The Role Of Micro Finance Bank In Poverty Alleviation In Nigeria

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Abstract
The strategic intent of the Federal Government for pursuing the Microfinance policy through the Central Bank of Nigeria (CBN) with a renewed vigour is excellent. The imperatives of the policy is that about 65% of the people who were not covered by the banking system will have access to modern financial services without tears. The ultimate objective is to reduce drastically the poverty level in our country. This paper highlights the challenges inherent in pursuing the Microfinance policy and suggests ways by which they can be managed.

Keywords: Central Bank, Microfinance Bank, Poverty alleviation, rural areas

Introduction
The need to alleviate poverty and make Nigerians live decent lives has always been on the policy agenda of most Nigerian governments. However, the tendency of the well intended idea to faike in the implementation process is a cause for concern.

Poverty means insufficiency of income and one can rightly assert that joblessness also inevitably leads to or is a principal cause of poverty. Indeed one of the objectives of this year’s budget is poverty alleviation but government needs to put its policies right before it can alleviate the scourge. It is pertinent to mention that Nigeria may not achieve the objective of poverty alleviation with the current contradictions in the society typified by inconsistent policies, alienation of the citizenry from the activities of the government and general apathy. Some of the south east Asian countries were able to reduce their level of poverty today due to consensus, transparency and enabling environment created by government. Thus, while Indonesia has been accelerating in economic growth, Nigeria has been accelerating in economic decline. Nigeria must as a matter of reasonableness put her domestic policies right first in her quest to alleviate poverty.

There is no nation without poor people. Poverty has always been present with us (Hossain, 2012: Oriahi and Altufem 2010). About 25% (1.4 billion) of the total population of the world lives in poverty. This is not a pleasant surprise as this was the case with ancient civilizations. How best can poverty be alleviated? This has been the challenge of world leaders who have sought solutions for their country’s poor; a notable example being China and Brazil. Poverty eradication will continue to be debated on the global scene for effective programme design and implementation. One vital programme developed by the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), and Proshika of Bangladesh is micro financing of economic projects designed by the poor to enhance their socio-economic status. The examples of its successful implementation in Bangladesh, Nepal, India, Vietnam, China and The Philippine leave us with good reasons to believe that microfinance can alleviate poverty (Hossain, 2012; Shastri, 2009). The stimulation of this belief rests on the fundamental understanding of the underlying principles of microfinance and it ability to eradicate poverty, as implemented by countries named above. However, poverty is a broad topic and it will be useful to know what aspects of poverty microfinance practice alleviate.

Microfinance is a communal credit programme designed by countries and their institutions to eradicated poverty from the grassroots. Its practice is aimed at economic development of beneficiaries and the country, be exten- sion. Therefore, the practices is not strange even in Nigeria. Several studies conducted in Nigeria have been aimed at understudying micro-financing of economic projects embarked upon the poor in many Nigerian cities and States (Yahaya, Osemene and Abdulraheem, 2011). The concept is generic to the traditions and historical developments of many countries. In Mexico, the term Tandas is used to connote microfinance practice, the same way Chit funds is used in India and Ajo, Akawo or Esusu in Nigeria. This saving culture is practices by the poor in mostly rural communities due to a lack of confidence in conventional banking institutions. Because the poor is underserved under the conventional banking structure, microfinance institutions are licensed by man Governments who also regulate its practices through policies and legislations. The mandate is to alleviate poverty. But, are microfinance institutions and their programmes really alleviating poverty, as claimed?

the formal microfinance institutions emergence could be traced to the pioneering work of Yunus, a Professor of Economics from Bangladesh, who cut of great concern for the economically poor people of his country estab-
lished what originally looked like an NGO to cater for this identified set of people.

The success of this concept which led to the establishment of the first microfinance bank in Bangladesh known as Grameen bank with branches spread all over the rural settings in that country has grown into a global phenomenon which out across both the developed and developing economies today.

The government of Nigeria has identified microfinance as an effective tool for promoting better access of the poor low income population and vulnerable groups to financial and social services, and broad based/strong economic growth. Microfinance enables poor people to expand their businesses, increase their revenues, and create employment. To put microfinance in proper perspective, the Nigerian government launched the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on 15th December, 2005. The policy seeks to achieve the following targets:

a) Cover the majority of the poor but economically active population by 2020
b) Increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020;
c) Increase the share of micro credit as a percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020;
d) Promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015;
e) Improve women’s access to financial services by 5% annually; and
f) Increase the number of linkages among universal banks, development banks, specialised finance institutions and microfinance banks by 10% annually.

2. Conceptual Framework

The earlier concept of microfinance is hinged on the provision of financial services to the poor who are traditionally not served by the conventional financial institutions. However, the foregoing discussion on the current strategy has changed their earlier concept and practice. Microfinance institutions now engage in the provision of non-finance services. There are however certain distinguishing features of microfinance. These include smallness of loan portfolio, collection of savings mostly through credit unions and cooperative societies, the absence of asset-based collateral and simplicity of operation. The smallness of loans advanced and/or savings collected and the absence of asset-based collateral, among other things, make MSMEs unattractive customers to the deposit money banks. The new policy on microfinance is to address this problem in wider dimensions.

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the ‘susus’ of Ghana, ‘Ajo or Esusu’ in Nigeria. ‘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 commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organisations 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 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 were making loans to 20% of all Irish households annually. In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organised 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, has been estimated that there are 500 million economically active poor in the world operating microenterprises and small businesses (Women’s World Banking 1995). Most of them 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 solidarity group lending to urban vendors, and FundacionCarvajal developed a successful credit and training system for individual micro-entrepreneurs. Changes were also occurring in the formal financial sector. Bank Rakyat Indonesia, a state-owned, rural bank, moved away from providing subsidized credit and took an institutional approach that operated on market principles. In particular, Bank Rakyat Indonesia (BRI) developed a transparent set of incentives for its borrowers (small farmers) and staff, rewarding on-time loan repayments and relaying on voluntary savings mobilization as a source of funds.
Microfinance Bank (MFB) are licensed to provide banking services to:

a) Economically active poor e.g. peasant farmers, artisans, fishermen, women senior citizens and non-salaried workers in the formal and informal sectors.

b) Micro-enterprises-small and medium

c) The maximum loan that an MFB can grant to a single Borrower is N500,000. (Single obligor limit).

According to the Deputy Governor of CBN, Mr Tun-deLemo, in the Guardian of Friday August 24, 2007 there are about 239 MFBs in the country (Licensed or Licensed in Principle).Poverty is an epidemic ailment in the third world countries within which Nigeria belongs in terms of development.

3. Literature Review

Microfinance is the provision of a broad range of financial services such as savings, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. Microfinance services are provided by three types of institutions: formal institutions, such as microfinance banks, rural banks and commercial banks; semi-formal institutions, such as non-government organisations and cooperatives; and informal sources such as Rotating Savings and Credit Associations (ROSCA), Accumulated Savings and Credit Associations (ASCA), daily savings collectors (also known as door-to-door ‘bankers), money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semi-formal institutions. Microfinance institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services. Microfinance banks are banks licensed and supervised by Central Bank of Nigeria (CBN) to deliver microfinance services.

Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (hairdressers, cart pushers), artisans and small producers, such as black smiths and seamstresses. Their activities provide income (often from more than one activity) for the individuals and their households. Although they are often poor, they are generally not considered to be the ‘poorest of the poor’. These micro-entrepreneurs need a safe and secure place to keep their excess income; they require credit for business expansion or growth and require access to insurance (usually provided through informal network of family and friends).

The research by Yahaya et al (2011) and Ugoh and Ukper (2009) show that government policies on economic development are designed to alleviate poverty, including human capital development efforts by institutions. Government over the years has designed policies to serve the interest of the sector. Despite these efforts, over 90% of Nigerians live below two dollars (N320) daily. The rut is on-going and is differing available solutions. According to Nkamnebe (2008), cited by Yahaya et al, by 1980 Nigeria’s poor stood at 18million people; 35million people by 1985; 39million by 1992; 67million by 1996; 74million in 1999; and at the time of this study, about two-third (over 150million people) are confirmed poor. No wonder we are indexed among least developed countries by the UN (Yahaya et al, 2011; Ugoh and Ukper, 2009).

The poor find it difficult to access capital to run their small businesses of course they cannot run to commercial banks in Nigeria for help as lending rate hovers between 20% and 25% interest besides collaterals and class distinctions on who is given loan and who gets rejected. Borrowers are also to blame for their lack of transparency in operations, poor accounting standards, and financial indiscipline. The lack of trust between the lender and the borrower increases the risk of financing the sector and eradicating poverty from poor households.

The case of BRAC, Founded in 1972 in Bangladesh, the rural poor who live below the poverty line, especially women, is the target of its operations. Usually the poor are reported to be illiterate and suffer from social exclusion, disease and malnutrition. Their survival is constantly under threat due to socio-economic exclusion. BRAC offers collateral free credits payable within one year to its members except for housing loans whose repayments are beyond one year. Prior to loan disbursement, members are organised under village organisation (VOs). Members were largely farmers, shop owners and food sellers. The BRAC programmes are consciously focused on socio-economic development, health, education, human rights, legal services, disaster management, the natural environment and climatic change. The success of the BRAC microfinance operations is replicated across states and rural communities in Bangladesh (Hossain, 2012). Why is the Nigerian situation different?

A Bangladeshi study conducted by Haque and Yamao (2008) focused on determining how capably microcredit can alleviate poverty in Bangladesh. The study posits that 40% of Bangladeshi citizens live below the poverty line. Women members of reputable Non-governmental Organisations and Microfinance Institutions including Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), and ThengamaraMohilaSabujSanghawo had been borrowing from institutions for more than 6 years were sampled. The outcome of the study showed that
recommendations put forward indicate the practice in N... from the efforts of microfinance banks. However, the... data collected, the results showed poverty is reduced... lower repayment for micro-credit institutions. The impli... the microfinance intervention has a positive impact on... economic activities let alone paying bank the weekly instalments. The credit defaulters had to borrow from other sources to repay the loans, and in consequence fell into further, prolonged indebtedness. However, without indebtedness, the study showed that proper utilization of microcredit can improve the livelihood of Bangladeshis (Haque and Yamao, 2008). A closely related work was also done in Bangladesh by Ahmed (2009).

A look into the Nigerian situation shows close similarities with studies conducted in other parts of the world on poverty and micro-financing. The study conducted by Yahaya et al (2011) was aimed at examining the role effectiveness of microfinance banks in poverty alleviation in Kwara State, Nigeria. Stratified sampling method was adopted in recruiting respondents to the survey conducted by the researchers, using 420 questionnaires over a sample size of 80 registered microfinance institutions. Using T-Test and analysis of variance (ANOVA) to analyse data collected, the results showed poverty is reduced from the efforts of microfinance banks. However, the recommendations put forward indict the practice in Nigeria, a further evidence of the scheme’s inability to help the poor out of their predicament, going by the lack of infrastructural and socio-economic development of the country.

A study by Obamuyi (2011) contrasted the performance of loans given by conventional banks and micro-credit organisations to small and medium scale enterprises in Ondo State, Nigeria. 15 banks were sampled, using stratified random sampling method. 9 banks provided complete data for the exercise, in addition to data obtained from 9 microfinance institutions who are involved in granting small loans; 166 small businesses were sampled, using focused questionnaire administration. Using descriptive statistics to analyse data received, the results showed a higher repayment rate for the banks and a lower repayment for micro-credit institutions. The implication is that microfinance does not have the capability to emancipate the poor, since they are further indebted to lenders.

The study conducted by Irobi (2008) focused on women, the beneficiaries of microfinance, and how it affects the welfare of different groups of individuals and households. Mbieri, in Imo State, was chosen because ‘‘it is one of the villages that rural women, which engage in microfinance activities, live’’ (Irobi 2008:7). Empirical data were collated using informant interview and questionnaire methods. The researcher’s objective was to determine the rural women’s (the beneficiaries) experiences in business (such as farming, dress making, trading etc) with the assistance from the credits received from the association. The findings of the study showed that the microfinance intervention has a positive impact on the alleviation of poverty among women of this association. Interestingly, this study found that ‘‘most women (in this association experienced increased income and therefore improved their economic status) political and social conditions after receiving the loans’’ (Irobi, 2008:7). This is certainly good news. The sad reality is that there is still widespread poverty and social inequalities in most communities in Imo State, Nigeria.

**Highlights of the New Microfinance Policy Background**

Microfinance policy was prepared in exercise of the powers conferred on the Central Bank of Nigeria by the provisions of Section 28, Sub-section (1) of the CBN Act 24 of 1991 (as amended) and in pursuance of the provisions of Section 56-60 (a) of the Banks and other Financial Institutions Act (BOFIA) 25 of 1991 (as amended). This new policy seeks to address the current situation where MSMEs lack access to the conventional sources of financing. In Nigeria, the formal financed system provides services to about 35 per cent of the economically active population while the remaining 65 per cent are often served by the informal financial sector consisting of Non-Governmental Organisation Microfinance Institutions (NGO-MFIS), money lenders, friends, relatives and credit unions sometimes at high cost. A microfinance policy, which recognises the existing informal institutions and brings them within the regulatory and supervisory framework of the CBN would enhance monetary stability and expand the financial infrastructure of the country to meet the financial requirements of the MSMEs. The recent microfinance policy, which seeks to develop a long term sustainable microfinance sub-sector, has the following specific objectives: to:

a) Regulate the activities of some of these institutions which have been operating outside the regulating and supervisory framework of the CBN;
b) Recognise the existing informal institutions and bring them within the supervisory review of the CBN;
c) Expand the financial infrastructure of the country to meet the financial requirements of the MSMEs;
d) Create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system;
e) Provide the stimulus for growth and development;
f) Harmonise operating standards and strategic platform for the evolution of microfinance institutions;
g) Promote appropriate regulation, supervision and adoption of best practices;
h) Create a platform for the establishment of microfinance banks;
i) Improve the CBN’s regulatory/supervision performance; and
j) Provide appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in the country.

Policy Targets
The policy has the following as its targets to:

a) Cover, by 2020, the majority of the poor but economically active population and thereby create millions of jobs and reduce poverty;

b) Increase the share of microcredit as a percentage of total credit to the economy from the 0.9 per cent in 2005 to at least 20 per cent in 2020, and the share of micro-credit as a percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020;

c) Promote the participation of at least two-thirds (2/3) of the states and local government in micro-credit financing by 2015; eliminate gender disparity by improving women’s access to financial services by 5 per cent annually and

d) Increase the number of linkages among universal banks, development banks, specialised finance institutions and microfinance banks by 10 per cent annually.

Policy Strategies
In order to make the policy succeed, the following strategies have been developed from the objectives and target:

a) License and regulate the establishment of microfinance banks (MFBs); promote the establishment of NGO-based microfinance institutions;

b) Promote the participation of government in the micro-finance industry by encouraging states and local governments to devote at least one per cent (1 %) of their annual budgets to microcredit initiatives administered through MFBs;

c) Promote the establishment of institutions that support the development and growth of microfinance services providers and clients;

d) Strengthen the regulating and supervisory framework of MFBs

e) Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions.

f) Mobilise domestic savings and promote banking culture among low income groups;

g) Strengthen the capital base of the existing microfinance institutions; broaden the scope of activities of microfinance institutions.

h) Strengthen the skills of regulators, operators and beneficiaries of microfinance initiatives.

i) Define clearly roles of stakeholders in the development of the microfinance sector and collaborate with donors; and

j) Coordinate and monitor donor assistance in microfinance in line with the provisions of the policy.

Rationale For Initiating Microfinance Banks
a) To make financial services available to un-banked areas.

b) Creating synergy between formal and informal sectors through the use of the financial system

c) Provide financial services delivery to Micro, Small and Medium entrepreneurs.

d) Contribute to rural transformation.

e) Promote linkage between Universal, Development, Specialized Institutions and MFBs.

f) To provide business or employment opportunities for the active poor.

Definition of Active Poor (Targets For MFB Loans)

a) People with monthly income that is at least twice the minimum wage in Nigeria.

b) People with productive assets including loans but excluding land of not more than N500,000

c) People who are not holding any regular employment in any organization.

d) People whose age falls between 18 and 60 years.

e) A poor man whose income is less than the minimum taxable limit set out in the law relating to income tax.

f) A micro enterprise or a small company that revolves around a single Entrepreneur and provides employment for a few people.

Government Policy Objectives

a) To cover the economically active population by the year 2020 thereby creating jobs and reducing poverty.

b) To increase credit percentage of micro businesses from 0.9% in 2005 to 20% in 2020.

c) To promote participation of 2/3 of the states and local governments in micro credit financing by 2015.

d) To eliminate gender disparity by improving women’s access to financial services every 5 years.

e) To meet the goals set in national economic empowerment and development strategy (NEEDS):

f) Wealth creation for the people

g) Employment generation for the people

h) Poverty reduction

i) Value re-orientation.

Features of Microfinance Institutions

Nature of Microfinance Institutions

Although, there is no universally acclaimed definition for Microfinance Institutions, Anyanwu C.M (2004) defined Microfinance Institution as any company licensed to carry on the business of providing microfinance services such as savings scheme, loans, enterprises need to conduct or expand their businesses.
Characteristics of Microfinance Institutions

This claim was only revered by Nwadibia (1992) who stated that the fundamental concept of Microfinance Bank is that it is a self-sustaining financial institution, owned and managed by a community or group of communities for the purpose of providing credit, deposit, banking and other financial services to the community members largely on the basis of their self-recognition and credit worthiness. This is in contradiction to the near total reliance by orthodox banks on viable and negotiable collaterals as the basis for giving credit.

According to the Central Bank of Nigeria on the justification for the introduction of the Micro Finance Banking Policy, it wrote that ‘the Micro-Finance policy seeks to the economically active poor, low income earners and Micro, Small and Medium Enterprises (MSMEs) through privately owned Micro-Finance Banks.

This is to create a vibrant microfinance sub-sector that provides the necessary stimulus for national growth and economic development. Writing on the defunct Community banking system which is now transformed into Micro-Finance Banks, Aluko (1992) proposed that the Microfinance Institution be seen as a growth including factor.

The further explained that rapid growth is not a God-given right, nor is it impossible to attain, it is a function of several growth inducing factors, one of which is the timely introduction of this Micro-Finance policy. Also speaking on both economic and political benefits of the microfinance banks to each community where it is established, Babangida (1992) described the Micro-Finance Banks (defunct community banks) as a potent source of unification in the locality between political parties, warring community factions and an instrument of providing some vital social services for promotion of production activities.

Mabogunje (1992) while talking about the nature and concept of the Microfinance banking, said by nature of the microfinance banks, they are banks set up by law, owned by the people, financed and controlled by the people, managed by the people and serving the socioeconomic welfare of the people. This gives it a community and sanctions. He further noted that a Micro-Finance bank is a financial institution established to cater for the savings and credit needs of small scale producers throughout the country. Further on the concept of community banks (now microfinance banks), Ahmed (1990) disclosed that microfinance banks are expected to operate as commercial entities. In order to be viable, they have to provide basic financial services required by the communities in which they are located efficiently and at affordable, competitive rate. He added that they would also need to mobilize savings in those areas and lend to worthy customers who can use it profitably and repay as and when due.

Mabogunje (1992) while commenting on the objectives of the Micro-Finance Banks said having established these banks, the excitement should not be in the numbers of the micro finance banks so far commissioned, but in the impacts these rural and urban based banks had been having in inculcating banking habit in their communities, mobilizing savings, fostering economic development and encouraging socio-political cohesiveness among members of those communities.

Bukari (1991), while writing on the wide spread acceptability of microfinance banks among both the rural and urban folks throughout Nigeria, said there is no local government without the presence of either a new microfinance bank or an old community bank now transforming into microfinance bank.

On the socio-economic impacts of the microfinance banks, Mabogunje (1992) concluded that ‘it is then the banks’ responsibility to promote vigorously, the development of their host communities which they serve.

Challenges Faced By Microfinance Banks

The expanding microfinance industry in Nigeria faces enormous challenges. The first challenges. The first challenge is for the MFIs to reach a greater number of the poor. The CBN survey indicated that their client base was about 600,000 in 2001. Komolafe (2008) said this is too small for a country that has over 60 million people that require microfinance services despite the fact that the Central Bank of Nigeria had licensed up to 740 Microfinance Institutions to date. The Government and her agencies, including the Central Bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

Second, there is urgent need to have in place a policy framework that will regulate the establishment, operations and activities of MFI in Nigeria. This is very important for those MFIs that accept deposits from the public for which there is need for confidence building, efficiency of operations and safety of deposits. The current situation of lack of a policy framework encourages multiple standards and lack of uniformity in financial transactions. The draft policy document, which was prepared by the Development Finance Department of the CBN, was ready after the international validation summit held in March 2004. The management of the Central Bank of Nigeria should take urgent measures to accept operationalize the policy. In addition to regulating operations in the industry, the MFI policy will encourage the gathering...
of financial statistics which will aid monetary policy formulation in Nigeria.

Third, funding of real sector activities, especially agricultural and manufacturing production need to be promoted by the MFIs as these sectors provide the foundation for sustainable growth and development. Currently, only about 14.1 and 3.5 per cent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 per cent, funded commerce. This is understandable, as the bulk of the funds came from grants which are not sustainable, but this structure is not desirable. The MFIs can take advantage of the banks’ small and medium industries equity investment scheme (SMIEIS) funds, ten per cent of which has been reserved for micro enterprises, to finance real sector activities. This will also integrate the MFIs and micro enterprises into the formal sector and widen the financial system. Arrangements are almost concluded to make it possible for MFI to access the funds. The MFIs can also access funding because they have greater capacity to reach micro enterprises than the DFL. Such funding can be channeled exclusively to the agricultural and manufacturing sectors since they are long-term fund.

Fourth, the issue of sustainability is crucial to the continuous operation of the MFIs. Although the indicators have not been computed, there are indications that the level of financial self-sufficiency is low. The level of grants as a source of funding is very high, while the contribution of commercial sources, such as savings, is low. There is need to reverse the trend, to emphasize savings mobilization, source long-term bank funding, negotiate funding arrangements with the DFIs and reduce dependence on grants.

Fifth, there is need for a comprehensive study on the MFIs in Nigeria that will cover the entire population; estimate the level of financial activities and number of clients; and determine the financial and operational sustainability of the MFI sector. In particular, the recommended study should give priority to the determination of the viability of the MFIs and estimate the dependency ratio, sustainable interest rate, quality of loan port-folio, administrative efficiency, etc. such a study will be a useful guide for the regulators, operators and donor agencies.

Microfinance is reputed for offering monetary loans to small and medium scale enterprises to enhance economic activities and business growth and sustainability. Everyone needs a diverse range of financial instrument to grow his/her businesses, build asset, stabilize consumption, and shield self against risks. Financial services needed by the poor include working capital, loans, consumer credit, savings, pension, insurance, and money transfer services. But are these instruments insuring business growth and sustainability? The majority of Nigeria’s poor belong to the unbanked sector, despite Nigeria’s robust financial system. Due to the extent of illiteracy among the poor, products and services offered by microfinance institutions are difficult to contemplate. Literacy level and unstructured financial services have combined to motivate the poor to seek help from money lenders who charge exorbitant fees but are very efficient. This cycle of debt entrapment adds to the cycle of poverty afflicting the poor (Yahaya et al, 2011; Bi and Pandey, 2011). Against this background, it is imperative to determine the relationship between loan acquisition an business growth of beneficiaries of microfinance poverty alleviation programmes.

Standard practices of microfinance include receiving deposits and offering loans, payment services, money transfers, and insurance to the poor. However, microfinance institutions are constrained by high fixed and variable costs which translate to huge cost of doing business. Microfinance institution are also faced with the challenge of incorporating economies of scale and the reduction of huge transaction costs due to the difficulty in recovering cost and accessing incentives for foreign donor agencies. High operational costs and poor retained earnings have prevented microfinance banks from setting up branches sufficient to cater to the needs of the growing poor population. More painful is loan recovery arising from the poor not having tangible collateral as security for credits sought (Bi and Pandey, 2011). Following this understanding, the researcher intends to measure microfinance practice in Nigeria against international best practices and models developed by researcher, as a precondition for business sustainability. There are stories of the transformative effect of microfinance on individual borrowers, but surprisingly, until recently, there has been little rigorous research that attempts to isolate the impact of microfinance on borrowers’ occupation and poverty alleviation (Chowdhury, 2009). The study on the impact of borrowers’ occupation on poverty alleviation is on-going. These occupations are classified by governments under small or micro businesses and include such activities as agriculture, crafts, baking, equipment making, petty trading, brick making, etc. the proper definition of micro-enterprises is often confusing due to variance in working capital and asset requirements of these businesses. Microfinance organisations are reputed for providing credit to entrepreneurs operating small businesses in livestock, agriculture, and fishing sectors. It is believed that loans received by microenterprises increases businesses’ monthly revenue and household income of entrepreneurs in Malaysia (Al-Mamun, Marvizhi, Wahab, and Mazumder, 2011). With the prevailing poverty rate, lack of infrastructure, financial discipline and corruption in Nigeria, many microenterprises are existing despite accessing loans from commercial and microfinance banks. These challenges have mo-
tivated the research to evaluate the relationship between borrowers’ occupation and poverty alleviation.

4. Summary, Conclusion, Recommendation

Poverty generally, is a global problem. Most especially urban poverty because the astronomical surge in the population of cities has combined with the factor of protracted economic depression to accentuate the crises of pauperization. In many respects, the situation in Lagos is typical of Nigeria and Africa. The cities are no longer in a refuge from the miseries of rural life; they have become the very centres for breeding mass distress and deprivation.

Nigerians, the rich and the poor, are enterprising and industrious. But the poor who account for over half of the population do not have access to formal banking services and they rely heavily on formal and informal microfiancé institutions for credit. Nigeria’s large population, over 140 million people, requires the production of goods and services on daily basis and funding is required for the production. There is therefore huge demand for financial services and the MFIs have a prominent role to play. The MFI operations are, therefore, expanding, but they have very limited financial resources. The SMIEIS funds and the development finance institutions (DFI) have been identified as potential sources of long-term funding for MFI operations. In addition, deposit money banks are beginning to develop interest in microfinance funding, given the unfolding commercial viability of the sector. The future of the industry is therefore very bright in Nigeria. It is noteworthy therefore to proffer suggestions on how to deal with poverty holistically. Notable suggestions are mentioned hereunder:

a) One strategy advocated is that of job creation programmes through the provision of opportunities, especially in urban centres;
b) Specifically, the promotion of community enterprises and youth self employment schemes will also assist in alleviating the scourge;
c) Also, worthy of mention is the relocation of the numerous scattered villages to provide the population with the basic services and job opportunities in more accessible locations as a means of improving the living conditions of the rural dwellers. The spatial distribution of settlements and amenities is one of the key problematic of development planning in Africa;
d) There is need for dedicated and accountable leadership at all levels of the society without which sustainable human capital development cannot be achieved, more responsible and active followership is necessary to encourage quality and responsible leadership at all levels of the society;
e) Lack of continuity in the implementation of laudable development programmes is inimical to sustainable human capital development;
f) There is need to encourage a network of all agents of development to be accountable and democratic in their activities;
g) It is imperative to design an appropriate technology relevant to the cultures of the people to bring about a sustainable grassroots development.
h) The petroleum trust fund (PTF) should be committed to sustainable human capital development programmes;
i) The development strategies of “Putting people first” should be concretised through projects dedicated to income generation, functional literacy, health care and community participation at the grassroots;
j) Steps should be taken to restructure the Nigerian polity to make it truly a federal system;
k) A more effective approach towards alleviating poverty on a localised basis can be achieved with the economic and political empowerment.

The expanding microfinance industry in Nigeria faces enormous challenges. The first challenge is for the MFIs to reach a greater number of the poor. In the light of this problem, the Government and its institutions, including the Central Bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

Second, there is urgent need to have in place a policy framework that will regulate the establishment, operations and activities of MFI in Nigeria. This is very important for whose MFIs that accept deposits from the public for which there is need for confidence building, efficiency of operations and safety of deposits. The current situation of lack of a policy framework encourages multiple standards and lack of uniformity in financial transactions. The draft policy document, which was prepared by the Development Finance Department of the CBN, was ready after the international validation summit held in March 2004. The management of the Central Bank of Nigeria should take urgent measures to accept and operationalize the policy. In addition to regulating operations in the industry, the MFI policy will encourage the gathering of financial statistics which will aid monetary policy formulation in Nigeria.

Third, funding of real sector activities, especially agricultural and manufacturing production, need to be promoted by the MFIs as these sectors provide the foundation for sustainable growth and development. Currently, only about 14.1 and 3.5 per cent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 per cent, funded commerce. This is understandable, as the bulk of the funds came from grants which are not sustainable, but this structure is not desirable. The MFIs can take advantage of the banks’ small and medium in-
In addition, it is suggested that the MFIs should make arrangements to access funding from the MFIEIS fund, ten per cent of which has been reserved for micro enterprises, to finance real sector activities. This will also integrate the MFIs and micro enterprises into the formal sector and widen the financial system. Arrangements are almost concluded to make it possible for MFIs to access the fund. The MFIs can also access funding from the development finance institutions on an on-lending basis because they have greater capacity to reach micro enterprises than the DFI. Such funding can be channelled exclusively to the agricultural and manufacturing sectors since they are long-term funds.

Fourth, the issue of sustainability is crucial to the continuous operation of the MFIs. Although the indicators have not been computed, there are indications that the level of financial self-sufficiency is low. The level of grants as a source, such as savings, is low. There is need to reverse the trend, to emphasize savings mobilization, source long-term bank funding, negotiate funding arrangements with the DFI, and reduce dependence on grants.

Fifth, there is need for a comprehensive study on the MFIs in Nigeria that will cover the entire population; estimate the level of financial activities and number of clients; and determine the financial and operational sustainability of the MFIs sector. In particular, the recommended study should give priority to the determination of the viability of the MFIs and estimate the dependency ratio, sustainable interest rate, quality of loan portfolio, administrative efficiency, etc. Such a study will be a useful guide for the regulators, operators and donor agencies.

References