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ACCESS AND IMPACT ASSESSMENT OF MICRO FINANCE BANKS ON RURAL POOR IN NIGERIA: A CASE STUDY OF EDO STATE

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Abstract

This study takes a critical look at the access and impact of micro finance banks on the entrepreneurial and economically active rural poor in Nigeria using Edo State as a case study. The objective being to determine if indeed they constitute the category of people targeted by micro finance banks, if they have access to credits on a regular basis, and indeed if the credits or other ancillary services received by them have had any significant effect upon their livelihoods, homes and standard of living. Revelations from our field survey indicated very minimal impact of micro finance banks on the livelihood of entrepreneurial and economically active rural poor. That is, the micro finance banks have had very minimal presence in the rural communities; they preferred to extend credits to non poor clients in the urban areas. Some of the recommendations to increase impact of micro finance banks on rural poor with particular reference to Edo State, in Nigeria, are more efforts at increasing the number of micro finance banks and services in the rural areas. Others include the provision of adequate infrastructures such as functional roads and electricity in the rural areas.

Keywords: *Poverty Alleviation, Micro Finance Access and Impact, Economically active rural poor, Regular Repayment Schedule.*

1. INTRODUCTION

Over the past decade, providers of micro finance have developed an array of models for delivering financial services to the poor that meet the dual criteria of sustainability and outreach. As programmes mature, debates within and outside the industry have moved beyond questions of scale and outreach to the question of whether micro finance can reduce poverty (Sebstad and Cohen, 2001). While many people agree that micro finance can make a great deal of difference in poor people's lives, the jury is still out on the extent to which micro finance contributes to poverty

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reduction. In Nigeria, limited research has been done on this topic, while the few available have derived their conclusions and recommendations from a systematic synthesis, of the results of the field studies, and literature reviews conducted in other countries (see, e.g., Olaitan, 2005; Eluhaiwe, 2005; Ukeje, 2005; Abosede 2007 and Idolor, 2007 to cite only a few). In recent time, the question of the link between micro finance and poverty has aroused much passion among providers, promoters, and others involved in the micro finance field (Rutherford, 2003). At one extreme, the "sustainability first" camp believes that these services reach the poor through open access. At the other extreme, the "poverty first" camp defends the importance of targeting the poorer strata of the population to ensure that they have access to micro finance services. Outside the industry, micro finance has the reputation of being a tool that can pull people out of poverty. Supported by convincing vignettes of poor people who have "made it", micro finance has garnered wide appeal as a development success (Sebstad and Cohen, 2001).

While the passion surrounding this issue remains intense, the debates have grown to the point of acknowledging that the relationship between micro finance and poverty reduction is not straightforward. Just as the causes of poverty are complex, so is its reduction. As a result, many people have come to recognize that micro finance alone is not a magic wand to lift people out of poverty; as it is at best only one of many factors that can contribute to poverty alleviation. Today, many micro finance institutions in Nigeria subscribe to a mix of goals, including sustainability, outreach to poor households, and poverty reduction. However, a continuing challenge they face is how to deepen and maintain outreach to poor households on a sustainable basis; as well as significantly increase the impact of micro-financing on the lives and activities of the economically active; especially rural poor. These would require not only a careful analysis of the category of people which micro finance institutions do and do not reach along the poverty continuum, but also a detailed in-depth analysis of how access to credits and other financial services have impacted positively on the businesses, assets, households and lives of the economically active rural poor, whose needs and interests micro finance institutions purportedly claim to serve.

Another limitation of previous studies (in Nigeria) is that few have considered client perspectives on impacts. Client perspectives are critical for understanding household and individual economic goals and how clients use financial services to pursue these goals. Client perspectives (from studies conducted in many countries) reveal that reducing exposure to risk is a major goal for households. Improved understanding of these processes opens up the demand side of the micro finance equation, which is critical for designing products and services that meet clients' needs (Sebstad and Cohen, 2001). Against this background, this study seeks to improve understanding of the access to credits and other ancillary services on a regular basis, by the entrepreneurial and economically active rural poor in Nigeria, with Edo State as a case study. It is also aimed to determine the impacts of the services rendered on the lives, businesses, assets and households of the economically

active rural poor and the continued sustainability of the micro finance banking institutions' services in these critical issues.

The paper begins in section one with an introductory and structural outlay, while section two takes a look at conceptual issues to aid general contextual understanding of the paper. Section three is a brief exposition of historical investigation of microfinance and credit provision in Nigeria, with research methodology and results from our survey work forming section four. The last section is on vital recommendations, further research questions and conclusions. Essentially the paper is exploratory and the case studies are confined to Benin City, Edo State of Nigeria. This does not however reduce the flavour and value of the findings.

II. SOME CONCEPTUAL ISSUES

Concept of Micro Finance

Micro finance can be defined as a development tool used to create access for the economically active poor to financial services at a sustainably affordable price (CBN, 2005). Eluhaiwe (2005) opined that micro finance is the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Micro finance has also been defined as the provision of very small loans that are repaid within short period of time and is essentially used by low income individuals and households who have few assets that can be used as collateral (Ukeje, 2005).

Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, food catering, craftsmanship and artisanship) or people earning wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly savings and loans (Idolor, 2007). Micro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions.

Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or savings collected, the absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Others are its targets as the marginalized group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004). The group lending approach has implication for the pressure that the members of the group bring to bear on one another to ensure loan repayment, so that the group can continue to enjoy borrowing or loan facilities.

In developing countries, a majority of the population do not have access to financial services and thus constitute the group that micro finance tries to reach. Nigeria, like any other developing country, is saddled with the problem of rural – urban migration, mass illiteracy, poor infrastructures, poverty and low access to formal financial services. Hence the need for the government's micro finance policy,

aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Small and Medium Enterprises (SMEs) as well as the rural and urban poor. The policy has created a platform for the establishment of Micro Finance Banks (MFBs) geared towards enhancing the provision of diversified micro finance services on a short-term or long-term and sustainable basis for the poor and low-income groups. It would also help create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for poverty reduction, economic growth and development (CBN, 2005). It also has the potential of not only urban – rural but rural – rural migration as Nyberg and Rozelle (1999) noted with respect to China.

Micro Finance (Semi-Organized)

The concern of governments, national and international development agencies to the economically active poor people paved a way for semi-organized financial system with the buzz word micro finance and self-help groups (SHGs) which have been emergent since the late 1980s – under this system a group of 10-20 poor people come together to save money and finance their needs themselves. If the SHGs survive for six to 12 months successfully after saving the required amount as per the norms, then SHGs can be linked to formal commercial banks to get loans. This is known as linkages between SHGs and the Bank. The model was designed through a pilot project in the year 1990-1991 and proved to be a very successful model (Swamy, 2009). There are other models of micro credit delivery, including:

(a) **Grameen Bank Model:** The Grameen Bank Model started as an action research project in 1976, when a Chittagong University team led by an economics Professor Muhammad Yunus began to lend small amounts of money to poor households in a few nearby villages. Borrowers were organized into small 'peer monitoring' groups of four or five people (soon becoming single sex groups, with a focus on women's groups) that met weekly with other groups to make loan repayments. Demand for credit grew rapidly and repayment rates were good, so the project was able to secure loans for on-lending from the state-controlled Bangladesh Bank and other commercial banks. In 1984, the Grameen Bank became a government-regulated bank through a special government ordinance, and remains the only body regulated in this way. It's model is more of individual loaning. Five members form the group, and then seven to eight groups form the centre and form the branch. The decision making in case of Grameen bank is not decentralized and always facilitated by the Bank employees. The Grameen bank model is basically a model of "individual banking – Joint liability" model and has received wide international appeal and popularity in numerous emerging economies, as a veritable tool for developing small scale businesses and reducing poverty levels.

(b) **Cluster/Federation Bank Model:** In this model, the banks have linkages with the Federation or Cluster of SHGs and can help reduce the transaction

cost substantially. Since they deal with a number of SHGs through Federation/Cluster, the size of loan will be much higher which will reduce the transaction cost. However, this model is yet to get popularized and all the ones present or currently in existence is at evolving stage only.

(c) Some other models mainly sponsored by governments like DWACRA (Development of Women and Children in Rural Areas) and SGSY (Swaranajayanthi Gram Swarojigari Yojana) are groups mainly animated by government agencies. Under these models the amount in form of loan or grant will be given to members of that group and in turn they distribute the amount amongst themselves (Swamy, 2009). The model is currently popular in major countries in the Asian and African continent and it is as yet not yet known whether it will prove to be successful in Nigeria.

Micro Finance Products and Services

The concept of micro finance has for long been misconstrued as micro-credit (small value loans to poor entrepreneurs). This poor understanding has led to a restrictive focus by some micro finance institutions which have not allowed them to have a wider array of products and services (Okenyebuno, 2007). Morduch (1998), Woller, Dunnford and Woodworth (1999), Kalpana (2004) and Osthoft (2005) agree that micro-credit or small loans though used interchangeably with micro finance, is simply one of the many components that constitute the larger array of micro finance services. Broadly speaking, micro finance products and services consist of small loans, savings, insurance, business education and money transfers. It also involves the provision of working capital, informal/formal appraisal of borrowers and investments, collateral substitutes such as group guarantee or compulsory savings; access to repeated and large loans, streamlined loan disbursement, advice and monitoring procedures (Ledgerword, 1999; Igbinedion and Igbatayo, 2004; Okenyebuno, 2007). In the views of Kalpana (2004), micro finance services also encompass both financial and social intermediation including group formation, and training in financial literacy and management practices. Hulme and Mosley (1996) have suggested that micro finance institutions should take cognizance of the varying needs of various sections of the poor in their design of financial services. In other words, in designing and implementing micro finance services, there is the need to note that credit has different implications for different segments of the poor and as such could create additional risk for the very poor. It is therefore expedient for micro finance institutions to diversify their hitherto relatively homogeneous products and services in line with environmental peculiarities (Sebstad and Cohen, 2001). Also, Brau and Woller (2004), Dunn (2002) Cohen (2002) and Woller (2002) advocate client-focused services for micro finance institution as a vital ingredient for effective service delivery and impact on the lives, assets and households of the economically active poor. It is therefore of necessity for MFBs (in Nigeria as in foreign countries) to provide a basket of products and services to allow for flexibility in meeting the diverse needs of poor clients. Smith (2002), Edgcomb (2002) and Dumas (2001)

agree on the need for MFIs/MFBs to have all inclusive micro finance products. They also were of the opinion that the micro finance institutions, which they surveyed, have experienced statistically significant improvement in their performance as a result of integration of non-financial services with financial services being rendered to clients. In recent time, micro finance delivery mechanisms (for services rendered in Nigeria, as in other parts of the world) include, but not limited to, a combination of group – lending, individual lending, dynamic incentives, regular repayment and collateral substitutes (Okenyebuno, 2007).

Group lendings basically refers to a process whereby prospective clients of micro finance institutions form groups voluntarily for the purpose of accessing loans. Lending is carried out in batches in such a manner that the number of borrowers in a group at any point in time is less than the number of non-borrowing members. The groups are usually organized in such a way and manner that members meet at regular intervals, and if a member defaults, then all other group members are denied subsequent loans since all group members are held liable and responsible even for loan repayments. In the words of Weiner (1995), group lending consists of a variety of methodologies with central focus on joint-liability for underwriting, monitoring and enforcement of loan contracts. In group lending, the loan contracts take advantage of local information and the "social assets" (in this case group pressure) at the heart of local enforcement mechanisms (Morduch, 1998). Group lending also relies on informal insurance relationships and threats, such as isolation and physical retribution. It also combines the features of formal banks with locally tested mechanisms in traditional informal finance systems of rotating savings and credit associations (ROSCAs) (Morduch, 1998; Besley and Coate, 1995). However, all this social pressure is hardly evident in "individual lending", which accounts for the relatively stringent controls and conditions required to be met by prospective individual clients before obtaining credits from micro finance banks.

Dynamic incentives, which have also been referred to as progressive lending in Hulme and Mosley (1996) is simply the progressive increase in loan size upon satisfactory repayment. The use of dynamic incentive as a delivery mechanism helps to secure high repayment rates (Besley, 1994). Johnson (2005) observes that most micro finance programmes strengthen the incentives for good repayment behaviour by the promise of continuing access to higher loan size so that institutional credit access does not remain a one-shot injection. In this light, dynamic incentives serve as an efficient strategy used to overcome information asymmetry due to the repeated nature, and credible threat to withhold future lending in case of default (Brau and Woller, 2004). However, the power of dynamic incentives wanes in the presence of competition, hence the need for a centralized credit rating agency as competition grows. Dynamic incentives thrive in locations where mobility is relatively low and also helps to develop good relationships with clients over time and to screen out the worst prospects before expanding loan size (Okenyebuno, 2007).

Regular repayment schedules form a dynamic and integral discussion of micro finance products and services. Regular repayment schedules refer to a practice whereby micro finance clients agree to pay a specified amount either weekly or monthly to off-set the loan taken. In some cases, clients of a micro finance institution are required to start repayment from the first week after borrowing to ensure that the clients are not tempted to borrow more than they repay and that they consequently limit the loan amount to what is within their capacity to repay from earlier savings (Kalpana, 2004). A major appeal of regular repayment is that it enables the micro finance institution to get hold of cash flow before they are consumed or otherwise diverted for other purposes (Rutherford, 2003). Regular repayment schedule also helps to screen out undisciplined borrowers and give early warning to loan officers and peer-group members about emerging problems. However, the effectiveness of the regular repayment schedules is hindered where the clients do not have diversified income streams. Jain and Moore (2003) observe that the rigid regular repayment programme is a self-exclusion programme not suited for clients engaged in enterprises or economic activities with longer gestation period such as livestock or occupation with limited cash flow to meet the regular obligations. In other words, the rigid repayment restrict admission of clients engaged in high turnover businesses, such as those engaged in petty trade, thereby preventing some clients from enhancing the productivity of livelihoods by limiting their choice of activities. As a result, they are unable to acquire fixed assets and engage in long term investment as a result of the limitation posed by rigid repayment programme. This position is also maintained by Snodgrass and Sebstad (2002), who assert that clients of micro finance institutions have experienced greater incidence of asset liquidation than non-clients, as a result of inflexible repayment programmes.

Collateral substitutes are simply a mechanism in which borrowers are required to undertake compulsory savings or to make contribution to an “emergency fund” or engage in “forced savings”. The savings serve as insurance in case of default, death, disability or any form of other unforeseen circumstances. It also in many cases serves as partial collateral for any loan obtained by clients. Karlan and Goldberg (2006) also opined that collateral substitutes could be expanded further to include household assets which are valuable to the borrower but are less than the value of the loan.

The Asian Development Bank (2000:3), as shown in Table 1, illustrates the connectivity between micro finance services and poverty reduction, as well as the possible beneficial impact of those services.

The interest in microfinance as a development strategy is evident from the support it has received from multilateral lending agencies, bilateral donor agencies, developing and developed country governments, non-government organisations (NOGs) and private banking institutions (ADB, 2000:1). The United Nations is no exception and has undertaken numerous projects to further develop microfinance in the African context. They propose that microfinance initiatives will be successful in Africa if based on four principles taken from international best practices. The

Table 1
Microfinance Poverty Reduction Nexus

Financial Service	*Results*	*Impact on poverty*
Savings Facilities of microfinance institutions (MFIs)	More financial savings Income from savings Greater capacity for self-investments Capacity to invest in better technology Enable consumption smoothening Enhance ability to face external shocks Reduce need to borrow from money lenders at high interest rates Enable purchase of productive assets Reduce distress selling of assets Improve allocation of resources Increase economic growth	Reduce household vulnerability to risks/ external shocks Less volatility in household consumption Greater income Severity of poverty is reduced Empowerment Reduce social exclusion
Credit Facilities	Enable taking advantage of profitableinvestment opportunities Lead to adoption of better technology Enable expansion of microenterprises Diversification of economic activities Enable consumption smoothening Promote risk taking Reduce reliance on expensive informal sources Enhance ability to face external shocks Improve profitability of investmentsReduce distress selling of assetsIncrease economic growth	Higher income More diversified income sources Less volatile income Less volatility in household consumption Increase household consumption Better education for children Severity of poverty is reduced Empowerment Reduce social exclusion
Insurance Service	More savings in financial assets Reduce risks and potential losses Reduce distress selling of assets Reduce impact of external shocks Increase investments	Greater income Less volatility in consumption Greater security
Payments/Money Transfer Services	Facilitate trade and investments	Greater income Higher consumption

Source: Asian Development Bank (ADB), (2000). Finance for the poor. Microfinance Development Strategy. Manila: ADB

principles are: pool together peoples resources through group organizing, rely and build upon what people know - tradition, reinforce microfinance to empower the African private sector and strive for efficiency (ADB, 2000:3).

Groups Targeted by Micro Finance Institutions/Banks

The question of who micro finance programmes should reach in terms of the poverty level of clients' households is important for several reasons. First, many micro

finance programmes seek to reduce poverty by targeting financial services to the poor either directly, through means testing, or indirectly through products and services designed to attract the poor. This is because, not all programmes seek to reduce poverty by targeting poor clients. Some MFIs/MFBs seek to reduce poverty indirectly by targeting non-poor clients who operate enterprises that may employ poor people (Sebstad and Cohen, 2001; Hulme and Mosley, 1996). Client targeting in this regard entails the extent of outreach in terms of breadth and depth. While breadth connotes the number of clients served, depth refers to the types or characteristics of the clients (whether poor or non-poor).

Secondly, it is widely accepted that the poor are a heterogeneous group and that the impact of micro finance varies across different groups among the poor. The poverty level (usually measured by income) and initial endowment (usually measured by assets) of clients and their households are key factors that condition impacts (Hulme and Mosley 1996). Even if programmes have information on the number of poor people they reach, few have detailed information on which groups among the poor they service. Consequently there is very little insight into what their needs are, what type of products and services are most appropriate, and what types of impact might be expected (Sebstad and Cohen, 2001). If reducing the severity of poverty is the goal, then the poverty level of poor clients when they start out in a programme should be known. Unfortunately such information is rarely ever collected (and is usually only approximately derived from extensive interviews and field group discussions (FGDs) in field surveys conducted by researchers). Also, if reducing the incidence of poverty is the goal (that is, reducing the proportion of people below the poverty line), then it is important to know the breadth of outreach to poverty groups either already below or at risk of falling below the poverty line.

A third and related issue concern an understanding of the nature of poverty and how that nature affects clients. If well understood, appropriate money management strategies, products and services can be designed for different groups which ultimately support them by way of reducing their vulnerability. However, one contentious issue which they have to grapple with borders on who should constitute majority of micro finance clients (i.e., women or men). While a large number of theoretical literature lean towards accepting women as the target of micro finance, some recent empirical evidence have abandoned the view of female dominated clientele base. Proponents of female dominated clientele base have pinned their argument on the premise that women are less mobile and less susceptible to problems of moral hazard in credit related issues, and that they are more likely to utilize the loans than their male counterparts in productive ventures that improve the well being of their families (Okenyebuno, 2007; Brau and Woller, 2004). However, a contrary view is expressed by Morduch (1998) from a study that did not provide convincing results to demonstrate that micro finance programmes are more efficient where the borrowers are predominantly women. In Sebstad and Cohen (2001) study on risk management and poverty in some selected countries (Bangladesh, Bolivia, Philippines and Uganda), they discovered from their synthesis study that the impact

of micro finance institutions/programmes was effectively high and that those clients (male and female) who were targeted also qualify as a part of the economically active poor or very vulnerable non-poor. In the present study, we do not intend to wade into this controversy. We choose rather to simply determine the impacts of micro finance banks on both categories of customers served (both male and female), principally or entirely in rural areas of Edo State, Nigeria.

Micro Financing and Rural Poverty Reduction

Poverty is basically a state where an individual or group has insufficient income for securing basic goods and services. It is an unacceptable human deprivation in terms of economic opportunity, education, health, nutrition as well as lack of empowerment and security (Ukeje, 2005; World Bank, 1995).

Some appreciable efforts have been made to conceptualize poverty in the development literature for easy recognition in practical life. Poverty has been categorized into two: absolute and relative respectively (United Nations Economic and Social Commission, 2000). Absolute poverty has been conceptualized as the inability of a person or household or group to obtain or satisfy the most basic and elementary requirements for human survival in terms of food, clothing, shelter, health and transport. Others are education, recreation and interest to participate in governmental decisions that affect the individual, household or group directly or indirectly (Onokerhoraye, 1995; United Nations Economic and Social Commission, 2000; Aliyu, 2003). Monetarily, the absolute poor person or household or group is said to earn "less than $1 (USD) a day" (United Nations Economic and Social Commission, 2000).

Relative poverty on the other hand, is defined as a condition in which a person or household or group earns a per capita income of less than one-third of the average per capita income of the country (World Bank, 1997). The relative poor person's or household's or group's income is measured on a comparative economic basis, hence it is different from the absolute and rather holistic approach in the first category.

Three different parts of poverty have been identified. These are the poverty of money, poverty of access and poverty of power (United Nations Economic and Social Commission, 2000; Agbonifoh and Asein, 2005). Poverty of money relates to 'inadequate access to the means of asset or wealth acquisition …. (that is) the individual or household does not earn enough income to meet the basic needs of life. 'This form of poverty may result from poor access to education, lack of marketable skills ….' (Agbonifoh and Asein, 2005). Poverty of access arises from an individual's or a group's inability to enjoy certain basic infrastructures, especially because group members do not have the means to access them. The poverty of power manifests when the individual or group cannot influence government decisions that affect him or the group either directly or indirectly (United Nations Economic and Social Commission, 2000).

It would be observed that the above three parts of poverty can be said to be interrelated. This is especially so as money underlies all of them. With adequate access to money, there is generally a corresponding access to infrastructures, power and so on. It is as well to emphasise here that the concept of poverty is rather holistic as it embraces issues such as education, recreation, participation in decision making and money. These generally impact on many aspects of life. This is largely the rationale why micro financing is very important as it enables the poor to access more aspects of life for better fulfillment.

Poverty in Nigeria especially in rural areas, is widespread and deep-seated. Swamy (1980) developed a measure of the poverty gap in Nigeria. In the study, Nigeria was classified as a poor country with 76% of its population falling below poverty range (or level 1-5) and 20% in the middle income category (or level 6-10); with the remaining 4% falling within the rich/high income category (or level 11 and above). The worsening state of the national economy has caused the middle income class to slide down to join the lower income group, and available social indicators have confirmed the impending poverty situation on the lives of the average Nigerian. For poverty reduction/alleviation programmes to be effective and sustainable, they must reflect a systematic understanding of the perception of the poor. The poor best understand poverty and it is the poor who must escape from poverty (Odita and Olannye, 2006).

Many factors have been identified for the persistence of poverty. Notable among these are deficient governance which is subject to arbitrary change, entrenched corruption and rent seeking elites, lack of respect for human rights, weak institutions, inefficient bureaucracies, lack of social cohesion and political will to undertake reforms. Others include bad governance and economic policies, inflation, market failures, capital flight, low savings (Loayza, *et al*., 2000) and investments, and distorted incentives to the manufacturing sector; all of which lower productivity and incomes, thus resulting in low levels of economic growth which eventually leads to a high poverty rate (Ukeje, 2005; Idolor, 2007).

Poverty reduction has continued to occupy a centre stage in the development agenda of various nations all over the world. The strategies have however been greatly dependent upon the perceived extent and level of poverty, the vision for its reduction, and the available human and material resources at the disposal of each country. One of the means for poverty reduction that has however assumed universal acceptance and adoption in many countries of the world is the provision of micro finance services, particularly to the economically active poor. These are based on the belief that such category of people only need financial empowerment to realize their dreams and unleash their potentials.

III. BRIEF HISTORICAL EXPOSE ON MICRO FINANCE AND CREDIT PROVISION IN NIGERIA

The practice of micro finance in Nigeria is culturally rooted and dates back several centuries. The traditional micro finance institutions provide access to credit for the

rural and urban, low-income earners. They are mainly the informal self-help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs). Other providers of micro finance services include savings collectors and co-operative societies. Some informal names for these in Nigeria are “Osusu” in the Western, “Itutu” in the Eastern and ‘Adastu” in the Northern parts of the country. This informal financial system generally has limited outreach due primarily to paucity of loanable funds and risk aversion fears by potential investors. Hence it could not make appreciable impact on poverty reduction in the country.

The Nigerian government as far back as 1971 has identified poverty as the bane of rural development in the country. Poverty was found to be a rural phenomenon with 8.4 million of the then 10 million extremely poor being from rural areas (World Bank, 1995). Of course, it is now realized to be an urban phenomenon also, yet our focus is on the rural poor. To enhance micro finance, government has in the past initiated a series of publicly financed micro finance programmes targeted at the rural and urban poor. Such programmes included Rural Banking Programme (RBP) and the Nigerian Agricultural and Co-operative Bank (NACB), Peoples Bank of Nigeria (PBN), Community Banks (CBs), Nigerian Agricultural Insurance Corporation (NAIC), the family Economic Advancement Programme (FEAP) and recently the National Poverty Eradication Programme (NAPEP) (CBN, 2005). But they have not been largely effective (see Imhanlahimi and Idolor, 2010).

In Nigeria, until 1990 when the community – banking scheme was inaugurated, the government had relied much on micro finance provision as a social service that should be based on a top-down non-profit-oriented approach. But with the direction of government macro economic policy towards privatisation and commercialization of services since the Structural Adjustment Programme (SAP) introduced in 1986, the obvious focus on credit provision and financial services provision to the poor has been largely private sector driven (Ikeanyibe and Imhanlahimi, 2007). As Ehigiamusoe (2006) maintains: “micro finance is no longer the domain of charity, as Micro finance has emerged as a thriving industry in the country.

Most of the traditional informal micro finance schemes in the country operate on the basis of mutual trust and integrity. Despite this important ingredient, it has a high risk of failure. The uncertainty and risk surrounding the business environment often make repayment very vulnerable. Robbers are also prone to attacking potential collectors of the rotating scheme, as no banks exist in many of the rural areas for onward deposition of the fund. In some cases too, the privately run financial schemes have often been an opportunity for dupes to operate and most of them are not experts in fund management such that they end up using the deposit liabilities in running the scheme, thus being unable to pay all depositors at the end of the day. There is also the problem of paltriness of loan-able funds and timeliness, as financial demands are not always met as and at when needed. Above all, most informal financial schemes operate on a short-term basis. But, the needs of the rural sector, which in most cases are agricultural investment, require medium

or long-term credits. Despite these weaknesses, the informal structures have continued to be very significant in micro financing in Nigeria as 65% of the economically active population that do not have access to formal financial system are often served by the informal sector (CBN, 2005; Ikeanyibe and Imhanlahimi, 2007). The need for formal financial institutions to complement and transcend the inadequacy of the informal sector is nevertheless, vital. The formal financial institutions are the modernized institutions that operate within the integrated mainstream of national financial system. They include banks and other financial institutions that operate in accordance with the governmental laws establishing and regulating their activities. In Nigeria, these include many specialized and development financial institutions, and even the universal banking institutions (Ikeanyibe and Imhanlahimi, 2007).

The inability of the formal financial institutions to provide financial services and intermediation to both the rural and urban poor, coupled with the non-sustainability of government sponsored development schemes, induced the growth of private sector – led micro finance in Nigeria. However many of them began as non-governmental organisations (NGOs) established for the purpose of eradicating poverty from the rural and urban areas. They depended solely on aids and grants that came from their foreign donors and sponsors. Also, the deregulation of Nigeria's financial sector since 1986 influenced the rapid emergence of non-bank financial institutions, including community banks (CBs), which have been involved in micro financing in Nigeria. These are the institutions or establishments that the government has in the current policy upgraded or provided with an enabling environment to transform into micro finance banks. At the same time, government is actively encouraging more initiatives from the private sector in the establishment of more micro finance banks under the new regulation and the guidance of the CBN. Some of the following can be regarded as formal structures and processes initiated by past successive administrations in Nigeria to increase access to micro finance and credit provision in Nigeria.

(i) Direct financing and establishment of agricultural development programmes such as Farm Settlement Schemes (FSS) and River Basin Development Authorities (RBDA). The plantation scheme for instance, was established by the colonial administration between 1950 – 60. The aim was to boost the production of export crops like cocoa, palm produce, rubber and timber. Other similar projects abound (Ikeanyibe and Imhanlahimi, 2007).

(ii) The establishment of special financial institutions to provide soft credit facilities to the farmers, large and small scale industries. Some of these specialized financial institutions are the Nigerian Industrial Development Bank (NIDB) established in 1964, the Nigerian Agricultural and Cooperative Bank (NACB) established in 1973 and the Federal Mortgage bank of Nigeria in 1977. These banks were not specifically established to serve the credit needs of the rural dwellers. But as development financial

institutions, the rural dwellers were not excluded from their operations. The NACB for instance was designed to promote micro financing of agricultural project. Hence, the rural area being agriculturally centered, naturally would have received the greatest attention and benefits from the operations of this specialized bank. The institutions were expected to provide sometimes training and technical assistance to farmers and industrialists.

(iii) The formation of the National Association of Cooperative Credit Unions of Nigeria Limited in 1970 with the objective of mobilizing savings and disbursing credit to affiliates.

(iv) The establishment of the Small Scale Industries Credit Scheme (SSICS) by the federal and various state governments. The scheme was meant to provide financial assistance in form of matching grants to help small scale industrialists. The sum of two hundred million Naira (₦200,000,000) was set aside for this programme in the Fourth National Development Plan of 1981.

(v) The Rural Banking Scheme of 1977 which, following the Okigbo panel recommendation stipulated that Commercial Banks should open up a specified number of branches in the rural areas.

(vi) The establishment of the Post Office Savings Programme.

(vii) The establishment of Cooperative Banks by various states of the federation.

(viii) The establishment of the Peoples Bank of Nigeria (PBN).

(ix) The establishment of Community Banking Scheme in 1990.

(x) The establishment of the Family Economic Advancement Programme (FEAP) in 1997.

(xi) The establishment of the Nigeria Agricultural Cooperation and Rural Development Bank Ltd (NACRDB) by the merger of FEAP, NACB and PBN in year 2000 by the Obasanjo Administration; and more recently.

(xii) The launching of the Micro Finance Policy, Regulatory and Supervisory Framework for Nigeria, establishing the Micro Finance Bank (MFB) Scheme on 16th December 2005.

These programmes do not exhaust the efforts made to initiate rural development and poverty reduction in Nigeria, through credit provision. Other development, employment generation and poverty alleviation policies had some of their programmes also targeted in one way or the other to micro finance services. Examples include the National Directorate of Employment (NDE), and the on going National poverty Eradication Programme of the present administration with a key objective of providing financial services to alleviate poverty (Ikeanyibe and Imhanlahimi, 2007). While the programmes have recorded some success, it is still clearly seen that the rural and urban poor remain greatly un-served by them; which

necessitated the establishment of the micro finance banks (MFBs) to bridge the existing gap(CBN,2005). One thing is the establishment of the MFBs, the other is their impact on the rural economically active poor, which is our interest in this research.

IV. EMPIRICAL LITERATURE ON IMPACT EVALUATION OF MICROFINANCE

Argument's in favour of microfinance being a mechanism for reducing poverty has been made and there is strong opinion that the productive base of the poor will improve if given access to credit which will in turn enhance income growth (Montgomery and Weiss, 2005). In general, access to credit by the poor will improve their social networks, serve as cushion against unforeseen events (risk management) and enhance consumption smoothing. In other words, the availability of credit will help the poor to meet 'promotional' (income creating) and protectional (consumption smoothing) purposes. The transformation and emerging trends in the microfinance industry have brought to bear the need to ascertain if the original poverty focus of MFIs is still being maintained. Thus, it has become imperative and of great policy interest to answer the question of the impact of MFIs on the poor (particularly the core poor). Hence, there is the need to assess both the depth and breath of outreach of MFIs programme, the impact of access to microfinance services on the welfare of clients and the costs of achieving the impact. Several tools are available to measure different forms of impact and several empirical studies have been undertaken in this direction using a mixture of qualitative and quantitative econometric tools. In the Asian region, the impact studies have been carried out by Hulme and Mosley (1996); MkNelley *et al.* (1996), Khandker (1998), Pitt and Coleman (1999), Chen and Snodgraes (2001), Coleman (2004); Park and Ren (2001), Duong and Izumida (2002),

Amin *et al.* (2003); Gertler *et al.* (2003), and Khandker (2003). In the Latin America region, the logit, longitudinal model have been undertaken by Hulme and Mosley (1996), Mosley (2001), Dunn and Arbuckle (2001) and MKNelly and Dunford (1999). All through the empirical literature, the procedures adopted have been a mix of both qualitative and quantitative methods of analysis.

Adapted from Montgomery and Weiss (2005), as shown in Table 2 is a summary of some of the recent empirical works in the area of microfinance and its impacts upon the economically active poor in some regions of the world.

The studies shown in Table 1, have produced mixed results as to what the impact of microfinance is relative to the up-liftment of the welfare of the microfinance clients. Brau and woller (2004) therefore opines that making comparisons across impact studies is greatly complicated by the contextual heterogeneity of programmes assessed and the diversity of empirical methodologies employed. Hulme (2000) in reviewing the different methodological options for undertaking impact assessments advice that a mix of different methods is required to attain an optimal impact assessment mechanism.

Table 2
Findings from the Empirical Literature on the Impact of Microfinance in selected Regions of the World

Study	*Coverage*	*Methodology*	*Results*
Hulme and Mosley(1996)	Indonesia (BKK, KURK, B RI), India (Regional Rural Banks), Bangladesh (Grameen, BR AC, TRDEP), Sri lanka (PTCCS)	Borrowers and controls samples, before and after	Growth of incomes of borrowers always exceeds that of control group. Increase in borrowers income larger for better-off borrowers.
MkNelly *et al.* (1996)	Thailand (village banks-credit with education)	Non-participants in non-program villages used as controls	Positive benefits, but no statistical tests for differences reported.
Pitt and Khandlers (1998)	Bangladesh (BRAC, BRDB, Grameen Bank)	Double difference estimation between eligible and non-eligible households and programs with and without microfinance programs. Estimations are conducted separately for male and female borrowing.	Positive impact of program participation on total weekly expenditure per capita, women's labor supply. Strong effect of female participation in Grameen Bank on schooling of girls. Credit programs can change village attitudes and other village characteristics.
Coleman(1999)	Thailand (village banks)	Double difference comparison between participant households and between villages in which program introduced and villages were not yet introduced.	No evidence of program impact. Village bank membership has no impact on asset or income variables.
Chen and Snodgrass (2001)	India (SEWA bank) ~N	Control group from same geographical areas	Average income increase rises for bank's clients in comparison with control group. Little overall change in incidence of poverty, but substantial movement above and below poverty line.
Coleman (2004)	Thailand (village banks)	Double difference estimation between participants and non-participants and villages with and without microfinance program.	Programs are not reaching the poor as much as they reach relatively wealthy people. Impact is larger on richer than on rank-and-file members.

contd. table 2

Study	*Coverage*	*Methodology*	*Results*
Park and Ren (2001)	China (NGOs, government programs, mixed NGO-government programs)	(1) Probit estimation of participation and eligibility for each type of program; (2) OLS and IV estimation of impact of micro credit on household income.	In NGO and mixed programs the very rich even if eligible (for mixed programs) are excluded from participation. In the government program the rich are both eligible and more likely to participate. Impact estimation finds evidence of positive impact of micro credit on income.
Duong and Izumida (2002)	Vietnam (VBA 84% of total lending), VBP, PCFs, commercial banks, public funds)	Tobit estimation of (1) participation in rural credit market; (2) behaviour of lenders towards credit constrained households and (3) weighted least square estimation for impact on output supply.	The poor have difficulties inaccessing credit facilities:livestock and farming land aredeterminants of householdparticipation; reputation and amount of credit applied for toMFI are determinants of credit rationing by lenders. Impactestimation showed positive correlation between credit and output.
Kaboski and Townsend (2002)	Thailand (production credit groups, rice banks, women groups, buffalo banks)	Two staged LS and MLE test of microfinance impact on asset growth, probability of reduction in consumption in bad years, probability of becoming money lender, probability of starting business and probability of changing job. Separate estimation according to type of MFI and policies of MFI.	Production credit groups and women groups combined with training and savings have positive impact on asset growth, although rice banks and buffalo banks have negative impacts. Emergency services, training and savings help to smooth responses to income shock. Women groups help to reduce reliance on money lenders
Amin *et al.* (2003)	Bangladesh (Grameen bank, BRAC, ASA)	Nonparametric test of stochastic dominance of average monthly consumption of membersand nonmembers Maximum likelihood test of micro credit membership on vulnerability, consumption and household characteristics.	Members are poorer than nonmembers. Programs are more successful at reaching vulnerable. Poor vulnerable are effectively excluded from membership.

contd. table 2

Study	*Coverage*	*Methodology*	*Results*
Gertler *et al.* (2003)	Indonesia (Bank Rakyat Indonesia, Bank Kredit Desa, commercial banks)	(1) Basic consumption smoothing test onhousehold's ability to perform daily living activities (ADL Index) (2) State dependence tests of regression(relative man-womanearning, physical job, savings) (3) Test of geographical proximity to financial institutions on consumption smoothing.	Significantly positively correlation between household's consumption and measure of health. Wealthier household are better insured against illness. Households thatlive far from financing institutions suffer more from sudden reduction in consumption
Khandker (2003)	Bangladesh (BRAC, BRDB, Grameen bank)	(1) Fixed effect Tobit estimation of borrowing dependent on land education endowments of households. (2) Panel data fixed effects IV estimation to define long-term impact of microfinance borrowing on expenditure, non-landasset and poverty (moderate and extreme)	Households who are poor in landholding and formal education tend to participate more. Microfmance helps to reduce extreme poverty (18 percentage points as compared with 8.5 percentage points over 7 years). Welfare impact is also positive for all households, including non-participants, as there are spillover effects.
Hulme and Mosley (1996)	Bolivia, BancoSol	Borrowing and control samples, before and after. Retrospective assessment of incomes.	Growth of incomes of borrowers always exceeds that of control group. Absolute increase in borrower's income larger for better-off borrowers.
Mosley (2001)	Bolivia, BancoSol, ProMujer, PRODEM and SARTAWA	Borrowers and control samples, before and after. Time series data for BancoSol only; for other retrospective assessment of incomes.	Growth of incomes and assets of borrowers always exceeds that of control group. Increase in borrowers income larger for better-off borrowers. No evidence of impact on 'extreme poverty'.
Banegas *et al.* (2002)	Ecuador, Banco Solidario and Bolivia, Caja de los Andes	Logit model. Control group selected from households working in the same sector but with no loans from other institutions.	Being a client of a program is associated with rising incomes.

contd. table 2

Study	*Coverage*	*Methodology*	*Results*
Dunn and Arbuckle (2001)	Peru, Mibanco	Longitudinal study using 'analysis of covariance' methodology; control group based on non- participants with similar observable characteristics to participants. Focus on micro-enterprises.	Micro-enterprises of participants are found to have substantial increases in net income, assets and employments relative to those of non-participants. Positive impact on poverty reduction with incomes in participating households rising relative to others. They are also more likely to sell assets in face of a shock than control households.
MkNelly and Dunford (1999)	Bolivia, Credit with Education program	Longitudinal study of comparison with baseline for nutritional data. Control group of communities who would be offered same program two years later.	No evidence of improvements in household food security or nutritional status of client's children relative to the control group.

Source: Adapted from Montgomery, H. and J. Weiss (2005). "Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America", ADB Institute Research Paper Series No.63.

Skoufias *et al.* (2004) observe that despite a plethora of microfinance projects around the world and related impact studies, much debate remains as to the benefits for poor participants and the economy from further expansion of microcredit. Montgomery and Weiss (2005) stress that the pace of research do not match the enthusiasm for microfinance programmes. They argue that most of the existing researches focus on only one aspect of the tripod objectives (critical triangle) of outreach, impact and cost-effectiveness and as such the adoption of appropriate statistical methodology become difficult. Hulme (2000) states that "knowledge about the achievement of microfinance remains only partial and is contested". To Swain (2004), proper and scientifically robust impact assessment and statistical evaluations have been limited due to the view that evaluations are a waste of time and money and a diversion from running the programmes themselves.

As noted by Brau and Woller (2004), the specific impacts of microfinance are hard to pin down and even harder to still measure. These authors suggest that impact assessment require the adoption of research methodologies capable of isolating specific effects out of a complicated web of causal and mediating factors and high decibels of random environmental noise, as well as attaching specific units of measurement to tangible and intangible impacts that may or may not lend themselves to precise definition or measurement. Coleman (1999), and Karlan (2001) advised researchers to guard against the drawbacks of past impact studies which include use of invalid control group (inappropriate counter factual), biased sampling, and mis-estimation of programme benefits and costs.

V. RESEARCH METHODOLOGY

The Sample

In early 2010, 1,000 copies of a questionnaire specifically designed for this study were distributed to artisans, crafts men and women market men and women, and peasant farmers in selected local government areas in Edo State of Nigeria. Our field team visited them in their small shops, farms, markets, villages, hamlets, and areas where they cluster together for businesses. Other areas included specific locations in the villages and camps where there is a preponderance of such categories of economically active poor people. At the end of the exercise, 900 questionnaires were retrieved of which 850 was sufficiently usable, giving us a completion rate of 85 per cent.

This sampling procedure has been described as non-probability purposive sampling technique (Agbadudu and Ogunrin, 2006). In non-probability sampling, elements of a population are not deliberately given equal or known chance of being included in a sample because there is no known or documented universe. In other words, non-probability sampling does not guarantee randomness (Nachmais and Nachmais, 1982). Non-probability purposive sampling technique describes the process of choosing sample elements while being guided by assumptions of what typical elements are; elements which are most likely to provide a researcher with

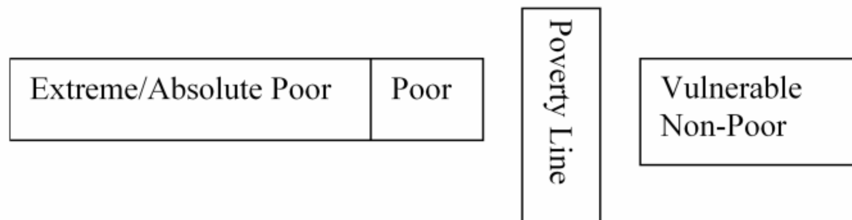
information required (Asika, 1991). Our procedure could also be described as purposive or convenience sampling techniques.

The questionnaire was tested for content (face) validity before it was administered. In this vein, six senior colleagues (all of them of senior lecturer and professorial cadre) were requested to assess the questionnaire for adequate coverage of relevant dimensions of the research objectives. After their various suggestions, the final questionnaire which was applied for this study consisted of questions that are not categorized explicitly into sections. We perceived that not categorizing the questions would impute informality to the exercise thus enhancing the completion rate. The questions do not follow a rigidly logical sequence either. It is our hope that the absence of a rigid order would eliminate the problem of response set; that is, the tendency to answer all questions in a specific direction regardless of the content of each question (Agbadudu and Ogunrin, 2006; Yomere and Agbonifoh, 1999).

Also we conducted focus group discussions (FGDs) and individual in-depth interviews to enable respondents to freely express their personal opinion on the research topic. This was particularly helpful in deriving answers from our respondents, many of whom were illiterate and who naturally would not have been able to complete our questionnaires without assistance. As previously stated in this paper (passim), the focus of our study is on the rural economically active poor individuals who are entrepreneurial and challenged by the extreme vagaries of life. This is with the aim of determining if indeed they constitute the category of people targeted by micro finance banks, if they have access to credits on a regular basis; and indeed if the credits and other ancillary services received by them have had any significant effect upon their livelihoods, homes, standard of living and assets.

In referring to clients or persons by poverty level, field researchers have agreed on three groups: vulnerable non poor, poor and extreme/absolute poor. Vulnerable non poor clients or persons are those above the poverty line but who are still vulnerable to slipping into poverty. They also earn above $1 USD a day. Poor clients or persons are those below the poverty line and who earn $1 USD a day, while the extreme/absolute poor earn less than $1 USD a day. This is shown in figure 1.

Figure 1: Defining the Poor



Source: Adapted from Sebstad, J. and M. Cohen (2001). Risk Management and Poverty. Washington: The World Bank.

In Nigeria many people live on unmonetised and unquantifiable resources. Examples are situations where people in the rural areas go into the forest or jungle to gather materials which are used to cook freely with little or no cost or financial implications to them. Therefore the researchers though recognizing that there are many commodities in the rural areas which may be possibly obtained without money, still have categorized such groups of people as constituting a part of the extreme/ absolute poor who just manage to eke a living.

The research used a mix of qualitative and quantitative methods. The questions in the questionnaire were analysed in tabular form with the aid of simple percentages, bar graphs and pie charts. This enabled us to simplify the problem of comparison and also show the qualitative characteristics in numerical form. We present below the responses of some of the core research questions asked in the questionnaire.

Of the respondents, 490 were males while 360 were females. Of the respondents 254 fell within the highest age bracket "above 40 years". 133 respondents fell within the lowest age bracket "less than 30 years". The modal age bracket turned out to be >40 years while the respondents which fell within the age brackets of 30-35 and 36-40 were 220 and 243 respectively. The respondents all hailed from Edo State Nigeria (being our case study). A total of 29 had tertiary education, 123 secondary school education, 336 primary school education while the remain 332 had no education whatsoever and were illiterates. Also 605 respondents earned an average daily income of <1 USD, 164 earned just 1 USD while the remaining 81 respondents earned >1 USD (see Table 3).

From table 3 it is evident that a great majority of our respondents had no more than primary school education with approximately 40% of them without any form of education whatsoever. Also most of the respondents fell within the active youthful and working class segments of the population. Most of them (605) as shown in table 4 earn <1 USD; with 164 respondents earning just 1 USD. Our findings indeed reveal that only 81 of the respondents earn >1 USD as daily income which further shows the level of poverty in the rural communities in Nigeria. Surely they would enjoy a better and higher standard of living if they are able to gain access to small amounts of credits with which to elk a living from at friendly and affordable terms.

Furthermore, from table 5, it is shown that all the respondents had a trade and set of skill which could be used to earn a living in the rural communities. For instance a total of 122 were artisans, 164 were craftsmen and women, 300 were market men and women with the remaining 264 practicing one form of peasant farming or the other. The modal occupation for male respondents was also found to be peasant farming while those of female respondents was trading in the rural market places. This findings corresponds with the findings in much of the micro finance and development empirical literature (see Cohen, 2002; Prahalad, 2004; Sebstad and Cohen, 2001; Ukeje, 2005; Idolor, 2010 and Imhanlahimi and Idolor, 2010 to cite only a few). It is however disheartening that significant numbers of rural dwellers

lack basic primary education in Nigeria, which to a large extent suggest that they may not intellectually be able to learn new and innovative methods of doing things beyond the existing culturally rooted techniques. For a fast moving world, these practices are limiting and could mean stagnation thus further entrenching the poverty levels in the rural areas.

Table 3
Respondents Sex, Age Distribution and Level of Education

		Age distribution (years)						*Level of Education*			
Sex		*<30*	*30-35*	*36-40*	*>40*	*Nil response*	*Total*	*Nil response*	*Primary*	*Secon-dary*	*Tertiary*
Male	490	77	130	140	143	0	490	75	315	77	23
Female	360	56	90	103	111	0	360	257	51	46	6
Total	850	133	220	243	254	0	850	332	336	123	29

Source: Field Work

Table 4
Respondents Average Daily Income in United States Dollars

		Income Levels			
Sex		*<1 USD*	*1 USD*	*>1 USD*	*Nil response*
Male	490	315	107	68	00
Female	360	290	57	13	
Total	850	605	164	81	0

Source: Field Work

Table 5
Breakdown of Respondents Occupational Category

	Occupational Category				
Sex		*Artisans*	*Crafts men and women*	*Market men and women*	*Peasant farmers*
Male	490	97	107	89	19767
Female	360	25	57	211	
Total	850	122	164	300	264

Source: Field Work

Table 6
Respondents Responses to Questions Bordering on Access to Micro Finance Service

Option	*Frequency*	*Percentage*
Yes	58	6.82
No	792	93.18
Total	850	100

Source: Field Work.

Table 6 indicates that only 6.82% of the respondents answered in the affirmative to the question on access to micro finance bank services/programmes, with the remaining 93.18% of the respondents returning the opinion that they have not had access to any form of micro finance bank services. Further information derived from our focus group discussions and in-depth interviews revealed that many of the respondents had tried to obtain micro finance services from the micro finance banks without success. Many of them complained about the distance of the micro finance banks or cash centres from their local rural communities. For instance, many of the micro finance banks had only one branch/headquarter (Imhanlahimi and Idolor, 2010) which are usually located at the local government headquarters; that may be located as far as 16 kilometres or more from the villages where they dwell. This creates a problem for many of the rural poor who may not be able to afford the expensive cost of transportation.

Figure 2: Pie Chart Showing the Nature of Services Received from Micro Finance Banks

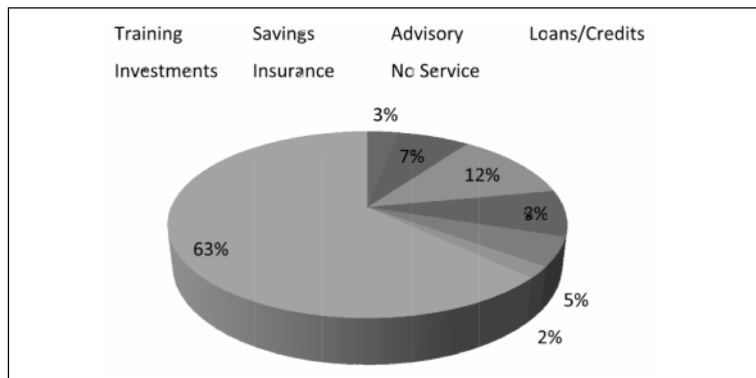
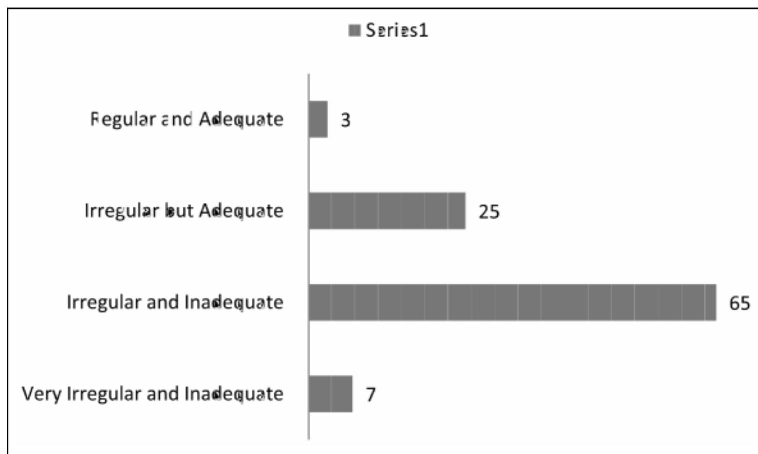


Figure 3: Extent to which the Services Rendered to Rural Poor by MFBs are Adequate and Regular



From figure 2, it is observed that the respondents who answered in the affirmative to the question on the nature or types of MFB services received, majorlly had access to advisory (12%) and savings (7%). Other services included loans/credits (8%), investments (5%), training (3%) and insurance services (2%). In total all those who received one form of service or the other constituted 37% of the respondents with the remaining 63% of our respondents returning the opinion that they have not had access to any form of micro finance bank services. The low proportion of respondents who had access to these primary services speaks volume of the low capital base of the micro finance institutions in Nigeria and suggest clearly that their impact upon the livelihood of the rural poor could be indeed very low.

Furthermore, figure 3 shows that 65% of our respondents, who answered in the affirmative to the question on adequacy and regularity of services by MFBs were of the opinion that the services provided are irregular and inadequate, while 25% of the respondents indicated that the services received were irregular but adequate. Also 7% saw their services as very irregular and inadequate while the remaining 3% of respondents expressed satisfaction. Further revelation from our field survey through personal interviews, indicated that majority of the respondents obtained micro finance services from the existing informal micro finance schemes in their rural communities. They also indicated that they had no choice but to utilize the informal schemes as the conventional micro finance banks are too distant from the localities where they dwell. It was also revealed that the informal schemes were exploitative and often collapsed whenever the founder dies. These informal schemes are in every village or quarter or hamlet in the various local government areas and they also have meeting points where the members regularly met to review the operations and performance of the informal schemes.

It seems as though it is the profit maximization criterium that makes MFBs not to establish branches or cash centres in the rural areas; as they seem to be more interested in clients with higher turnovers, who operate in the urban areas. Furthermore, majority of the rural dwellers live on less than one US dollar a day and even on non-quantifiable resources and would thus have an improved standard of living if those that are entrepreneurial are able to gain access to credit facilities on a continuous basis, favourable terms, and interest rates as well.

The study basically discovered that MFBs are failing in this regards as the rural sector basically seems to have been abandoned by them with a very low presence in the rural areas. They would do well in achieving their mandate of helping to positively improve the standard of living of the economically active poor by focusing their services more on the rural poor, who constitute a significant proportion of the poor people in Nigeria, than on the wealthy or vulnerable non poor clients in urban areas.

Our findings from our field survey basically contradicts similar studies carried out in other countries where the existing MFIs had a significant impact on the livelihood of the benefiting clients. Also in such studies the category of people targeted (most especially in the rural areas) ostensibly qualified to be part of the

economically active poor (see Sebstad and Cohen, 2001), this does not seem to be the case in Nigeria.

VI. RECOMMENDATION

Flowing from our findings, the first recommendation we make is that lending to the very poor can be financially viable for micro finance banks/institutions if they successfully convert the poor into customers while at the same time empowering the poor. This they can do by identifying and supporting initiatives designed to improve the capacities of the poorest of the poor to participate in the larger economy. The poor do pay for the services rendered to them and as such should be viewed as consumers rather than passive beneficiaries. With this idea engrained as a core belief, it becomes more easy for the micro finance banks/institutions to focus their resources and creative thinking toward innovatively serving the poor who constitute the bottom of the economic pyramid.

Micro finance even in the formal sector, for many developing countries, has a long history characterized by its non-sustainable donor – led model. The primary focus of micro finance institutions (MFIs) has been access to credit, which has proved to be a very capital intensive process. The other aspects of banking, namely, savings, has been primarily ignored by MFIs. Also, the majority of its lending occurs to segments who do not qualify for the bottom of the pyramid (BOP) or poorest of the poor. Despite these hindrances to sustainability, MFIs remain vitally important as a financial gateway to the poor. Access to credit and participation in trustworthy financial institutions are two of the most important steps in securing basic services of everyday life. The poor need these services to save small amounts in a secure manner, to invest in their business or home, to cover large expenditures, and to ensure against risk (Prahalad, 2004).

Poor households around the world have demonstrated their ability to use and pay for financial services through long standing informal agreements such as savings clubs, rotating savings and credit associations and mutual insurance societies. In every country, there exists numerous ways in which the poor can access credit through informal and semi-formal institutions. The poor, in the absence of formal institutions, often must resort to the informal sector, which is characterized by monopolistic practices and exorbitant interest rates. Informal systems are usually inefficient and even exploitative due to their monopoly power; and the interest rates charged are hardly ever fixed. In many countries of the world banking with the poor is undergoing a paradigm shift. It is no longer viewed as a mere social obligation but as a financially viable venture as well. Additionally, by serving the poorest of the poor efficiently, the emerging micro finance banks would very easily be able to position themselves as a socially responsible corporate citizen. This would be looked on highly by customers and prospective investors (Idolor, 2010). Infrastructures, such as good road network, electricity, portable water, functional schools, and health centres, should be provided especially in the rural areas in Nigeria. These would encourage urban-rural migration, or rural-rural migration

as is currently being experienced in China with the establishment of rural industries (Nyberg and Rozelle, 1999).

Finally, the following recommendations adapted from Sebstad and Cohen (2001), we believe is also crucial in increasing the ability of MFBs in delivering vital services to the economically active rural poor in Nigeria, and will thus help in increasing impact.

1. Match Products to Clients' Needs

One challenge facing most MFBs in Nigeria , relates to developing financial products, services, and delivery mechanisms that meet the financial needs of a wider spectrum of households. To expand and deepen outreach and impact, the microfinance field is challenged to develop products that respond to the needs of clients from poorer households in the country. Product development could involve both improving the terms and conditions of existing products and developing new products. To date, the microfinance product market has been relatively homogenous. Although some variation in loan sizes exists, differences in interest rates and other terms and conditions often are small.

2. Match Repayment Amounts and Cycles to Clients' Needs

For poorer households, the risk of taking a loan could be reduced if repayment amounts and cycles corresponded to income flows and the repayment capacity of borrowers. For poorer households, smaller and more frequent installments stretched out over a longer repayment period may be more appropriate. Matching the variable nature of clients multiple income streams with appropriate repayments amounts and cycles may improve a client's capacity to repay and borrow over the long term and thereby reduce the risk of borrowing for them, as well as reduce the risk of lending for the MFB.

3. Match Loan Size to Clients' Needs

Another issue for poorer borrowers is appropriate loan size. For example, some group systems automatically increase loan size for all members after each cycle, regardless of their needs or repayment capacity. The pressure of large loan repayment can force them to leave programs. Poorer borrowers need flexible and timely products with small-size, manageable repayments. For better-off households, larger loan sizes could enable them to take advantage of investment opportunities with potentially higher returns. From the standpoint of sustain-ability, the lower costs generally associated with delivering larger loans, the potential for good repayment rates, and the possibilities for this client group to cross-subsidize poorer groups should make them attractive to MFBs.

4. Increase Services to Vulnerable Non-poor Households

Expanding the outreach of microfinance services to vulnerable non-poor households is important from the perspective of poverty impact. As seen in this research,

economic stress events and shocks can push this group below the poverty line and increase the number of poor households. To the extent that some clients from vulnerable non-poor households are in a better position to take risks and invest in employment-generating enterprises, financial support may have potential for secondary employment effects.

5. Examine Financial Flows and Repayment Cycles

For all groups, more attention to client preferences in relation to loan size, repayment cycles, flexible loan products, and transaction costs in the design of products and delivery mechanisms could further improve program outreach and retention by reducing the risk of borrowing for clients. This challenge means looking more closely at the match between household financial and investment flows and loan and repayment cycles,

6. Broaden the Range of Products and Services

A crucial challenge facing MFBs is broadening the range of products and services offered by them, such as introducing new financial products or services that support client-defined pathways out of poverty. Across the field studies (sampled), improved Housing and education are perceived as pathways out of poverty for the poor, suggesting the potential for developing housing and education loans or savings products. With housing viewed by the poor as a productive investment and one of the few appreciating assets they can acquire, client demand for housing loans is high. With both the size of school fees and their timing and frequency predictable, financial vehicles, either savings or credit,' should be useful for responding to this financial need.

7. Increase Product Flexibility

To help clients manage and recover from losses associated with unanticipated crises or economic stress events after they occur, MFBs are challenged to provide more flexible loan and savings products. For example, emergency loans could play an important role in helping clients recover lost stock, make repairs on premises or equipment, start a new business activity, or cover health bills. Emergency loans could help clients recover from such events more quickly as they continue to pay their loans and stay in programs. By avoiding the use of negative coping mechanisms, such as selling off productive assets or taking children out of school, and maintaining access to credit, clients reduce their vulnerability to future risks.

The key to success for emergency loan products is their timeliness. The money must be readily available when clients need it. For clients who are in the middle of a loan cycle, emergency loans may enable them to continue to repay their loans and stay in programs when they face an unanticipated crisis, for non-clients, these types of loans could be an important enticement to enter a program. While the capacity of borrowers to carry debt needs to be weighed carefully, emergency loans are proving themselves effective in crisis situations, big and small. Demand for

this type of facility is strong in other African countries such as Mali, Uganda, Egypt, Morocco and South Africa; and there is no reason to believe that this is not the case with Nigeria.

8. Provide Insurance Products

To help clients mitigate anticipated, but unpredictable, risks, MFBs are challenged to provide products and services beyond credit. A great majority of the empirical literature studied suggests a potential role for insurance products to help clients cope with frequent, idiosyncratic risks such as ill health or death of a family income earner. All are potentially insurable risks. Some MFBs and credit unions include loan insurance, usually as a fee. While loan insurance protects the MFB, it does little to protect clients from emergencies that lead to default. Providing these services is not easy. Yet for MFBs, the direct or indirect provision of insurance services to protect clients against these risks is a win-win proposition for both MFBs and their clients,

9. Increase Individual Savings Opportunities

Finally, the findings suggest a role for more accessible and private savings that are not linked to borrowing and that can be used to deal with anticipated and unanticipated risks and day-to-day economic stresses. Again, it is important that such financial products be structured to reflect the financial and investment cycles of the client and to be accessible when they are needed.

VII. CONCLUSION

Access to financial services has been proven to be a powerful tool to help fight poverty. The impact is greatest especially for the poor people when they have access to a broad range of financial services with which they can invest in income generating and asset building activities to meet basic needs such as health, education and nutrition. The ability to manage assets helps poor people to gain control of their own future and make greater contribution to national development.

Nigeria like any other developing country is saddled with the problem of rural-urban migration, mass illiteracy, poor infrastructural facilities, poverty and low access to formal financial services. This requires a vibrant micro finance initiative aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMES) as well as the need of the rural and urban poor. For the country's economically active poor to rise above their current poverty level, the micro finance banks must be seen to be up and doing as this is the only way they can achieve their mandate and true purpose of their existence.

To date, the objective of microenterprise development has driven much of the microfinance field. While microenterprises are an important source of income for many poor households, they are only one part of their overall livelihood systems.

Microfinance is more than credit, and as shown in this research, microfinance can play an important role beyond enterprise development in supporting the livelihoods of the poor. The concept of livelihood is a broader concept than that of enterprise development. It considers a mix of resources, activities, and capabilities that enable individuals and households to pursue their economic goals. In reality, resources within households are fungible, and it is important to recognise that clients will use microfinance services for a variety of purposes. Clients use microfinance not only to invest in enterprises, but also to build household assets, smooth income, and help manage their cash flow. By providing chunks of money when it is needed, microfinance can help clients reduce their vulnerability, expand their options, and graduate from a reactive mode of survival to a proactive climb out of poverty.

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