The limit of lending under the Scheme is N1 million for individuals and N10 million for corporate organizations.

Lending under the Scheme has improved by introducing innovations such as the Self-Help Group Linkage (SHGL) program with banks, Trust Fund Model (TFM) and Interest Drawback Program (IDP). The SHG Linkage Banking seeks to link groups of farmers (informal and formal) to banks for savings mobilization and credit delivery as well as serving as collateral for the groups' loans while the IDP is a unique facility to encourage timely payment of loans. The IDP assists farmers under the ACGSF to reduce the burden of interest on loans. Farmers borrow from the lending bank at market determined rates and receive interest rebate of 40% if they repay their loans as at and when due.

2. **Community Banks**

The community banking system was designed as an agent of grass root development in rural communities. In this wise, community banks were supposed, to be involved in rural development issues through their functions within the communities which among others, included:

i. Financial support through microcredit, loans, overdrafts and investment in rural-based industries, individuals, civil services and farming enterprises,
ii. Employment of community members and involvement in capacity building within the rural communities that host them,
iii. Direct involvement in rural development programmes such as sponsoring and financing communal self- help projects within the rural environment,
iv. General investment, savings and transactions geared towards the development of rural communities as well as other functions to enhance increase per capita income,
v. Providing opportunities to the majority members of the immediate communities to own the most substantial portion of their share capital and,
vi. Help the communities in performing banking and non-banking functions that could promote grass-root development within and outside the communities.

The minimum share capital at inception was ₦250,000 which was later increased to ₦5 million to enhance sustainability and enable them to meet their conventional obligations. It should be noted that community banking as a tool for rural development had been practised in countries like Brazil, Argentina, Malaysia, Barbados and other countries in the West Indies.

**3. Small and Medium Enterprises Equity Investments Scheme**

The Small and Medium Enterprises Equity Investments Scheme (SMEEIS), which required deposit money banks to set 10% their net profit after tax, supports small and medium enterprises with funds as equity and loan facilities. The objective of the Scheme is to stimulate economic growth to develop local resources/technologies and generate employment through the facilitation of the flow of funds for the establishment of new SME projects, reactivation of moribund ventures, and expansion and modernization of on-going projects. The Scheme covers all activities except trading/merchandise and financing services. The total fund set aside by all the banks as at February 2018 was N42.02 billion while the total investment was N21.15 billion in 302 projects.

**4. Rural Finance Institution-Building Program (RUFIN)**

In an effort to facilitate farmers' access to credit through sustainable microfinance institutions in Nigeria, the International Fund for Agricultural Development (IFAD), the Federal Government of Nigeria (FGN), and the Central Bank of Nigeria (CBN) in 2014 jointly designed the Rural Finance Institution Building Program (RUFIN) with a loan of US $27.17 million from IFAD. RUFIN is a rural financial sub-sector development program that fits well within the policy and institutional framework for the overall development of the financial sector in Nigeria. Basically, RUFIN focuses on two areas, namely:

i. **Expansion of Rural Financial Institutions:** The expansion of rural financial institutions through the development of cooperatives and savings and credit groups to fully participate in the rural/finance sector. Over the seven years life of the program, 272 cooperative savings and credit unions will be developed to provide rural financial services to members. These institutions are free to transform into rural banks and finance banks under the microfinance policy framework.

ii. **Capacity Building of RFIs:** The stimulation of agriculture and development of rural economies for poverty alleviation and overall economic development through mobilization, capacity building of rural communities, to fully and actively participate in the process of development.

The benefits the rural poor would derive from RUFIN are the following:

a. Provision of a guarantee fund through direct contributions of US$1.5 million to the Microfinance Development Fund under the auspices of the CBN;

b. Improving financial management capabilities of Bank of Agriculture (BOA) formerly Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) through the adoption of suitable software, staff training and introduction of financial products suitable its clients' base;

c. Promoting rural savings which can be used as deposit guarantee for credit by cooperatives and savings and credit groups; and

d. Linking deposit money banks and other rural finance institutions facilitate the expansion of financial services to agriculture and SMEs in rural areas.

### 5. Bank of Agriculture

The Bank of Agriculture (BOA) formerly Nigerian Agricultural Cooperative & Rural Development Bank (NACRDB) was established in 1973. It was restructured, recapitalized and, merged with the Family Economic Advancement Program (FEAP) and People's Bank of Nigeria in 2001 in order to improve access to credit by farmers and rural dwellers. The bank has a network of 201 branches spread across all the thirty-six (36) states and the Federal Capital Territory, Abuja. The major areas of the bank's participation in agriculture and rural developments are: purveyance of affordable credit facilities to less privileged segments of the Nigerian society who cannot readily access the services of conventional banks; acceptance of deposit from customers and the payment of same with accrued interest as at and when due; provision of opportunities for self-employment in rural areas, thereby reducing rural-urban migrations; augmentation of government's efforts in the diversification of the productive base of the national economy; inculcation of banking habits at the grassroots of the Nigeria society; promotion of capacity building through the provision of relevant training and advisory services to rural entrepreneurs; fostering accelerated growth and development of agriculture and the rural economy encouraging the formation of cooperative societies at all levels and providing retail banking services to its clients.

In order to fulfil the above objectives, the BOA provides three types of credit facilities to its customers; these are micro, macro and on-lending. While microloans constitute 40% of its loans, the macro and on-lending which are for small and medium farmers constitute 60%. Since 2003 when it was restructured, it has kept the interest rate for microloans at 8% while the rate for other facilities has been increased to 18% which is comparable to the minimum market rate charged by deposit money banks in the country.

### j. Microfinance Approach and Poverty Reduction

Emerging microfinance revolution has made it possible for more inclusive access to institutional financial services which help the poor to improve their financial security, allow them to take advantage of business opportunities and facilitate the growth of their enterprises. What is essential to microfinance client is the access and cost of financial services. Many poor people are served by informal money lender who offers easy access to credit but at high cost, charging their client nominal monthly interest rates that ranges from about 10% to more than 100%

(Marguerite, 2001). Two major views emerged in the 1990s on how to fill the absurd gap in microfinance. They are; financial systems approach and poverty lending approach; both approaches aim at making financial services inclusive of the poor people. The poverty lending approach focuses on reducing poverty by leveraging on credit and other services made available by institutions that are sponsored by donor and government subsidies as well as other concessional funds. It emphasis microcredit to the poor rather than microfinance, thus many institutions using the poverty lending approach provide microcredit to the poor borrowers at a low cost but the institutions are not sustainable because their interest rates on loans are too low for full cost recovery.

Nonetheless, financial system approach focuses on commercial financial intermediation among poor borrowers and savers. It strongly recommends institution self-sufficiency. In the last few decades, fully sustainable commercial microfinance intermediaries have emerged in many developing countries which provide loans and voluntary savings services to the economically active poor with easy access at a reasonable cost. This approach is not apt for extremely poor people who are severely malnourished, ill, and without skills or employment opportunities because they will mismanage the funds.

Lack of access to finance is one of the major hindrances to the growth of small business in Nigeria (Owualah, 1999; Anyanwu, 2003; Lawson, 2007). This is because small business enterprises could hardly access formal financial institutions due to their inability to meet the stipulated conditions for loan consideration. Informal institutions tried to fill this vacuum through informal social networks, which later transformed to micro-financing (Portes, 1998). This form of micro-financing exists in developed as well as developing countries.

**k. Contemporary issues about MFBs and development**

The issues of reaching the poor and financial sustainability have been of great debate and controversy as they are the roles of microfinance.

**a. Reaching the Poor**

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centres while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFBs are to fill this void they must reach the rural poor.

However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield & Rosenberg, 2004). MFBs do not have the depth of outreach that is needed to meet the demands of the rural poor. Serving the rural poor in the developing world involves a major financial commitment, as it is expensive to run rural microfinance projects. Claessens (2005) states that high transaction costs, small volumes and the high costs of expanding outreach, make it unprofitable to serve the rural poor. It is for this reason that commercial banks are positioned in areas of high population density. However, if MFBs are to meet their social mission of serving the poor then financial services need to reach the rural poor. Another common criticism of the current operational procedures of MFBs, for instance, peer group self-selection and the drive for self-sustainability, is that they end up working with the moderately poor, and marginalising the poorest of the poor. Simanowitz (2001a) highlights a number of factors leading to the marginalisation of the poorest, which lessens the impact microfinance is having on poverty, self-exclusion, exclusion by other members, exclusion by MFBs staff and exclusion by design.

Markowski (2002) &Rogaly (1996) argue that MFIs in their project designs are failing to meet the needs of the very poor and destitute, who do have a demand for microfinance services, especially for savings. They are ignored, yet an objective of the Microcredit Summit is to reach 175 million poor people by 2015 but MFBs do not seem to be on target for meeting this objective.

Organisations such as BRAC with their programmes have shown that the poorest people can be targeted in a sustainable manner (Halder& Mosley, 2004). Johnson andRogaly (1997) state that some features of savings and credit schemes are able to meet the needs of the very poor. In relation to reaching those living in extreme poverty, Littlefield, MurduchandHashemi (2003) refer to a study of 62 MFBs that have reached full financial self-sufficiency with 18 MFBs that targeted what they defined as “the poorest clients” averaging better profitability than the others. This shows that when properly managed, programmes that target the very poor can become financially sustainable. The onus is therefore on other MFBs to develop products and services that will meet the needs of the very poorest if the social mission of microfinance is to be achieved.

MFBs therefore need to improve their depth and breath of outreach. They must design appropriate products based on the needs of the poorest and they must ensure such products are delivered in a cost-effective manner (Simanowitz& Walter, 2002).

**b. Financial sustainability versus serving the poor**

MFBs have more than just a social mission. Markowski (2002) cited in Wrenn (2005) states they have a dual mission: a social mission “to provide financial services to large numbers of low-income persons to improve their welfare”, and a commercial mission “to provide those financial services in a financially viable manner”. We have already seen that MFBs are not fulfilling their social mission to the extent needed to meet the demands of the poor for financial services. According to Simanowitzand Walter (2002) microfinance is a compromise between this social mission and commercial mission.

Markowski (2002) states that CGAP estimates that only about 5% of MFBs worldwide are financially sustainable while the IMF (2005) puts the figure at only 1%, so this is a huge issue for the microfinance sector. To achieve financial sustainability according to Havers (1996), MFBs must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest.

According to the IMF (2005) the MFBs that have become self-sustainable tend to be larger and more efficient. They also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFBs focusing on the poorest tend to remain dependent on donor funds. This is where the compromise exists. In order to achieve such sustainability, while at the same time reaching those most in need, microfinance programmes need to be managed in a rigorous and professional manner, subsidises must be removed, and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). There is no doubt that sustainability is also very important from clients’ perspectives, as they place a high value on continued access to credit, and if they feel that the MFBs will not survive it reduces their incentive to repay loans (Von Pischke, 1999). Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to sustainability (Havers, 1996). If these measures to achieve sustainability are put in place, while focusing on the needs of the poorest, then both the social and financial objectives can be achieved. In simple terms, the tradeoff between financial and social objectives can be balanced if the MFBs is well managed and understands the market and its clients (Morduch, 2004) and by combining both objectives, financial returns can potentially be increased in the long run (Pawlak&Matul, 2004). Imp-Act (2004a) states that when assessing the performance of an MFB, both its financial and social performance must be assessed, as both are needed for the successful running of an MFB. Simanowitz (2002) refers to this as an MFBs “double bottom line”. As stated by Morduch “achieving profitability and strong social performance is the ultimate promise of microfinance. It is not impossible but neither is it easy” and this is the challenge facing all MFBs.

Therefore, the current challenges facing MFBs are threefold; it concerns, not only, financial sustainability, but also outreach - extending the services to greater numbers of poor, and depth of outreach - trying to reach the poorest members of society.

### l. Microfinance: Global Experience

During 1995 and 1996 the 'Sustainable Banking with the Poor' Project (SBPP) compiled a worldwide inventory of MFIs. This list included nearly 1,000 institutions that provided microfinance services with at least 1,000 clients each and had operated for a minimum of three years. According to the survey results, by September 1995, about US$7 billion in outstanding loans had been provided to more than 13 million individuals and groups (CBN, 2005). Also, more than US$19 billion had been mobilized in 45 million active deposit accounts. The general conclusions of the inventory were:

- Commercial and savings banks were responsible for the largest share of the outstanding loan balance and deposit balance;
- Credit unions represented 11% of the total number of loans in the sample and 13% of the outstanding loan balance;
- NGOs made up more than half of the sample, but they accounted for only 9% of the total number of outstanding loans and 4% of the outstanding loan balance;
- Sources of funds to finance loan portfolios differed by type of institution;

- NGOs relied heavily on donor funding or concessional funds for the majority of their lending while banks, savings banks, and credit unions funded their loan portfolios with clients and member savings and commercial loans;
- NGOs offered the smallest loan sizes and relatively more social services than banks (both commercial and microfinance), savings banks, or Credit unions; and
- Credit unions and banks are leaders in serving large numbers of clients with small deposit accounts.

Why is microfinance growing globally? Microfinance is growing for several reasons:

1. The promise of reaching the poor: Microfinance activities can support income generation for enterprises operated by low-income households.
2. The promise of financial sustainability: Microfinance activities can help to build financially self-sufficient, subsidy-free, often locally-managed institutions.
3. The potential to build on traditional systems: Microfinance activities sometimes mimic traditional systems (such as ROSCA and *Ajo).* They provide the same services in similar ways, but with greater flexibility, at a more affordable price to microenterprises and on a more sustainable basis. This can make microfinance services very attractive to a large number of low-income clients.
4. The contribution of microfinance to strengthening expanding existing formal financial systems: Microfinance activities can strengthen existing formal financial institutions, such as savings and loan cooperatives.

Microfinancing experiences in different countries have shown that it complements with the formal banking sector in extending financial services to the targeted group of people and most countries microfinance industry is moving beyond its lending or saving mobilization objectives into multiple new dimensions including provision of housing, training, education, insurance, healthcare and community development. According to Anupam, Radolphe, and Mura (2004), most African countries follow an approach that relies on local communities to support the development microfinance institutions outside the formal banking sector. Therefore, the community-based groups played a central role in saving mobilization sector. The experiences of Benin, Guinea, Tanzania and Ghana show that MFBs have been successful in mobilizing credits, especially in areas the outreach of formal banking sector is limited.

Figure2.5:  Benin: Membership, Deposits and Loans of MFIs, in ($ million) 1997 – 2003

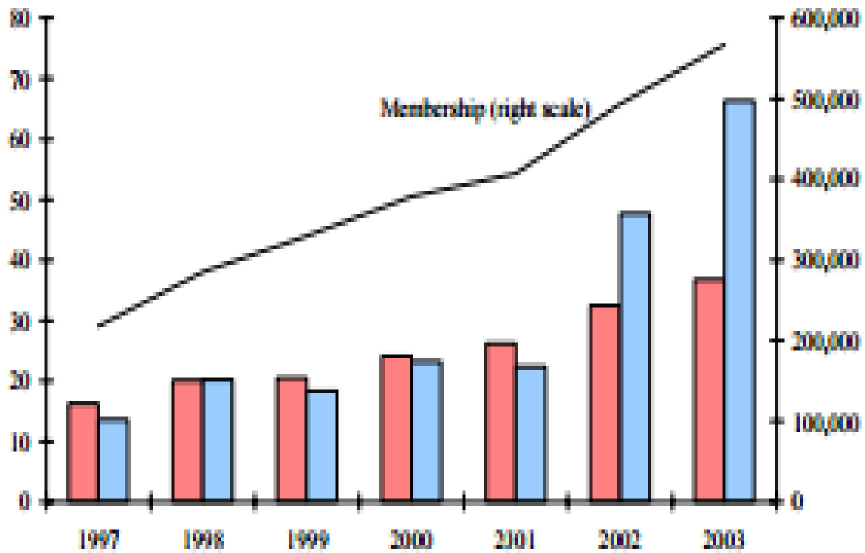
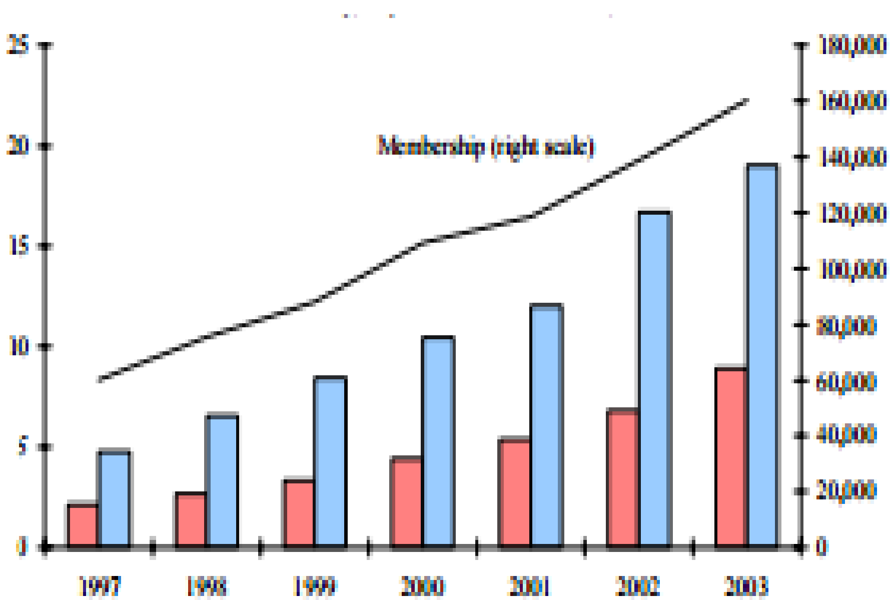



Figure 2.6: Guinea: Membership, Deposits and Loans of MFIs in ($ million)1997 – 2003




Source: IMF, 2004

Figure 2.5 and 2.6 above show the growth of membership, deposits and loans of MFBs in Benin and Guinea from 1997-2003.

In Benin and Guinea, the diagrams above indicate the rapid increase in MFBs membership and loan activities was supported by a continued increase in deposits. In Benin, the banking sector is very limited with a small number of bank branches (35) with a population of about seven million which concentrated mostly in the capital city, against this backdrop MFBs have been able to mobilize a significant amount of savings. In Guinea, because the formal banking sector as constrained by the limited number of deposit money banks and credit is concentrated on the large domestic companies, the MFBs are starting to fill in this gap. In Ghana, the microfinance sector has a strong savings orientation and a much greater role of licensed institutions relative to Non-Governmental Organizations (NGOs) than in many countries. The performance in the Rural Micro Finance (RMC) sector is reported to have improved in relevant years through the combination of (i) a more commercial approach (ii) a restructuring of the sector through capitalization and capacity building and strengthened regulation. In Tanzania, the banking system has a minimal penetration of only six per cent of the population.The remaining population depends on microfinancing. Experiences from countries globally have shown that MFBs complement the formal banking sector in extending financial and non-financial services to the economy. In China, Guinea, Benin, India for instance, microfinance industry is moving beyond its primary lending and saving mobilization objectives to multiple new dimensions including the provision of housing, trading, education, health care and community development (Conroy, 2003). Therefore, the importance of MFBs cannot be over-estimated because it stimulates saving culture, assist the economically active poor in accumulating productive assets, empowers women and is an essential strategy for poverty alleviation.

**m. Microfinancing and SMEs Development in some Economies**

In this section, the study reviews SMEs in some economies with emphasis on some emerging market economies that are examples of complete success story in the industrial revolution. Not only are these countries a benchmark for Nigeria's economic development drive, but have strong trade relations with Nigeria - a situation that has implication for the vision 20:2020 policy agenda.

In China,The Peoples' Bank of China established Rural Credit Cooperatives (RCC) which today are the primary source of microfinance to MSMEs in China which account for 60% of industrial output, 55% of its GDP and 75% of employment. The most remarkable aspect of china's small and medium scale enterprises is their rapid growth despite their inability to tap the official financial system. Two factors predispose even faster development in the near term. One is their suitability for the post-WTO accession economy. SMEs in China will continue to thrive as more responsive partners of foreign companies than large state firms. They will also have the opportunity to move into market segments once dominated by state firms. The other factor is that the policy environment for SMEs appears to be improving steadily. The SMEs promotion law will help. Especially if it leads to better access to bank lending, as would improvement, in and expansion of the credit guarantee system. An essential indicator will be whether the 16th party congress builds on the progress made at the previous two congresses in fostering an ideological framework conducive to SMEs (Conroy, 2015).

A SMEs promotion law has been instituted codifying the official definition of SMEs and clarifying what support government will be making available to them and in the 1990s the government created a network of credit guarantee agencies for SMEs which ensures loan repayment to banks and assisting them in relaxing their financial constraints.

In India, a greater percentage and the active poor in India have little access to formal financial services and depend on self-reliance and rural microfinancing for business funding. India has one of the most successful and well developed SMEs in the world, and headquarters of the World Association of Small and Medium Enterprises (WASME). Three critical phases characterised the development of the Small and Medium Scale enterprises in India. The first phase was the periods of 1948 to 1999: second phase the periods 2000 to 2006: and the third phase the periods 2006 till date.

The periods 1948 to 1999 provided the supportive measures that nurtured the sustenance and growth of SMEs in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the priority sector lending programme of commercial banks, excise exemption, reservation under the government purchase programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. SMEs-development institutes (earlier known as small industries service institute (SISI) were set up all over India to train youth in skills/entrepreneurship. Tool rooms were established with German and Danish assistance for providing technical services essential to SMEs.

In South Korea, the Korean government initially placed the burden of industrial development on the giant industries, but over time the government realized the importance of a dynamic, flexible and efficient SME sector that can provide specialized sub-contracting services to the large firms. Laws are passed to promote SMEs leading to a perceptible rise in their share of economic activity. The system of policy support was crucial to the reversal in their performance. The policy options covered the setting up of specialised banks to finance MSMEs and promotion of subcontracting by large-scale industries.

Taiwan has about 700 thousand MSMEs, accounting for 70% of employment, 55% of GDP and 62% of total manufactured export. The industrial structure is dominated by MSMEs and programs to promote subcontracting have been of special significance of the country's industrial development.

In 1982, the government set up the Medium and Small Business Administration to coordinate the efforts of several support agencies the provided financial, management, accounting, technological and marketing assistance to the MSMEs. The Taiwan Medium Business Bank, the Bank of Taiwan, the Small and Medium Business Credit Guarantee Fund, and Integrated Assistance Centre also provide targeted financial assistance to MSMEs.

In Taiwan, a large number of small and medium-sized enterprises specialize in a variety of skilled intensive and flexible operations aimed at world markets, but most are too small to conduct their research and development. The government helped them with a range of technological support measures.

Finally, Malaysiahas transformed from a commodity-based producing nation to a manufacturer of industrial products, geared towards exports. The small and medium industries account for more than 80% of a total manufacturing establishment. The small scale industries play a crucial role in the country's industrialization programmes through the strengthening of both forward and backward industrial linkages. The government of Malaysia enhanced the performance of small scale through policies and programmes that integrate domestic small scale industries into the mainstream of industrial development, through the provision of critical inputs that enable them to expand their market internationally.

## 2.2 Empirical Literature Reviewed

This section discusses the empirical literature on MFBs. The literature is replete with mixed findings.Several researchers have appraised the performance of MFBs. Some studies concentrated on MFBs and its impacts on MSMEs, poverty alleviation and women empowerment.While others looked at the constraints to the accessibility of MFBs services. For instance, Babagana (2010) examined the impact of microfinance banks (MFBs) on SMEs in Nigeria using Garu MFB in Bauchi, Bauchi State (one of the successful MFBs in the North-East sub-region) as a case study. Fifteen members of the staff who constitute the middle and management staff participated as respondents. A questionnaire was developed and distributed to them. The questionnaire was structured along a five-point Likert type scale. The variables examined were government support to MFB, grant of loans, loan accessibility, and conditions attached to the loans, monitoring of the loan, and mode of granting the loan, recovery of the loan and performance of the SME that enjoys the loan facility. The study revealed that MFBs have contributed to the promotion of small and medium enterprises growth in Garu, Bauchi State of Nigeria. He recommended that the government should further encourage the activities of MFBs by creating the enabling environment that supports SMEs growth.

Babajide (2011) investigated the effects of micro-financing on micro and small business in South-West, Nigeria. The study examined how micro (finance and non-financial, micro-financing activities) and features (group membership, pre-loan training, cross guaranteeship, loan size, technical and managerial training, among others) impact on the survival, growth, productivity in Southwest Nigeria. Four hundred and forty-three (443) micro-enterprises and one hundred and eighty (180) small enterprises which were randomly selected using multi-stage random sampling technique. Copies of the well-structured questionnaire were administered to entrepreneurs sampled. The variables investigated were small business growth proxy by annual sales growth rate over the five years, owners' age, owners' level of education, owners' marital status and gender, business age, form of business, business size, business location, business registration, size of technology/asset/equipment loan received, technology-related training received, asset loan duration, asset loan repayment and loan utilization. The findings reviewed that microfinance and micro-financing enhance survival of MSMEs but not sufficient for growth and expansion of such MSMEs. The study also indicated that microfinance has positive effects on the productivity and performance of local entrepreneurs. Among others, two key recommendations emerged from the study, namely, that collective and cooperative support should serve as a critical microfinance strategy in the form of solidarity groups at the local, regional and national level and that enterprises supported by MFBs should be linked up with larger financing window for expansion and growth funding.

Babajide (2012) investigated the effects of microfinance on micro and small business growth in Nigeria. The objectives of the study were to examine the effects of different loan administration practices (in terms of loan size and tenor) on small business growth and job creation. He employed panel data and multiple regression analysis to analyze a survey data of 502 randomly selected enterprises financed by microfinance banks in Nigeria. His key variables were entrepreneur age, entrepreneur education, marital status, entrepreneur gender, business age, business form, business size, business location, business registration, asset loan size received from microfinance bank, asset loan duration, asset loan repayment, loan interest and number of technology training received by entrepreneur or his staff in the last year. The results showed that access to microfinance did not enhance the growth of micro and small enterprises in Nigeria. However, other firm-level characteristics, like business size and business location, were found to have a positive effect on the growth of micro and small enterprises in Nigeria. He recommended a recapitalization of the Microfinance banks to enhance their capacity to support small business growth and expansion.

Akande (2012) investigated the impact of microcredit on the performance of women-owned micro-enterprises in Oyo State, Nigeria. Data were collected through the use of structured questionnaire and analyzed using tables, frequencies, percentages and charts while chi-square was used to test the hypotheses. The findings of the study revealed that 46.67% of the respondents were aware of the existence of microfinance banks, but only 16.67% patronized them. Also, the performance of those that patronized microfinance banks did not improve significantly due to interest rate charges and short repayment periods. The study recommends that financial institutions, especially microfinance banks, should be encouraged to increase their loanable funds and also relax the conditions of granting loans to women-owned micro-enterprises. The study also advocated for flexible repayment period and reduction in interest rate to encourage women entrepreneurs to borrow.

Ajagbe (2012) carried out a study to investigate the determinants of access to MFBs credit by small-scale enterprises in Nigeria. A sample of randomly selected three hundred and fifty respondents from the four geopolitical zones in Oyo State, Nigeria was used for the study. The data collected for the study were analyzed using descriptive and logistic regression model. The findings of the study showed that demand for credit by small-scale enterprises in Nigeria is strongly influenced by gender, marital status, family size, interest rate, level of education and capital assets. Based on the findings of the study, it was recommended that women should be encouraged to seek credit facilities from credit institutions.

Adewale (n.d) studied the determinants of financial exclusion among micro-entrepreneurs in Ilorin, Nigeria. The sole aim of the study was to investigate the factors that impede both access and use of the requisite financial resources. Data were collected from primary sources by administering questionnaire on 405 proprietors of microenterprises in Ilorin, Kwara State. According to the study, the factors that significantly account for financial exclusion in Nigeria can be grouped under both voluntary and involuntary financial exclusions. According to the study, the poor not only involuntarily exclude themselves or lack access to financial capital but also demonstrate voluntary financial exclusion.It implies that even when the poor have access, they may not avail themselves of the use of financial resources.

Gulani and Usman (2012) examined the challenges faced by small and medium scale enterprises (SMEs) in accessing MFBs services in Gombe state. The study adopted purposive and simple random sampling techniques to draw the sample from the population. Data were collected from 65 respondents, and the results were analyzed using chi-square. The findings of the study revealed that there is no significant difference in the level of awareness of MFIs by SMEs. The study recommends that government policy of initiating various intervention funds for entrepreneurial development should be encouraged and that SMEs should be sensitized on the activities of microfinance institutions.

Anusi (2012) examined the impact of microfinance bank on small and medium scale enterprises in Nigeria. A simple linear regression model was adopted; the variables used are loan and advances, profitability, shareholders funds and investment. The study found a significant positive impact of microfinance banks on small and medium scale enterprises.

Chima (2012) examined an evaluation of the impact of microfinance banks on the beneficiaries in Nigeria and employed descriptive statistics, paired sample test technique and double-difference estimator model. The variables used are maximum loan tenure, interest rate, minimum loan and credit. The study reveals that there is a significant relationship between microfinance credit change in income, output growth and general welfare.

Agbo, Onwumere and Ebe (2013) explored the determinants of access to the MFBs credit to agro-enterprises in Nasarawa State, Nigeria. Sixty agro-enterprises that have received credit from the CBN's scheme formed the sample size for the study. Data were collected through the use of structured questionnaire and oral interview, which were administered on the leadership of each of the groups. The data collected were analyzed using inferential statistics, and the findings showed that determinants of access to credit scheme are stringent conditions such as asset base, acquisition of an insurance cover, distance to the source of finance, years of experience, membership of a group and high cost of the facility (interest rate). It was recommended that the CBN should revisit some of the credit guidelines to ensure wider access to the scheme in the state.

Ugoanni, Onwubiko and Dike (2013) studied the problems of microcredit among microenterprises in Nigeria. The study was carried out in Aba, South-East Nigeria. The study design combined the use of questionnaire and face- to- face interview. Data were analyzed using tables, simple percentages and z-test statistics. According to the study, the problems of microcredit have significant effects on the performance of microenterprises in Nigeria. Ten recommendations were made, including banks to evolve a special microcredit risk appetite mechanism to take care of micro-enterprises. Also, banks should pay attention to the competence and integrity of the micro-entrepreneurs before giving out loans instead of relying on elegant paper projections by consultants. Poor access to finance is a big problem for average MSMEs, and there are several underlying factors on both the supply and demand sides. Asian Development Bank (ADB) (2013) illustrates the supply and demand sides' barriers to finance using four countries: China, India, Korea and Malaysia. The data were analysed using graphs and percentages. The findings identified some supply-side constraints to access to finance they include: The need for collaterals and guarantees as prerequisites for loans, complicated borrowing procedures, strict lending policies of financial institutions, high lending rates, lending policy, and short loan term. The demand-side barriers identified by the study include: Lack of knowledge of financial products, no demand on the part of the enterprise and insufficient management. The findings also showed that requirements of collateral and guarantor, complex documentation process and high lending rates are barriers to MSMEs growth. The study based on the findings recommends the need to strengthen financial literacy to generate positive financial accessibility.

Ahiabor (2013) assessed the impact of microfinance bank on small and medium enterprises in Ghana, using the Ledzzorkuku-Krowor Municipal Assembly as a case study. The simple random sampling technique was employed to select 30 microfinance institutions (MFIs) and 70 SMEs that formed the sample size of the study. Descriptive technique was adopted for analysis of the primary data collected. The results showed that a significant number of SMEs have benefited from microfinance loan in promoting their growth. The author, therefore, recommended that microfinance institutions should organize seminar and workshop to educate SMEs about their modus-operandi and should as well integrate professional advice into their services for SMEs.

Moruf (2013) investigated the extent to which SMEs have been able to assess microfinance banks' loan in Nigeria, using Osun State as a case study. The study evaluated the convenience of obtaining credit, adequacy of credit supplied relative to demand, timeliness of credit to operation, and cost of credit as a component of total overhead. Data were obtained from secondary and primary sources. Analysis of the data obtained through the descriptive technique revealed a positive and significant relationship between microcredit delivery service of selected microfinance banks and SMEs performance. The study observed that most of the microfinance banks were competing with the commercial banks in universal banking instead of servicing the poor and low-income group they were meant to serve.

Ocholah (2013) scrutinized the effect of microfinance on productivity, profitability and growth expansion of women-owned enterprises in Kisumu city of Kenya. Combinations of Cluster, random and purposive sampling methods were adopted in selecting a sample of 341 out of a population of 3000 registered women business. Questionnaire and interview were used to obtain the required data. The study used descriptive and inferential statistics to analyze the generated data. The results revealed that microfinance had a more significant effect on profitability, productivity and growth and expansion of women-owned enterprises.

Wang (2013) studied the impact of microfinance on the development of SMEs in cities located in China. The study used survey data collected from SMEs in Taizhou, Zhejiang, the largest home of SMEs in China to show that microfinance plays a crucial rule in the revenue and profit growth of SMEs. The study then revealed that the SMEs with higher financial risk and lower level of productivity are more likely the firms to seek microfinance. Furthermore, the study found that firm characteristics, including product innovation efforts and managerial and entrepreneurial attitudes, are the key factors that determine the likelihood of receiving micro-financing.

Mbithe (2013) focused on the effects of microfinance services on the growth of the SMEs. The purpose of his study was to find out the effects of microfinance services on the growth of SMEs in Machakos County. A quantitative descriptive design was used to study 8 types of business categories in the County. A structured questionnaire was used to collect data from 100 businesses. The study was on the dependent and independent relationship. Multiple regression analysis was applied to determine the relative importance services on the growth of SMEs. The regression analysis conducted established that microcredit and training contribute positively to sales growth while micro insurance affects growth negatively. The ANOVA analysis was intended to investigate whether the variation in the independent variables explains the observed variance in the outcome - the annual growth in turnover. It was found that there was a correlation between the predictor variables (microcredit, micro insurance and training provided by MFIs) and the response variable (annual growth in turnover) giving that P-value of 0.011 is less than 0.05.

Anane (2013) researched the dynamics of MFIs and their contribution to the development of SMEs in Ghana. The variables scrutinized in the study were types of SME's, available microfinance products and condition required by MFIs, SMEs satisfaction with microfinance products and services, economic effects of microfinance service to SME's (the economic effects are absorbing shocks and exposure, increased returns, increased income and increased savings). Using a case study approach, data were sourced to explore the role and impact of MFIs on 93 SMEs in rural Ghana. Although their study revealed that there were challenges of untimely disbursement and repayment of loans, they found that recipients of microfinance products and services are better off in terms of enhancing the activities of their SMEs, improving outputs and ensuring prudent financial management than the non-recipients. They recommended timely disbursement of credit, flexible terms of credit repayment and awareness programmes to ensure the sustainability of SMEs.

Olowe (2013) investigated the impact of microfinance on SMEs growth in Nigeria. The population of the study consists of the entire SMEs in Oyo State. However, the study was restricted to Ibadan metropolis. Simple random sampling technique was used to select a total of 82 SME operators that constituted the sample size. The main variables of the study were small business growth, loan disbursement, interest rate, loan duration, loan repayment and collateral security. Pearson correlation coefficient and multiple regression analysis were used to analyze the obtained data. The results from the analysis of data showed the following; that financial services obtained from MFBs have positive and significant impact on MSEs growth in Nigeria, that duration of loan has positive impact on SMEs growth but not statistically significant and that high-interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria. They recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers' loan and also spread the repayment over a long period.

Ngutor, Falaye, Elijah, Agnes, Evans, Olayide and Adama (2013) investigated the analysis and computation of the performance of microfinance banks in Nigeria and employed chi-square test. The variables used are total portfolio growth, link relative portfolio growth, portfolio by category, total credit performance and food security and employment generation. The finding reveals that microfinance banks are the primary financial servers to the majority of Nigerians who are low-income earners that are hardly served by the commercial banks.

Alade, Amusa and Adekunle (2013) examined microfinance bank as a catalyst for entrepreneurship development in Nigeria and employed ordinary least square (OLS) techniques. The variables used are profitability, number of employees, capital adequacy, asset quality, earnings, and liquidity. The study reveals that there is no significant impact of microfinance bank operations on entrepreneurial development.

Enhancing Financial Innovation and Access (EFINA) (2014) survey on access to financial services in Nigeria identified that out of 2.6 million adults that use microfinance bank, 53.9% are males while 46.1% are females. The study used descriptive statistics in analyzing the data. According to this survey, constraints to financial accessibility are mainly demand-driven, and they include irregular income, distance from a microfinance bank and lack of trust by micro, and medium enterprises. The study recommends that financial service providers should specifically design low-cost financial products that will help to improve the financial capabilities of the financially excluded in the country.

Gichuki, Njeru and Tiramba (2014) studied challenges facing micro and small enterprises in accessing credit facilities from microfinance institutions in KangemiFIarambi market in Nairobi Kenya. Stratified sampling technique was used in selecting 241 MSEs out of a population of 656 MSEs located in the market. Data collected were analyzed using descriptive statistics. The study identified some key challenges hindering MSEs from accessing credit facilities, and they include High cost of repayment, strict collateral requirements, the unwillingness of the people to act as guarantors, high credit processing fees and the short repayment period. Based on the findings, the study recommends that financial institutions should set more flexible, affordable and attractive requirements for financial any enterprise.

Lloyd and Igbani (2014) studied microfinance policy, credit accessibility and financial inclusion by micro, small and medium enterprises in Nigeria. The study tried to examine why the economically active micro-entrepreneurs are excluded from financial services. The findings of the study reveal that only 35% of the economically active poor have access to financial services, while 65% are denied access to financial services. In other words, low-income household and economically active poor are being denied access to financial services in Nigeria. Moreover, an uneven distribution of microfinance institutions across the country accounts for low financial accessibility by micro-entrepreneurs. The study went further to make some recommendations which include that microfinance institution should not demand tangible assets as collateral because it accounts for the poor financial inclusion and accessibility by micro-entrepreneurs.

Ngugi&Kerongo (2014) assessed the effects of Microfinancing on the growth of small and micro enterprises in Mombasa County. Their study adopted a stratified and systematic random sampling method in choosing a sample size of 157 SMEs. A semi-structured questionnaire was designed to facilitate the acquisition of data. Sales, income and competitiveness were used as the independent variable while the growth of SMEs was the dependent variable. Descriptive statistics were used to analyze data. Results indicated that microfinance has positive effects on the growth of SMEs. Majority of the SMEs owners indicated that microfinance had enabled them to expand businesses, build their business assets.

Awojobi (2014) examines the impact of microcredits on women empowerment in Lagos, Nigeria. Using quantitative method from Lagos, Nigeria, the study shows that women who take part in MFBs/MFIs projects have been empowered economically and socially and the result shows a significant improvement in the household well-being, income and employment and women empowerment as a result of participating in microfinance programmes.

Ojelabi (2015) examined the influence of MFBs on SMEs growth in Nigeria. The population of the study comprised small business enterprises (SBEs) in Osun State. The study was limited to Osogbo and Olorunda local government. The purposive method was used to select 150 SBEs which largely included owners of supermarkets, electronic shops, business centre/cyber cafes, restaurants, barbing and hairdressing salons, block industry, bakery and pure water companies in the metropolis. A self-designed questionnaire was used to collect data from respondents. The variables were asset loan, loan duration, repayment, and financial advisory service, business location, business size and business registration, age of entrepreneur, entrepreneur education level and experience of the entrepreneur. Correlation and multiple regression analysis were used to analyze the data collected. The study revealed that MFBs financing services have a significant influence on SBEs' growth and expansion capacity. The study made the following recommendations; that MFBs should increase the size and the duration of their clients' asset loans and that the repayment should be spread over a more extended period so as to enable the entrepreneur to have greater use of the loan over a more extended period for the acquisition of capital assets and that Deposit Money Banks (DMBs) should complement MFBs in financing SBEs.

Waari and Nwangi (2015) studied factors influencing access to finance by MSMEs in Meru, Country, Kenya. The study focused on the demand side in establishing the factors influencing MSMEs accessibility to finance. A descriptive survey was adopted for this study, and a total of 86 MSMEs were sampled out of a population 22,451 MSMEs in Meru, Kenya. Data were analyzed using multiple regressions, while the quantitative data were presented using percentages. The findings of the study revealed that there are factors that influence access to finance by MSMEs and the factors are information asymmetry, business risks and transactional costs.

Meanwhile, the transactional cost was seen as the most significant predictor of access to finance. The study recommends the need to keep a proper record as it will help MSMEs in business risk management. Gadi, Emesuanwu and Shammah (2015) examined the impact of corporate governance on the financial performance of microfinance banks in North Central Nigeria and employed ordinary least squares (OLS). The variables used are the financial performance, board composition and composition of board committees. The study reveals that there is no significant relationship between board composition and banks financial performance while Pearson shows that there is a significant relationship between financial performance, board composition and composition of board committees.

Emmanuel and Ikenna (2015) examined the contribution of microfinance banks to the development of small and medium scale enterprises and employed ordinary least square. The variables used are annual sales growth, loan size from microfinance bank, loan duration, loan repayment, loan utilization, gross profit, advisory services, pre-loan training, and group member. The study reveals that microfinance banks contribution is necessary for small and medium scale enterprises development.

Okafor (2016) examined the Impact of MFBs activities on employment generation in Nigeria for the period 1993-2012, data was collected from CBN and NBS and analysed by the multiple regression models. The result shows that MFBs activities had a significant positive impact on employment generation in Nigeria.

Ayodele and Kayode (2016) examine the impact of Microfinance on economic growth in Nigeria with emphasis on the primary role of MFBs in poverty alleviation and MSMEs. Financing Assets, deposit liabilities, loans and advances were used as proxies/variables for the activities of MFBs. Using secondary data and applying OLS of multiple regressions, the study revealed that assets base and deposit liabilities have an insignificant impact on economic growth in Nigeria, however, the overall significance of the model shows that the activities of the MFBs cannot be overemphasized in the pursuance of sustained economic growth in Nigeria.

**Table 2.5: Summary of Empirical Literature Reviewed**

| **Author(s)/Year** | **Location of the Study** | **Topic** | **Variables of the Model** | **Methods of Analysis** | **Findings** | **Knowledge Gap Observed** |
|---|---|---|---|---|---|---|
| Anupam, Rodolphe&Yulek (2018) | Portharcourt Nigeria | Microfinance banking and economic growth in Nigeria | MFBs credits, deposits, Assets, Red GDP. | OLS | MFBs credit growth and investment were significant | Only one policy objective was considered. |
| Agu, Andiobu&Ezinwa (2016) | Enugu | Microfinance Institutions, A vehicle for empowerment of rural women and urban poor in Nigeria | Loan and advances, savings, education | ECM | The study revealed that organization of rural women and urban poor into membership based organization could facilitate access to microcredits | This study was restricted to women empowerment. |
| Okafor (2016) | Enugu | The Impact of Microfinance Banks activities on employment generation in Nigeria | Employment rate, interest rate, liquid liability, federal government, capital expenditure, Ratio of total deposit to total credit. | OLS | The result shows that MFBs activities had significant positive impact on employment generation in Nigeria | This study wasrestricted to employment generation. |
| Ayodele&Kayode (2016) | Nigeria | The impact of microfinance on economic growth in Nigeria | Assets, deposit liabilities, loans and advances | OLS | MFBs have positively contributed to economic growths. | This study was restricted to economic growth. |

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| Taiwo, Agwu, Aregan&Ikpefon (2016) | South west, Nigeria | Microfinance and poverty alleviation in southwest Nigeria: Empirical evidence | Volume of loans (low, medium, high) interest rate, age of the firm, location, nature | Chi-square | The study found out that most MFBs in Nigeria are too young to have remarkable long term impact. | This study was restricted to poverty alleviation. |
| Ojelabi, Jooda&Adeniran (2015) | Osun State, Nigeria | Influence of Microfinance bank on Small and Medium Scale Enterprises Growth in Osun State | Asset Loan, Loan duration, Repayment, and Financial Advisory Service, Business location, Business size and Business registration, Age of entrepreneur, Entrepreneur education level and experience of Entrepreneur | OLS | MFBs financing services have significant influence on SMEs growth and expansion capacity of micro and small enterprise in Osun State | This study was restricted to SMEs only. |
| Waari and Nwangi, (2015) | Meru Country, Kenya | Factors influencing access to finance by MSMEs | Informationasymmetry,business risks andtransactionalcosts. | Descriptive survey | Transactional cost was seen as the most significant predictor of access to finance. | This study considered only access to credit. |
| Gadi, Emesuanwu and Shammah (2015) | Nigeria | Impact of corporate governance on financial performance of microfinance banks | Financial performance, board composition and composition of board committees | Ordinary Least Square | The study reveals that there is no significant relationship between board composition and banks financial performance | This study was only on relationship between board composition and MFBs financial performance. |

## Table 2.5: Summary of Empirical Literature Reviewed Continued

| **Author(s)/Year** | **Location of the Study** | **Topic** | **Variables of the Model** | **Methods of Analysis** | **Findings** | **Knowledge Gap Observed** |
|---|---|---|---|---|---|---|
| Emmanue1 and Ikenna (2015) | Nigeria | Contribution of microfinance banks to the development of small and medium scale enterprises | Annual sales growth, loan size from microfinance bank, loan duration, loan repayment, loan utilization, gross profit, advisory services, pre-loan training, group membership, cross guaranteeship and network meetings | Ordinary Least Square | Microfinance banks contribution is necessary for small and medium scale enterprises development | This study concentrated on MSMEs developments. |
| Ngugi&Kerongo (2014) | Mombas a County Kenya | Effects of Micro- Financing on Growth of Small and Micro Enterprises in Mombasa County | Sales, income and competitiveness | VAR | Microfinance has positive effects on growth of SMEs | This study focused on MSMEs developments. |
| Olusanya, Sufian&Temi (2014) | Lagos State, Nigeria | Can Microfinancing Improve Small and Medium Scale Enterprises in Lagos State | Source of borrowing, interest rate, productive capital for small business, MFI effect on the economy, credit facilities to the entrepreneurs | Spearman's rank correlation coefficient | MFB bank has a positive effect on the growth of small enterprises | This study concentrated on MSMEs developments. |
| EFInA, (2014) | Nigeria | Access to financial services in Nigeria | Irregular income, unemployment, distance from microfinance bank, lack of trust. | Descriptive survey | Credit extension to MSMEs sector is extremely low with less than 10% of MSME sector receiving loan from a deposit money bank (DMB) | This study was restricted to access to finance. |

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|---|---|---|---|---|---|---|
| Gichuki, Njeru and Tiramba (2014). | Kangem iHaram bi Market in Nairobi Kenya. | Challenges facing micro and small enterprises in access credit facilities. | High cost of repayment, strict collateral requirements, and unwillingness of the people to act as guarantors, high credit processing fees and short repayment period. | Descriptive survey | The study identified the key challenges hindering MSEs from accessing credit facilities to include high cost of credit repayment, strict collateral requirements and unwillingness of the people to act as guarantors. | This study concentrated on MSMEs access to credits. |
| Lloyd &Igbani, (2014) | Nigeria | National Microfinance policy and credit accessibility by Micro, small and medium entrepreneurs in Nigeria | High interest rate, short tenure ship, collateral in form of tangible asset and uneven distribution of microfinance banks | Descriptive survey | Findings reveal that only 35% of the economically active poor have access to financial services while the remaining 65% are denied access to financial inclusion. | This study concentrated on MSMEs access to credit. |
| Musa, Caroline and Adebayo (2014) | Nigeria | The performance and productivity charges of microfinance banks | Microfinance bank's operating expenses, microfinance banks' salaries and wages. Microfinance banks' gross loan portfolio and microfinance banks' total savings | Ordinary Least Squares | Microfinance banks' experienced fluctuating performances in their productivity changes with pure technical efficiency improvement in 2007 and 2009. | Emphasizes on supply side of MFBs |
| Jenyo and Adebayo (2014) | Nigeria | The performance appraisal of microfinance banks | Current asset, operating ratio, and new capital rate and desk equity | Descriptive survey | There is a weak liquidity position of microfinance banks | Considered only supply side of MFB services. |
| Awojobi (2014) | Nigeria | Empowering women through microfinance; Evidence from Nigeria. | Education, age, income, assets | Mean, mode and median | The study shows a significant improvement in household well-being, income, employment and women empowerment | This study focused on women empowerment and employment. |
| Abdulazee Z. (2014) | Nigeria | Influence of microfinance bank on the performance of small scale businesses at the community | Business sustenance, source of capital, profit generation, business expansion, savings/investments, wealth creation | Descriptive survey | There is a positive influence of microfinance banks on small scale businesses | This study concentrated on MSMEs performance. |

**Table 2.5: Summary of Empirical Literature Reviewed Continued**

| Author(s)/Year | Location of the Study | Topic | Variables of the Model | Methods of Analysis | Findings | Knowledge Gap Observed |
|---|---|---|---|---|---|---|
| Chary, Savvasi& Rani (2014) | India | Overall performance evaluation of selected microfinance institutions an empirical analysis | Yield on cross portfolio | One-way Anova | MFIs were relatively different in achieving high yielding on gross portfolio | Considered only the supply of MFIs. |
| Adewale (n.d) | Ilorin Nigeria | To investigate the various factors that impedes both the access and use of financial resources for entrepreneurial development | Affordability, eligibility, financial complacency, religious belief and cultural capital | Descriptive survey | Inability of financial repressed to provide requisite documentation and collateral assets impede their access to requisite financial resources. | The study focused on constraints to financial resources. |
| Mbithe (2013) | Machakos County, Kenya | The effects of microfinance services on the growth of Small and Medium Enterprises in Machakos County | Growth in sales, microcredit, micro insurance and training | ANOVA | Two of the independent variables have a positive correlation with the dependent variable | This study was restricted to MSMEs only. |

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|---|---|---|---|---|---|---|
| Wang (2013) | Taizhou China | The Impact of Microfinance on the Development of Small and Medium Enterprises | Firms, the age of the firm proxied by the number of years the plant has been in commercial production, SMEs productivity, sources of fund, firm's product innovation efforts | OLS | MFB plays a crucial rule in the revenue and profit growth of SMEs | This study was restricted to MSMEs only. |
| Anane, Cobbinah& Manu (2013) | Rural Ghana | Sustainability of small and medium scale enterprises in Rural Ghana | Types of SME's, available microfinance products and condition required by MFIS, SME's satisfaction with microfinance products and services, economic effects of microfinance service to SME's | Descriptive survey | Recipients of microfinance products and services are better off in terms of enhancing the activities of their SMEs | One policy objective of sustainability of MSME in Ghana was considered. |
| Olowe, Moradeyo&Babal ol A (2013) | Oyo State, Nigeria | Empirical Study of the Impact of Microfinance Bank of Small and Medium Growth in Nigeria | Small business growth, Loan disbursement, Interest rate, Loan duration, Loan repayment and Collateral security | VAR | Financial services obtained from MFBs have positive significant impact on MSEs growth in Nigeria | This study focused on MSMEs growth. |
| Ugoanni, Onwubiko& Dike (2013) | Aba, Nigeria | Problems of micro credit among micro enterprises | Loan term, Collateral requirement, complex documentation, lending environment and others | Descriptive survey | The problems of microcredit have significant effects on the performance of microenterprises in Nigeria | This study focused on constraints to microfinance. |
| AgboOnwumere &Ebe (2013) | Nasarawa State, Nigeria | To assess the determinants of access to the Central Bank's commercial agriculture credit scheme by agro-enterprises | Stringent conditions such as asset base, acquisition of an insurance cover, distance to source of finance, years of experience, membership of a group and high cost of the facility (interest rate). | Descriptive survey | Distance to source of credit, type of agroenterprise and educational attainment of the owner contribute significantly to access to credit in Nigeria. | This study focused on constraints to microfinance. |
| Asian Development Bank (ADB), (2013) | Four Countries:- China, India, Korea and Malaysia | Enhancing financial accessibility for SMEs | Supply-Side:- Requiring collaterals and guarantees complicated borrowing procedures and strict lending policies. Demand-Side:- Lack of knowledge of financial products, no demand on SMEs and insufficient management | Descriptive survey | The findings suggest that collateral and guarantee requirements, together with complex documentation process and high lending rates being imposed on SME borrowers are barrier to raising growth capital. | This study considered only the supply side of MFBs only. |

## Table 2.5: Summary of Empirical Literature Reviewed Continued

| **Author(s)/Year** | **Location of the Study** | **Topic** | **Variables of the Model** | **Methods of Analysis** | **Findings** | **Knowledge Gap Observed** |
|---|---|---|---|---|---|---|
| Ngutor, Falaye, Elijah, Agnes, Evans, Olayide And Adama (2013) | Nigeria | The analysis and computation of the performance of microfinance banks | Total portfolio growth, link relative portfolio growth, portfolio by category, total credit performance and food security and employment generation | Chi-square test | Microfinance banks are the major financial servers to the majority of Nigerians who are low income earners that are hardly served by the commercial banks. | No clear evidence of variable4 used as instrument and validity not considered. |
| Alade, Amusa and Adekunle (2013) | Nigeria | Micro finance bank as a catalyst for entrepreneurship development | Profitability, number of employees, capital adequacy, asset quality, earnings, and liquidity | Ordinary Least Squares | There is no significant impact of microfinance bank operations on entrepreneurial development | Small period and sample and one policy objective considered. |

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|---|---|---|---|---|---|---|
| Abraham &Balogun (2013) | Nigeria | Performance of microfinance institutions in Nigerian appraisal of self-reporting institutions to mix market | Loans, number of borrowers, number of depositors | Descriptive survey | Poor state of reporting in the financial development of the nation as well as the weakness of the apex bark | Still considered the supply side of MFI. |
| Akande, (2012) | Oyo State, Nigeria | Investigate the impact of microcredit on the performance of women owned micro enterprises | Interest rate changes and short repayment periods | Descriptive survey and Chi square | The findings of the study revealed that 46.67% of the respondents were aware of the existence of microfinance banks but only 16.67% patronized them. | Small sample considered only an object of MFBs. |
| Babjide (2012) | Nigeria | Effects of Microfinance on Micro and Small Enterprises(MSEs ) Growth in Nigeria | Entrepreneur Age, Entrepreneur Education, Marital Status, Entrepreneur Gender, Business Age, Business form, Business Size, Business location, Business registration, Asset Loan Size received from Microfinance Bank, Asset Loan Duration, Asset Loan Repayment, Loan Interest, Number of Technology Training received by entrepreneur or his staff in the last year | OLS | Access to microfinance does not enhance growth of micro and small enterprises in Nigeria. | This study was restricted to MSMEs. |
| Gulani& Usman, (2012) | Gombe State, Nigeria | The challenges faced by small and medium scale enterprises in financing new or existing business | Business age, loans, savings business age | Descriptive and Chi square Analysis. | There is no significant difference in the difficulties faced by SMEs when accessing finance from the various sources but there is a significant difference in the level of awareness of SMEs. | This study was restricted to MSMEs. |
| Aiagbe (2012) | Nigeria | To investigate determinants of access to small- scale enterprises to credit | Gender, marital status, family size, interest rate, level of education and capital assets | OLS | Demand for credit by small-scale enterprises in Nigeria is strongly influenced by gender, marital status, family size, interest rate, level of education and capital assets | This study considered only access to microfinance. |

## Table 2.5: Summary of Empirical Literature Reviewed Continued

| **Author(s)/Year** | **Location of the Study** | **Topic** | **Variables of the Model** | **Methods of Analysis** | **Findings** | **Knowledge Gap Observed** |
|---|---|---|---|---|---|---|
| Odebiyi& Olaoye (2012) | Ogun State, Nigeria | Small and Medium Scale Aquaculture Enterprises (SMES) Development in Ogun State, Nigeria: The Role of Microfinance | Age, sex, marital status, fanner’s experience, educational level, Household size, interest rate, Timely release of loan, | Descriptive survey | Positive impact of microfinance bank loan on small and medium scale aquaculture | This study focused on MSMEs. |
| Anusi (2012) | Nigeria | Impact of microfinance bank on small and medium scale enterprises | Loan and advances, profitability, shareholders funds and investment | VAR | There is a positive significant impact of microfinance banks on small and medium scale enterprises | This study focused on MSMEs finances. |

| | | | | | | |
|---|---|---|---|---|---|---|
| Chima (2012) | Nigeria | An evaluation of the impact of microfinance banks on the beneficiaries | Maximum loan tenure, interest rate, minimum loan and credit | Descriptive survey | There is a significance between microfinance , credit change in income, output growth' and general welfare | This study was only on loan beneficiaries. |
| Idowu (2012) | Oyo State, Nigeria | Impact of MFBs on poverty alleviation in selected L.G.As of Oyo State | Loan size, assets acquisition, profit after loan | ECM | The study revealed that poverty index of the respondents reduced from 0.1668 to 0.1551 after collection of loans implied that MFBs have positively impacted to their living standard and women have also benefited from MFBs | This study is within ten years of MFBs in Nigeria |
| Babajide (2011) | South West, Nigeria | Effects of Microfinancing on Micro and Small Enterprises | Owners' age, owners' level of education, owners' marital status and gender, business age, form of business, business size, business location, business registration, size of technology/asset/equipment loan received, technology related training received, asset loan duration, Asset loan repayment and loan utilization. | VAR | Micro finance and micro-financing enhance survival of Micro and Small Enterprises (MSEs) but not sufficient for growth and expansion of such Micro and Small Enterprises. | This study focused only on MSMEs. |
| Akinlode, Jegede&Kehinde (2011) | Nigeria | Impact of microfinance on poverty alleviation in Nigeria. An empirical investigation | Microfinance loans | Descriptive survey | Findings revealed that there's difference between those people that used MFBs and those who do not use them. | This study focused on poverty alleviation. |
| Babagana (2010) | Bauchi State, Nigeria | Impact assessment of the role of Micro Finance Banks in promoting small and medium Enterprises growth in Nigeria. | Government support to MFB, grant of loan, loan accessibility, conditions attached to the loans, monitoring of the loan, mode of granting the loan, recovery of the loan and performance of the SME that enjoys the loan facility. | OLS | MFBs have contributed to the promotion of small and medium enterprises growth in Nigeria. | Small sample of only 15 staff considered. |

**Source: Author's Compilation, 2018**

## 2.3 Summary of Literature Reviewed

Microfinance banks are institutions established and licensed by the CBN for the provision of financial and non-financial services to the targeted group CBN (2005). Microfinance banks are aimed at empowering the poor, through the provision of needed financial services. This empowerment is expected to enable them engage or expand their scope of economic activities and employment. The global importance of MFBs in poverty reduction has created a compelling need to design strategies to provide financial services to the vulnerable, poor and low-income groups on a sustainable basis.

Microfinance is a category of financial services targeted at individuals and small businesses who lack access to the conventional banking and related services (CBN, 2005; Conroy, 2003). These services include credit. Credit/loan is considered essential input to increase economic performance and productivity. Experiences from countries have shown that MFBs complement the formal banking sector in extending financial and non-financial services to the economy. In

China, Guinea, Benin, India for instance, microfinance industry is moving beyond its primary lending and saving mobilization objectives to multiple new dimensions including the provision of housing, trading, education, health care and community development (Conroy, 2003). Therefore, the importance of MFBs cannot be over-estimated because it stimulates saving culture, assist the economically active poor in accumulating productive assets, empowers women and is an essential strategy for poverty alleviation.

Some basic theories reviewed include microfinance theory of change which explains the benefits of assessing MFBs financial services. According to Dunford (2012), assess to appropriate services like credit/loans, savings and the use will in short run increase business turnover and employment, education for children and in long run reduce poverty alleviation and raise standard of living. However, the effect will be felt by someone who follows the three steps of assessment, investment and repayment. Financial intermediation theory is based on transaction and asymmetric information. Supply leading and demand following hypotheses try to establish a nexus between economic development and finance as propounded by Schumpeters in 1911. Microfinance theory based on joint liability while life cycle theory of firm finance and investment outlines various options left for firms on path to expansion. Also empirical evidences/literatures revealed that some studies were carried out on the appraisal, impact and performance of MFBs. For example, Anupam et al., (2018); Ayodele et al., (2016); studied the MFBs performance on economic growth. Okafor (2016) examined the impact of MFBs on employment generation while Awojuobi (2014) examined microfinancing and women empowerment. The results from the empirical examinations showed mixed results on the performance of MFBs since the formulation of MPRSF in December, 2005. The study also discussed various policies and targets of microfinance policy regulatory and supervisory framework, the models and evolution of microfinance in the country since the First National Development Plan 1962-1968 to this era of Economic Recovery and Growth plan (ERGP). The various efforts made by successive government to enhance credit delivery to the economy with the aims of employment generation, wealth creation, women empowerment and poverty reduction were also reviewed. This study therefore contributes to the ongoing empirical data by appraising the MFBs on the three core objectives of MPRSF.

## 2.4 Justification of the Study

From the empirical literature reviewed, there are various researches on MFBs with mixed results. The plausible reasons for the mixed results ranged from difference in sample size, scope of the study, location, method, methods of analysis and survey.Some gaps were identified and those observed gaps justifies the current research undertaking. Some of these gaps include the following:

(i) Most of the previous studies focused mainly on one of the objectives of MFBs as formulated by MPRSF in 2005 e.g. Jenyoand Adebayo (2014) focused on the structure and practicability of MFBs in Gombe; Babajide (2012) focused on the effects of MFBs on MSMEs growth in Nigeria. Unlike most studies that focused on the supply side of MFBs (i.e the growth of MFBs through the number of branches, staff, capital base etc), this study focused on the demand side of the MFBs services (i.e access to financial and non-financial services by customers/households) as provided by the banks.These no doubt enriches the literature.

(ii) Unlike the previous studies (Onwuka&Udeh, 2015; Ohaeghunam, 2009) that used questionnaire only, the current study used a combination of survey and regression in appraising the MFBs in Anambra State.

(iii) This study differs from other studies by focusing more on the objectives of MFBs in employment generation, poverty alleviation and women empowerment in Anambra State, Nigeria where no study to the best of my knowledge has been carried out despite the number of MFBs in the State, large markets, informal sector and economically active population.

(iv) Unlike the previous studies Jenyoand Adebayo(2014), OnuwkaandUdeh(2015) Ohaegbunam(2009), this study adopted a broad base theory of poverty alleviation as its framework.

# CHAPTER THREE

# RESEARCH METHOD

The chapter presented the procedure, the design and techniques of data analysis and the presentation is as follows: research design, research population and area of study, sample size and sample technique, method of data collection and research instrument, reliability and validity of research instrument, theoretical framework/model, estimation technique and procedure, evaluation of estimates and test of research hypothesis.

### 3.1 Research Design

Research design is a comprehensive plan for the collection of data in an empirical research project and it provides guideline which directs the researcher toward solving the research problem (Akuzuilo&Nwoye, 2003). The research design specifies three processes of data collection, instrument development and sampling which are discussed below. The choice of design according to Asika (1991) is conditioned by the nature of variables being interrogated by a study. As a survey, this research is interested in observing what is happening to sample subject/variables without any attempt to manipulate them. The kind of survey chosen is sample survey which allows the researcher to study only a part (sample) of a given population and generalize the result to the entire population.

### 3.2 Research Population and Area of the Study

The research population consists of all the 645,594 customers of 45 Microfinance Banks (MFBs) as sourced from various MFBs in Anambra State at the time of the survey. Anambra is a state in South-Eastern Nigeria, with 177 towns under three sensational districts of Anambra central, Anambra North and Anambra South. The origin of the name is derived from Anambra River (Omambala) which is a tributary of the famous River Niger. The capital of the State and the seat of Government is Awka. Onitsha and Nnewi are both the major commercial and industrial cities, in the State respectively. The National Population Commission (NPC)(2010) estimate put the state at a figure of about 4,177,828 with three senatorial districts and 21 local government areas (LGAs).

The indigenous ethnic groups in Anambra state are the Igbos (98% of the population) and a small population of Igala (2%) who lives in the North Western part of the State. Anambra is the eight most populated States in Nigeria and the second most densely populated state in Nigeria after Lagos State. The stretch of more than 45km between Oba and Amorka contains a cluster of numerous thickly populated villages and small towns giving the area as estimated density of

1,500-2,000 persons living within every square kilometer of the area. The choice of Anambra State for the study is due mainly to the issue of proximity to the researchers as other states in Nigeria could as well be chosen for evaluating the performance of MFBs in Nigeria. Again, there are indications that the State hosts the largest number of MFBs in the South Eastern part of Nigeria (CBN, 2017).

## 3.3 Sample Size and Sampling Technique

### 3.3.1 Sample Size

The area of the study covered the three senatorial districts of Anambra State (Anambra Central, Anambra North and Anambra South). According to Kothari (2010) cited in Metu (2017), there are two approaches for determining the size of the sample. The first is by using Barlett, Kotrik&Haggins (2001) model which specify the precision of the estimation desired and then to determine the sample size necessary to insure it, while the second approach uses Bayesian Statistics to weigh the cost of additional information against the expected value of additional information. The study adopted the first approach, the minimum size is calculated by considering the standard normal deviation at 95 percent confidence level (1.96), percentage of picking a choice or response (50% = 0.5) and the confidence interval (0.05 = +5), with the formula below:

$$n = \frac{(Z)^2 \text{ pq N}}{c^2(N-1) + Z^2\, pq}$$

n = the sample size

N = 645,594 (the population)

Z = 1.96 (as per table area under normal curve for 95% confidence level, level of significance). (critical value of normal distribution)

P = Percentage picking a choice expressed as decimal (0.5 used for the sample size needed, probability of success or failure)

q = Probability of failure (q = 1 – p)

c = 0.05 since the estimate should be within +5% of the true value (acceptance region area i.e 1-0.05).

$$n = \frac{(Z)^2 \text{ pq N}}{c^2(N-1) + Z^2\, pq}$$

$$= \frac{(1.96)^2 \text{ x } (0.5)\text{x } (0.5)\text{x } (651594)}{(0.05)^2(645{,}594-1)+[(1.96)^2\, X\, (0.5) X\, (0.5)]}$$

$$= \frac{3.8416 \text{ X } 0.5 \text{ X } 0.5 \text{ X } 651594}{0.0025\, X\, 651593 + 3.8416\, X\, 0.0025}$$

$$= \frac{625790.8776}{1628.9825+0.009604}$$

$$= \frac{625790.8776}{1628.992104} = 384.15832469$$

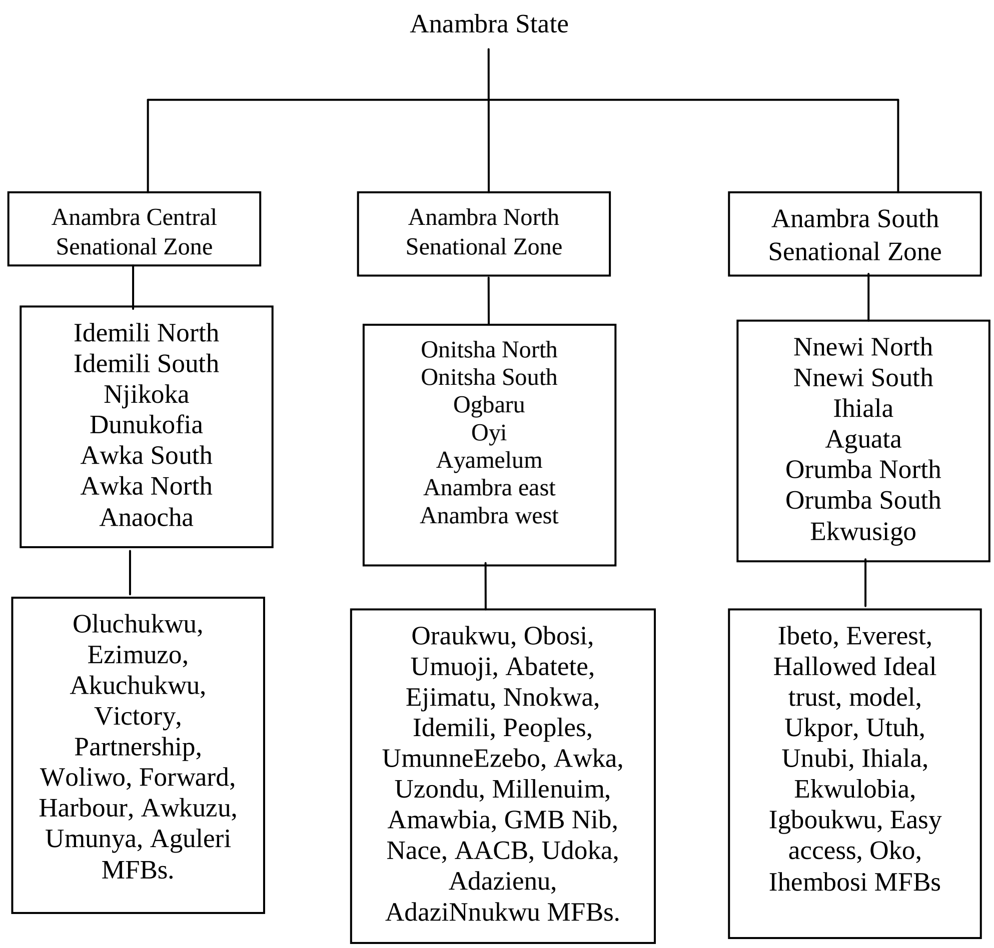
$$= 384$$

The minimum size is 384 is considered

### 3.3.2 Sampling Techniques

A multi stage sampling technique was adopted in this study. It is a probability sampling technique where clusters are formed out of the population which are sub-divided into smaller targeting groups. Multistage sampling technique was relevant because the population size was large with clusters. Anambra state has 21 L.G.As with three sensational districts/zones of Anambra Central, Anambra North and Anambra South. From the population of 651594 customers of MFBs in Anambra state, a multistage sampling technique was used to select respondents from different clusters as shown below.

**Figure 3.1: Distribution into Clusters**




Source: Researcher's Compilation

Figure 3.1 shows the multistage sampling technique used to select the respondents from different clusters. The questionnaires were allocated/distributed based on the principle of probability of size (PPS) as the MFBs with larger population were allocated more questionnaires through random sampling techniques to individual customers. See table 3.1 below:

Table 3.1: Distribution/Return of Questionnaire from Clusters

| Senatorial Zone (1) | L.G.A (2) | MFBs/Towns (3) | Customers (4) | Distributed (5) | Returned (6) | Total Questionnaires Distributed (7) |
|---|---|---|---|---|---|---|
| Anambra North | Onitsha North | Oluchukwu | 29,783 | 23 | 22 | |
| | | Ezimuzo | 16,311 | 13 | 10 | |
| | | Akuchukwu | 10,826 | 8 | 6 | 24% |
| | | Victory | 14,712 | 11 | 7 | |
| | | Partnership | 11,662 | 9 | 7 | |
| | Onitsha South | Woliwo | 18,200 | 14 | 9 | 122 |
| | | Forward | 11,606 | 9 | 8 | |
| | Ogbaru | Harbour | 13437 | 10 | 9 | |
| | Oyi | Awkuzu | 10,006 | 8 | 4 | |
| | | Umunya | 8261 | 6 | 4 | |
| | Anambra East | Aguleri | 13926 | 11 | 5 | |
| | Ayamelum | - | | | - | |
| | **Total** | | **158,730** | | | |
| Anambra Central | Idemili North | Oraukwu | 13182 | 10 | 8 | |
| | | Obosi | 18001 | 14 | 11 | |
| | | Umuoji | 12347 | 9 | 6 | |
| | | Abatete | 8117 | 6 | 5 | |
| | Idemili South | Ejimatu | 10418 | 8 | 5 | 221 |
| | | Nnokwa | 12782 | 10 | 9 | |
| | | Idemili | 10472 | 8 | 8 | |
| | Njikoka | Peoples | 15817 | 12 | 10 | 44% |
| | | Umunne | 16691 | 10 | 7 | |
| | Dunukofia | Ezebo | 19856 | 15 | 9 | |
| | Awka South | Awka | 14916 | 11 | 10 | |
| | | Uzondu | 15118 | 12 | 12 | |
| | | Millennium | 7626 | 6 | 6 | |
| | | Amawbia | 15219 | 12 | 7 | |
| | | GMB Nibo | 17288 | 13 | 10 | |
| | | Nice | 11217 | 9 | 8 | |
| | Awka North | - | | | - | |
| | Anaocha | AACB | 16218 | 12 | 11 | |
| | | Udoka | 18793 | 14 | 10 | |
| | | AdaziEnu | 21001 | 16 | 16 | |
| | | Adazinnukwu | 18621 | 14 | 14 | |
| | **Total** | | **273,844** | | | |
| Anambra South | Nnewi North | Ibeto | 22712 | 17 | 15 | |
| | | Everest | 18226 | 14 | 13 | |
| | | Hallowed | 13118 | 10 | 8 | |
| | | Ideal Trust | 10007 | 7 | 5 | 157 |
| | | Model | 14255 | 11 | 11 | |
| | Nnewi South | Ukpor | 18219 | 14 | 14 | 32% |
| | | Utuh | 7216 | 6 | 5 | |
| | | Unubi | 8298 | 6 | 4 | |
| | Ihiala | Ihiala | 20812 | 16 | 16 | |
| | Aguata | Ekwulobia | 24719 | 15 | 10 | |
| | | Igboukwu | 17875 | 14 | 13 | |
| | Orumba North | Easy access | 10218 | 8 | 19 | |
| | | Oko | 18712 | 14 | 12 | |
| | Orumba South | - | | | - | |
| | Ekwusigo | Ihemobosi | 6214 | 5 | 2 | |
| | **Total** | | **219,020** | | | |
| | **Grand Total** | | **651594** | **500** | **410** | **500** |

Source: Researchers' compilation/field work (2018).

The table above shows that multiple stage sampling technique used to select the respondents from their different clusters and the principle of probability proportional to size (PPS) was used to allocate questionnaire to the sample areas. From the table above, the number of customers was provided by each of the 45 MFBs as in column (4). The number of questionnaire proportionally allocated to each MFB was arrived with the formula $(^{n}/_{N})$ 500. (n = Customers in each MFB (sample), N = Total customers in 45 MFBs (population) times 500 (the number of questionnaire distributed. For instance, in Anambra South, Ihembosi MFB was allocated 5 questionnaire calculated thus; $\frac{6214 \ X \ 500}{651594}$ = 4.7 = 5. Column 6, shows the total questionnaire returned, is 410. This shows that more respondents cooperated with the researcher, giving more credence to the work.

## 3.4 Method of Data Collection and Research Instrument

### 3.4.1 Method of Data Collection

The primary data for this study was collected from the customers of 45 MFBs in the state through the survey method. It is a method of collecting information from respondents by asking multiple survey questions. This method is best suited for studies that have individual people as the unit of analysis. Survey research has several inherent strengths compared to other research methods. It is an excellent vehicle for measuring a wide variety of unobservable data such as people's preferences (e.g., political orientations) traits (e.g., self-esteem) attitude, opinion and factual information. It is also ideally suited for remotely collecting data about a population that is too large to observe directly.

### 3.4.2 Research Instrument

The data collection instrument used in this study is through the use of questionnaire which consist of a series of questions for the purpose of gathering information from the respondents. It was designed to meet the research goals and objectives. Questionnaire is a research instrument consisting of a set of questions (items) intended to capture responses from respondents in a standardized manner. The questionnaire for this study was structured into sections to gather information on job creation, poverty alleviation, women empowerment, accessibility to financial and non-financial services and constraints affecting the accessibility to financial and non-financial services of MFBs. Questions are designed in such a way that respondents are able to read, understand and respond in a meaningful way.

## 3.5 Reliability and Validity of the Research Instrument

### 3.5.1 Reliability of the Research Instrument

Reliability ensures that data sources are reliable and the data themselves are of the highest possible quality. It is the degree to which the measure of a construct is consistent or dependable

(Bhattacherjee, 2012). A researcher who designs a measuring instrument should be concerned about how consistent the results he obtains with the instrument are. Reliability is defined as the consistency between the independent measurement of the same phenomenon. It is the stability, dependability and predictability of a measuring instrument, the accuracy or precision of a measuring instrument. By consistency, the researcher wants to ensure that the instrument gives similar, close or the same result if the study to which the instrument is applied is replicated, that is, will give the same or similar results when it is used by different researchers under the same assumption and condition (Asika, 2012). To ensure that reliability and consistency in the result given by the instrument, a pilot study was conducted to test run the practicability of the study and to detect flaw in data collection process. Forty copies of questionnaire were used for the pilot study. Scale reliabilities were calculated using Cronbach's Alpha (1958), Cronbach's alpha is a measure used to evaluate the reliability or internal consistency of a set of scale or test items. It is computed by correlating the score for each observation (usually individual summary respondents or test takers) and item and then comparing that to individual item scores. The result obtained was 0.79. Cronbach's Alpha is considered most appropriate for statistical testing of reliability. Cronbach's Alpha has a range from 0 to 1 and a coefficient equal or greater than 0.6 is considered minimum acceptable level. The internal consistency for this instrument is considered high and acceptable at 0.79. Note that the standardized formula for Cronbach's alpha is α standardized = $\frac{K\bar{r}}{(1+(K-1)r)}$ where K is number of items, $\bar{r}$ is the average inter-item correlation.

### 3.5.2 Validity of the Research Instrument

Validity is concerned with the ability of the instrument to measure what it is meant to measure. Every measuring instrument is designed for a specific measurement and if correctly designed will be ideal but if faulty may not measure accurately. A research design is said to be valid if it enables a research elicit the correct responses from the sample subjects. The research instrument was constructed to elicit appropriate responses for which it was designed. To ensure the content validity of the instrument, the questionnaire was designed to ensure that questions asked fully exhaust the research questions and hypotheses. To ensure the validity of the research instrument, the questionnaire was face-validated by some researchers in the Faculty of Social Sciences, NnamdiAzikiwe University, Awka. Their suggestions to a great extent validated the instrument.

The experts vetted the initial copies of the questionnaire which helped in the production of the final copies used for the study.

### 3.6 Theoretical Framework

The theoretical framework of the study is anchored on the poverty alleviation framework. There are two major channels through which financial sector development can impact poverty reduction. One works directly through growth. The other works directly through the poor benefiting from accessing financial services. The second channel in our focus. Theoretically, financial intermediation will have a disproportional impact on the poor. This is because informational asymmetries produce credit constraints that are particularly binding on the poor as they do not have the resources to find their own projects, nor the collateral to access bank credit (Banerjac& Newman, 1993; Galor&Zeoria, 1993; and Astion&Bollon, 1997). These credit constraints restrict the poor from exploiting investment opportunities, thus slowing aggregate growth by keeping capital from flowing to its highest value use. A poorly functioning financial system will produce higher income inequality by disproportionately keeping capital from flowing to “Wealth-deficit entrepreneurs.

Financial sector development reduces information and transaction costs and, therefore, (i) allows more entrepreneurs-especially those less well-of-to obtain external finance, (ii) improves the allocation of capital and (iii) exerts a particular large impact on the poor. Through better access to credit, the poor are given the opportunity to participate in more productive ventures, in turn increasing their incomes. It has been agreed that the most obvious hunting ground for poverty reduction in less developed countries is the micro small and medium sized enterprises (SMEs), and the sizeable informal sector (Household-based small businesses in rural and urban areas, or the so-called micro enterprises). MSMEs are employment intensive, and job creation is the most important pathway to poverty reduction. Allowing greater credit access by poor households has an especially important impact on poverty reduction.

Theoretically, there are good reasons why the unavailability (and cost) of credit maybe more adverse for smaller enterprises and the informal sector. Fixed costs associated with loan appraisal, supervision and collection are nontrivial. From the perspective of a lender, it is preferable to provide (larger amount of) credit to a larger enterprise than (small amount of) credit to many smaller enterprises. SMEs and microenterprises are also less able to provide, collateral against their loans, further diminishing lenders' incentives to lend to them within considering adverse cost implications associated with possible loan default.

### 3.7 Empirical Model Specification

In line with the theoretical framework, the models are specified to appraise the three research questions/objectives. The hypotheses were structured to appraise the MFBs based on the MPRSF objectives of MSMEs growth and job creation capacity, poverty alleviation and women empowerment among households and micro entrepreneurs who have access to microfinance bank services.

**Model One**: This is specified to appraise the job creation capacity of MSMEs through the services of MFBs. Empirical evidences abound to substantiate the argument (e.g. Babajide&Iyha, 2013; Ayoeleji, Adewusi&Ibitoye, 2012; Nistkanen&Niskanen, 2007; Karlan& Valdivia, 2006; Canagarajah et al, 1998; Dalt&Ravalin, 1996a; 1996b; Aryeetey&Gockel, Khan & Noreen, 1999). Following Niskanen&Niskanen (2007) who identified sales growth as the predictor of small business development and job creation capacity through the services of MFBs,the number of jobs created by MSMEs from 2013-2018 were considered. The equation/model is therefore written thus:

$$JCC_{MSMEs} = \alpha_o + \alpha_1 M1 + \alpha_2 SAV + \alpha_3 CRED + \mu_i \qquad 3.1$$

Where $JCC_{MSMEs}$ = Job Creation Capacity of MSMEs (proxied by sales growth)

MI = Monthly Income

SAV = Savings Deposit

CRED = Loans/Credit by MFBs

$\mu$ = Stochastic error terms

A priori, : $a_1>0$; $\alpha_2>0$; $\alpha_3>0$.

**Model two:** This is based on the hypothesis two which examined the contribution of MFBs to poverty alleviation in the state. The model is based on logistic regression due to the binary nature of the variables. For instance, poverty is measured through the monthly income of the respondents which helped to determine their daily average income/expenditure and compared to the UNDP benchmark for poverty at ($1.90 per day). Those respondents whose daily average income/expenditure per day is less than $1.90 per day is considered to be in poverty. Based on this measurement, we set poverty = O; for those living in poverty and I for those living out of poverty. Due to the dichotomous nature of the variables, we specified a logit model to capture the effect of MFBs on poverty as follows:

$$POVR = \beta_o + \beta_1 SV + \beta_2 Cred + \beta_3 EDU + U_i \quad 3.2$$

Where POVR = Poverty alleviation (bench marked by \$1.90 daily)

SV = Savings/Deposit

Cred = Credit/loan by customers of MFBs

Edu = Respondents education

$\upsilon_i$ = Stochastic error terms

**Model Three**: This is based on the hypothesis three of the study. The annual income of the 187 female respondents out of 410 were used to examine the contributions of MFBs to women empowerment in Anambra state. The improvement in the level of income will enhance their economic and household decision making, education of self and children, and acquisition of assets and raw-materials.

The model is specified thus:

$$W_E = \Theta_o + \Theta_1 Edu + \Theta_2 LS + \Theta_3 SAV + \upsilon_i \quad 3.3$$

WE = Women empowerment (measured by annual income)

Edu = Educational qualification of women

LS = Loan size to women

SAV = Savings by women

$\upsilon_i$ = Stochastic error terms

## 3.8 Method of Empirical Analysis

The data were analysed using both descriptive and inferential statistics. Descriptive statistics involved the use of simple percentage, graphs, tables to explain the demographic characteristics of the respondents. The inferential statistics involved ordinary least squares and binary logit (odd ratio) regression models. The coefficients of the regression result were analysed using the standard criteria of statistical, economic and econometric.

## 3.9 Evaluation of Estimates

The parameters estimates are evaluated under the following criteria using: economic criterion, statistical criterion and econometric criterion.

### 3.9.1 Economic a Priori Criterion

This refers to the sign and size of the parameters in economic relationships, whether the signs obtained from the empirical study conform to economic postulation. In applying this criterion, an appeal is made to economic theory.

Table 32.: Summary A priori expectations for MSMEs jobs equation

| **Independent Variables** | **Expectedsign** |
|---|---|
| MI | Positive |
| SAV | Positive |
| CRED | Positive |
| EDU | Positive |
| Loan size | Positive |

Source: Researchers compilation

The sign test evaluates the obtained sign of the estimated vis a vis the expected sign. From the table above, all the variables are expected with positive relationships.

### 3.9.2 Statistical Criteria: First Order Test

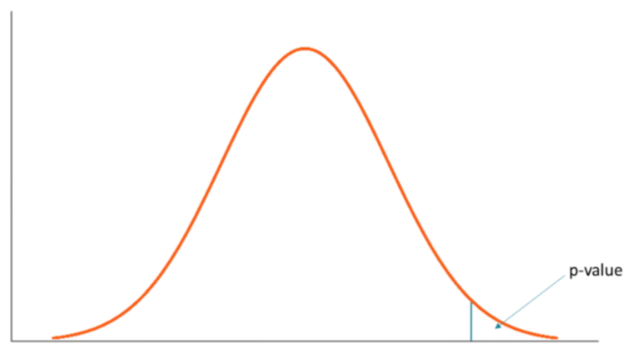
This aims at evaluating the statistical reliability of the estimated parameters of the model. In evaluating the significance of the estimates, the following statistics are necessary:

**The Coefficient of Determination $R^2$:** The coefficient of determination measures the goodness of fit of the model and is used to judge if the explanatory power of the independent variables on the dependent variable. If the $R^2$ equals zero, this means that the explanatory variables could not explain any of the changes in the dependent variable. Whereas, if the $R^2$ equals one, it means there is a 100 percent explanation of the variation in the dependent variable caused by the explanatory variables. The $R^2$ therefore determines the percentage of variations in the dependent variable that is accounted for by the explanatory variables. Thus, the closer the $R^2$ is to one, the better the model fits the data.

**The F-Statistics:** This statistic determines the overall fitness of the model. It does this by comparing the ratio of the two variances. If the calculated F in a regression equation is greater that the table F, one can say there is a significant impact between the explanatory variable and the dependent variable. Likewise, if the calculated F is less than the table F, then there is no significant impact between the explanatory variable and the dependent variable.

**The P-value:** In statistical hypothesis testing, the p-value (probability value) is a probability measure of finding the observed, or more extreme, results, when the null hypothesis of a given statistical test is true. The p-value is a primary value used to quantify the statistical significance of the results of a hypothesis test.

**Figure 3.2: P-Value**




The main interpretation of the p-value is whether there's enough evidence to reject the null hypothesis. If the p-value is reasonably low (less than the level of significance), we can state that there is enough evidence to reject the null hypothesis. Otherwise, we should not reject the null hypothesis.

The conclusions about the hypothesis test are drawn when the p-value of a test is compared against the level of significance, which plays the role of a benchmark. The most typical levels of significance are 0.10, 0.05, and 0.01. The level of significance of 0.05 is considered conventional and the most commonly used.

### 3.9.3 Econometric Criteria

This aims at investigating whether the assumptions of econometric method employed are satisfied or not in any of particular case. They determine the reliability of statistical criteria and also establish whether the estimates have desirable properties of biasedness, and consistency. The Durbin-Watson was(serial correlation test).

1. If d* is approximately or equal to 2 (d* = 2) we accept that there exists no autocorrelation in the function.
2. If d* = 0, there exists perfect positive autocorrelation. If d* is less than two but greater than zero, that is, if 0<d*<2, it means that there is some degree of positive autocorrelation which is stronger, the closer d* is to zero.
3. If d* is equal to 4 (d* = 4) there exists a perfect negative autocorrelation, while if d* is less than four but greater than two (2<d*4), it means that there exists some degree of negative autocorrelation, which is stronger the higher the value of d*.

### 3.10 Test of Research Hypotheses

Hypothesis testing determines the validity of the assumption (technically described as null hypothesis) with a view to choose between two conflicting hypotheses about the value of population parameter. Hypothesis testing helps to decide on the basis of a sample data, whether a hypothesis about the population is likely to be true or false.

In testing the hypothesis, two important tests are mostly used. They are the t-tests and F-tests. All these tests are based on the assumption of normality, normal distribution of the data.

i) t-test is based on t-distribution and is considered an appropriate test for judging the significance of a sample mean or for judging the significance of difference between the mean of two samples. The relevant test statistic, t, is calculated from the sample data and then compared with the probable value based on t-distribution (to be read from the table that gives values of t for different levels of significance for different degrees of freedom) at a specified level of significance for concerning degrees of freedom for accepting or rejecting the null hypothesis.

   **Decision Rule:** If $t_{cal} > \mathbf{t_{tab}}$, reject $H_o$, otherwise accept $H_1$.

# CHAPTER FOUR

# RESULT PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

In chapter three, the study plan, and the description of how the research objectives will be achieved were presented. The chapter presents the results, the analysis and discussion of empirical results. The content of the chapter is as follows: result presentation and analysis, evaluation of research hypotheses, discussion of findings and policy implications of empirical results.

## 4.1 Result Presentation and Analysis

A total of four hundred and ten (410) questionnaire were returned from the five hundred distributed questionnaires. Therefore, the analysis hereupon was based on the 410 returned responses from the total 500 respondents. The result analysis started with the demographic responses as shown in the tables.

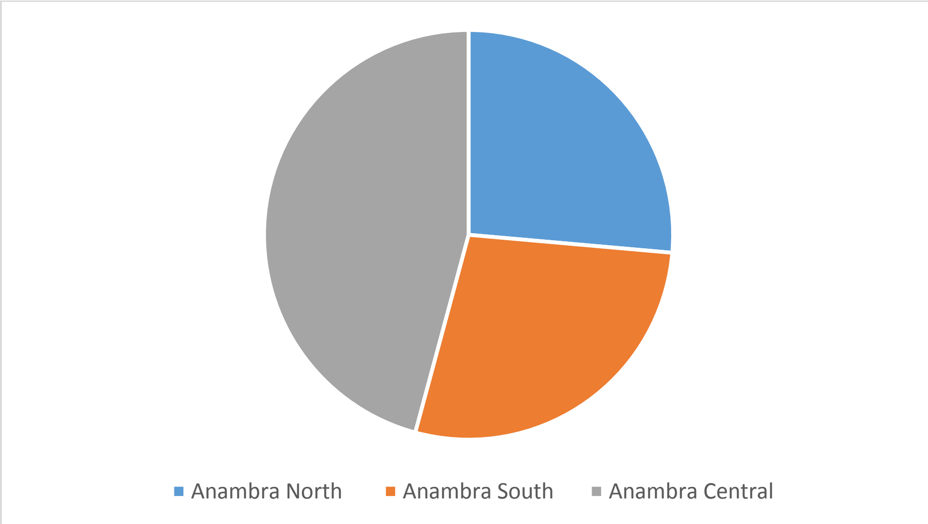
**Table 4.1.1: Showing Questionnaire Distributed/Returned**

| **Senatorial Zone (1)** | **No of MFBs (2)** | **Questionnaire Distributed (3)** | **Questionnaire Returned (4)** | **(%) Returned (5)** |
|---|---|---|---|---|
| Anambra North | 11 | 122 | 90 | 22 |
| Anambra South | 14 | 157 | 138 | 34 |
| Anambra Central | 20 | 221 | 182 | 44 |
| Total | 45 | 500 | 410 | 100 |

**Source:** Field Survey (2018)

Note: The % of questionnaire returned (column 5) is by dividing column 4 over 410 times 100.

Figure 4.1: Questionnaire returned




Source: Field study (2019).

Table 4.1.1 show the questionnaire distributed and returned from the respondents. From the result, Anambra South (Nnewi North, Nnewi South, Ihiala, Aguata, Orumba North, Orumba South and Ekwusigo) has the second highest number of MFBs of 14, while Anambra Central (Idemili North, Idemili South, Njikoka, Dunukofia, Awka South, Awka North and Anaocha) has the highest number of MFBs 20. The last is Anambra North (Onitsha North, Onitsha South, Ogbaru, Oyi, Anambra East and Ayamelum) with eleven (11) number of MFBs. Meanwhile, Anambra Central has the highest number of questionnaire distributed and returned (44%) followed by Anambra South (34%) and the last, Anambra North (22%). From the Table 4.1.1., it was also shown that Anambra Central has the highest number of MFBs. It was found out that it could be as a result of the number of towns and fewer number of formal banking institutions in the area. Anambra South has 14 MFBs, Anambra North also has 11 Microfinance Banks (MFBs). Interestingly, most of the MFBs in Anambra North and South concentrated in Nnewi and Onitsha urban unlike the central district where they are relatively spread. The questionnaires returned also showed that Anambra Central recorded the highest, followed by South and North respectively. The reason is simple when you consider the number of questionnaire distributed in the zones. It was also found out that the respondents of Anambra Central seem to be more educated as the understood the questionnaire easily. Moreover, the people seem to be more friendly with the trained research assistants unlike Anambra South and Anambra North. Table 4.1.2 shows the demographic profile (sex) of the respondents.

**Table 4.1.2: Demographic Profile (Sex) of the Respondents**

| Variable | | Frequency | Percentage(%) |
|---|---|---|---|
| Sex | Male | 223 | 55 |
| | Female | 187 | 45 |
| Total | | 410 | 100% |

**Source:** Field Survey (2018).

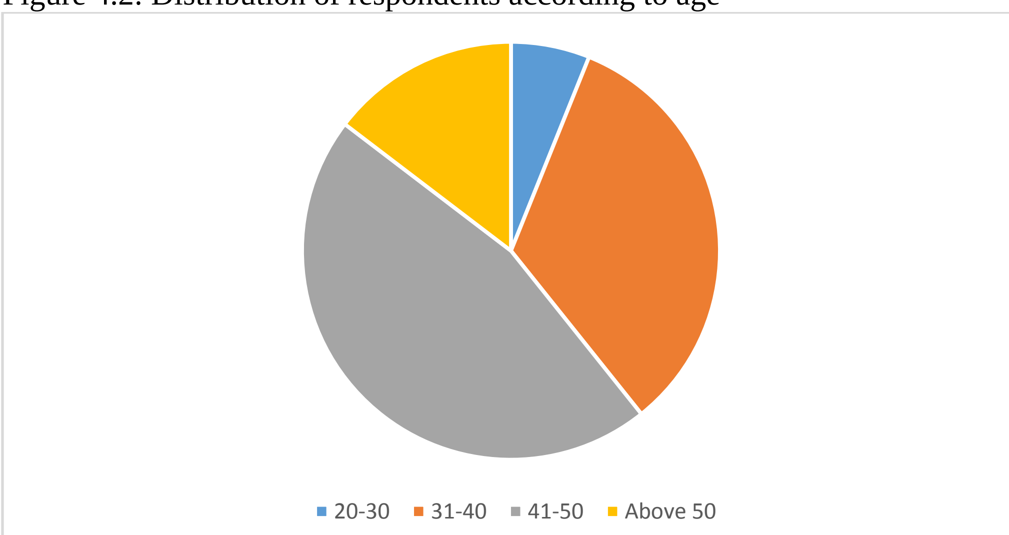
From Table 4.1.2, 223 respondents representing 55% of the total respondents are males while 187 respondents representing 45% are females. This result shows or imply that the males patronize MFBs more than women in Anambra at the time of conducting the research.

**Table 4.1.3: Demographic Profile (Age) of the Respondents**

| Variable | | Frequency | Percentage (%) |
|---|---|---|---|
| Age | Below 20 | 0 | 0 |
| | 20-30 | 25 | 6 |
| | 31-40 | 136 | 33 |
| | 41-50 | 189 | 45 |
| | Above 50 | 60 | 16 |
| Total | | 410 | 100 |

**Source:** Field Survey (2018).

Figure 4.2: Distribution of respondents according to age




Source: Field Study (2018).

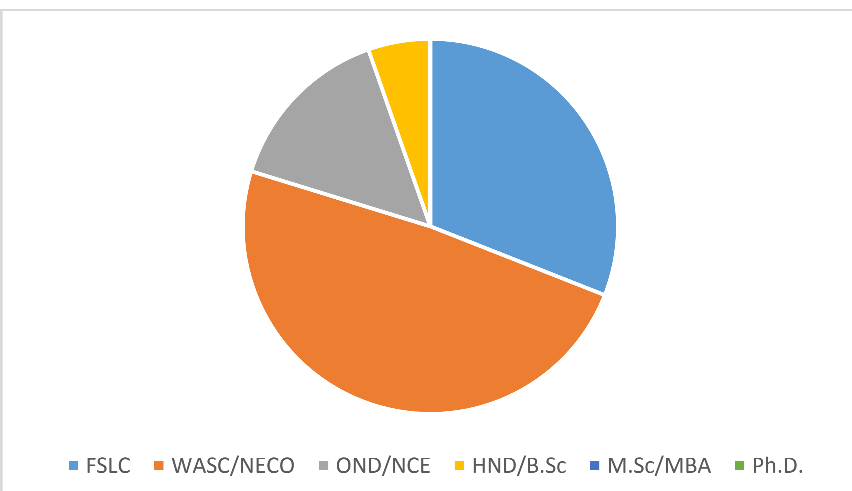
From Table 4.1.3, 189 respondents representing 45% of the total respondents fall under the age bracket of 41-50 followed by 31-40 age brackets of 136 respondents and representing 33%. The implication of the statistics of the table 4.1.3 is that most entrepreneurs are in the age bracket of 41-50 years, and also the youthful has a total of 39% of the respondents against 61% of the ageing population. For the optimal performance of MFBs, there should be awareness creation and sensitization for the young ones on the need to assess the services of MFBs. Table 4.1.4 shows the demographic profile (marital status) of the respondents.

**Table 4.1.4: Demographic Profile: Educational Qualification of the Respondents**

| **Variable** | | **Frequency** | **Percentage(%)** |
|---|---|---|---|
| Educational Qualification | FSLC | 127 | 31 |
| | WASC/NECO | 200 | 48 |
| | OND/NCE | 61 | 16 |
| | HND/B.Sc | 22 | 5 |
| | M.Sc/MBA | - | - |
| | Ph.D. | - | - |
| Total | | 410 | 100 |

**Source:** Field Survey (2018).

Figure 4.3: Distribution of respondents according to educational qualification




Source: Field study (2018)

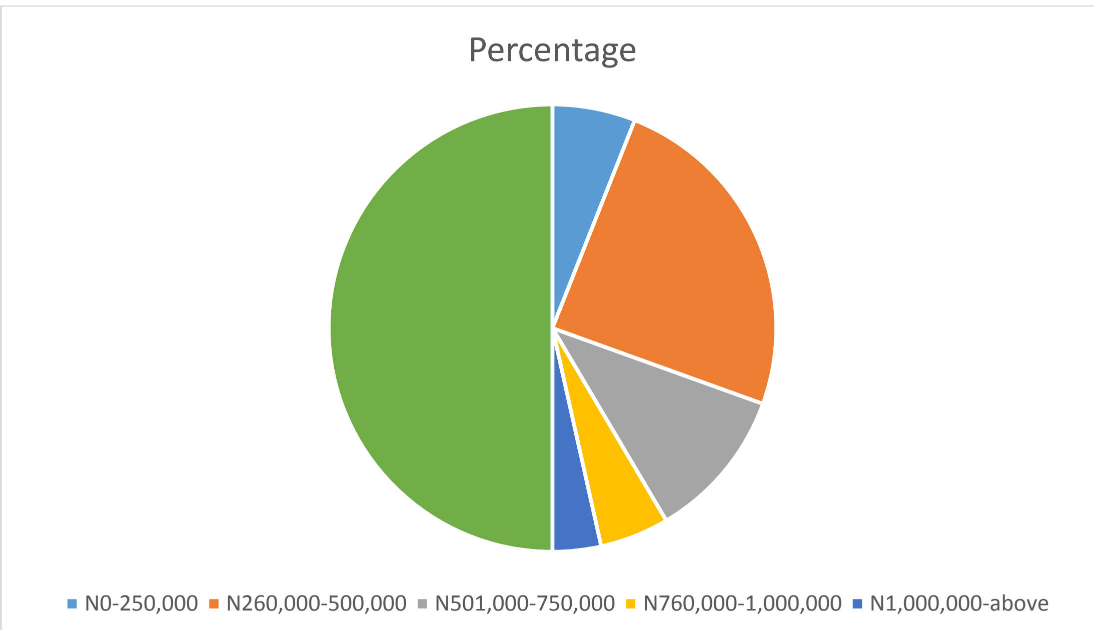
The Table 4.1.4 shows the educational qualification of respondents. From the result, 200 respondents representing 48% has the highest number of education-secondary school certificate. This is followed by the First School Leaving Certificate (FSLC). This result shows that less educated people form the bulk of the respondent.

**Table 4.1.5: Demographic Profile: Income Per Annum**

| Income per annum | Frequency | Percentage |
|---|---|---|
| ₦0-250,000 | 51 | 12 |
| ₦260,000-500,000 | 201 | 49 |
| ₦501,000-750,000 | 89 | 22 |
| ₦760,000-1,000,000 | 43 | 10 |
| ₦1,000,000-above | 26 | 7 |
| Total | 410 | 100 |

**Source:** Field Survey (2018).

**Figure 4.4: Demographic Profile: Income Per Annum**




The table 4.1.5 shows the respondents income per annum earned from different economic and microenterprises activities. 51 respondents representing (12%) earned income between 0 and ₦250,000 per annum. When related to the UNDP benchmark of $1.90 per day, they still fall within the poverty range as $1.90 x 365 days equals ₦249,600.

**Table 4.1.6: Amount of Loan Received from MFBs**

| Variable | | Frequency | Percentage |
|---|---|---|---|
| Loan received | 0-N50,000 | 103 | 25 |
| | N51,000-100,000 | 189 | 46 |
| | N101,000-500,000 | 86 | 21 |
| | N501,000-1,000,000 | 23 | 6 |
| | Above N1,000,000 | 9 | 2 |
| Total | | 410 | 100 |

Source: Field Survey (2018).

From the result, 189 respondents representing 46% received loan between NGN51,000 to N100,000,while 103 respondents representing 25% agreed that they have received loan within the range of NGN50,000. The greater percentage of the respondent received loan between N51,000 to N100,000, while 23 received credit from MFBs from NGN501,000-NGN1,000,000 (6%).

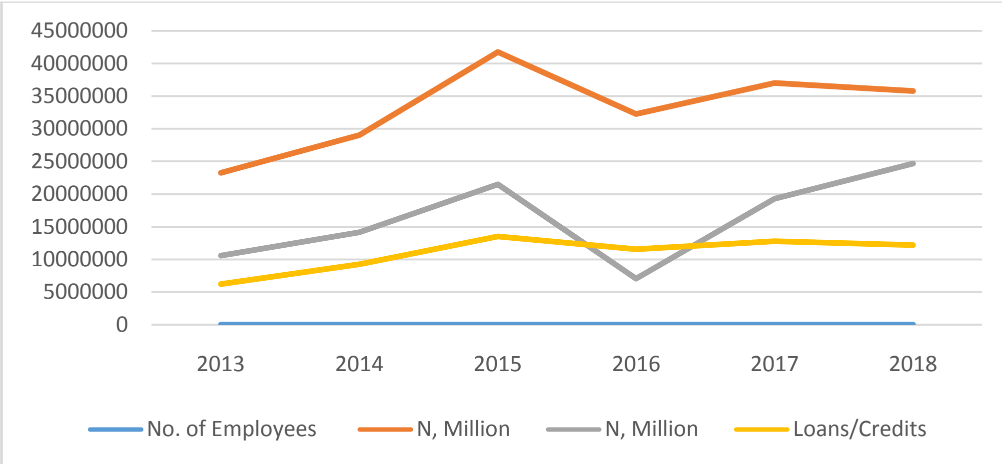
**Table 4.1.7: Summary of No. of Employees, Total Assets, Credit/Loans and Income of 410 Respondents/MSMEs (2013-2018)**

| Year | No. of Employees | ₦, Million Total value of assets | ₦, Million Total Income | ₦ Million Loans/Credits |
|---|---|---|---|---|
| 2013 | 1,039 | 23,251,452 | 10,575,005 | 6,245,000 |
| 2014 | 1,147 | 29,008,098 | 14,175,148 | 9,250,000 |
| 2015 | 2,226 | 41,765,310 | 21,500,274 | 13,500,000 |
| 2016 | 1,302 | 32,264,108 | 7,069,218 | 11,550,000 |
| 2017 | 1,217 | 37,004,117 | 19,291,423 | 12,750,000 |
| 2018 | 1,354 | 35,796,289 | 24,667,367 | 12,200,000 |

**Source: Researcher's Compilation**

The periods 2013-2018 were selected to accommodate the MFBs that started operation after formulation of MPRSF in 2006.

**Figure 4.5:Summary/Trend of No. of Employees, Total Assets, Credit/Loans and Income of 410 Respondents/MSMEs (2013-2018)**




The table 4.1.7 showed the growth/increase in no. of employees, assets, credit and income from the respondents. The total number of employees by the respondents in 2013 were 1139, but with the accessibility of MFBs services, the number of employees increased to 1,304 in 2018. The total value of assets of the respondents stood at N23,251,452 million in 2013 and increased to N35,796, 289 million in 2018. In same vein the total income and credit increased tremendously from N10,575,000 million and N6,245,000 million in 2013 to over N24,667,367 million and N12,200 million in 2018, indicating a positive trend and direction from those that assess MFBs services. We may assume that MFBs contributed to this positive trend.

## 4.2 Results and Analysis of Research Questions/Objectives

**Table 4.2.1: Constraints to Accessibility of Financial and Non-Financial Services of MFBs by the Respondents**

| S/N | Constraints | SA | A | UN | D | SD | Mean Item Scores |
|---|---|---|---|---|---|---|---|
| 1. | High interest rate | 151 | 209 | 39 | 6 | 11 | 4.17 |
| 2. | Lack of Access to loan and credit information | 156 | 156 | 69 | 62 | 35 | 3.45 |
| 3. | Short repayment policy | 138 | 129 | 63 | 49 | 31 | 3.96 |
| 4. | Competition with other financial institutions | 67 | 79 | 126 | 71 | 67 | 3.63 |
| 5. | Social perception of MFBs | 108 | 91 | 63 | 51 | 23 | 3.02 |
| 6. | Insider abuse | 81 | 118 | 60 | 54 | 23 | 3.60 |
| 7. | Inefficient credit management | 53 | 67 | 124 | 77 | 89 | 2.93 |

Source: Field Survey (2018)

**Figure 4.6: Constraints to Accessibility of Financial and Non-Financial Services of MFBs by the Respondents**

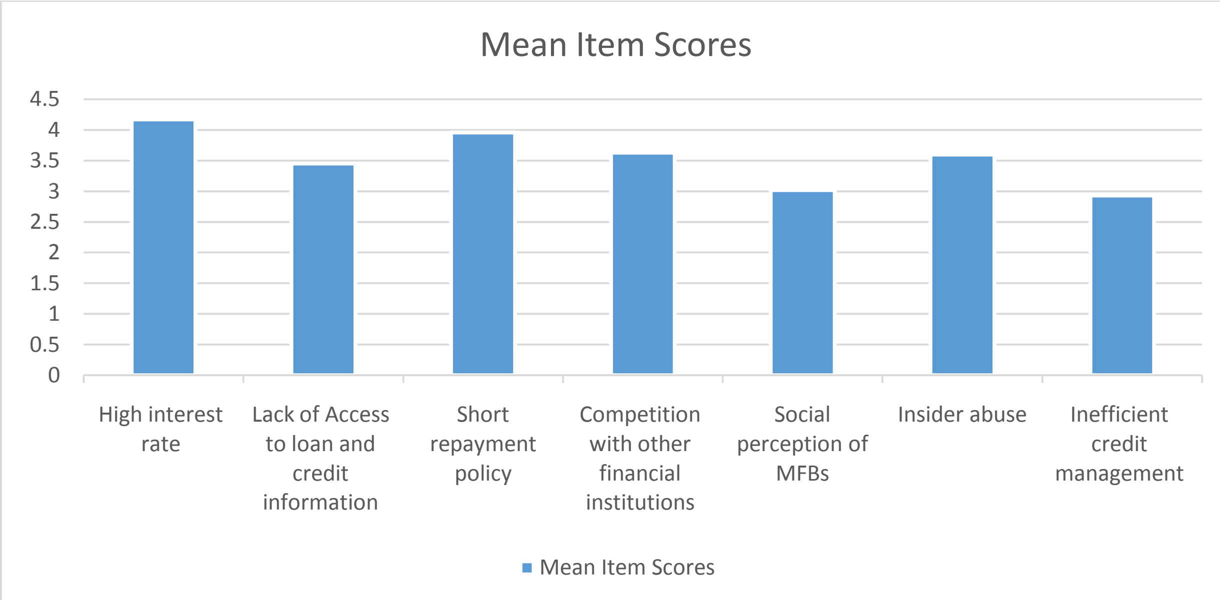



Table 4.2.1 shows some of the constraints affecting the performance of the MFBs in Anambra State. According to the responses of the respondents, 209 which is 50% percent of the respondents agreed that high interest rate charged by the MFB constrained accessibility by credit/loan by the households, while 11 representing 2 percent strongly disagreed that high interest charged by the MFBs is not a constraint to accessing loan and credit by the households.

Further responses show that 156 respondent representing 38% percent agreed that lack of access to credit is one of the constraints faced by the respondent in access financial services of the MFBs in Anambra State while 35 respondents representing 8% strongly disagreed that lack of access to credit/credit information is not a constraint faced by the respondents in accessing financial/non-financial services offered by the MFBs.

On short repayment policy, competition from other financial institutions, social perception of MFBs, insider abuses and inefficient management skills, the result shows that 129 respondents representing 31% agreed that short repayment policy is a constraint while 31 respondent representing 7% strongly disagreed. (126) respondents representing 30% were undecided as to whether competition from other financial institution (Commercial Banks) were a constraints faced by the household. Incidentally, there was a tie between the strongly agreed and strongly disagreed respondents on whether competition from other financial institutions was a constraint faced by the households. Furthermore, for social perception and insider abuses as constraints, 108 respondents representing 26% agreed that social perception is a constraint while 23 respondents representing 5% strongly disagreed that social perception is not a constraint faced by households/respondents. For insider abuse 118 (28%) agreed as against 23 (5%) disagree.

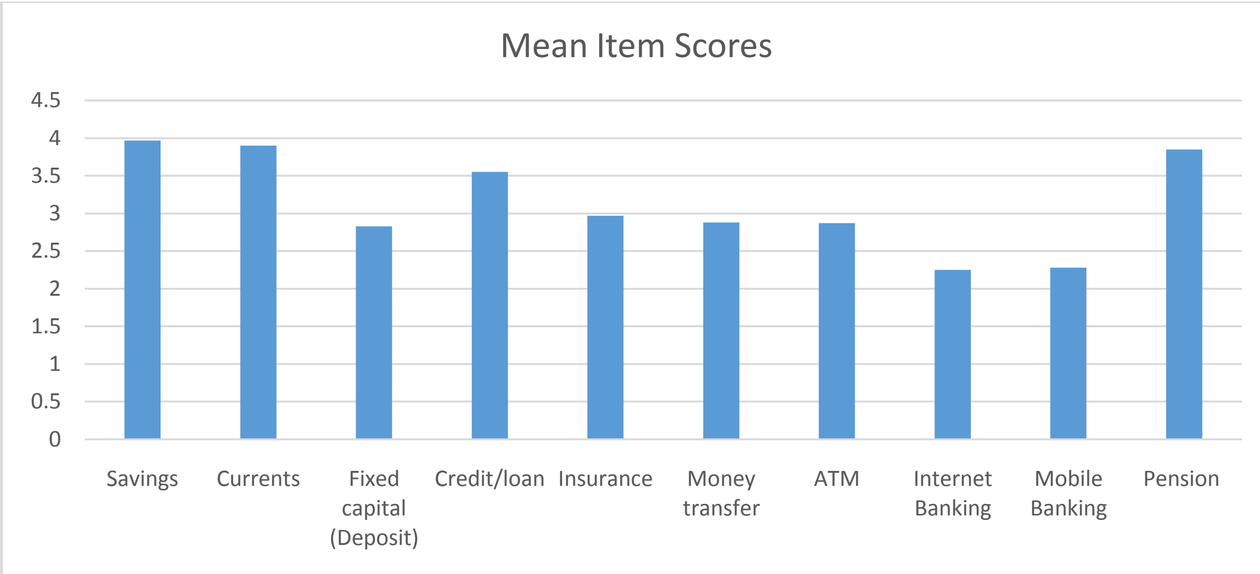
Lastly, 124 respondents representing 24 percent were undecided as to whether inefficient management was part of the constraints faced by the households/respondents in accessing financial services of MFBs in Anambra State.

**Table 4.2.2: Financial Products Easily Accessible by Households in Anambra State.**

| S/N | Financial Services | SA | A | UN | D | SD | Mean Item Scores |
|---|---|---|---|---|---|---|---|
| 1. | Savings | 73 | 239 | 47 | 40 | 11 | 3.97 |
| 2. | Currents | 49 | 221 | 70 | 40 | 20 | 3.90 |
| 3. | Fixed capital (Deposit) | 63 | 105 | 105 | 42 | 47 | 2.83 |
| 4. | Credit/loan | 80 | 136 | 96 | 53 | 35 | 3.55 |
| 5. | Insurance | 51 | 76 | 126 | 71 | 76 | 2.97 |
| 6. | Money transfer | 57 | 63 | 139 | 93 | 48 | 2.88 |
| 7. | ATM | 23 | 49 | 37 | 201 | 73 | 2.87 |
| 8. | Internet Banking | 38 | 50 | 50 | 129 | 143 | 2.25 |
| 9. | Mobile Banking | 42 | 29 | 60 | 150 | 119 | 2.28 |
| 10. | Pension | 180 | 91 | 40 | 42 | 41 | 3.85 |

**Source:** Field Survey (2018)

**Figure 4.7: Financial Products Easily Accessible by Households in Anambra State.**




From Table 4.2.2, which is on the evaluation of financial products easily accessible by the households/customers of the MFBs in Anambra State, the result revealed that 239 respondents representing 58% agreed that saving services as provided by the MFBs are easily accessible by the households while 11 households strongly disagreed. Forty-seven (47) of the respondents were undecided. Table 4.2.2 further revealed that 221 respondents representing 57% agreed that current account services of the MFBs are easily accessed by the households/customers, while 20 strongly disagreed. Since the agreed respondents outweigh the strongly disagreed, it could be concluded that current account services like savings are easily accessed as provided by the MFBs in Anambra State. On fixed account deposits, 93 respondents representing 24% agreed that fixed deposit service is easily accessed by the Anambra State households/customers but 105 undecided. Meanwhile, 126 respondents representing 32% were undecided on the insurance services as provided by the MFBs. Since 126 respondents were undecided and are over and above the 76 respondents that agreed on insurance services, it could be concluded that the insurance services as provided by the MFBs in Anambra are not accessible by the household/customers, better still, it could be that insurance services are not provided by the MFBs.

On ATM, internet and mobile banking services, 201(53%), 143(37%) and 150(39%) disagreed and strongly disagreed that these services are not provided or easily accessible by the Anambra State households, while 180 respondents representing 47 percent out of the total respondents strongly agreed that the MFBs in Anambra State make the pension services available.

**Table 4.2.3: Non-Financial Services Easily Accessible by Households in Anambra State**

| S/N | Non-Financial Services | SA | A | UN | D | SD | Mean Item Scores |
|---|---|---|---|---|---|---|---|
| 1. | Pre-loan Training | 39 | 58 | 89 | 152 | 72 | 2.58 |
| 2. | Business consulting for start-up and development | 41 | 38 | 98 | 116 | 117 | 2.99 |
| 3. | Financial/Management Training | 22 | 49 | 108 | 209 | 22 | 2.45 |
| 4. | Procurement Services | 18 | 61 | 98 | 69 | 164 | 2.22 |
| 5. | Business Monitoring | 42 | 27 | 45 | 208 | 88 | 2.33 |

Source: Field Survey (2018)

**Figure 4.8:Non-Financial Services Easily Accessible by Households in Anambra State**

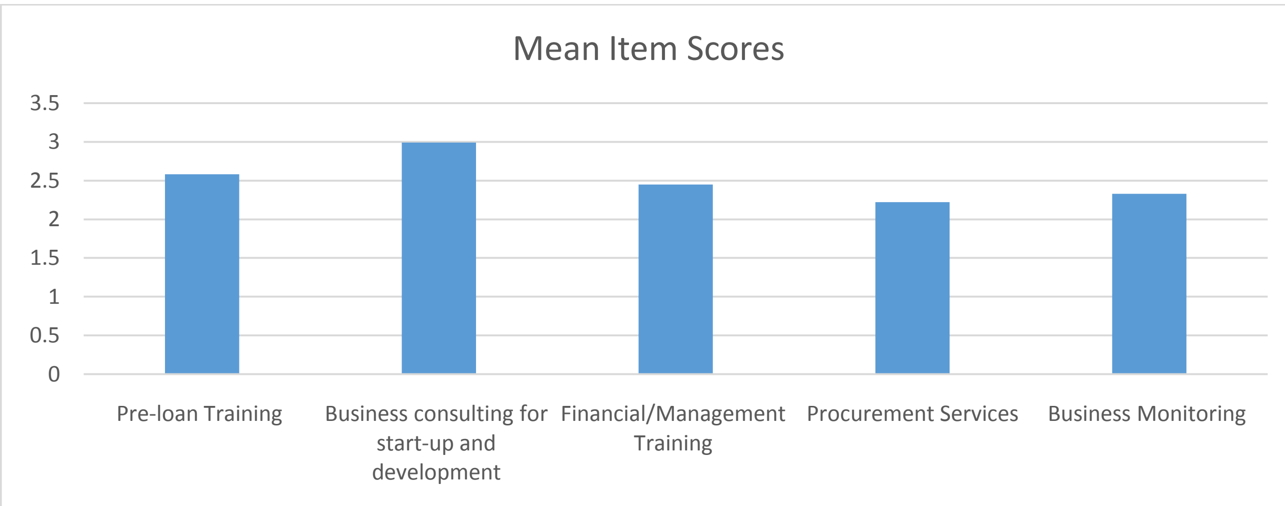



Table 4.2.3 revealed information and statistics on the non-financial services easily accessed by the respondents through the MFBs in Anambra State. From the table, it was shown that 152 respondents representing 37% and 72 representing 17% disagreed and strongly disagreed that pre-credit training is not provided or accessed by the respondents. Similarly, 116(30%), 209(54%) and 69(18%) respondents disagreed that business consultancy for start-up and development, financial and management training as well as business monitoring are not accessible or provided by the MFBs to the respondents in Anambra.

From the table, we concluded that non-financial services as should be provided by microfinance and as stipulated in the operational guideline is not provided by the MFBs in Anambra State.

## 4.3 Regression based Results/Interpretation

The regression results include appraisal of MFBs on employment generation/jobs capacity, poverty alleviation and women empowerment.

### 4.3.1 MFBs and Job Creation Capacity of MSMEs

Job creation is proxied by the number of people employed by MSMEs within the period 2013-2018. This period was chosen to accommodate all the MFBs which were not established at the inception of MFBs but were studied.

**Table 4.3.1:Job Creation Capacity of MSMEs**

| | | | | |
|---|---|---|---|---|
| Dependent Variable: JCC<br>Method: Least Squares<br>Date: 08/25/20 Time: 10:04<br>Sample: 1 410<br>Included observations: 410 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| MI | 0.210134 | 0.035792 | 5.870962 | 0.0000 |
| SAV | 0.064913 | 0.052324 | 1.240584 | 0.2155 |
| CRED | 0.131244 | 0.051020 | 2.572397 | 0.0105 |
| C | 0.393704 | 0.077020 | 5.111689 | 0.0000 |
| R-squared | 0.760774 | Mean dependent var | | 0.641463 |
| Adjusted R-squared | 0.754573 | S.D. dependent var | | 0.480157 |
| S.E. of regression | 0.441490 | Akaike info criterion | | 1.212386 |
| Sum squared resid | 79.13491 | Schwarz criterion | | 1.251568 |
| Log likelihood | -244.5392 | Hannan-Quinn criter. | | 1.227888 |
| F-statistic | 25.92638 | Durbin-Watson stat | | 2.042142 |
| Prob(F-statistic) | 0.000000 | | | |

Source: Researcher's Computation with E-view version 10.0

The results are summarized in Table 4.3.1 above. The table shows that explanatory variables monthly income has a positive coefficient of 0.2101.34 with probability (P-value) 0.0000 which is statistically significant. Although that saving has a positive coefficient of 0.064913, the probability (P-value) is 0.2155>0.05. It is not significant. In same vein credit/loan with a positive coefficient of 0.131244 and probability value of 0.0105<0.05 is statistically significant. The interpretation of the above result is that 1% increase in monthly income of MSMEs will bring about 0.21% increase in jobs created by MSMEs. 1% increase in saving will raise jobs by 0.06% and finally 1% increase in credit/loans from MFBs will generate employment of about 0.13%.

The estimated model has reasonable high values of $R^2$ and adjusted $R^2$ (0.760774 and 0.754578). Coefficient of determination is used to check the goodness of fit (how well data fitted in the model). The goodness of fit is the explanatory power of the independent variables to the dependent variable. $R^2$ measures the % of total variation in the dependent variable that is explained by the dependent variables. From the result above, about 75% of total variation in the dependent variable job creation/employment was accounted by variation in the independent variables. Finally, the Durbin-Watson statistic of 2.0 indicates no problem of autocorrelation and that the estimated models can be relied upon for making inferences.

### 4.3.2 MFBs and Poverty Alleviation Poverty

Poverty is measured by UNDP benchmark of $/190 per day, which is equivalent to #249,600 per annum. A person is poor if he is below the bench mark.

**Table 4.3.2:Poverty Alleviation**

Dependent Variable: POVR
Method: ML-Binary Logit (Newton-Raphson/Marquardt steps)
Date: 08/25/20 Time: 09:48
Sample: 1 410
Included Observations: 410

| Variable | Coefficient | Odd ratios | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|---|
| SAV | -0.399996 | 0.398111 | 0.027962 | -14.30481 | 0.0000 |
| CRED | -0.210791 | 0.615473 | 0.033369 | -6.316927 | 0.0000 |
| EDU | -0.923249 | 0.119330 | 0.290231 | -3.181080 | 0.0015 |
| C | -1.018547 | | 0.401389 | -2.537556 | 0.0112 |

| | | | |
|---|---|---|---|
| McFadden R-squared | 0.467625 | Mean dependent var | 0.641463 |
| S.D. dependent var | 0.480157 | S.D. of regression | 0.438171 |
| Akaike info criterion | 1.105881 | Sum squared resid | 77.94932 |
| Schwaez criterion | 1.145063 | Log likelihood | -222.7056 |
| Hannan-Quinn criter. | 1.121382 | Deviance | 445.4111 |
| Restr. Deviance | 535.1087 | Restr. Log likelihood | -267.5543 |
| LR statistic | 89.69755 | Avg. log likelihood | -0.543184 |
| Prob (LR statistic) | 0.000000 | | |
| Obs with Dep = 0 | 147 | Total obs | 410 |
| Obs with Dep = 1 | 263 | | |

Source: Researcher's Computation with E-view version 10.

From the result in table 4.3.2 above as summarized, indicates that all the explanatory variables savings, credit/loan, Education have negative coefficient with values -0.399996, -0210791 and -0.923249 respectively. Also the probability values are statistically significant which are less than 0.05 (0.000, 0.0000, 0.0015 and 0.0112). the z-statistics are -14.30451, -6.316927, -3.181080 and -2.537556. This shows that all are statistically significant. The implication is that the coefficient of saving -0.399996 (0.3981113) odd ratio suggests that when MFBs encourage households and MSMEs to save, the more likely they will stay out of poverty. put differently, a percentage increase in saving decrease the incidence of poverty among the household by about 40%. The poverty level of those who assess loans/credit from MFBs may reduce by about 61% with coefficient of -0.210791 (0.615473) odd ratio. In same vein, educational qualification has a coefficient of -0.9232487 (0.1192303) odd ratio implying that it enhances poverty reduction at about 11%. The value of R-Square is 0.467625 indicating that about 46% of the variation in the dependent variable poverty alleviation is accounted by variation in the independent variables. The overall test of statistical robustness and reliability was executed using L-R test. The L.R statistic for poverty alleviation is 89.69755 with P-values of 0.00000. Therefore, the estimated model has a good fit and reliable for making inference.

### 4.3.3 MFBs and Women Empowerment

**Women Empowerment:** This is measured by the annual income of 187 of women micro entrepreneurs out of total 410 respondents. With the income, women can be empowered through the acquisition of assets and involved in decision making.

**Table 4.3.3:Women Empowerment**

| | | | | |
|---|---|---|---|---|
| Dependent Variable: WE<br>Method: Least Squares<br>Date: 08/25/20 Time: 09:38<br>Sample: 1 187<br>Included Observations: 187 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| EDU | 0.167657 | 0.048985 | 3.422610 | 0.0007 |
| LS | 0.185910 | 0.052721 | -3.526265 | 0.0005 |
| SAV | 0.432049 | 0.034576 | 12.49560 | 0.0000 |
| C | 0.064530 | 0.053664 | 1.202478 | 0.2299 |
| R-squared | 0.736151 | Mean dependent var | | 3.693293 |
| Adjusted R-squared | 0.735521 | S.D. dependent var | | 1.175461 |
| S.E. of regression | 0.298482 | Akaike info criterion | | 0.431907 |
| Sum squared resid | 36.08208 | Schwarz criterion | | 0.480884 |
| Log likelihood | -83.54084 | Hannan-Quinn criter | | 0.451283 |
| F-statistic | 1484.532 | Durbin-Watson stat | | 1.893230 |
| Prob (F-statistic) | 0.000000 | | | |

Source: Researcher's Computation with E-view version 10.

The result as summarized in table 4.3.3 above shows that educational qualification, loan size and saving has 0.167657, 0.185910 and 0.432049 coefficients respectively with P-values of 0.0007, 0.0005 and 0.0000, this indicating that they are statistically significant. A percentage increase in the educational qualification, loan size and saving, may empower women by 16%, 18% and 43%

respectively. The estimated model has reasonable high values of $R^2$ and adjusted $R^2$ of 0.736151 and 0.735521. Therefore, about 73% of the total variation in the dependent variable women empowerment was accounted by variation in the independent variables. Finally, the Durbin-Watson Statistic of 1.944174 is close to 2 (1.893230) indicating no problem of autocorrelation and that estimated model can be relied upon for making inferences.

### 4.4 Evaluation of Research Hypotheses

The estimates obtained from the model of this study were evaluated using economic criterion, statistical criterion and econometric criterion.

#### 4.4.1 Hypothesis One:

1. **$H_O$:** MFBs have not contributed significantly to job creation by MSMEs in Anambra State.
   **$H_I$:** MFBs have contributed significantly to job creation by MSMEs in Anambra State.

a. **Economic Criterion**

The economic criterion is used to evaluate the model estimates based on theoretical or apriori expectations concerning the relationships between the hypothesized variables of the model. The economic criterion was evaluated using sign test. The sign test compares the sign of the parameter estimates with apriori sign. The sign test is summarized in Table 4.4.1 below.

**Table 4.4.1: Summary of Apriori Expectation (Job Creation)**

| **Independent variable** | **Expected sign** | **Obtained sign** | **Remark** |
|---|---|---|---|
| Monthly income | Positive | Positive | Conformed |
| Saving | Positive | Positive | Conform |
| Credit/loan | Positive | Positive | Conformed |

Source: Researcher's Compilation

The results above shows that monthly income, savings and loan conforms to apriori expectation may suggest that during the time a business entity is saving, resources may be held which may affect the capacity of the MSMEs to grow and employ more workers but once it is later invested, it will stimulate business activities and job creation.

b. **Statistical Criterion**

The robustness of the hypothesized model and the validate of the research hypotheses are evaluated based on the following statistical criterion.

**Table 4.4.2: Summary of Individual t-test**

| Variable | Coefficient | t-statistics | Probability | Remark |
|---|---|---|---|---|
| MI | 0.210134 | 5.870962 | 0.0000 | Significant |
| SAV | 0.64913 | 1.240584 | 0.2155 | Insignificant |
| Cred/loan | 0.131244 | 2.572397 | 0.0105 | Significant |
| $R^2$<br>F-Statistic (Prob) | 0.760774<br>0.000000 | | | |

From the table 4.4.2, all the coefficients are significant except saving which has a probability value 0.0215>0.05 with F-statistics prob. of 0.0000. The $R^2$ value is 0.760774 measures the goodness of fit of the model-the explanatory power of the independent variable.

c. **Econometric Criterion**

Durbin Watson test was adopted to check for the presence of autocorrelation as explained. Durbin-Watson's value is 2, therefore we accept that there is no problem of autocorrelation.

**Table 4.4.3: Summary of Statistics for the test of Hypothesis One**

| MFBs have not contributed significantly to jobs and growth of MSMEs in Anambra State | | | | | |
|---|---|---|---|---|---|
| Sample size | Level of significance | F-statistics | Prob. F-statistics | $R^2$ | Decision |
| 410 | 0.05 | 25.92638 | 0.000000 | 0.760774 | Do not accept $H_O$ |

Source: Researchers' Compilation

From the above table, the value of F-statistics which measures the overall significance of the model is 0.000000 which is less than 0.05. Therefore, we reject $H_O$ and accept $H_I$ hypothesis which states that MFBs have contributed significantly to the job creation and growth capacity of MSMEs in Anambra state.

### 4.4.2 Hypothesis Two:

2. **$H_O$:** MFBs have not contributed significantly to poverty alleviation in the state.

   **$H_I$:** MFBs have contributed significantly to poverty alleviation in the state.

a. **Economic Criterion**

**Table 4.4.4: Summary of Apriori Expectation (Poverty Alleviation)**

| Independent variable | Expected sign | Obtained sign | Remark |
|---|---|---|---|
| Saving | Negative | Negative | Conformed |
| Cred/loan | Negative | Negative | Conformed |
| EDU | Negative | Negative | Conformed |

Source: Researcher's Compilation

The result above shows that all the independent variables conformed the apriori expectation.

b. **Statistical Criterion**

The robustness of the hypothesized model and the validity of the research hypothesis was evaluated based on the following statistical criterion.

**Table 4.4.5: Summary of Individual Z-Test**

| **Variable** | **Coefficient** | **Z-statistics** | **Probability** | **Remark** |
|---|---|---|---|---|
| Saving | -0.399996 | -14.30481 | 0.0000 | Significant |
| Cred | -0.210791 | -6.316927 | 0.0000 | Significant |
| EDU | -0.923249 | -3.181080 | 0.0015 | Significant |
| LR Statistics (prob)<br>MacFaden $R^2$ | 0.00000<br>0.467625 | | | |

Source: Researcher's Compilation

From the table 4.4.5 above, all the coefficients are significant at the probability value of less than 0.05. The Fadden $R^2$ is 0.467625.

**Table 4.4.6: Summary of statistics for the test of hypothesis two**

| **$H_O$:** MFBs have not contributed significantly to poverty alleviation in the state. | | | | |
|---|---|---|---|---|
| Sample size | Level of significance | LR-statistics | Prob. LR-statistics | Decision |
| 410 | 0.05 | 89.69755 | 0.00000 | Do not accept $H_O$ |

Source: Researchers' Compilation

From the above table, the LR-statistics for the poverty alleviation model is 89.69755 with the probability value of 0.00000 which is less than 0.05. thus, the null hypothesis is rejected and the alternative hypothesis $H_I$ accepted that MFBs have contributed significantly to poverty alleviation the hypothesis three.

### 4.4.3 Hypothesis Three

3. **$H_O$:** There is no significant contribution of MFBs to women empowerment in Anambra State.

   **$H_I$:** There is a significant contribution of MFBs to women empowerment in Anambra State.

**a. Economics Criterion**

**Table 4.4.7: Summary of Apriori Expectation (Women Empowerment)**

| **Independent variable** | **Expected sign** | **Obtained sign** | **Remark** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| EDU | Positive | Positive | Conformed |
| Loan size | Positive | Positive | Conformed |
| Savings | Positive | Positive | Conformed |

The result is table 4.4.7 above showed that all the independent variables conformed with the apriori expectation.

b. **Statistical Criterion**

**Table 4.4.8: Summary of Individual t-statistics**

| Variable | Coefficient | T-statistics | Probability | Remark |
|---|---|---|---|---|
| Edu | 0.167657 | 3.422610 | 0.0007 | Significant |
| Loan size | 0.185910 | -3.526265 | 0.0005 | Significant |
| Saving | 0.432049 | 12.49560 | 0.0000 | Significant |
| $R^2$<br>F-Statistic (Prob) | 0.736151<br>0.000000 | | | |

From the table 4.4.8 all the coefficients are significant at 0.05 with $R^2$ and F-statistics values of 0.00000 and 0.73%.

c. **Econometric Criterion**

Durbin-Watson test is 1.89 close to 2, indicating no problem of auto correlation.

**Table 4.4.9: Summary of statistics for the test of hypothesis three**

| **$H_O$:** There is no significant contribution of MFBs to women empowerment in Anambra State. | | | | | |
|---|---|---|---|---|---|
| Sample size | Level of significance | F-statistics | Prob. | $R^2$ | Decision |
| 187 | 0.05 | 1484.532 | 0.00000 | 0.736151 | Do not accept $H_O$ |

Source: Researchers' Compilation

From the table above, the value of F-statistic is 1484.532 with the prob. value of 0.00000 which is less than 0.05. We therefore, reject the $H_O$ and accept the $H_I$.

4. **$H_O$:** The households do not have access to financial and non-financial services provided by MFBs in Anambra state.

   **$H_I$:** The households do have access to financial and non-financial services provided by MFBs in Anambra State.

Tables 4.2.2 and 4.2.3 were used to answer the research question which was on the evaluation of the financial and non-financial services as assessed by the households/customers of MFBs in

Anambra state. From the responses and the mean item scores which is more item scores which is more than 2.5 the minimum likert cut-off, the financial services are accessible except internet and Mobile Banking of (2.25) and (2.28) which are below the likert cut off. Also most of the non-financial services of MFBs are not accessed or rendered. In table 4.2.3, financial management, procurement services and Business monitoring are below the likert scale of 2.5 MFBs should therefore pay more attention on the provision of non-financial services to increase their performance. Never the less we accept the $H_I$ because most of the services are above 2.5 likert scale cut off, that financial and non-financial services are assessed by households in Anambra state.

5. **$H_O$:** There are no constraints affecting the accessibility of MFBs services in Anambra State.
   **$H_I$:** There are constraints affecting the accessibility of MFBs in Anambra state.

Table 4.2.1 was used to answer the research question. From the table, it was shown that majority of the respondents agreed that there are constraints to accessing the MFBs financial and non-financial services by the households/customers. For instance, high interest, short repayment period, lack of access to loan and credit information, are major constraints to accessibility of the services of MFBs. The mean item scores on table 4.2.1 clearly indicate that there are constraints to accessibility of the services of MFBs (considering the likert scale cut off of 2.5).

### 4.5 Discussion of Findings

The major thrust of this study is to appraise the MFBs in Anambra State in line with the MPRSF as launched in December, 2005 with specific objectives of providing diversified, affordable and dependable financial and non-financial services to the economically active poor with the aim of raising the standard of living through employment, poverty alleviation and women empowerment. The results presented in the previous section indicate that MFBs in the state have contributed to the achievement of the policy objectives through MFBs. The results in Table 4.3.1 shows that MFBs through the provision of financial services have contributed to the employment generation through the growth of MSMEs in Anambra state. With the services, new MSMEs have started operation and new old ones expanded with more jobs. This is in line with the work of Okafor (2016) which showed that MFBs activities had a significant positive impact on employment as in table 4.1.7.

The findings of the study also revealed positive contribution to poverty alleviation and improvement in the income related activities of the households and customers of MFBs, with the services, thereby reduced the incidence of poverty. Also the finding of the study indicates that MFBs have contributed to women empowerment. Access to appropriate services and use will in short-run enhance business turnover, income, education of self and children and the continuous access will have long-run effect of poverty alleviation and improved standard of living. This is in line with the microfinance theory of change that explains the benefits of accessing microfinance services. However, from the respondents, it was discovered that there are some respondents whose level of income, savings have not improved and some MSMEs that have not created jobs since joining assessing the services of MFBs.

From the findings, it was discovered that MFBs do not fully provide non-financial services e.g. financial training, business consulting, and pre-loan training and some financial services like internet and mobile banking are restricted. For the achievement of the MPRSF objectives, these services need to be provided in addition to the traditional fund mobilization from surplus unit to the deficit unit of the economy.

Other findings of the study include that most MFBs concentrated in semi-urban and urban areas. For instance, in Anambra North senatorial district, there is no MFB in the two L.G.As of Ayamelum and Anambra West. Most MFBs concentrated in Onitsha axis of the district. There has been poor patronage of MFBs by women, out of 410 respondents that returned their questionnaire, only 187 are women. More women will be encouraged to be involved in MFBs activities if the objective of women empowerment will be achieved and enhanced.

Finally, some constraints were identified as affecting the performance of MFBs and which hindered that achievement of the objectives. Some of these constraints include; high interest rate, lack of access to credit/loan information, short repayment period of loans, insider abuse, inefficient management and competition with DMBs. These constraints affect the rationale behind the establishment of MFBs in Nigeria.

### 4.6 Policy Implications of the Study

A number of policy implications were derived from the empirical findings.

1. MFBs have contributed to employment, poverty alleviation and women empowerment but the capacity is still very low and need improvement.
2. Some of the financial and non-financial services as provided by MFBs for example, loan (size, repayment period) should be designed to benefit the customers. Efforts should not only be on the provision of financial services but also non-financial services like pre-loan training, advisory services, entrepreneurship training, business consulting and monitoring.
3. There is general agreement that there are major constraints militating against effective performance of MFBs in the state. For example, a very high interest rate, lack of access to loan information, social perception of MFBs, short repayment policy and competition with DMBs.
4. There is need for the enabling environment and provision of basic infrastructure in rural areas to enable MFBs provide services like internet and mobile banking, operate at minimum costs as this will enhance the achievement of the microfinance objectives.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATION

## 5.1 Summary

MFBs were established in 2005 with specific objectives and as a strategy for poverty alleviation. The objectives would be achieved through the accessibility of the financial and non-financial services of MFBs. This study appraised the MFBs in Anambra state which has the second largest concentration of MFBs in Nigeria after Lagos. CBN (2005) maintained that MFBs are aimed at empowering the poor, through the needed financial services like provision of microcredits and loans. Credit is considered essential input to increased economic performance and productivity. Credit boosts income level, increase employment at the household level and thereby alleviates poverty. MBF services, including savings and loan enable MSMEs to acquire basic infrastructure and raw materials. The importance of MFBs therefore cannot be over-emphasized because it plays a role in making credits/funds available from the surplus to the deficit sector of the economy through its intermediary role especially to the poor segment of the economy.

The study, first reviewed the concepts of microfinance which is the provision of financial services to the group who are traditionally not covered or served by the conventional financial institution (Wrenn, 2005). Based on the reviews by the scholars, we conceptualize a framework which described the steps to the achievement of the MPRSF objectives. The basic theories of microfinancing discussed include microfinance theory of change which explains the benefits of assessing MFBs financial services. According to Dunford (2012), access to appropriate services like credit/loans, savings and the use will in short run increase business turnover and employment, education for children and in long run reduce poverty alleviation and raise standard of living. However, the effect will be felt by someone who follows the three steps of accessment, investment and repayment. Financial intermediation theory is based on transaction and asymmetric information. Supply leading and demand following hypotheses try to establish a nexus between economic development and finance as propounded by Schumpeters in 1911. Microfinance theory based on joint liability while life cycle theory of firm finance and investment outlines various options left for firms on path to expansion.From the empirical review exercise, it was discovered that different empirical studies on microfinance bank have been carried out with different methods ranging from Ordinary Least Square regression (OLS), descriptive statistics, multiple regression and ANOVA. The authors reviewed include: Babagana (2010); Babajide (2011); Chima (2012); Anusi (2012); Odebiyi&Olaoye (2012); Ajagbe (2012); Gulani&Usman (2012); Akande (2012); Ngutor et al (2013); Agbo&Ebe (2013); Adbulazees (2014); Musa et al (2014); Gichuki et al (2014); EFInA (2014). Based on the empirical reviewed literature, the study therefore becomes justified to the best of my knowledge as among the first studies that appraised the MFBs in Anambra State, South East geopolitical zone. Secondly, unlike Jenyo and Adebayo (2014) who focused on thestructure and practicability of MFBs operations in North Central Nigeria, the present study focused on the three core objectives of MPRSF. Thirdly, the current study used both questionnaire and regression model analysis unlike previous studies that used either descriptive or OLS techniques of analysis.

The adopted design and framework for the study is the survey/questionnaire design. The research population and study area consist of all the customers of the 45 MFBs in the three senatorial zones in Anambra State. The area/population of the study is the 410 respondents. A pre-pilot structured questionnaire was used as the method of data collection. All the parts of the questionnaire were designed with close- end- questions which take the form of multiple-choice questions.

The research instrument was face validated by some researchers in the Faculty of Social Sciences, NnamdiAzikiwe University. The Cronbach Alpha Coefficient was used to confirm the validity of the research instrument. The theoretical framework of the study is financial intermediation theory as developed by Gurley & Shaw (1960). Based on the framework and using previous study models (Babajide&Iyha, 2013; Ayoeleji, Adewusi&Ibitoye, 2012; Niskanen&Niskanen, 2007; Karlan& Valdivia, 2006; Canagarajah et al, 1998; Dalt&Ravalin, 1996a; 1996b; Aryeetey&Gockel, 1999),three models were specified, formulated and estimated to give empirical contents to the questionnaire responses. The result presented shows that MFBs have contributed positively to the three objectives of poverty alleviation,women empowerment and employment generation. On the otherhand, the result obtained reveals that most of MFBs concentrated in urban areas, and that lack of access to basic infrastructure e.g. internet services, competition with DMBs and high interest rates are constraints to the accessibility of MFBs services in Anambra state.

## 5.2 Conclusion

The main thrust of this study was to appraise the MFBs in Anambra state in line with the MPRSF objectives of employment, poverty alleviation and women empowerment. Particularly, the study focused on the accessibility of the financial and non-financial services of MFBs since MPRSF in 2005. The study also examined the constraints to the accessibility of the services of the bank. Findings from the study indicate that men patronize MFBs than women.That the employment, income and assets of MSMEs have increased. Women decision making ability have also improved relatively.Customers between the ages of 41-50 patronize MFBs more than other age groups and that mostly less uneducated people form the bulk of MFBs customers among other findings. From the results obtained and inferences drawn thereof, we conclude as follows. First, MFBs have significantly contributed to employment generation/jobs in Anambra state. With the financial and non-financial services, new MSMEs have started and old ones expanded. The findings, also revealed positive contribution to poverty alleviation and women empowerment though there are still areas for improvement.

Secondly, there are still financial and non-financial services that are not optimally provided. For example internet and mobile banking services, pre-loan training, business consulting and procurement services and the need to improve on them.

Thirdly, there are still inherent constraints to the accessibility of financial and non-financial services of MFBs. These constraints include high interest rate, short loan repayment period, competition with DMBs.

## 5.3 Policy Recommendations

The key findings from our study show that MFBs have contributed to the objectives of MPRSF despite some challenges. The following policy recommendations are provided for improvement:

1. Enabling Environment for MFBs Operations: The government should provide basic infrastructure especially in the rural areas to enhance the operations of the banks as most MFBs prefer urban areas where the cost of doing business is low.

2. In line with the world technology derive, the banks (MFBs) should acquire appropriate Information Communication Technology (ICT) so as to boost the internet and mobile banking services of the MFBs as evidences proved that its non- availability hinders the performance of MFBs.
3. Improve on the financial and non-financial services/products that will be beneficial and attractive to the economically active poor.
4. Restriction of commercial banking activities on certain areas to reduce competition with DMBs so that MFBs could be harnessed for development in the rural areas.
5. Creation of dedicated fund in the CBN for easy assessment by the MFBs to the benefit of the poor.

## 5.4 Contributions to Knowledge

The study has contributed to the body of knowledge in the following ways:

(v) The study is an appraisal of microfinance banks in Nigeria has contributed to the literature of microfinance institutions.

(vi) Unlike previous studies, for example (Jenyo and Adebayo, 2014) that focused on structure and practicality of MFBs in its evaluation in the North Central, our study focused on MFBs contribution to employment generation, poverty alleviation and women empowerment in Anambra State, the South Eastern Nigeria.

(vii) Unlike previous studies that used questionnaire only (survey), the current study used a combination of survey and regression in appraising the MFBs in Anambra State, Nigeria.

(viii) The theoretical contribution of the study to the existing knowledge is also quite significant. Unlike previous studies, this study used a broader based theory of poverty alleviation as framework.

## 5.5 Suggestions for Further Studies

A critical performance appraisal of MFBs performance at the aggregate level in the literature is quite scarce in Nigeria. Therefore, as a suggestion, an aggregate performance appraisal of the MFBs in Nigeria is needed. However, it is also suggested that such a research should be carried out using the National Living Standard Survey (NLSS) data.

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**APPENDIX I**

Department of Economics,
NnamdiAzikiwe University,
Awka.
2/01/2018.

**QUESTIONNAIRE**

Dear participant,

I am a PhD student in the Department of Economics, NnamdiAzikiwe University, Awka, conducting a research on AN APPRAISAL OF MICROFINANCE BANKS IN ANAMBRA STATE. Kindly respond to the following information below by ticking (√) where necessary. The information you will supply will be for research purpose and will be treated with utmost confidentiality.

**Kindly answer/tick the options below:**

1) Sex: Male ☐ Female ☐
2) Age: below 20 years ( ) 20-30 years ( ) 31-40 years ( ) 41-50 years ( ) above 50 years ( )
3) Marital Status: Single ☐ Married ☐ Divorced ☐ Widowed ☐
4) if married, Divorced or widowed, indicate your family size ☐
5) Educational Qualification: FSLC ☐ WASSCE/NECO ☐ OND/NCE ☐ HND/BSc ☐ MSc/MBA ☐ PhD ☐ Others Specify ☐
6) Do you have an account with microfinance bank (MFB) in Anambra State? Yes ☐ No ☐
7) Location of your bank: Anambra North (Onitsha) ☐ Anambra Central (Awka) ☐ Anambra South (Nnewi) ☐
8) What influenced participation of MFBs?

| Code | Influenced by | Box |
|---|---|---|
| 1 | Microfinance Banks outreach | |
| 2 | MFBs successful assistance | |
| 3 | Employment/income generation | |
| 4 | Poverty reduction | |
| 5 | Personal decision | |
| 6 | Free entry and exit | |
| 7 | Others specify | |

9) Do you have any/manage business that is classified as Micro, Small and Medium Enterprise MSME in Anambra State? Yes ☐ No ☐
10) Which of the following business scale do you run? Micro ☐ Small ☐ Medium ☐
11) What is the number of your employees, if you own/manage any business? ☐
12) Age of firm: please specify ……………………………………………………… years
13) Source of initial capital: Personal savings ☐ Borrowed from friends ☐ Loan from bank ☐ Gift and Grant ☐
14) What is your start-up capital ……………………………………………………
15) Has the number of your employees and assets increased after joining MFBs? Yes ☐ No ☐
16) If yes indicate the number of your employees/assets in the last six years in the table below.

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Employees | | | | | | |
| Assets | | | | | | |

17) Has your income improved after joining MFBs? Yes ☐ No ☐
18) If yes in 15 above indicate your monthly income below.

    (a) N1,000 – N25,000 ☐ (b) N26,000 – N50,000 ☐

    (c) N51,000 – N75,000 ☐ (d) N76,000 – N100,000 ☐
    (e) N100,000 – N125,000 ☐ (f) N126,000 - above ☐

19) Also indicate the range of year Annual income

    (a) 0 – N250,000 ☐ (b) N260,000 – N500,000 ☐

    (c) N500,000 – N1,000,000 ☐ (d) N1,000,000 – above ☐

20) Has your annual/sales improved after joining MFBs? Yes ☐ No ☐
21) If Yes or No indicate the range from (2013-2018) in table below:

| Year | Annual sales | Estimated amount |
|---|---|---|
| 2013 | | |
| 2014 | | |
| 2015 | | |
| 2016 | | |
| 2017 | | |
| 2018 | | |

22) Has microfinance bank assisted you in form of a loan? Yes ☐ No ☐

23) What is the size or the amount of loan received from microfinance bank since you started the business/become a customer? 0-₦50,000 ☐ ₦51,000-₦100,000 ☐ ₦101,000-₦500,000 ☐ ₦501,000-₦1,000,000 ☐ Above ₦1,000,000 ☐

24) Indicate, your purpose of obtaining loan.

| Code | Influenced by | Box |
|---|---|---|
| 1 | Business expansion | |
| 2 | Children education | |
| 3 | Asset Acquisition | |
| 4 | Improvement in income | |
| 5 | Raw-materials | |

25) Indicate average monthly savings before and after joining MFB in the table below:

| | Savings ₦ |
|---|---|
| Before | |
| After | |

26) Tick your assessments of the following financial products that are easily accessible on a five-point Likert scale with Strongly agree, Agree, Undecided, Disagree and Strongly disagree.

| S/N | Financial Services | Strongly Agree | Agree | Undecided | Disagree | Strongly Disagree |
|---|---|---|---|---|---|---|
| 1. | Savings | | | | | |
| 2. | Current | | | | | |
| 3. | Fix capital | | | | | |
| 4. | Credit/loan | | | | | |
| 5. | Insurance | | | | | |
| 6. | Money transfer | | | | | |
| 7. | ATM | | | | | |
| 8. | Internet Banking | | | | | |
| 9. | Mobile Banking | | | | | |
| 10. | Pension | | | | | |

27) Tick your assessment on the non-financial products that are easily accessible on a five-point Likert scale with Strongly agree, Agree, Undecided, Disagree and Strongly disagree.

| S/N | Non-Financial Services | Strongly Agree | Agree | Undecided | Disagree | Strongly Disagree |
|---|---|---|---|---|---|---|
| 1. | Pro-loan Training | | | | | |
| 2. | Business consulting for start-up and development | | | | | |
| 3. | Finalizing application | | | | | |
| 4. | Information | | | | | |
| 5. | Financial/management trainii | | | | | |
| 6. | Procurement services | | | | | |
| 7. | Business monitoring | | | | | |

28) Tick your assessment on the constraints to the accessibility of financial and non-financial services of MFBs by the households in Anambra state

| S/N | Variables | Strongly Agree | Agree | Undecided | Disagree | Strongly Disagree |
|---|---|---|---|---|---|---|
| 1. | High interest rate | | | | | |
| 2. | Lack of access to loan and informatior | | | | | |
| 3. | Short repayment policy | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4. | Competition with other financial institutions | | | | | |
| 5. | Social perception of MFBs | | | | | |
| 6. | Insider abuse | | | | | |
| 7. | Insufficient management | | | | | |

# APPENDIX II

## Questionnaire Distribution in Selected Senatorial Zones in Anambra State

| S/N | Zones | No. of Microfinance Banks | No. of Questionnaire Distributed |
|---|---|---|---|
| 1. | Anambra North | 11 | 122 |
| 2. | Anambra South | 20 | 157 |
| 3. | Anambra Central | 14 | 221 |
| | | | **500** |

Source: Researcher's Compilation (2018)

## Table: Questionnaire Distribution in the Selected Senatorial Districts/MFBs/Towns

| Senatorial Zone | L.G.A | MFBs/Towns | Customers | Distributed | Returned | Total Questionnaires Distributed |
|---|---|---|---|---|---|---|
| Anambra North | Onitsha North | Oluchukwu | 29,783 | 23 | 22 | |
| | | Ezimuzo | 16,311 | 13 | 10 | |
| | | Akuchukwu | 10,826 | 8 | 6 | 24% |
| | | Victory | 14,712 | 11 | 7 | |
| | | Partnership | 11,662 | 9 | 7 | |
| | Onitsha South | Woliwo | 18,200 | 14 | 9 | 122 |
| | | Forward | 11,606 | 9 | 8 | |
| | Ogbaru | Harbour | 13437 | 10 | 9 | |
| | Oyi | Awkuzu | 10,006 | 8 | 4 | |
| | | Umunya | 8261 | 6 | 4 | |
| | Anambra East | Aguleri | 13926 | 11 | 5 | |
| | Ayamelum | - | | | - | |
| Anambra Central | Idemili North | Oraukwu | 13182 | 10 | 8 | |
| | | Obosi | 18001 | 14 | 11 | |
| | | Umuoji | 12347 | 9 | 6 | |
| | | Abatete | 8117 | 6 | 5 | |
| | Idemili South | Ejimatu | 10418 | 8 | 5 | 221 |
| | | Nnokwa | 12782 | 10 | 9 | |
| | | Idemili | 10472 | 8 | 8 | |
| | Njikoka | Peoples | 15817 | 12 | 10 | 44% |
| | | Umunne | 16691 | 10 | 7 | |
| | Dunukofia | Ezebo | 19856 | 15 | 9 | |
| | Awka South | Awka | 14916 | 11 | 10 | |
| | | Uzondu | 15118 | 12 | 12 | |
| | | Millennium | 7626 | 6 | 6 | |
| | | Amawbia | 15219 | 12 | 7 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | GMB Nibo | 17288 | 13 | 10 | |
| | | Nice | 11217 | 9 | 8 | |
| | Awka North | - | | | - | |
| | Anaocha | AACB | 16218 | 12 | 11 | |
| | | Udoka | 18793 | 14 | 10 | |
| | | AdaziEnu | 21001 | 16 | 16 | |
| | | Adazinnukwu | 18621 | 14 | 14 | |
| Anambra South | Nnewi North | Ibeto | 22712 | 17 | 15 | |
| | | Everest | 18226 | 14 | 13 | |
| | | Hallowed | 13118 | 10 | 8 | |
| | | Ideal Trust | 10007 | 7 | 5 | 157 |
| | | Model | 14255 | 11 | 11 | |
| | Nnewi South | Ukpor | 18219 | 14 | 14 | 32% |
| | | Utuh | 7216 | 6 | 5 | |
| | | Unubi | 8298 | 6 | 4 | |
| | Ihiala | Ihiala | 20812 | 16 | 16 | |
| | Aguata | Ekwulobia | 24719 | 15 | 10 | |
| | | Igboukwu | 17875 | 14 | 13 | |
| | Orumba North | Easy access | 10218 | 8 | 19 | |
| | | Oko | 18712 | 14 | 12 | |
| | Orumba South | - | | | - | |
| | Ekwusigo | Ihemobosi | 6214 | 5 | 2 | |
| | | | **651594** | **500** | **410** | **500** |

Source: Researcher's Compilation (Field Study)

# APPENDIX III

## Employment Generation

Dependent Variable: JCC
Method: Least Squares
Date: 08/25/20 Time: 10:04
Sample: 1 410
Included observations: 410

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| MI | 0.210134 | 0.035792 | 5.870962 | 0.0000 |
| SAV | 0.064913 | 0.052324 | 1.240584 | 0.2155 |
| CRED | 0.131244 | 0.051020 | 2.572397 | 0.0105 |
| C | 0.393704 | 0.077020 | 5.111689 | 0.0000 |

| | | | |
|---|---|---|---|
| R-squared | 0.760774 | Mean dependent var | 0.641463 |
| Adjusted R-squared | 0.754573 | S.D. dependent var | 0.480157 |
| S.E. of regression | 0.441490 | Akaike info criterion | 1.212386 |
| Sum squared resid | 79.13491 | Schwarz criterion | 1.251568 |
| Log likelihood | -244.5392 | Hannan-Quinn criter. | 1.227888 |
| F-statistic | 25.92638 | Durbin-Watson stat | 2.042142 |
| Prob(F-statistic) | 0.000000 | | |

# APPENDIX IV

## Poverty Alleviation

Dependent Variable: POVR
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)
Date: 08/25/20 Time: 09:48
Sample: 1 410
Included observations: 410
Convergence achieved after 5 iterations
Coefficient covariance computed using observed Hessian

| Variable | Coefficient | Std. Error | z-Statistic | Prob. |
|---|---|---|---|---|
| SAV | -0.399996 | 0.027962 | -14.30481 | 0.0000 |
| CRED | -0.210791 | 0.033369 | -6.316927 | 0.0000 |
| EDU | -0.923249 | 0.290231 | -3.181080 | 0.0015 |
| C | -1.018547 | 0.401389 | -2.537556 | 0.0112 |

| | | | |
|---|---|---|---|
| McFadden R-squared | 0.467625 | Mean dependent var | 0.641463 |
| S.D. dependent var | 0.480157 | S.E. of regression | 0.438171 |
| Akaike info criterion | 1.105881 | Sum squared resid | 77.94932 |
| Schwarz criterion | 1.145063 | Log likelihood | -222.7056 |
| Hannan-Quinn criter. | 1.121382 | Deviance | 445.4111 |
| Restr. deviance | 535.1087 | Restr. log likelihood | -267.5543 |
| LR statistic | 89.69755 | Avg. log likelihood | -0.543184 |
| Prob(LR statistic) | 0.000000 | | |

| | | | |
|---|---|---|---|
| Obs with Dep=0 | 147 | Total obs | 410 |
| Obs with Dep=1 | 263 | | |

# APPENDIX V

## Women Empowerment

Dependent Variable: WE
Method: Least Squares
Date: 08/25/20 Time: 09:38
Sample: 1 187
Included observations: 187

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| EDU | 0.167657 | 0.048985 | 3.422610 | 0.0007 |
| MS | -0.185910 | 0.052721 | -3.526265 | 0.0005 |
| SAV | 0.432049 | 0.034576 | 12.49560 | 0.0000 |
| C | 0.064530 | 0.053664 | 1.202478 | 0.2299 |

| | | | |
|---|---|---|---|
| R-squared | 0.736151 | Mean dependent var | 3.693293 |
| Adjusted R-squared | 0.735521 | S.D. dependent var | 1.175461 |
| S.E. of regression | 0.298482 | Akaike info criterion | 0.431907 |
| Sum squared resid | 36.08208 | Schwarz criterion | 0.480884 |
| Log likelihood | -83.54084 | Hannan-Quinn criter. | 0.451283 |
| F-statistic | 1484.532 | Durbin-Watson stat | 1.893230 |
| Prob(F-statistic) | 0.000000 | | |