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MICRO FINANCING PROVISIONS IN LAGOS STATE, NIGERIA: AN ALTERNATIVE STRATEGY OUT OF POVERTY?

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Abstract

The Nigerian economic scene has witnessed the growth and activities of micro financing bodies under different guises that claim, most importantly, to help create significant income and employment opportunities for poor populations so that they can contribute to development and follow change. Organizations like United States Agency for International Development (USAID), the World Bank and United Nations Development Programme (UNDP) have provided micro finance funds to Non-Governmental Organizations (NGOs) in Nigeria. The records show a huge variety of commitment and attendant levels of success. This study examined micro financing provisions as an alternative strategy out of poverty in Lagos State. A total of 240 microfinance clients who had been in the micro financing programme for a minimum of 3 years and within the age range of 20-60 years were randomly selected from microfinance institutions in three senatorial districts in Lagos State. data were collected through the use of structured questionnaire and descriptive statistic was used to analyze the data. The study revealed delivery of funds to microfinance clients will increase their income, sustained self-employment and help them to operate their business well. The study however established that provision of microfinance is indeed a tool for poverty alleviation in Lagos State. The study concluded that access to microfinance funds will provide a range of benefits such as increase in income, consumption and employment opportunities, hence concerted efforts should be made by the providers (government and MFIs) in providing more basic financial assistance to entrepreneurs in Lagos State.

Key Words: Micro Finance, Alternative Strategy, Poverty.

Introduction

The increased awareness of the need to tackle poverty has focused attention on micro financing the world over. Several studies have revealed that the low income group has been seriously impaired by poor access to funding in their bid to improve their well being. Their usually active or creative situations have not been considered by the conventional financial institutions in their choice of funding due mainly to the fact that profit considerations and risk aversions have largely been the benchmark for decisions on funding.

To this end, many developing economies have been providing credit to the poor through micro schemes. There is no doubt that the Nigerian government is following the global trend in solving the funding issues that the poor have continued to battle with over a long time. Though Nigeria's economy is growing at an impressive rate compared to the historical, the poor households are still the major participants in some kind of informal sector ranging from small petty trading to medium scale enterprises.

Microfinance as a development tool can make a whole of difference in the life of many Nigerian who have been condemned to a poor living approach to grow into the level of being able to plan for the future as they can now feed better, live in healthy environments, and have the education of their children planned progressively.

Poverty and unemployment are the major problems of any under-developed economy, and Nigeria is no exception. Concern about poverty is very great in Nigeria and Lagos State in particular.

The CBN Report of 2006 revealed the incidence of poverty (also known as poverty-based count) as well as its depth and severity. The report confirms that poverty is higher in the rural areas than in urban areas. About 43.13 percent of urban dwellers according to the report are poor (Nzekwu 2006:58). It was as a result of this concern to alleviate and ultimately eradicate poverty among rural and urban dwellers that Lagos State Government established Micro-Finance Institutions (LASMI) in 2006.

The institution was established with the primary objective of providing basic financial assistance to entrepreneurs in the rural and urban areas who may not normally be in a position to benefit from the services of the orthodox banking system (due to their inability to provide collateral or security).

The programme was actually designed for the low income groups who can show some measures of creativity in their choice areas in such a way that they must be convincing enough that they have a role to play in their production areas of choice. Those Lagosians in these categories are those in production, service delivery, petty trading and allied commercial activities who do not have the advantage of possessing instruments of guarantee or collateral, but have the capacity of adding value through their innovative capacities are the ones the development policy (micro-financing) were designed for.

In order for Lagos State government to effectively carry out the objectives of its micro financing, Lagos State Microfinance Institution (LASMI) entered into agreement with selected five microfinance institutions known as Agency Banks. In another effort to spread the benefits of micro finance scheme in Lagos State, the LASMI added another three micro finance banks to complement the efforts of the first five agency banks bringing the number to eight as at 2010. The Lagos State case reveals that government has been making frantic efforts to alleviate poverty through micro financing. Enhancement of small scale production is believed to play an important role in development process of the state. In other words, availability of financial services will equally enable the poor in the state to engage in economic activities that will make them to be self-reliant, enhance their household income and help them to create wealth. Thus, access to credit helps the poor to smooth cash flows and avoid periods where access to food, clothing, shelter or education is lost.

In the light of this, this paper therefore, attempts to find out the adequacy of micro financing provisions in Lagos State as an alternative strategy out of poverty.

The main objective of this study is to assess, based on the level of poverty in Lagos State, the extent to which provision of microfinance will reduce poverty among the low income earners. The specific objectives are to:

1. Examine how adequate the provision of the funds will increase the income of the clients in Lagos State;
2. Find out how effective will microfinance reduces poverty level among people;
3. Assess the role of microfinance institution in providing basic financial assistance to its clients in Lagos State.

Research Questions

In pursuance of the objectives of the study, the following research questions were formulated to guide the Study:

1. To what extent does the provision of funds by the microfinance banks increase the income level of clients in Lagos State?
2. To what extent has the provision of funds by the microfinance banks sustained self employment of client in Lagos State?
3. What roles have microfinance institutions played in providing the basic financial assistance to small scale entrepreneurs in Lagos State?
4. Has the presence of micro finance banks in Lagos ascertained in alleviating the poverty level of Lagos citizens?

Literature Review

The banking industry around the world has witnessed remarkable changes in recent decades. The inability of the conventional financial institutions in Nigeria to give out credits to low income groups to meet their financial needs have been argued by so many authors to have led to creation of micro finance institutions. In the same vein, the increased awareness of the need to eradicate poverty on the other hand has equally necessitated government policies and programmes that can alleviate poverty in Nigeria. Some of these laudable programmes among others include Agricultural Development Programmes (ADPs), National Directorate of Employment (NDE), Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better Life for Rural Dwellers later named Family Support Programme (FSP) and Structural Adjustment Programme (SAP). Other institutions that have also attempted purveying micro credit were the rural banking scheme (1988, 1990), Peoples' Bank (1987-1990), Community Banks (1990 to date) (Yahaya et al 2011:146, Awojobi and Bein, 2011, Ehigiamusoe 2008:20-24).

In addition, informal saving institutions such as Esusu for the poor are also available providing funds to customers who were traditionally neglected by conventional banks. All these programmes to cater for the poor were largely ineffective and irrelevant. The laudable programmes in terms of implementation, conceptualization, accountability and management lack credibility. They have little or no economic or developmental significance. The way the programmes had functioned over the years was such that credit system was essentially directed at meeting the needs of elites whereas the programmes are largely for small peasant poor group (Akanji, 2011).

It is evident that microfinance institutions could play a vital role in poverty alleviation based on the superior performance of the several informal societies (esusu) which are not regulated or controlled by any law that are still functioning up till today.

There are clear indications that the formation of microfinance institutions could be seen as that with some renewed vigour by government. According to the Central Bank of Nigeria (CBN) (2007), the Nigerian formal financial system only services 35 percent of the economically active population, 65 percent of the population are excluded and consequently serviced through NGOs (MFIs), money lenders, friends, relations and credit unions which are unregulated and problematic. Establishment of microfinance institutions to a lot of Nigerians is a dream come true. Similarly, it means an end to a long search for funding alternatives which have hampered the growth of low income group. In the same vein, it could equally mean the road to poverty reduction or alleviation as people can now migrate from subsistence to growth.

Various scholars have argued that microfinance is a development tool to access financial services such as loans, savings services, insurance and money transfers which can enable a lot of people to increase their income and give them the assurance for smooth consumption flows, thus expanding their asset base and increase their ability to remain responsive to certain demands and activities within the economy (Yahaya et al, 2001:102-103; Awojobi and Bein, 2011:261; Akanji, 2001 and Jegede et al 2011:101-104). Microfinance according to Asikhia (2009) refers to the entire unique processes by which financial and enterprise development services are channeled to owners of micro and small enterprises in a sustainable manner.

Schreiner (2001) defined microfinance as "uncollateralized loans to the poor and small-scale entrepreneurs". Asikhia (2009:603) and Schreiner (2001:638) definitions imply that microfinance had positive impacts on poverty reduction. In essence, microfinance is a financial service extended to economically and socially poor clients by different types of service providers. The primary objectives of the Lagos State Micro Finance Institution (LASMI) among others are to provide basic financial assistance to micro entrepreneurs through partnership with microfinance institutions in both urban and rural areas of Lagos State.

Poverty is a global phenomenon which affects continents, nations and people differently. The World Bank (1990) according to Greg (2006:57) explains poverty as the inability of people to attain a minimum standard of living and in "relative" (unable to buy a pre-specified consumption basket and "absolute" terms (below US\$1 per day per person among others). The relatively conceptualization of poverty is largely income-based. Greg (2006) quoting Townsend sees poverty as a situation in which a given material means of sustenance, within a given society, is hardly enough for subsistence.

Numerous studies on microfinance reveal that the poor participate in microfinance programmes and that it reduces poverty. Among the most current cited results on the impact of microfinance in alleviating poverty are Adamu (2007), Irobi (2008), Wright (2000) in Jegede (2011:102), Zaman (2000), McCulloch and Baulech (2000:16), Jegede et al (2011:101-102), Roodman and Morduch (2009) and Ehigiamusoe (2008:17-24) just to mention but a few.

Yahaya and Abduraheem (2011) in their study of effectiveness of microfinance in alleviating poverty in Kwara State of Nigeria found a positive correlation between microfinance and poverty alleviation. The result of their study established that microfinance will alleviate the problems of active poor, low income earners to access credit thereby enabling them carrying on various small and medium enterprises, this will in turn empower the poor financially to be self-employed thereby reducing the poverty level in the economy.

Khandker (1998) and Khandker (2003) all posited in their studies that microfinance reduces poverty. In contrast to these earlier mentioned studies, Weiss, Montgomery and Kurmanalieva (2003) reviewed the evidence of the microfinance impact on poverty in Asia and subsequently Weiss and Montgomery (2006) provided an update including studies using Latin

America data. Weiss and Montgomery (2005) concluded that, whilst microfinance clearly may have had positive impacts on poverty, it is unlikely to be a simple panacea for reaching the core poor, remain broadly valid.

Meyer (2002) reached a similar conclusion in surveying available evidence for Asian countries, he concluded that while access to micro credit seems to have an overall positive effect on income and education, results differ substantially across countries and programmes both in magnitude and statistical significance and robustness. In the same development, Coleman (1999) found no significant impact of access to micro credit on improving household wealth, using a sample of households, from North Eastern Thailand.

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. Hulme and Mosley posited that microfinance is not a panacea for poverty alleviation and that in some cases; the poorest people have been made worse-off by microfinance.

Adamu (2007) in his independent study found out that microfinance institution in Nigeria have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging micro enterprises. The result reveals that the number of beneficiaries of microfinance institutions in Nigeria is an insignificant proportion of the people in need of microfinance services.

The rigorous studies of the impact of microfinance in reducing poverty across the globe have shown mixed results. Some studies as explained above show a significant positive impact on beneficiaries while others show no significant impact. This is so because of the relative conceptualization of poverty is largely income based. To further understand the impact of microfinance on beneficiaries, it is important that poverty must be conceived, defined and measured in absolute quantitative ways relevant for policy analysis.

Methodology

The study employed descriptive survey method. The method was adopted because the study involved assessing the provision of microfinance as an alternative strategy out of poverty in Lagos State. The clients considered for the survey were those men and women who had been in the programme for at least minimum of 3 years and within the age range of 20-60 years and above.

A questionnaire was designed title: "Questionnaire on Microfinance Provisions as an Alternative Strategy out of Poverty (QMFPAAASOP)". The questionnaire consisted two sections. Section A solicited information on background characteristics while section B was on provision of the loans and its effectiveness in alleviating poverty among clients in Lagos State.

The study areas were microfinance institutions in the three senatorial districts of Lagos State namely: Lagos East, West and Central senatorial districts. Two topmost registered MFIs were randomly selected from the eight registered agency institutions in each senatorial district, making a total of six MFIs were used. In each agency, forty clients were purposefully selected. In all, 240 clients constituted the sample size. Descriptive statistics was used to analyze the data generated from the study.

Table 1: Micro finance and income of tradesmen/women in Lagos

S/N	Variables	SA	A	D	SD
1	Microfinance banks provide adequate fund for my business.	37 (15.4)	161 (67.1)	42 (17.5)	-
2	The microfinance banks can only provide funds if you have equilaterals.	48 (20.0)	103 (42.9)	68 (28.3)	21 (8.8)
3	Micro institutions in Lagos State are not helpful in financial assistance.	22 (9.2)	98 (40.8)	55 (22.9)	65 (27.1)
4	Provision of funds by MFI create room for better saving culture of the people.	32 (13.3)	123 (51.3)	70 (29.2)	15 (6.3)
5	Provision of funds by MFI helps clients for adequate planning and proper use of resource.	78 (32.5)	117 (48.8)	37 (15.4)	8 (3.3)

Note: (i) Figures outside parentheses re frequency distributions, (ii) figures in parentheses are percentage distributions

Table 12 above shows the result of microfinance and income of tradesmen/women in Lagos; the table revealed that 82.5% of the respondents that microfinance bank provides adequate funds for their business while only 17.5% of the respondents disagreed with the statement. However, 62.9% of the respondents also complained that the banks only provide adequate funds for their project if you can provide adequate equilaterals leaving about 37.1% was of different view. On the relevance of microfinance banks in Lagos, only about half (50.1%) of the respondents actually admitted that the presence of micro finance institutions in Lagos have rendered good financial assistance to its customers and the teaming entrepreneurs in Lagos State. In a similar reaction, 64.6% of the respondents also admitted provision of funds by microfinance institutions in Nigeria has created room for better saving culture among the tradesmen/women, and entrepreneurs in Lagos State. Again, 81.3% of the respondents also admitted that the provision of microfinance banks gives room for adequate planning and utilization of resources. In summary, the result shows that the provision of funds to tradesmen, artisans and entrepreneurs in Lagos State has yielded a positive result in the income level of the participants.

Table 2: Funds provision by Nigeria microfinance banks and sustainable self-employment among the poor community

S/N	Variables	SA	A	D	SD
1	I can now do my business without fear because of financial assistance from microfinance banks.	48 (20)	113 (47.1)	79 (32.9)	- (8.8)
2	The provision of financial assistance by my MFI has increased my capacity and coverage.	66 (27.5)	106 (44.2)	47 (19.6)	21 (8.8)
3	I have employed more people in my business because my business is growing.	67 (27.9)	140 (58.3)	33 (13.8)	- (8.8)
4	I do not need to work for people any more for money because my business is doing well.	29 (12.1)	133 (55.4)	60 (25)	18 (7.5)
5	I have acquired some tools/equipment skills for my work/business with the help of microfinance banks	51 (21.3)	69 (28.8)	70 (29.2)	50 (20.8)

Note: (i) Figures outside parentheses re frequency distributions, (ii) figures in parentheses are percentage distributions

Table 2 shows the relationship between funds provision and sustainable self-employment in Nigeria. The data above shows that 67.1% of the respondents admitted that they have been empowered to their business/hard work without fear as a result of financial assistance received from microfinance bank while 32.9% however disagreed with this. Similarly, 71.7% of the respondents admitted that they have increased their capacity and business coverage as a result of financial assistance received from these banks, 86.2% also said they have had course to employ one or two people as a result of their expansion in business thereby creating job opportunities for other people in their communities. Furthermore, 67.5% of the respondents testified to the fact that they would no longer want to work for people because they are doing well in different areas of their business. This could not have been possible if not for the assistance received from these banks in their communities. The final item also revealed that they have acquired all the skills and tools that will help them to be independent from the financial assistance received from these banks. In summary, the result revealed that strong link between microfinance bank in Lagos, Nigeria and sustainable self-employment in Lagos, Nigeria.

Table 3: The role of microfinance institutions and financial assistance to small scale entrepreneur in Lagos State

S/N	Variables	SA	A	D	SD
1	My bank provides me with some funds assistance I need to do my business.	45 (18.8)	98 (40.8)	52 (21.7)	45 (18.8)
2	My bank plays advisory role for my business to grow.	66 (27.5)	152 (63.3)	22 (9.2)	-
3	My bank has encouraged us by linking us to other customers who may be of help to our business.	30 (12.5)	113 (47.1)	77 (32.1)	20 (8.3)
4	My banks organize workshop, training from time to time to encourage more people to take the advantage of the programme.	59 (24.6)	26 (10.6)	83 (34.6)	72 (30.0)
5	They provide loans/advices to those with special entrepreneur skills.	26 (10.8)	74 (30.8)	102 (42.5)	38 (15.8)
6.	MIB provide loans to entrepreneurs and effectively monitor the use of the loans.	78 (32.5)	82 (34.2)	64 (26.7)	16 (6.7)

Note: (i) Figures outside parentheses re frequency distributions, (ii) figures in parentheses are percentage distributions

Table 3 above presents the role of microfinance institutions in Nigeria n the financial assistance of small scale entrepreneurs in Lagos State. From the table, the result revealed that (59.6%) microfinance institutions in Nigeria has provided them with some startup capitals to enable them to do their business while 40.4% of the respondents disagree with this. On the advisory role, over 90% of the respondents attested that their banks (microfinance) provide them with advisory roles to enable them manage their business. 59.6% of the respondents also consented that their banks have also encouraged them by linking them to customers/individuals who have been of help to them in their business growth. However, only 35.2% of the respondents pointed out that their banks usually organize training and workshop for them. Finally, 66.7% of the respondents admitted that their banks provide loans to entrepreneur and effectively monitor the use of the loans. In summary, the data revealed that microfinance banks provide the necessary financial assistance/advisory roles to young entrepreneurs in Lagos State.

Table 4: Microfinance banks and poverty level in Lagos State citizens

S/N	Variables	SA	A	D	SD
1	I now have considerable amount of money to do my business.	94 (39.2)	108 (45.0)	22 (9.2)	16 (6.7)
2	I can now pay my children's school fees, pay my bills since I joined the cooperative.	37 (15.4)	161 (67.1)	42 (17.5)	-
3	MFB has helped me to expand my business.	55 (22.9)	98 (40.8)	22 (9.2)	65 (27.1)
4	I do not depend on my people any more to assist me financially.	117 (48.8)	78 (32.5)	8 (3.3)	37 (15.4)
5	I work now and I earn enough money to take care of my needs.	32 (13.3)	123 (51.3)	70 (29.2)	15 (6.3)
6.	I have assisted one or two people through the revenue generated in my business.	78 (32.5)	82 (34.2)	64 (26.7)	16 (6.7)

Note: (i) Figures outside parentheses re frequency distributions, (ii) figures in parentheses are percentage distributions

Table 4 shows presence of microfinance banks and poverty eradication in Lagos State of Nigeria. The result revealed that 84.2% of the respondents admitted that the presence of microfinance banks in their communities has provided them with considerable amount of money to power their business. In a similar note, 82.5% of the respondents admitted that they can now pay their bills and those of their dependants while only 17.5% shared a contrary opinion. Also, 63.7% reported that microfinance banks assisted in expanding their business thereby alleviating their poverty level. Furthermore, 81.3% also consented that they have gained financial from family members and relations as a result o financial assistance received from their banks. The respondents (66.7%) also reported that they have provided employment to one or two people through revenue generated from their business.

In summary, the respondents admitted that the presence of microfinance banks in Lagos has impacted positively in the alleviation of poverty among the disadvantaged people of Lagos State.

Discussion of Findings

It is quite satisfying to note that the research objectives of the study were achieved. The analysis of the response in table 1 using the study's mean percentage indicate provision of microfinance funds increase income level of the participants. The results are consistent with the findings of Asian Development Bank Evaluation Study of (2007:17) who found in their study that provision of fund increased income by p 8.6 billion for the total of 1.6 million clients reached with micro credit. It also supported the findings of Befekadu (2007:26). The fact that 83% in this study indicated that microfinance provides adequate fund for their business shows that the fund empowers them to engage in productive and economic activities. Increased income will create employment opportunities at the same time increase the productivity of the active poor and uplift their standard of living.

The analysis of the respondents on provision of funds and sustainability of self-employment as presented in table 2 supported the findings of Befekadu (2007:20) that provision of funds can

support Christen, Robert, Elizabeth, Vogel and Cressida (1995:8), Otero and Rhyne (1995) as cited in Befekadu (2007:11) that there are some disputes on the link between financial sustainability and outreach to the poor. Evidently, if the working capital is high and sufficient enough to running cost and still have extra money, loan repayment will not be difficult. This will make the clients to access more loans for their business. In the same vein, the result agreed with the findings of Jegede et al (2011:110) who found a strong correlation between microfinance funds and sustainable development.

Summarily, table 3 revealed that the delivery of funds to poor income people by the banks changed the perception of the poor. The study has revealed that low income clients if provided loans will operate their business well. The findings of this study correct earlier notions that the low income clients cannot effectively manage their resources.

The fact that over 90% of the clients attested to their banks provided financial assistance to them revealed the clients have found and enjoyed significant benefits from microfinance.

Evidently, table 4 presented a comparative data on respondents' view on the impact of microfinance as a tool for alleviation of poverty in Lagos State. The study revealed microfinance can reduce poverty. Jegede et al (2011:108) examined impact of microfinance on poverty alleviation in Nigeria. The result revealed 69% of the respondents agreed that microfinance has drastically reduced their poverty level. The finding of this study equally shows a positive relationship between microfinance in alleviating poverty, at least 65% of the respondents indicated to earn enough money to take care of their needs. Similarly, 83% affirmed to pay their bill and their children's school fees. The finding of this study can be buttressed by submissions by Thalavai and Nadarajan (2011:92) where the respondents strongly agreed that microfinance programme reduced poverty. Microfinance makes a whole lot of difference in the life of many people as confirmed by one of the clients that he can now feed better, live in healthy environment and pay their children's school fees. Indeed, the fact that provision of microfinance will alleviate poverty in Lagos State.

Conclusion

The outcome of this study has established that provision of microfinance is indeed a tool for poverty alleviation in Lagos State. It is evident from the study that microfinance institutions could play a key role in poverty alleviation.

Access to microfinance funds in Lagos State will provide a range of benefits such as increased income consumption and employment opportunities for the people. Poverty and unemployment have been identified as problems in the State; therefore concerted efforts should be made by the providers (government and MFIs) in providing more basic financial assistance to entrepreneurs in the State.

Recommendations

Based on the findings of this study and subsequent conclusion, the following recommendations have been made:

Government is expected to implement strong macro economic policies. Inflation is a significant cause of poverty in Nigeria. Macro economic policy will reduce inflation and the purchasing power of the poor will increase. If the implementation is strictly followed, there will be an enabling environment for the poor to access loan and repay easily with little interest rate.

Microfinance institutions should encourage their clients to save more. This will give them investment opportunities at the same time, the banks will have more funds to lend out. Evidently, the vicious circle of poverty will gradually reduce.

Since microfinance services require unique sets of strategies and processes, the employees adequate training and manpower development programmes that can make them to be effective delivering their services.

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