



## MICROFINANCE AND POVERTY ALLEVIATION

*A Case of Obazu Progressive Women Association  
Mbieri, Imo state – Nigeria.*

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SLU, Department of Economics

Thesis No. 533

Degree Thesis in Economics (Business Administration)

Uppsala, 2008

D-level, 30 ECTS credits

ISSN 1401-4084

ISRN SLU-EKON-EX-No. 533SE



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**ISSN 1401-4084  
ISRN SLU-EKON-EX-No. 533 – SE**

**Tryck: SLU, Department of Economics, Uppsala, 2008**

## **ACKNOWLEDGEMENTS**

The realization and completion of this study involved a number of people. First and foremost, I remain grateful to God Almighty who through His infinite mercies made it possible for me to finish the work in order to conclude my M.sc programme.

I have been fortunate enough to interact with a range of people involved in poverty alleviation and gender issues in the Nordic Africa Institute, Uppsala Sweden during the period of my research and study scholarship with the institute.

My thanks go to my able supervisors Prof. Bo Ohlmer and Linley Chiwona-Karltun (Phd), without their encouragement and support this study would not have been possible. My lecturers Cecilia Mark-Herbert (Docent) and Karin Hakelius (Phd). who imparted knowledge to me during my studies. Here I would be remiss in my duty not to acknowledge my sister Engr. Sandra Irobi who is studying in Delft Netherlands for her Phd.

Last but not the least my parents Mr. & Mrs. Michael Irobi and my loving husband Engr. Edwin Okafor for his support and sacrifices all through my time of study away from home in Sweden, the Obazu Progressive Women Association Mbieri, Staff of Centage Savings and loans Lagos, Mr Egbu Agbai my contact in the Microfinance bank and all my colleagues in the university.

## **ABSTRACT**

Microfinance, which is one of the tools used in poverty alleviation, has been with us since time immemorial. In Nigeria it is traditionally rooted, while providing credit and financial services to the poor or low-income earners. There are people with self-help groups, rotating savings and associations with several activities aiding members to come out of poverty etc. Microfinance however, is been implemented to overcome the failure of the formal banking industry at offering small loans for the poor to enable them perform some income generating activities. The question of ‘whom does the microfinance benefit’, and how it affects the welfare of different groups of individuals and household was tackled in this study. This was achieved through studying the impact of micro financing on a group of women - Obazu Progressive Women Association, Mbieri, Owerri in Nigeria involved in poverty alleviating activities for their members.

From the findings of this study, the microfinance intervention has a positive impact on alleviation of poverty among the women of this association. Interestingly, this study found that most women in this association experienced increased income and therefore improved their economic status, political and social conditions after receiving the loans. This result therefore further upholds the main purpose and objectives of microfinance in general.

**Key terms:** Microfinance, poverty alleviation, women empowerment, Obazu Progressive Women Association, Nigeria.

## **ABBREVIATIONS**

**ADLI:** Agricultural Development Led Industrialisation

**AFDB:** African Development Bank

**ASA:** Association of Social Advancement

**BRAC:** Bangladesh Rural Advancement Committee

**FCT:** Federal Capital Territory

**GB:** Grameen Bank

**GNI:** Gross National Income

**IFAD:** International Financiers And Donors

**IFC:** International Finance Corporation

**IFPRI:** International Food Policy Research Institute

**IMF:** International Monetary Fund

**MF:** Microfinance

**MFIs:** Microfinance Institutions

**MDG:** Millennium Development Goal

**MSMEs:** Micro Small Medium Enterprise

**NGOs:** Non-governmental Organisations

**LCDs:** Least Development Countries

**PRSP:** Poverty Reduction Strategy Programme

**UNDP:** United Nations Development Project

**UNCDF:** United Nations Capital Development Fund

**WFS:** World Food Summit

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## **1. INTRODUCTION**

### **1.1 Problem area**

Microfinance is created in response to the missing credit market for the poor. In the developing countries most recently for instance, governments are also incorporating microfinance in their strategies towards achieving the Millennium Goals that involves halving extreme poverty by the target date, which is 2015. Given the complex nature of poverty together with the current Microfinance intermediation approach, it is however, becoming increasingly difficult to judge whether such programs should be advocated as a means of poverty alleviation.

This study investigates the hypotheses that: Microfinance programs alleviate poverty by increasing income, changing economic status and empowering women socially and politically, and by empowering them in Obazu Mbieri, Owerri.

### **1.2 Problem and aim**

For a strategy to be viable, it should have a positive impact on what it is up to do. Consequently, viability of MF can be measured in terms of its actual impact on the intended beneficiaries, who are assumed to be ‘poor’. The focus is on this area ‘Obazu Mbieri, Owerri’ to delimit my work and due to time constraint. I then chose the main research question *‘whether credit (loans) and saving scheme is a viable strategy to alleviate poverty in Obazu Mbieri, Owerri’*.

In order to investigate this subject, two sub-questions were formulated:

1. Whether NGO’s can use the credit and saving scheme to make a difference in alleviating poverty for women?
2. Can Microfinance programs owned and implemented by local MF institutions alleviate poverty?

The problem of poverty among rural women in Obazu community is a big issue that needs to be explored. It is not good for people to live in poverty rather they should live a good life which is above poverty line. This study is important in order to investigate the activities of these rural women living below the poverty line of 1 US\$ per day. The problem among these women is not yet known or understood in context of Nigeria.

To answer the above research questions a survey was made in this geographical area.

### **1.3 Methodology**

This study is based on primary (direct) and some secondary (literature reviews) sources.

The two major variables involved in this study are **Microfinance** and **Poverty**.

The target group of this study as earlier stated was the members of the Obazu Progressive Women Association, Mbieri Owerri Imo state in Nigeria. Owerri in Imo State was selected as a geographical region for studying the above mentioned research question. I could collate data from other areas, but I have chosen this area because it is one of the villages that rural women, which engage in such microfinance practices, live. I collated my empirical data through key informant interviews with some officials of the Obazu Progressive Women Association Mbieri, and also by using a more detailed questionnaire on their members. These people were selected because of their key role in the association. The purpose of using this method was to get individuals opinion about how the MF works among them and to get a deep understanding of MF and also explore the idea. Some other possible ways of getting data could be through participant observation where the researcher interacts with the people and gather data on interested topic. I also was opportune to visit some of the members in their various business places using such method.

However, the officials of the interviewed gave brief history of the association and means to access their members as well.

Data was collected to identify the purpose of Microfinance to the rural women (Obazu Progressive Women Association) Mbieri, who are the beneficiaries of this credit. The aim was to find out their experiences in business (such as farming, dress making, trading etc) with the help of the credit they received from the association. The analysis of the data was made using the information given by the members of the association through questionnaire and interview. It was analysed based on the social characteristics of the study participants. This was just to find out the impact of the credit received from the association on various members in their different businesses. The questionnaire was in form of objective questions. The number administered was 72, but only 52 were returned. Sampling process made the selection. A sample is a small part of something intended as

representative of the whole or items selected at random from a population and used to test hypothesis about the population. In this context the sample of the whole of the women association was chosen to be 72 questionnaires administered, which represented the members in question. The sex of the members of the association, their age, and population was used for the selection process. The questionnaire was only distributed to the members of the association not the whole populace of that community and mostly to those who have benefited from the credit. The study challenged the hypothesis '*Microfinance programs alleviate poverty by increasing income, changing economic status and empowering women socially and politically in Obazu Mbieri, Owerri Imo state.*' This hypothesis was tested from data collected by the researcher from the association and other related literature reviews.

The study was conducted in August 2007 during the association's 'August meeting' period. This was a period when most of the members give account of their welfare in various businesses based on the credit received from the association. They relate the gains made from the credit to the members as well as discuss ways to improve in their various businesses incase of flaws or losses.

#### **1.4 Ethical Permission**

However, before the interview and administration of the questionnaires to the members was carried out, ethical permission or consent of the officials was granted to the researcher. This was in order to have free and cordial relationship with them and also make them confident in answering questions without hiding information.

#### **1.5 Limitations of the study**

This study investigated the research problem based on the activities of the women association. Due to time and content limitation, only data in line with the purpose of this study was considered. There might have also been some limitation in the sampling process in choosing a certain number of the total population. The method chosen for this study might have some limitations also in answering the research questions. Some other things to consider as limitation during this study are in relation with the people chosen for the study. Some of them were not interested in being interviewed and felt reluctant also in filling the questionnaire. The fact that the reluctant ones were assisted by some of their relatives is also a limitation and it would have been better if they answered the questionnaire with full confidence and interest. Some of the questionnaires administered were not returned, as some did not have interest at all in filling it and therefore cared not to return them unfilled. Some of the members who would have given information about their loan could not be accessed due to lack of confidence in releasing data. Most preferred answering the questionnaire than oral interview with the researcher.

## **2. LITERATURE REVIEW**

### **Microfinance and its impact on ‘poverty’**

#### **2.1 The concept of ‘Microfinance’**

This section deals with some general facts about ‘Microfinance’ its definition, evolution and current approaches of many institutions that operate in the business of microfinancing. To make the readers familiar with this subject, a brief idea on some of the most popular and successful Microfinance institutions worldwide will be presented. These are the Shore Bank, the Grameen Bank and The Bangladesh Rural Advancement Committee (BRAC).

Microfinance is the provision of financial services such as credit (loans), savings, micro-leasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses. Again, MF is defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings.

Microfinance (MF) has evolved as an economic development approach intended to benefit the low-income part of a given society (both women and men). According to the World Bank definition, the term refers to ‘provision of financial services’ (including saving and credit) to ‘the poor’. Micro finance banks are institutions that are established to provide financial services to the active poor. Microfinance Institutions, (MFIs) can be non-governmental organizations (NGOs), saving and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions (Ledgerwood 1999:1). This policy seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises (MSMEs) through privately owned banks.

This scheme gives small loans to households lacking access to formal sector banks. One aspect of Microfinance that is very important of note is, its relative success in deliberately reaching out to poor women living in different socio-economic environments. The

Association of Social Advancement (ASA), one of the most prominent microfinance institutions in Bangladesh for instance, has provided US\$200 million exclusively to women borrowers. In Malawi 95 percent of loans provided by the Malawi Muzdi fund go to women borrowers. Since 1979, Women's world banking has given more than 200,000 loans to low-income women around the world. The same instances can also be found in places like Asia, Africa and Latin America. The credit facilities do a lot in the lives of these poor people. Their standard of living is improved and they have access to better sustainability as well as more opportunities to have more market shares or business growth generally.

## **2.2 Goals of a Microfinance Bank**

The goals of MF banks are the following:

- To provide diversified, dependable and timely financial services to the economically active poor.
- To mobilize savings for financial intermediation.
- To create employment opportunities.
- To provide veritable avenues for the administration of the micro-credit program of government and high net worth individuals.
- To render payment services such as salaries, gratuities and pensions on behalf of various tiers of government.
- To involve the poor in the socio-economic development of the country (Egbu, 2006:4).

## **2.3 Brief History of Microfinance**

Microfinance is dated back to the 1970s, and it was necessary that all programs pass two key tests:

- Show that people can be relied on to repay their loans and
- Show that it is possible to provide financial services to poor people, which are done through market-based enterprises without subsidy.

In the 1970's a new wave of microfinance initiative introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the poor and underserved in the same year. A few of the pioneering institutions will be reviewed later. Beginning in the 1980s a new approach came to work on the assumption that more market-based solutions were required still focusing on income expansion and poverty reduction but searching for cost-effective alternatives (Ledgerwood 1999), Yaron et al 1998).

Local Non governmental organizations also began to look for a more long-term approach, and at about the same time Prof. Mohammed Yunus of Bangladesh who won the 2006 Nobel peace prize led the first lending scheme for landless people. From 1980 onwards, the field of microfinance has grown substantially and most recently, some NGOs have started transforming into formal financial institutions that recognize the need of savings services to clients and also to access market funding sources than rely on donor funds.

## **2.4 Ending poverty in our life time**

### **2.4.1 The Shore Bank**

The first fully - incorporated microfinance and development bank was Shore bank, founded in 1973 in Chicago. This was when Millon Davis, James Fletcher, Mary Houghton and Ron Gryzywinski purchased the South shore bank at 71<sup>st</sup> Street. Shore bank has helped finance the purchase and renovation of 49,000 affordable housing residences and between 2000 and 2006 it issued nearly \$900 million in loans to citizens in Chicago, Detroit and Cleveland. One of the early pioneers of microfinance was Dr. Akhtar Hameed Khan. He was a development activists and social scientist credited for pioneering micro-credit and microfinance initiatives, farmers' cooperatives and rural training programs in the developing world.

### **2.4.2 The Grameen Bank**

The question 'whether we can eliminate poverty in our lifetime' has already been answered by Muhammad Yunus one of the pioneers of microfinance, which is the

provision of loans and other financial services to the poor to start small/micro businesses and get out of poverty. He gives us hope that we can eliminate poverty in our lifetime

Economic Professor Muhammad Yunus is often credited with disbursing the first micro loan in Bangladesh in 1974. He later went on to find the Grameen Bank (GB) and was awarded the 2006 Noble prize for his efforts. The GB was chartered to operate as a National bank in 1983, with 75 branches spread in five districts of the country. As of 1997, the bank reached about 2.5 million clients in 37,000 villages and the total amount of loan disbursed amounted to US\$ 2 billion with a repayment rate of over 97% (Yunus 2001:22.23). According to the data compiled in 1998, 97% of the bank's members were women and 61% of them belonged to households with less than 0,1 acre of land and 31% owned 0,11-0,40 acre. Nearly half of the households owned no cultivating land at all and 87% had did not go to school at all (Chowdhury 2001:73).

GB lending system is purely group-based and participatory. It also offers other integrated services in addition to credit like training and education in health, nutrition and home food production. The bank has a highly decentralized organization with branches that are independent profit maximizing units. Employees are said to be highly motivated to help the poor as they are compensated according to productivity and general performance.

The bank provides financial services to the poor to grow in their small businesses and overcome poverty. The borrowers of the loan pay interest on the loans at its return. According to Yunus, what the poor people want most is not charity but opportunity. If the poor are given charity today and none tomorrow, it does not help in ending their poverty at all. Opportunities granted to them will go a long way in assisting or aiding their businesses thereby ending poverty. Yunus added that the key to microfinance was to design loan products that meet needs of the poor. This he explained saying that the poor will use the funds for income -generating activities and lift them selves also out of poverty.

Microfinance often works through women. This is because they invest profits in the household. Based on the above, the Noble Peace Prize committee did not stop at giving the prize to only Yunus, but also to nearly 70 members of the Grameen Bank.

#### **2.4.3 The Bangladesh Rural Advancement Committee (BRAC)**

This organization (BRAC) is a non-governmental organization (NGO). It was established as a response to humanitarian need in 1972. Poverty alleviation and empowerment are the main objectives of the Bangladesh Rural Advancement Committee (BRAC). The main target-groups of the organization are women who come from poor families with their lives dominated by extreme poverty, diseases, illiteracy etc. The organization, over the years has gone through series of evolutions or transmission and came up with the status of one of the largest Non-governmental Organisations (NGOs) in Bangladesh. They have the needs of catering to the multifaceted needs of poor women in their country (Mushtaque et al 2001:43). In occupation terms, also, 8% of the new members were shop traders, while no such shop-owners were presented in the borrower categories previously, 10% were doing some form of rural industry compared to fewer than 5% of old borrowers (Montgomery et al 1996:129). Again in 2000, BRAC reached 3.6 million participants, 97% are women, in more than 50,000 villages. Total amount given out was US\$ 1 billion in that year. They had the function of mobilizing a saving amount of US\$ 70 million (Mustaque et al 2001:48).

### **2.5 The concept of ‘Poverty’**

Some people take poverty to involve a subjective and a comparative terms while others take it to be moral and evaluative. Defining poverty involves the question of whether it is mainly about material needs involving measuring consumption by using income as the main determinant factor, or a much broader set of needs that includes factors of well-being (Hulme and Mosley, 1996). We use the term ‘poorest of very poor’ to refer to people living on less than \$1 per day. We also use the term ‘poor’ to mean those living in

poverty above \$1 per day or in the upper half of those living below their nation's poverty line.

The 1<sup>st</sup> Millennium Development Goal (MDG) is to eradicate extreme poverty and hunger. This has become an issue of concern both on the local and international levels since the MDG's was established. The World Bank defined poverty as the state of living on less than \$2 a day and this poverty continues to remain elusive to eradicate even for the billion in question (World Bank 2000/2001). They also have yet another definition as having a multi-dimensional nature consisting of vulnerability, powerlessness and social exclusion in addition to material deprivation. Poverty in many developing countries is largely a matter of not having enough on their tables to eat. Providing the poor with financial services is one way to increase their income and productivity, e.g. through self-employment and thus escape poverty (Chowdhury 2001:69). Poverty is explained by individual circumstances and/or characterized of poor people, such as amount of education, skills, experience, intelligence, health, handicaps age, sex etc.

Poverty can be defined as the state of being without, often associated with need, hardship and lack of resources across a wide range of circumstances. Poverty is further classified into three variables, Income poverty, Vulnerability and Empowerment. Income poverty stands for lack of income to afford minimum basic necessities of life. Vulnerability involves the probability of risk today of being in poverty or to fall into deeper poverty in the future. Regarding Empowerment, the focus of this study is on women. In addition, most MFIs are working towards women empowerment as a primary objective.

Here empowerment is further classified into three categories namely, Economic, Social and Political empowerment. They are defined as follows:

1. Economic empowerment refers to economic security of oneself.
2. Social empowerment refers to the ability to participate in decision-making in the community including the household and non-family groups.
3. Political empowerment refers to the ability to interact in the public sphere.

### **2.5.1 What causes poverty**

Poverty is a macro problem. The causes are as wide as they are deep also. Some of the key reasons why people all over the world are poor and remain poor are political instability, natural disasters, corruption, socio-economic disparities and prejudice, lack of access to education, lack of infrastructure etc. Some other causes of poverty can be from acute conditions like warfare. The material and human destruction that is often caused by warfare is a major development problem (World Development Report 2000/2001).

An agricultural cycle is yet another cause of poverty. People that rely on fruits and vegetables that they produce for household food consumption often are faced with cycles of relative abundance of scarcity. The period before harvest is always a hungry period for families that rely on subsistence production for survival. During the scarcity periods, these families lack sufficient resources to meet their minimal nutritional needs.

Droughts and flooding can cause poverty as well. Apart from destruction caused by natural events such as hurricanes, environmental forces always cause acute periods of crisis by destroying many crops and animals as well.

### **2.5.2 Measuring poverty**

When poverty is defined in a broader sense it can raise the questions of how to measure overall poverty and how to compare achievements in the different dimensions. Below is how the different dimensions of poverty can be measured.

- a. **Measuring material deprivation:** Under this you have the income and consumption levels of the household. You measure this using the national poverty line, a critical cut off in income or consumption below which an individual or a household is determined to be poor. The impact of MF in this regard, can be judged from its contribution in helping households to move from a permanent ‘below poverty line’ situation to a permanent ‘above poverty line’ situation

(World Development Report 2000/2001). The depth of this programme fashioned in reaching the poor located far from the poverty line can be seen as a viable indicator as well.

- b. **Measuring vulnerability:** Poverty cannot be fully alleviated in a sustainable way unless intermediaries are designed to tackle the multi-dimensional nature of poverty. Vulnerability being a dynamic concept has its measurement centered on the variability to income or consumption and on the availability of other dimensions of well being like physical assets, human capital, social capital and prevalence of non-income risks like violence, natural disasters and so on (World Development Report 2000/2001).
- c. **Measuring empowerment:** Measuring empowerment may vary according to the context i.e. the social, culture and political context of a given society. Under this we have:
  1. **Economic empowerment**, which can be measured in terms of woman's ability to command sufficient resources, and this, involves level of economic dependency.
  2. **Social empowerment** which can be measured in terms of the ability of a woman to participate in decision making at the household and community level.
3. **Political empowerment** can be measured in terms of a woman's capacity to participate in political affairs. As a member of a political group or cabinet she is exposed to be a political candidate, and similar activities are included here too. The impact of Mf on empowerment however, can be judged from its contribution to enable women clients to have their own sources of income as well as develop their physical and human capital. This will definitely assist them to build their self-esteem and become decisive in the community.

### **2.5.3 Where do the poor live?**

An important finding from analyzing the summary data from the poverty assessment study in Nigeria is the concentration of the poor in communities in which most of the other households are also poor, and the tendency of the non-poor households to reside in communities in which the population is largely non-poor (World Bank, 1996).

According to the paper, in the Northern agro climatic zone, nearly 70 percent of the poor reside in 36 percent of communities that were classified as ‘poor’ while in the South 9 percent of the communities were classified as ‘poor’ and 35 percent of the poor in that region reside in these communities.

## **2.6 World Bank Poverty Reduction Strategy**

The World Bank and International Monetary Fund (IMF) were established to help in the developing countries. They were created to aid in development after the 1st world war. The task of the World Bank is to help in developing the developing countries by financing. They have implemented some programmes towards the eradication of poverty in some of the developing countries. Such programmes are known as Poverty Reduction Strategy Programme (PRSP). Some of the programme has assisted some of the developing countries in their finances and investments. Irrespective of the fight to eradicate poverty, it continues to remain elusive to eradicate for the billion ([www.gapminder.org](http://www.gapminder.org)). They laid out a process that very poor countries would follow if they wish to make use of various concessionary lending facilities. After some years, an evaluation was made and it was noted that some of the PRSP process promotes is helpful. It was better than one that ignores the poor, never solicits outside opinion, imposes solutions with no reference with the participation of the recipient country, and is derived with no consultation with the recipient country.

Poverty for some involves a subjective and a comparative term; while for others it is moral and evaluative and some still see it as scientifically based.

The poverty reduction strategy that the World Bank and the IMF has required from the HIPC countries since 1999 is normally described not by its contents but by the process by which the PRSP is elaborated.

The concept of Poverty Reduction Strategy Papers (PRSP) involves the following processes. Below are the five principles that PRSP involves:

**1. Country driven:** Here the original initiative to start a PRSP should originate with the countries themselves. There is always the need of the countries initiating it to participate

with the civil society organizations in order to agree on the type of strategy to use or implement.

2. **Result-oriented:** The PRSP should try to focus on the effects of the policies rather than on the policies itself. They should try to look at the effects of the policies at the long run on the society where it is being administered to, to find out how it is going to positively affect them or otherwise before implementation.

3. **Comprehensive:** Based on the concept of poverty as multi-dimensional this principle opines that poverty cannot be reduced, by increasing economic growth alone but with other factors in collaboration.

4. **Partnership-oriented:** This includes the various partners of development, from bilateral donors and multilateral institutions, through national governments and parliaments, to domestic and international civil society organizations.

5. **Long -term:** Poverty, which is a multi-dimension issue, is not easy to be reduced within a short run. This makes it difficult for the PRSP programmes to be run over a short term but rather must be consistent over a period of time ([www.gapminder.org](http://www.gapminder.org)).

The background to the PRSP is that Structural Adjustment Programme (SAP) of the World Bank and IMF failed. It could be recalled that this programme of SAP began in the 1980's. They did not fulfill the aim of their initiation. The creditors ran SAP, and the IMF with the World Bank not directly by the countries affected by them. The SAP only cared about economic growth but not bothered much on how poverty should be dealt with or removed entirely.

The PRSP Programme's objective was to lessen the negative impacts of the Structural Adjustment Programmes, and not to change the main orientation of the policies.

A way to analyse the contents of PRSPs is to rightly compare it with the civil society's demand, e.g. the primary education free for all issue. Then, if you compare what the civil society organizations and the trade unions demand with the PRSPs offer in the macro-economic policy, land reforms etc, the position differ widely. This difference can be termed to be problematic. PRSP are not result oriented and are not also based on equal partnerships; rather they are in the same direction with a greater agreement among the donors, e.g. in Tanzania and Mozambique. The PRSP are mostly backed with the

technical staff in the administration that involve with putting of the elaboration of the policies. A crucial issue is the institutionalization of the PRSP process, which has only taken place in few countries like Tanzania.

However, there are some countries that have tried to dialogue the Poverty Reduction Strategy Programmes and its implementation such as Nigeria.

## 2.7 Nigeria

Nigeria, officially known as the Federal Republic of Nigeria is one of the countries in West Africa. Nigeria has its capital in Abuja (The federal capital territory, F.C.T.) since 1991. Nigeria shares land borders with the Republic of Benin in the West, Chad and Cameroon in the east, and Niger in the North. The federal capital was formerly situated in Lagos State. Lagos is the most populated city in Nigeria, while Nigeria is the most populous country in sub Saharan Africa and is also termed the ninth most populous country in the world. The history and archeological evidence of Nigeria shows that human habitation of the area dates back to at least 9000 BC. According to the World Bank report, Nigeria has the population of about 144.7 billion. The population growth (annual %) is 2.4 while the GNI (current US\$) is 100.7 billion. The GNI per capita, atlas method (current US\$) is 620.00(Source: World Development indicators).

Nigeria operates three-tiers of government namely; the **Federal**, **State** and **Local** governments. It is made up of 37 States and each state is made up of several Local government areas. Endowed with natural and human resources and yet what do you see, People living below poverty line and disparities between the rich and the poor.

Nigeria is one third larger than Texas and is situated on the Gulf of Guinea in West Africa. Her Major trading partners are U.S., Brazil, Spain, China, UK, Netherlands, France, Germany and a member of the common wealth. The position of women in Nigeria is still bad as they practice sharia law. The word sharia means ‘the path to watering hole’. It denotes an Islamic way of life that is more than a system of criminal justice. Just as the Bible, which is a moral system for Christians, it is a religious code for living adopted for most Moslems (Steiner Susie (2002). According to Lynn Welchman,

who is the director of the centre for Islamic and middle East law, ‘sharia governs the lives of people in ways which are not governed by the law’?

One question related to the study problem is: why does Imo State continue to be poor irrespective of their resources. There are some hot spots in there to progress when it comes to micro financing and poverty alleviation for women.

Nigeria, though endowed with natural and human resources are still poor due to mismanagement of natural resources etc as stated by Mrs. Ngozi Okonjo-Iweala, a director in the World Bank and former minister for finance on ‘lets have a deeper discussion on aid’ ([www.ted.com](http://www.ted.com)). She pointed out some of the things that should be done to aid in poverty eradication in Nigeria that also leads to development. She said that if the resources and finances were used in a very meaningful way than mismanaged, a drastic change would be effected leading to better development. Some of the resources in the past according to her had been mismanaged and this was why they remained poor. She added that if the government misuses resources for their personal interests, poverty will remain static at a place as far as moving from poverty is concerned. On this note, development will be far fetched. Some time Mrs. Ngozi Okonjo-Iweala was fired and removed from the position of the minister for finance. I suspect it was because she was a woman when it comes to finance and poverty alleviation.

To support women to create jobs was another issue Mrs. Iweala discussed. She said that when you put resources in the hands of women, it yields more fruits to the development of the economy at large. Resources in the hands of women are powerful tool, as they tend to manage it well. When they handle resources, it results in healthier households, healthier children and economic well-being. This in turn leads to eradicating poverty from the household to the federal level. Doing this does not mean that men are not better managers, because if they are out of jobs, they will definitely come home and end up in fighting with their wives due to lack of money in their hands. It is just that women are more industrious and hard working. An example was drawn from a Nigerian woman Mrs. Awosika found in a furniture business. She used this to create jobs to the society

and this helped in making people stand on their own. This will help families as they invest in other businesses with their incomes, and their children will be educated because their parents are getting adequate income.

Nowhere is this problem of poverty clamoring visible as in the Delta region in Nigeria. There we clearly see the illustration of this poverty. Collier argues that the appropriate focus for today's development effort is those countries whose residents have experienced little, if any, income growth over the 1980's and 1990's. On his reckoning, there are just fewer than 60 such economies, home to almost 1 billion people (Collier, 2007). Also in his argument, on the plight of the 'bottom billion' he said that they are caught in one (or often several) of four traps which are conflict, mismanaged dependency on natural resources, weak governance in a small country and economic isolation among other very poor economies, with access to big markets available only at high cost. Putting it in African context he termed it as landlocked with bad neighbour.

Although the nature of poverty varies among locations and people, there is commonality across countries and material well – being is important, if not the most important as it is mentioned almost everywhere as crucial. The material/physical well – being, counts vulnerability and powerlessness as being the main characteristics of poverty.

Some of the Nigerian citizens have lost their lives in trying to slow mismanagement of resources and finance and inability to make a change on women. An example can be drawn from the Nineties, when Ken Saro-Wiwa from Niger Delta stoked the embers of Niger Delta polities, agitating for a greater share of federal oil revenue. However, there had been a history of groups and movements that demanded a greater share of the resources, the struggles alternating between violent and non-violent. An escape of such was led by an Ijaw army officer, Isaac Boro declaring the federal republic of Niger Delta in 1966. This lasted for just 12 days. He was later killed mysteriously in the Nigerian civil war (Ken Wiwa, 2006).

**Fig. 1. Map of Nigeria showing Owerri study site. Courtesy: map of the world.**



## 2.8 Study Area (Obazu Mbieri)

Obazu is one of the villages in Mbieri. Mbieri is a village in southeastern Nigeria and made up of about 28 villages. It is a suburb of Owerri town, which is the capital of Imo

State. Obazu is the biggest village in Mbieri and where most economic activities take place. Such activity like ‘Azu’ day named after the name Obazu and also has the biggest market in the village that serves the village and neighbouring villages. The people engage in economic activities such as farming, trading etc. The inhabitants are friendly people with hospitable character especially to the foreigners. Obazu has some schools and churches in its environment, which was as a result of the community self help projects.

### **2.8.1 Owerri**

Owerri is the capital city of Imo State in south eastern Nigeria; where the field work was conducted. It is located in the heart of the Igbo land and is home to the Ibos, one of the major tribes in Nigeria, popularly called *Heartland*. The city’s population is about 231,789 and covers approximately 46KM in area. It is situated in the rain forest zone. Some food products farmed includes yams, cocoyam, melon, cassava, maize (corn), and palm products.

The Imo State airport, undertaking local flight services within Nigeria is located at about 25KM southeast of Owerri. At the moment, it serves as an alternate to the Port Harcourt, which is under maintenance repairs but not for international purposes. Some major roads that go through the city are; Port Harcourt Rd., Aba Rd., Onitsha Rd., and Okigwe Rd. Roads within the city include; Douglas Rd., Sam Mbakwe Avenue, Tetlow Rd., and Works Rd. There are no railroads through the city. The Owerri slogan is Heartland.

### **2.8.2 Imo State**

Imo state is one of the states in Nigeria. The economy depends primarily on agriculture and commerce. The chief occupation of people is farming. Their cash crops are palm oil, raffia palm, rice, groundnut, melon, maize etc. The major urban centres in Imo state are Owerri, Orlu and Okigwe. Its location within the tropical rainforest gives it the ecological basis for production of a wide range of tropical agricultural/crops with extensive potentialities for industrial usage. Its population is 2,485,499 persons. The

population density varies 230 persons per sq. km in Oguta/Egbema area, to about 1,400 persons per sq. km in Mbaise, Orlu, Mbano and Mbaitolu areas ([www.onlinenigeria.com](http://www.onlinenigeria.com)

The population of Imo state is predominantly rural. Most densely settled areas of Nigeria are in Imo state. It has two major lakes Oguta Lake in Oguta and Abadaba lake in Obowo. The climate is typically humid (Lieoma and Arunsi, 1990). It also has a number of mineral based raw material based raw materials for industries. Their business and industrial atmosphere is peaceful and the inhabitants are enterprising and willing to work.

## **2.9 The role of women in the informal finance sector of Nigeria**

Informal finance consists of those, often unrecorded, activities that take place outside official financial institutions (Soyibo A., 1997) According to Soyibo, the informal sector activities are legal but only unregulated. Saving in the informal sector is subject to the same information and enforcement difficulties as lending. Saving here is held within close social groups just to be able to contain the moral hazard and adverse selection problems that are associated with entrusting assets to strangers (Aryeetey and Udry, 1994). This business of informal finance is generally carried out on a part-time basis in Nigeria. In urban Nigeria for instance, esusu collectors devote an average of 60% of their time to informal finance than others. On the other hand, rural informal financial operators only carry on the business part time and give their other rural activities as farmers, artisans, traders and the like.

The women's role in the informal finance sector in Nigeria cannot be overemphasized. They engage in such activities to help themselves by giving small loans to interested member who need them to boost their businesses and for other economic reasons. They form a group, associations or cooperatives for this purpose. However, some highly trained personnel and fairly literate people do get involved in the business of informal finance (Soyibo A, 1997). These kinds of women can be found both in the rural and urban set up. Irrespective of where they are found, they contribute to the informal

financial activities that affect the economy positively. Women engage in informal finance activities to assist their families, businesses, their communities and nation in general as is observed in the case of Obazu Progressive Women Association in Imo state. Women are regarded to be second-class citizens in Nigeria, but it is these same women that sustain their families in urban and rural cities.

Their role in the informal sector today also can be seen in their engagement with some activities like petty trading, farming and others leading to positive changes towards their economies. The women are hardly given the opportunity to access the financial resources to expand their businesses or in case of misfortune like health care or family needs. They also do not have access to borrow from the bank/institutions and this made a way for the microfinance institutions to assist. Such example can be drawn from the Obazu Progressive Women Association whose goal is to assist women in accessing micro credit and in so doing contribute towards the country's building. An activity by the women such as training of their children aids in poverty alleviation. This organization has been in existence since over 50 years. However, there is no studies that have been done to explore the contribution of the Association's microfinance programme and its contribution towards the alleviation of poverty.

### **3. RESULTS**

This chapter aims to address the research questions stated earlier in the first chapter, which is based on the findings made on collated data from Centage Savings and Loans Limited, Lagos and Obazu Progressive Women Association Mbieri, Owerri. The data will be interpreted here and the research questions are presented in the following parts:

#### **3.1 The data and interpretation**

In the study so far on Centage Savings and Loans Limited, information gathered from the contact was that this microfinance loans were given mostly to their low-income earner customers who are into different businesses. The purpose, being to assist them in building up their various businesses thereby increasing their income level. This kind of business engagement by the bank has really helped in assisting low-income earners, in improving their businesses, economic, political and social status as well. An interview with the contact Mr. Egbu who is the Head internal audit controls gave the insight on the customers state before and after the loans. Most customers he said testified that their businesses have been improved while being empowered economically, socially and politically. They now have more say in the society and could engage in political activities, having their income and standard of living improved. On the other hand some of the customers who did not meet the deadline on repayment according to him expressed regrets having to pay more interest on the loans.

Despite that Mr. Egbu is part of the organization, it was indicated that microfinance has actually met its original goal of assisting the poor and the low-income earners in alleviation of poverty. According to Egbu, the result from the MF loans from their customers showed that they seek and take advantage of such opportunity to lower their risks through diversification, take risks by launching new-income earning activities and gain a steadier stream income. Some of the customers said the loan led to an increased ability to meet basic family needs and that they experienced a growth in business, and increase in household assets, and the ability to pay school expenses.

The profile of a Microfinance institution and women entrepreneurship organizations used are discussed. Some members of the association stated above were interviewed as key informants and the findings still gave details on how micro financing in Obazu Mbieri is helping to alleviate poverty.

**Table 1 Social characteristics of study participants**

No	Age	Occupation	Years in business	Years of membership
1	<b>46 - 60</b>	Farming	<b>5 - 8 years</b>	<b>Above 7 years</b>
2	<b>Above 60</b>	Farming	<b>Above 8 years</b>	<b>Same</b>
3	<b>36 - 45</b>	Trading	<b>1 – 5 years</b>	<b>3 – 7 years</b>

**Source: information from members of Obazu Progressive Women Association**

**Table 2      Obazu Progressive Women Association membership**

**1 USD = N120.00**

Serial No	Categories	Respondents	Percentage	Years of membership	Repayment period
1	Administered questionnaires	52			
2	Loans	42	81%		
3	Loan from Other source	3	6%	3 - 7 Years	
4	No loan	7	13%	0 – 2 Years	
5	N40, 000.00 & above	20	48%	Above 7 Years	10 Years & above
6	N20, 000.00 – N40, 000.00	10	24%	Above 7 Years	5 – 10 Years
7	N5, 000.00 – N20, 000.00	8	19%	3 – 7 Years	1 – 5 Years
8	N0, 000.00 – N5, 000.00	4	10%	0 – 2 Years	0 – 1 Year

**Source: information from members of Obazu Progressive Women Association**

Naira with the symbol (N) was used to denote the currency used in Nigeria and will represent the amounts the women received from the association. Out of 72 questionnaires distributed to the Obazu Progressive Women Association, 52 were returned. From the returned questionnaires, 10 people did not receive loan from the association. Among these 10, 3 obtained from another source while 7 did not receive at

all. 42 women are the people that received loans of various amounts. The percentage of those that received is then 81%. From the 42 that received the loan, 20 women received N40, 000.00 and above which is 48%, 10 women received N20, 000.00 – N40, 000.00, 24%, 8 women received between N5, 000.00 – N20, 000.00, 19% while 4 women received between N0 – N5, 000.00, 10% respectively.

On the above, the women that received the amount of N40, 000.00 and above which are 20 with the percentage of 48 indicated that the loan helped them improve economically, politically and socially in the society. Again, this group of women has been members of the association for a longer period from 7 years and above. This gives them an edge over others as they benefit from accumulated effects of the loan. This group also indicated that the loan has helped in raising their standard of living, giving them access to decision making in the community, participation in political engagements and attending social gatherings considering their new status. Some of the women in this category are engaged in different businesses such as farming, trading, dressmaking etc.

The money they received was used in their various businesses for instance those of them in farming business used their loan to buy fertilizers, seed and even acquire more land for farming. This on the other hand has made them to come out of poverty due to the fact that their income is increased and they are more food secured.

The women that received N20, 000.00 – N40, 000.00 which was 10 according to the result obtained is 24% and they have been members between 7 years and above. They accepted that economically, politically and socially they are empowered as the loan helped to give them more voice in the community, and they have more influence in their various families unlike before. Some of them said that they could buy things for the household and even send their children to school, due to their increased income. The amount of loan they received should be put into consideration here. This means that the higher the loan, the more impartation on their businesses and household behaviours. You will observe also that the first women mentioned earlier received between N40, 000.00 and above and also have their result as same as the later and they had higher loan as well.

Khander (1998) as a comment to the result, found that credit provided to women was more likely to influence household behaviour such as household expenditure, non-land assets hold by women, female labour supply and girls' schooling. This goes to explain that most women engage in utilizing their various credits to make positive changes in their various households. Positive here denotes spending that improves their household standard of living and other spending in their community. Not only this, but also leads to the acquisition of some non-land assets, supply of female labour and education for female children.

In another study on credit with education in Ghana (Nelly and Dunford 1998), the programme seems to empower women participants economically as they are more likely to own businesses. In an impact assessment on a similar programme in Bolivia, 67% of women respondents felt an increase in income and as a result they were able to spend more on medicine, clothes and food (Nelly Dunford 1999).

The next set of women is the ones that received between N5, 000.00 – N20, 000.00 that is 8 people, with 19%. This category of women has been in membership from 3 to 7 years. Among them 5 accepted that they were empowered economically, politically and socially, while 3, which are the rest, said they were empowered both economically and socially but not politically due to the fact that they had problems in repayment. 2 among the 3 women said that unforeseen circumstances in business affected their businesses and repayment. The remaining one testified of engaging in a new business, which needed more time to grow. This affected the business and also the repayment period, which later attracted more interest on the loan. They said that if they come out to the community to contest for any position, the reputation they have would not allow them to succeed.

On political empowerment, in the study (Newaz 2001) on Uttran and SUS, Bangladesh, responses of women clients' husbands were quoted as follows:

*'My wife mainly does all work, as I am old now. She is more intelligent than before. She takes care of both household work and business. She is even involved in politics as a UP member'.* Still on this finding, some of the women testified of engaging in some political

activities by contesting in local elections due to being empowered politically through the loans they got from the association.

On the above findings, Microfinance loans seem to have positive impact on economic, social and political empowerment on the recipients. However, it is difficult to make a general conclusion regarding programme's contribution towards empowerment given the findings on control over loans.

The remaining 4 women received between N0 – N5, 000.00 with the percentage of 10 and they have been members from 0 to 2 years. Due to the fact that they received very low loan compared to the other women, they were not empowered economically, politically and socially and also had problems on repayment. 2 out of the 4 said that why it was so was because some family problem came up and instead of investing the loan in their businesses; they used it to solve the problems, which affected their income and repayment. The remaining 2 indicated of engaging in new business, which would have needed more time to grow. This then affected their repayment period. Some business may need relatively longer time for a positive return. In such cases, availability of grace period may be necessary for better impact. In addition, there are two different approaches (the income generation approach and the new minimalist approach) in targeting microfinance clients as cited by Dunford (1998:1-3).

Supporters of income generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income generating activities to increase their revenues. This approach says that the non-productive use of credit has problems due to the fact that action of consuming rather than investing of such borrowers could produce a negative impact on future growth of microfinance. If this is linked with the above findings from the women's association, it will be noticed that some of the women who could not repay their loans did not engage in income generating activities as they used their loans to solve family problems. This did not only affect their repayment period but also their income.

Group lending system build social capital as it creates an opportunity to develop social network of members. This was seen among the Obazu Progressive Women association where the members helped each other in building social capital and network.

One of the women interviewed said '*we had no money before even to buy food*'. That she and the husband use to fight each other in the family because of starvation. Now they at least have money for three meals a day. She also testified that the husband has more interest in her now than before due to the fact that she is making more money and helping the family by assisting the husband. Not only this, some of the women testified about positive effect on their decision-making role and control over resources and mobility. According to Naved (1994), some women who participated in microfinance programme stated that, their status had improved within the household due to the fact that they contribute to households' earning through their access to credit.

### **3.2 Income - poverty**

Still on the findings, the impact of microfinance on income and consumption goes through links from investment to the pattern of income change and from the pattern of income change to poverty alleviation. However, from the study the driving consensus is that gains were larger for the women who received higher loan than the ones that received lower. Contrarily, if any of the beneficiaries face hard time in repaying back loans from new business within short period of time irrespective of how much she received, it may affect the income. Difference in capital or loan received and the skill associated with the women's business is another thing that might have caused the lower beneficiaries not to be empowered economically or other wise. This will also lead to disparity between their incomes as well. Those who received higher loans may be optimistic in investing in new technology and seem to have more knowledge in how to improve their businesses and how to finance investments.

Another result from this finding is that income effect is more tangible to old members of the association than the new ones. The ones, who received loans in the past benefit from cumulative effects of the loans than the new ones as stated above and this is also common result in most studies on microfinance.

### **3.3 Microfinance in Africa: Nigeria as a Case Study**

United Nations Capital development fund (UNCDF) has identified microfinance as an effective means of contributing on a sustainable basis to poverty reduction and the achievement of the commitments of the Brussels programme of Action for the Least Development Countries (LDCs), and the Millennium Development Goals. They built inclusive financial sectors for the programme in 2005. Some countries in Africa and Asia have requested their assistance in 2006 in building inclusive financial sectors. The first country that witnessed the implementation was Sierra Leone. UNCDF launched a U\$10.3 Million programme to build an inclusive financial sector there.

Microfinance (MF) in Nigeria is traditionally rooted, providing credit and financial services to low-income earners, which include self-help groups, rotating savings and credit associations commonly known as *esusu*, *etoto*, etc.

Fast growth has been associated with the MFI clientele in Nigeria. For instance, since the establishment of the first MFI in Nigeria in 1997 it now has nearly a million active loan clients. Nigeria is termed to have one of the largest MFI industries in Africa and this trend is expected to continue at an accelerated rate especially because of the country's population.

Under the MF policy, two categories of MF Banks (MFB) are recognized:

- MFBs licensed to operate as unit banks and within a local government area. N20 million (twenty Million Naira) Capital is required.
- MFBs licensed to operate state wide with a N1 billion Capital Requirement.

Individuals, groups, private companies or foreign investors can establish any of the two categories of MF banks.

### **3.4 Why Microfinance in Nigeria**

There are several reasons why the MF industry will thrive in Nigeria.

The provision of financial services to the poor has been going on for several years by projects designed by government establishments, departments and non-governmental

organizations. The key government establishments in Nigeria that were frequently involved in designing and operating credit schemes were the ministries of Finance, Agriculture (for the rural areas), Trade and Industry (for urban areas). Several international and indigenous non-governmental organizations also used to operate micro credit schemes as a component of their integrated programs. These programs had benefited many of their immediate beneficiaries and their families; they also had introduced the very concept of micro credit, MF and market-led approaches to offering financial services for the poor.

However, these unstructured and unprofessional efforts by governmental and non-governmental organizations had serious limitations. (Wolday 2003) as cited in Egbu, 2006:7 has indicated some of the limitations of such interventions as follows:

- The orientation of the micro credit schemes was geared towards a project concept. NGOs and government projects involved in micro credit programs were not interested in establishing sustainable institutions that deliver diversified financial services to the poor.
- Unsustainable micro credit with low lending rates created a problem in building sustainable institutions.
- There was a very high default of the input loans of the Development Banks (DB). This was mainly the result of borrowers' perception of the lending organizations
- As donor funded or government funded established financial services for humanitarian reasons.
- The employees of the lending NGOs and projects were not seriously committed to loan recovery, rather they focused on keeping funds flowing.

Thus the following contribute to the reasons for MF institutions in Nigeria:

**Firstly**, the concluded consolidation among conventional banks in Nigeria has systematically put to an end, more or less family banks. As a result the 89 conventional banks in Nigeria were reduced to 26 by the end of December 31 2006. With this, the Central Bank of Nigeria has opened another window with no restriction for the ownership of banks.

**Secondly**, Nigeria has remarkable entrepreneurs who need support at every level and these include: micro, small and medium enterprises as well as big businesses. A common characteristic of these enterprises is their need for good financing. Therefore the provision of strong, competitive and well-regulated financial sectors, which will provide these categories of entrepreneurs the much-needed finances, apart from the conventional banking institutions, has become very important.

Therefore in Nigeria, MFIs fills this requirement apart from other larger financial institutions in the country.

**Thirdly**, the micro credit programs of NGOs and government establishment projects concentrated entirely on provision of credit. Saving was forgotten in the delivery of financial services to the poor.

**Fourthly**, donors, for instance, International Finance Corporation, (IFC), were considered as the only sources of loan funds, which unfortunately encouraged dependency.

In view of the above reasons, and the Nation's new Agricultural Development led Industrialization (ADLI) policy, the government had to reconsider the operational modality of MF to facilitate a very significant improvement in service delivery and outreach. Consequently the government came up with Proclamation no.40 in June 1996. The central elements of the proclamation seem to be outreach and sustainability. That is, if properly implemented, the proclamation has the potential to facilitate significant outreach and the flourishing of several sustainable Microfinance institutions.

### **3.5 Profiles of Microfinance Institution and Women's Entrepreneurial Organization**

In this section, an insight is provided into a typical microfinance institution in Nigeria and women's entrepreneurial group. The operations of the Centage Savings and Loans Limited will be discussed. Next, an association involved with encouraging entrepreneurship among women will be discussed. These two are used as our case studies.

### **3.5.1 Centage Savings and Loans Limited, Lagos**

Centage Savings and Loans Limited was incorporated as a limited liability company under the companies and Allied matters Act 1990 and licensed to carry out business of banking on 13<sup>th</sup> December 1992. The head office is located at 13C Ligali Ayorinde Street, Victoria Island Lagos, with other branches spread over the country.

Nigerians wholly own the Institution. Their areas of core competence include:

1. Mortgage financing
2. Microfinance
3. Encouragement and empowerment of local entrepreneurs and state governments in the development of housing estates
4. Effective management and access to the National Housing Trust fund
5. Funds placement (Fixed deposits)
6. Personalized banking and other treasury services.

Micro financing, which is one of the activities of the bank involves giving loans to some of their low income-earning customers. This loan is usually given to them while they provide a collateral, which will stand as a security for it. A pay back period is set for the customers who return the loan with a little interest. If loans are paid later than stipulated, more interest is paid as a late payment. The amount given as loans or credit is usually determined by the customer's kind of business and the collateral presented at that time. The pay back period is also determined by the amount the customer received as a loan. It ranges between 1-5 years.

### **3.5.2 Obazu Progressive Women Association Mbieri, Owerri**

The primary goal of this organization is to promote the well being of women in agriculture, economic decision making, for the total development of the capacities of women to contribute to self-reliance and sustainable development. Their membership strength is about 350 women living in the same community and its environs (Obazu-Mbieri and Owerri city). These include traders, farmers and small business entrepreneurs.

Their objectives are:

- Empower rural women economically, socially, politically and thereby promote sustainable development.

- Develop skills, improve knowledge and promote culture and consultation in decision processes.
- Give poor rural women a sense of belonging and the opportunity to benefit from and contribute to the development in Nigeria.
- Promote popular participation and bottom-up approach in decision making
- Give the youth a sound knowledge of the local technology, tradition and culture that are sustainable for economic development.

## **4. ANALYSIS AND DISCUSSION**

This study focused on the impact of Microfinance in Africa using a group of Nigerian women (Obazu Progressive Women Association), in Imo state as a case study. Therefore this section provides the analysis and discussion of findings. The structure and framework of the Microfinance industry in Nigeria, its challenges, future emerging trends and gender will also be discussed.

### **4.1 Microfinance Supervision and Regulation in Nigeria**

The Central Bank of Nigeria is entrusted with licensing and supervision of MFIs in the country and it has issued licenses to about 23 MFIs since the issuance of the proclamation no.40. Currently one can broadly say the overall economic policy environment is favorable for MF services at Federal as well as State levels. Nigeria's major policy document emphasizes the role of small and micro saving and credit services in alleviating poverty and enhancing food security.

On this note, this study has identified a number of priority areas of actions as part of the government's poverty reduction and development programs. One of the priority areas acknowledged is the provision of support to MFIs.

In this regard, the government solicits funds from international financiers and donors for supporting the Microfinance sector. In this respect, the government works towards soliciting for funds from the International Financiers And Donors (IFAD) and African Development Bank (AFDB) supported Rural Financial Intermediation Program (RUFIP) and the European Union supported Micro and Small enterprise Development program (MSEDP). Both programs are initiated to enhance the operational capabilities of MFIs through capacity building, and provide extensive financial support to the MF sector in the near future like five to seven years. Then we recognize the presence of potentially enormous support that may be instrumental in addressing the technical pitfalls and financial resource limitations faced by MFIs in Nigeria.

However, the liberalization of the financial sector has opened the opportunity for private investors and any interested group to take part in the financial sector, which enables them

to retail financial services to any sector of the society. This financial sector liberalization policy made it possible for the delivery of micro financial services at grass root level, as well as subsequent provision of a regulatory environment. Most importantly, the experiences of the existing MFIs, can be of relevance to intending new MFIs. Some of these challenges will be discussed in the next section.

## **4.2 Challenges of the Microfinance Industry in Nigeria**

Despite their achievements, the MFI industry faces a number of challenges, some of which are discussed below:

- Very few MFIs operating in the country: currently there are only 23 legally registered MFIs in the country. This is a very low figure compared to the ideal number of MFIs that should be operating in the country. For instance, inferring from the population of the country, assuming that one MFI should cater for 20,000 people, then there should be at least 140,000,000 divided by 20,000 institutions, which is 7,000. The present figure falls far short of this. Even so, 100 million people could currently be termed a conservative estimate of demand for micro finance; the number of institutions presently still falls short of the ideal (5,000 MFIs).
- Limited out reach, particularly women: currently the number of women clients is about 35%. However it is encouraging to witness that all MFIs still give high priority to recruiting women clients. The problem may be related to the overall situation of women in the external environment.
- Illegal government and NGO operations that spoil the market: there is a growing threat from the side of the government, NGOs and other agencies which continue to provide unstructured loans thereby violating the law of the country related to the MFIs.
- High turn over of MFI staff, consequently deteriorating the skills base in the industry. Several of the already trained staff leave the MFI for better paying jobs.
- Lack of adequate loan or equity capital to increase loan-able funds.
- Limited support for human and institutional capacity building.
- Lack of standardized reporting and performance monitoring system for MFIs

- Less attention and emphasis on financial sustainability of MFIs.
- Inadequate donor funding.

### **4.3 Future emerging trends in Microfinance**

The present interventions by different development agents have actually raised awareness and understanding of the rural population towards alternative financial services. The population's size however is expected to rise in the future. It then means that the future will be categorized by more demand for micro financial services. In the near future some of the dominant features of the microfinance institutions in Nigeria will be that:

- The central bank can continue its task of encouraging government agencies and Non governmental organizations. This is to help them establish new micro finance institutions than initiating different projects in contravention to the law.
- The NGOs and the government coming together to strive in setting up new MFIs which will be in line with the rules and regulations guiding the sector in the country. If they do this it will reduce the destroying of several efforts of other serious or committed NGOs and MFIs that struggle to introduce discipline in the financial part of their operations.
- If the government establish or introduces additional MFIs that will address specific target group such as the youth, women and the disabled, that will be than setting up short term projects of microfinance that amateurs run.

#### **4.3.1 The fast growth of microfinance in Nigeria**

Microfinance institutions have really experienced fast growth in Nigeria of recent. This can be seen as one of their trademarks. Since the first MFI in Nigeria was established in 1997, we now have nearly a million active loan clients. It is worthy of note that Nigeria has now one of the largest MFI institutions in Africa. Between 2001 and 2003 the institution in general has achieved a growth of 34% and 64% respectively in savings and loan clients outreach. Also the growth in terms of outstanding savings balance and loans balance is 55% and 92%. Here you can see that accelerated growth and challenges are

expected. At the long run the problem will then be how to cope with the number of challenges with this fast growth as well as those associated with human resources, supervision, funding etc. With this fast growth how will the MFIs cope in the future? Will they experience collapse and dissolve. We can have a positive or negative result depending on the measures and precautions all involved; both the stakeholders and players are willing to take.

#### **4.4 Microfinance and Gender**

Microfinance is an effective tool in improving women's status and the overall household welfare is likely to be higher when MF is provided to women rather than men. This statement is based on the interactions between the Women's status, household welfare and MF. These interact in the following ways:

- Her status in the household can be linked to how well she enforces command over available resources. Increased ability to tap financial resources independently enhances her control and influence in the household decision making processes.
- Women here can interact with markets and other social institutions outside the household, enabling them to gain useful knowledge and social capital.
- Many microfinance programs bring the women together into groups, not to reduce transactions cost in credit delivery, but also to assist them in building and making effective use of the available opportunities.
- The women are thought to make better borrowers than men and timely repayment of loans is more likely to take place when women borrow. An International Food Policy Research Institute (IFPRI) study in 1997 had this as an example showing that in Bangladesh groups with a higher proportion of women had significantly better repayment rates. Unfortunately, in some male-dominated societies, men may use the agency of the women to gain access to microfinance funds, thereby diminishing women's role.

In Africa, women account for more than 60 percent of the rural labour force and also contributes up to 80 percent of food production, yet receive less than 10 percent of credit provided to farmers (Data Snapshots on microfinance – The virtual library on micro

credit). The World Bank estimates that there are now over, 7,000 microfinance Institutions, serving some 16 million poor people in developing countries (The virtual library on micro credit).

Microfinance is based on the belief that the poor need a hand up, not a hand out. Microfinance organizations are banks for the poor that provide the worlds most disenfranchised with the opportunity to work their way out of poverty and towards a sustainable future. We also have some organizations working with microfinance like the NGO's, cooperatives etc. A profit from a micro-loan can help break the cycle of poverty, feeding a family, educating children and sending loved ones to the doctor etc. More than 115 million people are benefiting from microfinance worldwide. Among these, 85% are women. Each year, more than 8 million people around the world die because they are too poor to stay alive. Over 1 billion people – 1 in 6 people around the world live in extreme poverty, defined as living on less than \$1 a day. Over half of the world's population – nearly 3 billion people lives on less than US \$2 per day (UNDP)

The most widely cited series of studies on gender-differentiated impacts of microfinance, and one that takes care to control for selection bias, was recently completed by the World Bank. This study was based on data collected during 1991-1992 from 87 villages in Bangladesh. It also found that welfare impacts on the household were significantly better when borrowers were women. Hundreds of millions of people worldwide support themselves and their families through entrepreneurial enterprises and the majority of them are women. Such enterprises are selling, producing or providing services. Most of these hard-working women remain trapped in poverty if not for the credit and financial information needed to turn their businesses into self-sustaining ones.

During 30 years the Women's World banking has supported through credit access and other financial services. Their network organization provides poor women with key financial services ranging from small business loans to savings to health insurance. This MF services for women have far-reaching impacts like increasing family incomes,

improving nutrition (food security) and health, raising education levels and ultimately reducing poverty across their entire communities.

#### **4.5 Microfinance and food security**

##### **Food security defined**

Food security is a flexible concept and the most recent careful definition of it is that negotiated in the process of international consultation leading to the world food summit (WFS) in November 1996. Food security was defined in the 1974 world food summit as: ‘Availability at all times of adequate world food supplies of basic food stuffs to sustain a steady expansion of food consumption and to offset fluctuations in production and prices. This definition is again refined in ‘the state of food insecurity 2001’ as:

A situation that exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meet their dietary needs and food preferences for an active and healthy life.

Gender inequalities are embedded within households and among kins, in the labour market and Informal economic relations. Investments towards strengthening women’s position within these social units and empowering them as decision makers actually have reduced inequality and also improved their well being or standard of living. Greater sensitivity to the gendered effects of poverty and the needs of both women and men can reduce gender differences both in the access to resources and its control, thereby increasing the welfare of women and children.

The poorer the household, the more severe the consequences of a food shortage can be. If this happens and their assets and borrowing options become depleted, they may slip into chronic food insecurity. Access to credit, savings and other financial services could improve or help households’ transitory and chronic food security in three ways:

- Firstly, credit or savings can help in providing capital for financial inputs, labour as well as equipment that will aid in income generation. This is the traditional argument for rural financial policy.

- Secondly, some financial savings services that give credit also enables households to adopt more effective precautionary savings strategies and
- Thirdly these financial services can assist in efficiently stabilizing consumption of food and other essential goods during lean times.

The above mentioned three functions help alleviate food insecurity. The first addressed chronic food insecurity, the third helps in preventing transitory food insecurity while the second can affect both.

#### **4.6 Difference between Microfinance and Micro credit**

**Microfinance** is the overarching term describing a state of financial products (such as savings, loans and insurance) that microfinance institutions (MFIs) offer to poor clients or people. They are called microfinance products because they are particularly targeted at the poor and those chronically underserved by traditional capital markets – the needs of the working poor require that these products be small in nature. The International year of microfinance was a success for it roused public awareness around the globe regarding microfinance and micro credit. More than 100 countries participated in the activities while more than 60 National Committees were established that had the aim of promoting microfinance and broader access to financial services for the poor. Conferences and Seminars were also held for the year

**Micro credit** is the practice of extending small amounts of credit to the working poor, most often for the purpose income generating employment. A micro credit loan is quite literally small loan, from \$50 to \$150, depending on the geographical location. 2005 was designated by the General Assembly of the United Nations as the international year of Micro credit.

## **5. CONCLUSIONS**

The last chapter of this study was intended to address the research questions mentioned in the first chapter, which is in accordance to my empirical findings and supported by literature findings.

The main research question was whether credit and saving scheme is a viable strategy to alleviate poverty in Obazu Mbieri, Owerri. As earlier said this subject was investigated by the formation of two questions:

1. Whether NGO's can use the credit and savings scheme to make a difference in alleviating poverty for women?
2. Can microfinance programs owned and implemented by local MF institutions alleviate poverty?

Considering whether NGO's can use the credit and savings to make a difference in alleviating poverty for women, in accordance to my empirical findings I could say that microfinance had a positive impact on participant's (women) income and has also made a difference. This was observed on the Obazu progressive women association, which is a non-governmental organization (NGO). Some of their members especially those who were able to receive higher loans, invested wisely with old membership. Thus, the credit acquired made a difference in alleviating poverty, because the money was invested in various businesses, which yielded positive results at the long run. They were empowered economically, politically and socially as deducted by findings. Some of them testified that increase in their income led to improve standard of living, social and political empowerment as well.

Based on the above, one could purport that there was difference made by this credit on the women's status that also led to poverty alleviation among their different households and community in general. The women status, which changed later, gave them voice in their community than before as they were empowered socially and politically they could context in their community due to changed status. It should be noted here that before this time, due to lack of money they were not opportune to participate in some of the social

and political gatherings in their community. Such pronounced differences were as a result of credit or benefit they got from the association.

Considering the next research question ‘whether the microfinance program owned and implemented by this association under study, can alleviate poverty’. According to the result the women association, which is a local microfinance institution, actually helped their members positively by increasing their income through loans. This could be seen as a way of bringing them out of poverty as a local MF. The activities of the members showed that, those of them that benefited from the credit were empowered and had a better life to live than before. It is of note that microfinance has captured its original image by the international society as it provides poor households, particularly women with primary child-rearing responsibility, with a very practical multiple-use resource: cash (Dunford 1998).

In general, MF can be more viable strategy for sustainable poverty alleviation if more is to be done on programme outreach and depth. The programme needs to accommodate many poor households in developing countries. Currently only few of the world poor have access to the services by this MF (less than 5%), and if we exclude Bangladesh, the only country where truly large number have been reached, the number falls to less than 1% (Gebubig et al 1997:10).

Government has also an important role to play in realizing impact of MF program intervention. Arranging enabling environment for the MF programme by ensuring political stability, a stable macro-economic environment and low inflation rates will be a good venture by them. In order to have a sustainable MF intervention, the government should also keep infrastructures in place that link more remote areas to markets.

Considering what we have discussed above, the coverage of MF is very low and if there is many of them it will help. The individual cooperatives organizations should look into strategies and possibilities respectively in case of defaulting, so that such isolated bad cases will not be a discouragement to members who are doing well.

When asked if they experience problems as a result of participating in the microfinance programme in the association, one of the officials cited the requirement of having to pay for group members who were in arrears who defaulted. This could be seen as one of the problems facing the association or any other microfinance organization. Newer and more flexible disbursed monitoring of loans should be considered. This association used as the case study should find newer methods of debt recovery by finding new indexes or criteria for assessing the success of individual loans. As of now they use oral method of the member of association report to the leadership, on how they are doing which may not be so good for them. However, if there are indexes showing physical growth in the business and physical inspection of business sites, it will go a long way to show that the money is effectively utilized.

On another note, MF programmes need to research loan usage much more carefully and will need to place a greater emphasis on developing new and more productive economic roles for women. MFIs can achieve a better impact if additional packages like skills development, awareness creating and other interventions specifically targeted on empowerment are involved in their services.

In conclusion, this study showed that microfinance programmes have the potential to alleviate poverty especially in enhancing the role of women and their bargaining power. Microfinance is a viable tool for increasing the income of women as has been shown by the Obazu Progressive women association case study.



**Picture showing a woman in a dress making business**

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# **Appendix 1. Questionnaire for Master Degree Thesis**

**SLU Uppsala, Sweden**

**July 2007**

Interview started at 14.00hrs

Hello, my name is Nnenna Irobi and I am a Masters' degree student of Business Administration in Economics department at Sverigeslantbruks Universitet, Uppsala Sweden. My masters' thesis research work is to look into Microfinance and alleviation of poverty.

My research question is on how microfinance practices in Obazu contribute towards the alleviation of poverty, especially for women. I would deeply appreciate your filling out this questionnaire to help me make vital analyses.

Your privacy would be protected. You do not need to write your name or contact. Only the general results, conclusions and recommendations drawn from these analyses would be included in the final report and not the individual papers.

Name: Nnenna Christiana Irobi Date: 14th August 2007 Village: Obazu Mbieri

1. Your age is between

- a. 18-35
- b. 36-45
- c. 46-60
- d. Above 60
- e. Don't know

2. What kind of business are you engaged in?

- a. Petty (includes small one off dealings)
- b. Trading
- c. Farming
- d. Others (please state) .....

3. How long have you been in business?

- a. 0-1 year
- b. 1-5 years
- c. 5-8 years
- d. Above 8 years
- e. Cannot remember

4. Are you a member of the Obazu Progressive Women Association?
- Yes
  - No
- 4b. If not why not -----
5. How long have you been a member of the Obazu Progressive Women Association?
- 0-2 years
  - 3-7 years
  - Above 7 years
  - Don't remember
  - Never
6. Have you been granted a loan under any microfinance scheme for your business before?
- Yes
  - No
7. If yes, for how long?
- 0-1 year
  - 1-5 years
  - 5-8 years
  - Above 8 years
  - Don't know
8. How many times have you been granted a loan under the microfinance scheme?
- Once
  - Twice
  - Thrice
  - More than four times
9. How much did you receive? (1 USD = N120.00)
- N0-5, 000
  - N5, 000-20,000
  - 20, 000-40,000
  - 40,000 and above
10. What is the repayment period?
- 0-1 year
  - 1-5 years
  - 5-10 years
  - 10 years and above
11. Did you have any problems paying back?
- Yes
  - No
  - Sometimes

12. How did you solve it?

- a. Extend repayment period on agreement
- b. Get help from other sources
- c. Repay with higher interest
- d. Did not pay back (defaulted)
- e. None of the above

13. How would you define your economic position in relation to other women in Obazu

- a. Low wealth status
- b. Middle
- c. High
- d. Don't know

14. In relation to men in Obazu, are well women better off than men?

- a. Yes
- b. No
- c. Don't know

15. Do you perceive microfinance loans to be an important contributor towards alleviation of poverty in Obazu?

- a. Yes
- b. No
- c. Don't know

15b. Please explain your answer -----

16. Has the loan you received helped change your economic status?

- a. Yes
- b. No
- c. Don't know

17. If yes, in what ways has it helped you economically?

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18. Has this loan helped to empower you?

- a. Yes
- b. No

19. If yes or no please explain your answer

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20a. Would you like to obtain another loan?

- a. Yes
- b. No
- c. Don't know

20b. Why?

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21. Would wish to have more money to borrow given the opportunity and why?

22. Do you have any regret for obtaining the loan?

- a. Yes .....mention.....
- b. No
- c. Don't know

23. Any comments or questions? \_\_\_\_\_

Thank you for your time and patience in answering these questions.

Interview ended at 15.05hours.

Pris: 100:- (exkl moms)

Tryck: SLU, Institutionen för ekonomi, Uppsala 2007.

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