INTI INTERNATIONAL UNIVERSITY

MASTERS OF BUSINESS ADMINISTRATION

Factors affecting effective service delivery by Micro finance institutions towards poverty reduction.

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Submission Date	:	**17/8/2011**
Ethics Number	:	**INBS308**
Final word count	:	**19,500**

Abstract

Today widespread poverty is one of the major problems facing our economies and its alleviation one of her major agendas under the UN millennium development goals. In recent years microfinance has emerged as an important instrument to relieve poverty in the developing countries. Today there are more than 7000 micro lending institutions providing loans to more than 25 million poor individuals across the world. However these institutions face some serious challenges, especially in less developed countries where the proportion of people in poverty is high. The existing microfinance in Nigeria serves less than 1 million people out of 40 million being the potential number that need the service. Also, the aggregate micro credit facilities in Nigeria, account for about 0.2 percent of the GDP and is less than one percent of total credit in the economy. Addressing this situation inadequately would further accentuate the problem and slow down growth and development of the country thus it is of importance to an economy to tackle such issues. We find that the microfinance institutions charge interest rate as high as up to 100% for lending and pay as low as 5% on savings. Furthermore the length on the loan repayment period set is not efficient for effective use of microcredit. The paper aims to archive how those factors are of importance for effective service delivery by micro finance institutions. The findings show the importance of moving towards effective micro finance institutions in achieving the said objective of reducing poverty. Recommendation and options are suggested for future research to increase the body of knowledge on micro finance.

Acknowledgement

"The struggle Continues."

~Dr Haruna

Nigeria can be said to be part of developing nations, the Economic challenges faced by Nigeria is the same with other developing nations. Therefore the opportunity to study on roles of microfinance institutions in North central, Nigeria in reducing poverty in line with the millennium development goals is off great importance to me and my country. It has provided me with a more in-depth understanding on the potential of such industry and its effectiveness.

First and foremost, I would like to express my gratitude and praises be to Allah SWT for his blessings and guidance during the process of completing this thesis. I would like to express my gratitude and appreciation to my Supervisor Mr Anthony Vaz who had been kind, patient, understanding and constant help in guiding me through this moment. Without his understanding and easy going natures i will note have been able to finish my research work but he provided me with that flexibility and support through the research process.

Furthermore I would also like to convey my appreciation and respect to the faculty's dean, head of program. Lecturers, administrative staff and my classmates who are my close friends who had been part of my learning experience in the past 5 years I have been in INTI University. Their contributions and socializing made the study environment conducive for smooth learning experiences.

Thirdly, I am forever indebted to my parents Garba Ahmed and Hadiza Garba Ahmed
as they are my foundation of growth in life and for their unconditional love, support and encouragement through the years. They are truly my inspiration and were ultimately responsible for my continued growth in life. I also render gratitude to my junior siblings Farida, Ameer(Yusuf), Fatima (zara) and Saddiq Garba Ahmed for their support. Not to forget my cousins and extended family back home who helped me through

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Chapter I

Introduction

1. Chapter overview

This chapter gives a background to the research, it describes it main focus, states the research problem, formulate questions to be investigated while at the same time highlighting key objectives, explain the significance and scope of the study and finally notes the key assumptions and limitations.

1.1 Background to research

The Millennium Summit of September, 2000. The largest gathering of its kind, brings all the world leaders together for a common goal. A UN Millennium goal was declared; committing nations to a new global partnership to reduce extreme poverty and setting out a series of time bound targets with a deadline of 2015.This have become known as the "Millennium Development Goals (MDG's). They are drawn actions and targets which was adopted by 189 nations and ratified by 147 Governments. The 8 Millennium developments Goals (MDG) are the world time bound and quantified targets for addressing extreme poverty, disease, shelter sanitation, promoting gender equality, reduce child mortality environmental sustainability and education.

Furthermore the goals were developed out of the eight charter of the United Nations millennium development declaration signed in September, 2000. The eight goals are broken down into 21 quantitative targets that are measured by 60 indicators and they are:-

1. Goal 1: Eradicate extreme poverty and hunger:-
   A. Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
   B. Achieve full and productive employment and decent work for all including women and young people.
   C. Decrease the proportion of people who suffer from hunger in Nigeria by 2015.
2. Goal 2: Achieve Universal primary education:-

Ensure that by 20115, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

3. Goal 3: Promote Gender Equality and Empower Women:-
   Eliminate gender disparity in primary and secondary education preferably by 2015.
4. Goal 4: Reduce Child Mortality:-
   Reduce by two third the number of child mortality across the world.
5. Goal 5: Improve Maternal Health:-
   A. Reduce by three quarters the number of maternal mortality rate before 2015.
   B. Achieve by 2015, universal access to reproductive health care.
6. Goal 6: Combat HIV/ AIDS, Malaria and other diseases:-
   A. By 2015 a universal hassle free access to health treatment for hiv and aids patient who need it most.
   B. Universal access to health immunization to the poor and needy. And working towards malaria eradication.
7. Goal 7: Ensure Environmental Sustainability:-
   A. Integrate the principles of sustainable development into country's policy and programmed, reverse loss of environmental resources.
   B. Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss.
   C. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
   D. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum-dwellers.
8. Goal 8: Develop a Global Partnership For Development:-
   A. Develop further an open trading and financial system that is rule based, predictable and nondiscriminatory. Includes a commitment to good governance development and poverty reduction – nationally and internationally.
   B. Address the special needs of the east developed countries. This includes staff and quota free access for their exports:- Enhanced programme of debt relief for heavily infested poor countries and cancellation of official bilateral debt target and more generous official development assistant for countries committed to poverty reduction.

C. Address the special needs of landlocked and small island developing states.
D. Deal comprehensively with the debt problem of developing countries through national and international measures in order to make debt sustainable in the long term.
E. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
F. In cooperation with the private sector, make available the benefit of new technologies especially information and communications.

THE MILLENNIUM DEVELOPMENT GOAL's (MDG'S) HAVE THE FOLLOWING TARGETS:-

A) To help synthesize the commitments made during the first UN Summit in 1990's into small segments goals. So as to meet the deadline.
B) To help recognize the relationship between growth, poverty and sustainable developments.
C) To acknowledge that development rest on the foundations of democratic governance, rule of law, respect for human rights and security.
D) To highlight the responsibility of financial institutions in financing of the Millennium development goals.

Among the goals poverty reduction will be the subject of study and how microfinance services can be used as a mechanism to help reduce poverty level in Nigeria. It is believed that if poverty is reduced and employment is created or the poor is able to generate income the other seven goals can also be affected. According to Murduch and Hashemi (2003) they have commented on the importance of microfinance in achieving the Millennium Development Goals. It is said to be a strategy in reaching the MDGs and in building financial systems that meet the needs of half the population. Furthermore Littlefield, Murduch and Hashemi (2003) state that microfinance is a critical background factor with strong impact on the achievements of the MDG's. Microfinance is considered distinctive among development interventions it can deliver social benefits on an ongoing and permanent basis for the poor. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

In our present changing environment, micro institutions are making great contribution to the growth in economies of developing countries such as Bangladesh, Malaysia and India. Economic output seems to increase and employment is created. According to World Bank about 30% of employment in underdeveloped and developing countries is generated by informal sector and about 18% by small and medium size enterprises (World Bank, 2009). Microfinance was prominent on the agenda of this historic gathering. The most significant recognition of its importance was made in the 2005 World Summit Outcome Document adopted by the gathering, which states, the body recognizes the need for access to financial services, in particular for the poor, including micro savings and microcredit (Egwuatu, 2008). Thus, microfinance has emerged as a growing industry to provide financial services to very poor people. It is based on the fact of economic relations, that the poor remain poor because they are deprived of access to life transforming opportunities. Service users of microfinance include traders, small scale farmers, food processors, petty traders, technicians and other persons who operate micro-enterprises

The Nigerian microfinance industry has come a long way; A CBN study identified, as of 2009, 160 registered MFIs in Nigeria with aggregate savings worth N99.4 million and outstanding credit of N649.6 million, indicating huge business transactions in the sector (Anyanwu, 2004). The provision of micro credit varies according to the structure of the MFI and government or public sector-oriented, NGO supported, traditional or a mixture of two or more of these. Furthermore in 2005, the government of Nigeria approved a poverty reduction strategy, the national economic empowerment and development strategy (NEEDS) based partly on the Millennium development goals (MDG'). To prioritize its spending in line with the Goals (MDG'), Medium term strategies (MTS) were developed to guide the preparation and implementation of the Medium Term Expenditure Framework (MTEF) with 57% of the total capital spending earmarked for the MDG's related sectors. A Presidential committee on the Millennium Development Goals was set up in 2005 with membership comprising the federal and state government, the legislature, civil society organizations, the private sector and Micro financial institutions performing its function as the fulcrum of financial intermediation (Lemo, 2005).

The Nigerian government have made tremendous effort in providing an effective micro financial service to the poor. The formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal sector through Nongovernmental organizations, microfinance institutions and money lenders.(CBN,2005)

There are several ways in which the less privileged are empowered but the most famous and presently used form of helping the less privileged is by Micro financing Banking system. Micro finance bank is a financial institution established to help less privileged and small scale businesses are empowered through various services so as to empower them to carry out their activities towards economic development. The ranges of services offered are deposits, loans, savings, payment services, money transfers, and insurance to the poor and low income households and their micro-enterprises.

Presently Microfinance is making waves across developing countries with the aim to reach the Millennium development goals. The attitude by government and financial institutions toward helping the poor, In many countries such as Bangladesh and Malaysia the microfinance revolution has provided flow of credit, often to very low income groups or households, who would normally be excluded by normal conventional financial institutions. Bangladesh is an example of a very poor country, where currently roughly one quarter of rural households are direct beneficiaries of these programs (Khandker 2003). Microfinance is making great contribution to the well been of the poor. Therefore Micro-finance can be said as the practice of providing financial services, such as micro-credit, micro-savings or micro-insurance to poor people. Such financial services are offered on a small scale, to businesses with a small or moderate income. The macro loans offered to the less privileged are one of the best means to help small business owners in developing countries such as Nigeria to move out of poverty. At the heart of the idea of microfinance is the belief that poverty can be reduced and eventually eliminated through provision of credit to those too poor to access the formal financial system (Koveos and Randhawa, 2004).

One of the challenges faced by Microfinance institutions in Nigeria is its lack of effectiveness to reach to a greater population of people that needs the service. According to a CBN survey it indicates that there are about 800,000 in 2007 and there were indications that it may not reach above 1.5 million by 2010. The existing MFI in Nigeria serves less than 1 million people out of 40 million potential people that need the services. (CBN, 2005). Therefore it has become necessary to address this problem so as to curb its effect in slowing down growth and development.

Therefore the objective of this study is firstly is to show the impact of Microfinance services in reducing poverty and identify the relationship between the variables interest rates on micro credit, loan repayment period, savings opportunity and how these factors impact effective service delivery by Microfinance institutions in Nigeria and secondly to show the challenges faced by microfinance banking in reaching the poor who need the services.

The paper is arranged as follows: The second section reviews literatures by different author's microfinance and as a tool for poverty eradication and challenges facing the poor in utilizing microfinance services. The third and fourth sections describe the methods applied in collecting and analyzing data, while the last two sections represent data presentation and findings, and conclusion and recommendation respectively.

1.2 Problem statement

The basis for sustainable economic growth has to start from community development and empowerment. The less privileged have to be given proper access to financial services, not only by providing Microcredit, Micro savings and other services but by providing an environment that is conducive for borrowers. Microfinance extends financial services to poor households that are otherwise unable to access the mainstream financial sector; Microfinance is one of the essential methods of community and economic development so as to reach the Millennium development goal on poverty alleviation. With such financial service in place, The Nigerian government have initiated a number of programs aimed at mobilizing, promoting and funding community development, especially human empowerment with the help of the following financial institution. Nigerian Agricultural Development Bank (NADB), Operation Feed the Nation, National Accelerated Food Production Programme (NAFPP) Family Economic Advancement Programme (FEAP) and Better Life for Rural Women (Nuhu, 2007).

In spite of all the above mentioned development initiatives, little or no impact was noticed on the life of the citizens and human empowerment in general, especially since the members of such communities have not been sufficiently integrated into such programmes. Kano State government under the leadership of Malam Ibrahim Shekarau has introduced the idea of Microfinance banking in 2008 with a view to develop the Kano community and get citizens empowered. The same initiative is happening across other Nigerian states.

It is on this light this study looks into the impact of the services offered by Microfinance Institution (MFIs) and investigate the variables such as interest rate, loan repayment period, savings opportunity and how they determine the effectiveness of service delivery by MFI in reaching more poor people that need the services under the informal sector.

1.3 Research Questions

Many microfinance institutions try to achieve the objective of reaching as more people as possible but still come short of effective service delivery.

The research will be guided by the following questions with a view to finding appropriate answers to how high interest rate, loan repayment period and savings opportunity impact effective service delivery.

1. What are the major types and categories of micro finance services?

2. Do Interest rate, loan repayment period, and savings opportunity play a role in effective service delivery by micro finance institutions?

3. How poverty alleviation and microfinance are interrelated?

1.4 Research Objectives

The general objective of this study is to understand the determinants of effective service delivery by microfinance institutions. To address the objective, the study investigates how High interest rate, loan repayment period and savings opportunity may influence how the poor use Micro finance services. Specifically, it is aimed at meeting the following objectives:

1. Identify the categories and types of Microfinance services offered.
2. To determine whether the Interest rate, loan repayment period, and savings opportunity play a role in effective service delivery by micro finance institutions.
3. Examine the relationship between Microfinance and poverty alleviation.

1.5 SIGNIFICANCE OF STUDY

The contributions Microfinance Institutions (MFI) is making in other countries on human empowerment towards poverty eradication in line with the Millennium Development Goals (MDG) cannot be overemphasized. The research intends to examine the operations of MFI in Nigeria with certain states chosen as the area of study. It will examine the impact of the services offered by such institutions and find out on the constraints limiting the effectiveness of Microfinance to reach a greater number of the poor. The research could proffer recommendations for the government and development agencies in making of Microfinance Institution as tools for human empowerment towards poverty alleviation. In depth study is required so as to make micro financial institutions more effective.

Secondly the information on this study could be useful to borrowers and how the markets operates. Once borrowers have a better understanding of the interest rate charged and how they can benefit from other services, they can make proper decision on how to make good use of micro credit. One such problem in this sector is lack of proper information on micro finance services. This study could therefore help add more knowledge.

1.6 SCOPE AND LIMITATION OF THE STUDY

This research work is restricted to contributions of Micro finance banks on Poverty alleviation. The study is concentrated on concept, operations, effectiveness, and limitations, Strengths and evolution of Microfinance banking system with regards to the Millennium development goals on poverty alleviation. This research makes use of both primary and secondary data in investigating on the research topic. The issues discussed include the concept of micro financing, different types of services offered and the impact of my variables on microfinance services. The location of the study is North central, Nigeria this means gathering of data will be difficult.

1.7 Key Assumptions

It is assumed that target interviewees will be willing to provide unbiased information that they will be required to give. The research is based in North central, Nigeria which comprises of Abuja, Kaduna, Platue and Benue those areas where assumed to have high Micro finance institutions. This is important for the research and provides information necessary for achieving the mentioned research objective

1.8 Key Limitations

In the aspect of limitation some other issues are observed in this research work, which are equally essential in contributing to the body of knowledge on achieving such research objective. One major issue is that the findings may not be extensive therefore they may not be a true representation of Nigerian micro finance sector. This is due to time constraints, research in other parts of the country can prove to be a difficult task to do due to how big the population of Nigeria is. The study approach uses a cross sectional method of data collection, a one shot study in the mentioned areas is carried out. However, given the sample size of 200 the findings are likely to be reliable hence acceptable. Another limitation is that the study is confined to the Impact of Microfinance banks on human poverty alleviation.

Chapter II

Review of related literature

2.1 Theoretical Framework

To identify the factors impacting effective microfinance services in Nigeria, there are many factors such as borrowing capacity, capacity training and workshop on credit utilization however the research will adopt the use of variables such as rate of interest rate on micro credit, Loan repayment period and savings opportunity given by MFI and how they help on poverty alleviation in line with the Millennium development goals (MDG). From the literature review below there are a number of studies that identifies such factors to be important for effective service deliver.

Poverty reduction has been the subject of discussion among world leaders. It has been a key development challenge for many countries. Poverty has been defined as a situation where a population or a section of the population is able to meet only its bare subsistence, the essentials of food, clothing and shelter, in order to maintain a minimum standard of living (Balogun, 1999).

Englama and Bamidele (1997) summarized the definition of poverty, in both absolute and relative terms as a state where an individual is not able to cater adequately for his/her basic needs of food, clothing and shelter, meet social and economic obligations, lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructures. In other words, the poor lack basic infrastructure such as education, health, potable water, and sanitation, and as a result has limited chance of advancing his/her welfare to the limit of his/her limited access to social and economic infrastructures.

Poverty can now be said to be an important issue for developing countries alike. With this at hand, poverty is making a drastic negative effect on the Nigerian economy. According to a UN human development report for Nigeria, a poor person lives on less than US$1 (about N120) a day and official statistics indicate that 75 percent of Nigerians live below this poverty line as indicated by the United Nations Development Programme (UNDP, 2006). The issue of poverty has been a major concern to many nations, particularly the developing countries. Poverty has been defined as a situation where a population or a section of the population is able to meet only its bare subsistence, the essentials of food, clothing and shelter, in order to maintain a minimum standard of living (Balogun, 1999). With this fact at hand, the issue of poverty is now given greater attention than before. This brought about a major resolution by world leaders in a United Nations convention in 2000. With this, effort is being made to create initiatives that will help drive this objective. Microfinance has been identified as the critical driver of reaching the poor who lack basic financial services. (Summit of Microfinance, 2001). Therefore one of the key roles Microfinance institutions are expected to play in aiding development is by providing effective financial services to the poor who constitute 65% of the Nigerian population and are not reached by the formal financial sector.

According to Littlefield and Rosenberg, (2004), if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services. Another view of microfinance can be seen as an instrument of development (Koveos and Randhawa,2004) This perspective projects micro financing not only about reaching the poor only but rather it presents itself as a powerful tool for fund mobilization for the needy. However According to Mahjabeen, (2008) microfinance has been increasingly acknowledged as one of the prime strategies to achieve the millennium development goals (MDGs) which are universal primary education, reduction of child mortality, combating diseases such as malaria, environmental sustainability and most importantly poverty reduction. The reason for this is due to its wide impact on the less privileged that consist of the majority of the population.

Thus access to financial services enables owners of macro enterprises to finance income, build assets and reduce their vulnerability to external environmental shocks. (Ehigiamusoe,2005). The most basic services offered by Microfinance institutions include Micro saving, micro credit and micro insurance. Credit to the poor is considered to be important factor in order to increase productivity of the poor, be it farming, trading or other form of business. Based on most studies it is believed that availability of credit boosts income levels of poor households, increase employment, thus resulting in poverty alleviation. It helps the poor overcome their liquidity constraints and undertake some productive measures such as improved farming capacity and increase revenue from production (Adugna and Hiedhues, 2000). Furthermore it helps the poor in planning and re investing their savings so as to grow. By doing so, availability of credit will improve productivity of poor households. (Hiedhues, 1995)

Better access to credit for the poor results in increased income and productivity. Therefore according to Navajas et al (2000), the main objective of microcredit is to improve the welfare of the poor as a result to better access to small loans. Furthermore in view of this, Diagne and Zeller (2001) argues that in any given circumstance when there is less access to credit, the poor can be vulnerable, it will have a negative impact on household income, agricultural productivity, food security and proper health care. Proper access to credit impacts welfare of the poor by alleviating the constraints on acquiring input in agriculture. Hence it enables the poor with no savings and assets to acquire skills and technology. By this it can be said that microfinance can be used as a mechanism to increase welfare of the poor.

Adeyemi (2008) observes that across the globe, governments of various developing countries have sought to provide finance to the poor through the creation of agricultural development banks, special lending schemes, and the support of the growth of cooperatives and other self-help groups (SHGs). Provision of credit to the less privileged has been a wonderful instrument for the reduction of poverty in the world. However, despite decades of public provision and direction of provision of microcredit, policy reorientation by the regulatory body, up till now Micro finance banks have failed to serve half the people that need such services. This shows the supply of micro financing in Nigeria is still inadequate in relation to demand. Adeyemi (2008). This also shows that there is a level of inefficiency in the running of micro financing operations in Nigeria. Therefore this defeats the objective of micro finance institutions.

2.2 CONCEPT OF MICROFINANCING

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of micro-finance services to enable them to engage in economic activities and be more self reliant, increase employment opportunities , enhance household income and create wealth.

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. These features distinguish microfinance from other formal financial products .These are :

(i) The smallness of loans advanced and /or saving collected,

(ii) The absence of assets based collateral, and simplicity of operations (CBN, 2005)

By definition, microfinance institutions (MFIs) are semi-formal, non-governmental and community development organizations involved in rural development (Mark,2001). They render both financial (credit) and non-financial services to their members, mainly the rural poor. Micro finance provide loans, savings, and other basic financial services to the poor (Robinson, 2001). The size of the loan is usually small and varies from one institution to the other. In Nigeria the size is usually in the range of N5,000 to N50,000 (about: $35 to $350) (Oji,2005). The type of enterprise involved and the market or population, to a large extent, determine the actual size of loans available to a member.

2.3 CHARACTERISTICS OF MICROFINACE BANKS

According to the Central Bank of Nigeria (CBN, 2005) micro finance bank has the following characteristics:

1) Microfinance bank has a minimum paid up capital shareholders funds of N20.0 million (to operate as a unit bank) and Nl.0 billion, (to operate in a state) respectively.

2) As a unit bank, microfinance bank operates within a local government area and not in sophisticated banking services, such as forex business and in a state (if licensed to operate in the state).

3) Credit subject to a single obligor limit of 1% for an individual corporate entity and 5% for a group.

4) No limit on deposits from an individual or a company.

5) Access to public sector deposits is permitted for only micro credit programmes on a non recourse basis and for payment purposes.

6) Cheque using is customized to the correspondent bank.

7) Geographical coverage of microfinance bank (as a unit bank) is in rural and urban areas, while that licensed to operate in a state must be in both rural and urban areas within a state in a proportion prescribed by the CBN.

2.4 Micro finance as Development tool

Bolivia and Bangladesh have become one of the great examples of how microfinance can spur economic growth and entrepreneurship in a country; however, it too has its flaws. During the last two decades, micro-credit approach has been increasingly incorporated in the development discourse, especially credit that is given to the women and the popular belief is that women are benefited and empowered and are being acknowledged for having a productive and active role and thus they are the gateway of gaining freedom for themselves. Since the start in Bangladesh by the nongovernmental organizations (NGOs), in the late 1970s, it has spread all over the world and is now believed to be a successful method of poverty alleviation. Such NGO programmes have been reversed by a conventional top down approach by creating livelihood opportunities for the poorest citizen, especially for the women who are about 94 percent of their clients. (Thente, Sofia, 2003). Microcredit is now considered as the effective development tool of poor people especially for women. Women are become more empowered and play an important role in generating income in the rural areas of Nigeria.

According to Shultz and Pecotich, 1997; Nkamnebe, 2005, increasing recognition of the effectiveness of micro financing as a tool for improving the quality of life of the poor is been recognized. The growing importance in providing other services such as training and credit issue provide a sense of hope for the poor. Micro credit is used in its broad sense as the provision of credit, savings and other financial services to micro entrepreneurs and low-income borrowers (Haruna 2007, Robinson 2001,Ehigiamusoe 2007, Dunford, 2000). Accordingly, through multi-party collaboration of non-governmental organizations (NGOs), government, development institutions, donor countries and agencies, and sundry agents, MFIs are increasingly being created to serve as purveyor for conveying credit to the poor for creating and supporting micro enterprises for self empowerment and as a deliberate policy pull to market inclusiveness. At present, over 7000 such institutions exist all over the world, serving more than 25 million world poor, majority of who are women. A Central Bank of Nigeria's (CBN) study identified 160 registered MFIs in 2001, and by 2008, the number has increased to over 700; the implied supposition being that the more the MFIs, the more the poor especially women have access to credit and are therefore empowered and insulated against poverty and exclusion.

Therefore micro finance as a development tool will aim to provide good microfinance policy that enables the poor to increasingly move out of poverty through cycles of loans and repayments. Such policies should focus on the growing the capabilities of MFIs clients towards poverty reduction.

2.5 Role of microcredit in poverty alleviation

Microfinance is recognized as an effective technique to remove poverty by providing financial services for those who have no access to or are neglected by the banks and financial institutions. Poverty can be said to include absence of employment opportunities and difficulty in accessing credit and finance, the vulnerability to risk in poor people's personal and work life has attracted great attention (Morduch, 1998, Rutherfold, 1999; Lund and Srinivas, 2000). The United Nations development programme raised similar concerns, which in its report (UNDP, 2004) on the progress of the MDGs announced that poverty rather than abate is fledging. It reported that the only gain made so far can be seen in the Asian region. While for African countries less impact has been felt due to poor policy and MFI operations.

Furthermore microcredit is helping provide these resources by small loans, and help people improve their income level. According to Ahmad (2000), it is recognized that people living in poverty are innately capable of working their way out of poverty with dignity, and can demonstrate creative potentials to improve their situation when an enabling environment and the right opportunity exists. It has been noted that in many countries of the world, micro-credit programmes, provide access to small capitals to people living in poverty. According to World Bank (2000) it claims that poverty alleviation strategy that used the microcredit method, have to a large extent brought improvement to the lives of the poor. However Dichter (2006) has argued such claims that microcredit impacts on poverty is being over measured. He states the absence of statistics to claim such relationship between microcredit and poverty reduction statement.

Microcredit is used as a strategy to help provide a stepping stone for the poor out of poverty, it is seen more as a believe that the poor can use it to access market opportunities and take steps to engage in economic activities that will enable them to generate their own incomes (Bredow,2002) and be self reliant. But for this strategy to work for, especially for a developing country like Nigeria, its application will have to consider other complementary strategies. The fact that most operators in the informal economy are extremely poor suggests that even before their supposed microcredit aided businesses, they need proper assistance and training to make good use of such funds while government and regulatory bodies should provide policies that provides proper engagement.

2.6 Services offered by Micro finance institutions

2.6.1 MICRO-CREDIT

Micro credit is a small loan given to micro entrepreneurs mostly at bearable and repayable interest rates to finance a micro enterprise. Microcredit as obtained from micro finance institutions are guided by certain regulations internally agreed to or become externally imposed. The aim is to promote employment creation and income generation to families. Therefore microcredit is a component of microfinance that involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

Microcredit is the main product in any microfinance scheme. Microcredit is the established identity of micro-financing. Some pioneer providers still like to keep the name microcredit product features, although they also provide other financial services along with savings and credit. The essential characteristics of microcredit are a small loan (typically less than US $100 for no more than 12 months, often only one to three months); to fund an activity that has a positive contribution for family income. Small loans to support consumption spending are unlikely to have an important role in boosting achievement of the millennium goals.

There are many types of microcredit products, linking features indicative of the target group, nature of the economic activity, type of lending methodology, the sector of the economy in which the activity is to take place(e.g., agriculture), the nature of the investment supported (e.g., microenterprise creation or expansion), or repayment arrangements. Some microfinance providers have been brave enough to enable an individual borrower to service more than one loan at a time. Over time, individual microfinance providers have found it profitable to change the nature of the credit products they offer in terms of loan duration, repayment grace periods, number of repayment installments and repayment mode (Ledger 1999; Meyer2002). This has further made it difficult for the poor to get such services effectively

2.6.2 MICRO SAVING

Savings is one the best financial services to start a dialogue with the poor before providing any credit. Some in the micro finance sector believe that to 'lead with savings' is the optimal approach to sustainable pro-poor micro finance. The experience of microfinance providers has confirmed that poor people value very highly the opportunity to save 'productively'. Savers in developed economies take it for granted that they will be able to save and earn a positive rate of interest on their deposits. Moreover, those savers are able to access the deposit taking facilities of mainstream financial institutions and take it for granted that their deposits and that their money management plans are safe. In the recent and historical literature on informal savings, many authors have stressed the importance of savings for organizational sustainability purposes (; Low, 1995; Von Pischke, 1981; Bouman, 1977). More recently, Ahlin and Jiang (2008) suggest that the lasting effects of microcredit may partially depend on the simultaneous facilitation of micro savings

When a natural disaster destroys a harvest, or an economic asset like livestock or a fish pond is contaminated, the resulting loss of income and assets can leave households unable to afford the seed, fertilizer and other inputs needed to restore production in the following season or to restart an established income-generating activity. In such circumstances, the ability to draw on accumulated micro savings can do a lot to restore business activity (UNDP 2007). While savings have a social Mission to safeguard clients' monies, they also include various advantages for the MFI itself. As a complement to credit, savings can yield economies of scope, cost effectiveness in loan delivery and reduced transaction costs (Hirschland, 2005)

According to Nagarajan & Brown 2000, Rutherford 2000, if a microfinance provider can offer clients financial products such as insurance, leasing and remit money transfer, economic robustness in the face of financial setbacks is further enhancement. The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2006, stood atN34.2 billion.(CBN,2007) Similarly, their total loans and advances amounted toN11.4 billion while their aggregate deposit liabilities stood at N21.4billion for the same period. Also, as at end-December 2006, the total currency in circulation stood at N545.8billion, out of whichN458.6billion or 84.12 per cent was outside the banking system.

Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The micro financing policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy. Therefore, there is need for increased saving opportunities in other to aid development and poverty alleviation.

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2.6.3 MICRO-INSURANCE

The poor are risk-averse. Even so, there are very few risk management services or products to which they have access. Micro insurance addresses this need with affordable insurance products tailored to the circumstances of low-income individuals and groups. It is an emerging tool for reducing vulnerability of the poor (Ahmed, 2008). Opportunity, empowerment and security for the poor are the primary pillars of any poverty reduction strategy. A perfect social security safety net is impossible without insurance services, though one can argue that the potential contribution of micro insurance is immense. In the leasing business, microfinance providers use the same norms as conventional formal companies, but it has also been found that leasing is an effective way of overcoming capital constraints (Dowla1998; Alamgir 1997). Leasing has also been found to have a strong contribution to make post-disaster restoration programmes where equipment must be replaced if the poor are to return to work (Berold 2003).

The availability of insurance can enhance behavior towards risks of the insured. This is the case in Bolivia, where the introduction of deposit insurance has led to riskier behavior for loan delivery (Ioannidou and Penas, 2010). When combining microcredit with insurance, many of these insurance products may contribute not only to the client's well-being, but also indirectly to the MFI's financial performance. Micro insurance can for example protect the client against accidents or health risks and hence enhance business continuity or middle-term productivity (Churchill et al., 2003). Therefore, one can consider complementary insurance as a way to limit risks such as external shocks, moral hazards and adverse selection and ultimately enhance loan repayment (Bond and Rai, 2009).

2.7 Interest rate on Micro credit

High interest rate by Micro finance institutions have been a subject of discussion and criticism by governments and borrowers. The rate charged by institutions does not reflect their objective. At a micro credit summit in Dhaka in 2004, the Minister of Finance for Bangladesh described microcredit interest rates in that country as extortionate. Also, the Prime Minister of Cambodia has asked lending agencies to consider reducing microcredit interest rates. Concern about high interest rate is also shared among other countries such as India, Kenya and Nigeria. This indicates a trend of setting high interest rates by lending agencies and does not serve any good to effective credit delivery by microfinance institutions. After all, MFI's main objective is to provide poor and low income households with an affordable source of financial services.

According to Anyanwu (2004) the interest rates in the microfinance institutions are much higher than the prevailing rate issued by formal banks. From the report, it indicates that micro finance institutions in Nigeria charge between 32-48% interest rate per month. This hampers the productivity of the poor. High interest rates may not encourage the acquisition of fixed assets, including machinery, equipments, and tools, which promotes technological accumulation of borrowers as lenders want to recoup their investments faster; while lower rates are likely to encourage the acquisition of equipments and tools. The key point is that MFIs should reduce their lending rates or spread the interest payments in such a way as to promote greater use of the loan by the clients. It is possible that interest rates may be proxy for non-interest charges also. MFI should also reduce their non-interest charges or get this paid from the interest accruing from clients' savings. In order to encourage improved working conditions, MFI can categorize their loans into low and high interest loans. The conventional lending to clients can be maintained as "high interest" loans for working capital, while loans for capital assets or technology acquisition should be developed as "low interest" loan products. Such loans can be secured by mortgage over the fixed asset so acquired by the micro-borrower.

Due to high interest rates on micro credit, two reflections could be made. First the objective of microfinance is to combat poverty which might be defeated since the clients have to repay back twice what they have received at all cost.

Secondly, given the motive and determination of the poor to look for credit at the present high interest rate indicates they are industrious and productive.

2.8 Loan repayment period

The poor are usually excluded from credit facilities because of many reasons. These include insufficient collateral to support their loans, high transaction costs, unstable income, lower literacy and high monitoring costs. Lending to the poor or lower income group raises many debates among practitioners and academicians. The repayment problem is one of the critical issues of MFIs that concerns all stakeholders (Sharma & Zeller, 1997) where the high loan default rate is the primary cause of the failure of MFIs (Yaron, 1994 and Woolcock, 1999).

The question of loan repayment and period of return is an important question to microfinance institutions. The borrowers of micro credit are poor and have no asset or wealth thus resulting in low return rate. Loan repayment period can be said to be a period of time during which the entire loan must be repaid. According to Ledgerwood (1999) the level of cash flow determines the dept-servicing capacity of borrowers. The short repayment period might cause the borrower not to have generated enough revenue in order to make repayment, while a longer loan repayment period is perceived to be detrimental to borrowers looking for long term loan in order to help finance business. An increase in the duration of client's loan increases the capability of borrowers (Kalu orji, 2007). This is also expected as loans increase the capital base (and assets) of the borrower particularly if they are used to finance capital spending. Thus the longer the loan is productively used, the greater the production capability of the enterprise. Short-duration loans have the tendency to disrupt the operations (and capital structure) of firms because of the frequent need for repayments.

Three categories of loans were given by the MFIs, namely short-term, medium, and long-term loans. The short-term loans were given for a period of 3 months, the medium-term loans lasted for a maximum period of 6 months, while the long-term loans lasted for one year (Table 3). In practice, the actual duration of these loans depended on the enterprise and the purpose for the loan. Most medium-term loans were for 4-6 months, while long-term loans lasted for 8-12 months.