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Microfinance and Poverty Reduction Management in Nigeria

John N. N. Ugoani*

College of Management and Social Sciences, Rhema University, Aba, Nigeria

Abstract

This study was designed to explore the degree of gap between microfinance and poverty reduction management in Nigeria. Despite the multiplicity and mushrooming of microfinance institutions in Nigeria the poor yet has no sufficient access to micro financial and socio economic services that would propel them out of poverty. Microfinance broadly refers to the provision of financial services, primarily but not exclusively savings and credit, to poor households that do not have access to formal financial institutions. Poverty involves a situation where standard of living in terms of income and consumption falls below minimum acceptable level of nutrition and other necessities of everyday life. The main causes of poverty are unemployment, low income, and lack of access to socioeconomic amenities such as basic education, healthcare, transportation, water, among others. Increasing poor households' participation in and access to socioeconomic activities is important for economic growth, because economic growth has been the main source of sustained poverty reduction. Poor people need financial services, including deposits, loans and other services, to seize business opportunities, improve their homes, deal with other large expenses, and cope with emergencies. There is evidence that the poor can be served profitably on a long-term basis, and that they repay uncollaterized loans reliably and are willing to pay the full cost of such loans. The participants were drawn from the population in Abia State. An instrument adapted from the Core Welfare Indicators Questionnaire was used to generate data. These were complemented by the data generated through the SOMIWIRE. Data analyses were done through descriptive and Chi-Square Statistical Methods. It was revealed that an average of about 88 percent Nigerians lack access to socioeconomic amenities that would propel them out of poverty. With a Chi-square of value of 335 against the table value of 13, it was found that microfinance has a high degree of relationship with poverty reduction management in Nigeria.

Keywords

Microfinance, Poor People, Poverty Reduction Management, Grameen, Uncollaterized Loans, Traditional Poverty Traps, Traditional Microfinance Outfits

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1. Introduction

Economists explain that while macroeconomics deals with the scarcity and choices of the nation, micro economics deals with the scarcity and choices of the individuals, businesses and households. Therefore, Micro connotes small relative to one of a bigger size. The basic difference between macro and micro is in size. The terms microfinance and microcredit is often used interchangeably in Nigeria to mean the provision of financial services to poor households and micro, small and medium enterprises (MSMEs) to meet up with their needs of livelihood and growth. Credit in this context may be defined as a "permission to delay payment for goods and services after they have been received, system of paying in this way, a sum of money lent by a bank in form of loan" (Nzenwa, 2000). According to Ledgerwood and White (2006)

* Corresponding author
E-mail address: drjohnugoani@yahoo.com

microfinance typically refers to the provision of financial services, primarily but not exclusively savings and credit, to poor households that do not have access to formal financial institutions. Many countries like India, Peru, Colombia, Philippines, Bosnia, Pakistan, Honduras, Nepal, etc, use different approaches to define the segments of the population that can be targeted for microfinance products and services, that is, who qualifies as "poor", or to set limits on the maximum loan size of a microloan. However, Ledgerwood and White (2006) suggest that it may make more sense to define microfinance according to distinctive features that can be established and verified based on patterns of operations, rather than individual transactions, such as loan size limitations. In Nigeria micro finance or microcredit has to do with soft loans given to individuals and small producers and entrepreneurs to enable them produce or improve their productivity as well as increase their general wellbeing. Credits come in different sizes. Some in billions, millions and many thousands, while the requirements of others run into a few thousands and hundreds. A dynamic society that attempts to close the wide gap between the rich and the poor tries to accommodate the demands of different groups. Micro credits are special credits given to a special sector that is denied access to the formed credit system. These include loans of N5,000.00 – N10,000 given to roadside food vendors, vulcanizers, *kwose* hawkers, *fufu* and *moi-moi* cookers, illiterate farmers, bread sellers, palm produce dealers, local pot and block moulders, carpenters, welders, cassava producers, yam sellers, etc. Generally, there is no upper limit of what constitutes a microcredit, but the overall focus of micro credits is the satisfaction of the credit needs of many small producers and entrepreneurs neglected by the traditional banking institutions. There is no upper limit for microcredit in Nigeria because the credit size depends on the nature of the requirement, but the defunct Family Economic Advancement Programme (FEAP. 1997) set the maximum limit of N550,000 per FEAP project, and that ceiling went away with the programme. Microfinance or credit has always focused on poverty reduction. At the general level, the concept of poverty may be defined as the inability to provide or secure basic needs. Microfinance has thus been introduced to offer a veritable tool with which to fight poverty. According to Obasi (2001) the concept of poverty refers to a situation in which an individual/community/country lacks the capacity to independently secure a decent standard of living or decent quality of life. At the individual level, poverty is reflected by deprivation and lack of access to basic necessities of life such as adequate food, decent clothing, suitable housing, safe drinking water, good education, good healthcare, gainful employment, inadequate assets and the inability to fulfill social and cultural obligations such as payment of dowry to take a wife, financing parents funeral, etc. At the community or country level, poverty is reflected by the absence or inadequacy of infrastructural facilities like motorable road networks, bridges, drainages railroads, etc, lack of or limited access to social amenities like schools, hospitals, housing, electricity, telephones, portable water, the lack of access to available land and agricultural inputs, restricted employment and income generating opportunities, low per capita income, low per capita caloric intake, high infant mortality rate, low life expectancy among other issues. According to the World Development Report (2015) the material deprivation that accompanies poverty has been well documented. The poor are likely to find themselves in situations in which they must forgo meals or live in substandard housing. Microfinance is critical to accelerating poverty reduction. According to Mboho and Inyang (2011) the case of Nigeria is that of poverty in the midst of plenty. They state that about 66 percent of the Nigerian population live below the global poverty line, and 70 percent live on less than one dollar per day. In the recent past, Nigeria introduced different microfinance options such as the Peoples Bank, Community Bank, Family Economic Advancement Programe, for the purpose of poverty reduction, these failed to achieve the desired objectives due to poor implementation, evaluation and management. To this extent the Federal Government of Nigeria (2004) launched the Microfinance Bank (MfB) Programme. The thrust of the current government policy against poverty is to enable the poor and neediest sections of society to achieve sustainable livelihoods. The approach is to economically empower communities, families, and individuals, through a sustained, well-co-ordinated, and comprehensive programme of poverty eradication (Mboho & Inyang, 2011, Ugoani & Dike, 2013). The World Bank estimates that Latin America and some countries in Sub-Saharan Africa (SSA) are at risk of falling short of meeting the Millennium Development Goal (MDG) of halving the 1990 level of poverty by 2015. By obvious implication, Nigeria with more than 67m youths unemployed and over 70 percent of the total population of about 140 – 160m sleeping under poverty traps, is still far away from meeting the MDG1 target by 2015. Nigeria can rise by creating a level playing ground through providing the poor with the opportunities to improve their living standards, access to education, healthcare, infrastructure, and financial services. Improving the access of the poor to assets and services will help them share in and contribute to, economic growth. To avoid programme failures, Saavedra and Arias (2005) suggest that individual countries should adopt their own poverty reduction management strategies to take account of domestic economic and social conditions and their own standard of wellbeing. They posit that such programmes may not strictly be comparable across countries but they may enable governments to track progress and determine the number of people who could potentially benefit from poverty alleviation policies according to country specific living standards. To achieve effective poverty reduction, Nigeria must double the rate of its growth by paying genuine attention to the provision of microsocieconomic amenities of education, healthcare, housing, roads, among others. This is essential because as a complex and multidimensional phenomenon, poverty goes beyond conditions of lack of resources, it extends to social inequality, insecurity, illiteracy, poor health, restricted or total lack of opportunity for personal growth and self-realization (Mboho & Inyang, 2011, Osehobo, 2012). Creative new delivery channels and new information communication technology, through retail shops, internet kiosks, post offices, and even lottery outlets, may make it possible to provide financial services more cost effectively to poorer and more sparsely populated areas. Littlefield and Rosenberg (2004) state that Microfinance Institutions (MFIs) in Bolivia, Mexico, India, and South Africa are making use of smart cards, fingerprint readers, and personal digital assistants to improve efficiency and expand into rural areas. Getting credit to the poorest by way of microfinance has assumed a global phenomenon. According to Hung (2004) in 1998, Agribank in Vietnam initiated a mobile banking programme modeled after similar programmes in Bangladesh and Malaysia. It procured 159 vehicles equipped to travel on dirt road and hilly pathways, enabling loan officers to reach remote areas to process loan applications, disburse money, collect repayments, and mobilize savings deposits. The visits followed a fixed calendar and were announced in advance. Scheduled to coincide with weekly village markets, they saved borrowers travelling time and transportation costs. Against a common believe, poor people need and use a variety of financial services, including deposits, loans, and other services. They use financial services for the same reasons as anyone else: to seize business opportunities, improve their homes, deal with other large expenses, and cope with emergencies. While most poor people lack access to banks and other formal financial institutions, informal channels like money lenders, savings and credit units, and mutual insurance societies are pervasive in nearly every developing country. The poor can also tap into their other assets, such as animals, buildings, materials, farm produce, cash under the mattresses, and roof tops, when the need arises. In Nigeria, poor farmers often pledge their farmland in return for credit to meet their needs. Certain types of credit, especially from money lenders, are extremely expensive. House-to-house savings and credit units (*Isusu*, *Adashi*, *Akawo* or daily contributions) as they are called in Nigeria are risky and usually do not allow much flexibility in amount or in the timing of deposits and loans. Deposit accounts require minimum amounts and may have inflexible withdrawal rules. Loans from formal institutions usually have collateral requirements that exclude most of the poor. Microfinance Institutions (MFIs) have emerged over the years to address this market failure and provide financial services to low-income people around the world. Microfinance can produce improvements in a range of measures, including income stability and growth, school attendance, nutrition, and health. Microfinance is widely credited with empowering women by increasing their contribution to household income and assets and, thus, their control-over-decisions affecting their lives. Over time, microfinance has generated considerable enthusiasm not just in the development of communities but also politically, with the predictable result that some of its merits have been popularized. Microfinance alone is not a magic wand that will bring all of the poor people, particularly the very poorest people out of poverty. But there is no doubt that poor people themselves value microfinance very highly as evidenced by their strong demand for such services, their willingness to pay the full cost of those services, and high loan repayment rates that are motivated mainly by a desire to have access to future loans. MFIs form part of a much broader spectrum of socially oriented financial institutions (SOFIs) that includes state-owned development, postal, agricultural, and savings banks, as well as small entities like savings and loan cooperatives. These institutions are considered socially oriented because for the most part, they are created not to be profit maximizers but, rather, to reach poor people who are not being well served by the commercial banking system. There is growing awareness that building financial systems for the poor means building sound domestic financial intermediaries that can mobilize and recycle domestic savings. Also MFIs allow the poor to build a public credit history that makes them more attractive to mainstream banks and retailers. For example, more than 80 MFIs in Peru are registered to use Infocorp, a private credit bureau. In Turkey, Maya Enterprise for Microfinance, through Garanti Bankasi, a leading private bank, gained access to the national credit bureau to screen loan applicants for credit card and other debt. New regulations on microfinance issued by Rwanda's Central Bank require that MFIs to communicate information about their borrowers to a credit bureau (Littlefield & Rosenberg, 2004). Social services that help to reduce poverty often elude poor people. According to Davarajan and Reinikka (2003) too often, social services, fail poor people. First, governments spend very little of their budgets on poor people that is, on the services poor people need to improve their health and education. Second, even when public spending can be reallocated toward the poor, like by shifting resources to primary schools and clinics, the money does not always reach frontline providers. They state for example, that in the early 1990s in Uganda, only 13 percent of nonsalary spending on primary education actually reached the primary schools. This was the average, poorer schools received even less. Third, increasing the share of spending that goes to poor people, as in this example is not enough. For education outcomes to improve, teachers must show up at work and perform effectively, as doctors and nurses must do for health services to improve. But these service providers are often mired in a system where the incentives for effective serve delivery are weak, corruption is rife, and political patronage is a way of life. In view of such service failures, they found the absenteeism rate for doctors working at primary healthcare facilities in Bangladesh to be 74 percent. This is similar to what obtains in Nigeria where pension cash, money for workers salary and allowances are embezzled by government officials. A country where teachers are owed salary arrears in excess of 12 months. The country has reached a critical stage where the Federal Government of Nigeria has approved a huge bailout cash in excess of N500bn to clear workers salaries accumulated by 18 out of the 36 states in the last 16 years. This is happening in a country where about 70 percent of the general population live below the poverty line of $1.25 per day (Taiwo – Obalonye, 2015, Akpala, 2011, Coudouel, et al, 2006, Besley & Cord, 2007).

1.1. Statement of the Problem

Despite government efforts and the improvements in Gross Domestic Product the rate of poverty remains very high in Nigeria (Okafor, 2014). Also the rate of unemployment is high at 67m in 2012. According to Osehobo (2012) the then Minister of Labour, the situation reflects years of failures at different levels, explaining that “lack of job is a consequence of lack of skills, and believes that Youth Empowerment Programmes in agriculture, information and communication technology, and creative industry is critical to employment and lead to poverty reduction. Microfinance Institutions have emerged over the last 25 year with the launching of the Peoples Bank in 1990 to address some market failures and provide financial services to low-income groups, but these efforts failed due to mismanagement characterized by corruption. According to Mboho and Inyang (2011) things should not be what they are today in Nigeria, which has what it takes to be self-sufficient. The problem, in their view is corruption. They call it the single largest problem which has placed the wealth of Nigeria in the hands of a few. When the wealth of a country is held by a few criminals, employment is hardly created. This supports the assertion that unemployment is the root cause of poverty, anywhere and everywhere. To reduce unemployment and poverty, FEAP was created in 1997 to build cottage industries in over 100,000 communities in Nigeria, but this laudable programme, at least on paper, was derailed by corruption and failed before it was finally scraped by government. Even the Peoples Bank of Nigeria launched in 1990 to provide microcredit to the rural active poor was hijacked by corrupt politicians at the halls of power, was mismanaged and failed woefully without achieving its objectives. The Community Bank Programme was messed up by corruption and inefficiency leading to huge nonperforming loans. The problem of microfinance and poverty reduction in Nigeria is not with elegant programme designs, but with the management of such programmes. Poverty as an issue has generated much discussion and has attracted policies targeting the poor. Unfortunately due to the lack of baseline data and clear understanding of the issues, poverty alleviation programmes have not been properly directed and they have ended up enhancing the non-poor rather than the poor (Odejdem, 1993). Kalu (2000) posits that most programmes aimed at the poor have become avenues for members of the ruling class to siphon public funds and enrich themselves (Aganga, 2012, FGN 2004, Akinboyo, 2007, Chiejina & Adeyeye, 2012, Nweze, 2012).

Based on the problem of the study, it is clear that poverty reduction programmes in Nigeria have not been properly managed. For example, the headquarters of the defunct Peoples Bank of Nigeria (PBN), Family Economic Advancement Programme (FEAP) were located at the Presidency in Abuja. Automatically, the directors became full time politicians and lost focus of the objectives of the programmes, and failed woefully. This is the point of departure of the present study that focused on microfinance and poverty reduction management in Nigeria.

1.2. Objective of the Study

The study was designed to explore the degree of gap between microfinance and poverty reduction management in Nigeria.

The study was delimited to Abia State, Nigeria. Abia State is one of the 36 states of Nigeria and it was assumed that the opinion of the people in Abia State reflects the opinion of the people in Nigeria.

The study will provide students, researchers and academicians the opportunity to gain fresh ideas on the relationship between microfinance and poverty reduction management in Nigeria.

1.3. Limitations of the Study

The study was limited by lack of research grant and current literature on the topic under investigation.

1.4. Hypotheses

To achieve the objective of the study, two hypotheses were formulated and tested at 0.01 level of significance.

Ho: There is no gap between microfinance and poverty reduction management in Nigeria.

Hi: There is a gap between microfinance and poverty reduction management in Nigeria.

2. Literature Review

Despite several failed attempts at microfinance programmes in Nigeria, the Federal Government of Nigeria is set to reinvigorate microfinance to touch the lives of the active poor in society. In line with the measures put in place to enhance financial inclusion in the country, the Central Bank of Nigeria (CBN) set aside N600billion for onward lending to small holder farmers in a strategy that aims to enhance access to finance by rural borrowers by 2020. Through this strategy, rural borrowers especially those in the agricultural sector, that rely on noninstitutional money lenders will be the biggest beneficiaries of financial inclusion, as they will garner better interest rates than those offered by money lenders, or traditional microfinance outfits. Microfinance banks being a sub-sector that is close to the primary producers, processors and distributors of agricultural products, the programme is expected to drive job and wealth creation using agribusiness (Moses – Ashike, 2012). This micro process of economic growth will help to improve living standards and reduce poverty (Aziz, 2007). A focus on small holder farmers is very fundamental because it has proved successful in poverty reduction in other countries. For example, the poverty reduction rate in Indonesia has been led by agriculture, in late 1970s and mid-1990s, the provision of new seed technology raised the productivity of millions of small-scale rice farmers, that led to increase in food intake, and raising millions above the poverty line, with income widely distributed in just a few years (Besley & Cord, 2007). Many poor people in low-income nations are entrepreneurs. In Nigeria today more than 70 percent of the rural dwellers run their own micro businesses. Indeed poor households are engaged in multiple occupations, without any specialization. For example is the typical case of a poor slum inhabitant in a place like *Itungwa*, in *Obingwa* Local Government Area of Abia State. In the morning, the man goes to the waterside for palmwine tapping. In the afternoon, harvests his yams and other items, yet in the evening he goes to the bush to set his traps for edible animals, including making nests to trap birds. Almost more than half of the poor urban households in Nigeria derive their income from more than one source. The rural active poor do more than just work on their own land; they often work as labourers for others to earn income. The same applies to other poor people around the world today. According to Anjali, et al (2009) in Pakistan, 51 percent of very poor rural households earn some income from supplying labour to nonagricultural firms, and 35 percent run a nonagricultural business. The enterprising poor are hobbled by a lack of credit. The traditional banks will not lend to them because they have few assets to use as collateral and because banks find it expensive to screen and monitor micro borrowers. In response to the dearth of credit, microcredit programmes have taken off in many developing countries over the past decades. In Nigeria the Microfinance Bank Programme was introduced in 2004, and the Micro, Small and Medium Enterprises, Act was passed into law in 2006, to provide the legal framework to ensure adequate provision of micro financial services to this segment of the population. Under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMES Act) the meaning of the terms Micro, Small and Medium Enterprise is understood with respect to the investment made in the plant and machinery/equipment. The investment limit for each enterprise is as follows: (a) the source of finance for Micro, Small and Medium Enterprises (MSMEs), micro enterprises, mean a business with a capital investment of not more than one million Naira only, which includes a working capital but excluding cost of land and or a labour size of between one and ten workers. (b) small enterprises, are industries with capital investment of over N1.5m only but not exceeding, with a labour size of between 11 and 100 workers, (c) medium enterprises are industries with a capital investment of over N50m only but not more than N200m including working capital but excluding cost of land or a labour size of between 101 and 300 workers. The Central Bank of Nigeria defines Micro, Small and Medium Enterprises in Nigeria according to asset base and number of employees. MSMEs contribute to the creation of wealth, employment and income generation, both in rural and urban areas, thus, ensuring a more equitable income distribution. They also provide the economy with a continuous supply of ideas, skills, and innovations necessary to promote competition and the efficient allocation of scarce resources. In recent years, the MSMEs sector accounted for about 99.6 percent of the registered businesses in Nigeria by which about 63 percent of the labour force earn a living. Around 35.7 percent of the total sales and value added in the manufacturing sector come from MSMEs as well. But the main objective of MSMED Act (2006) is to facilitate the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental. Under this Act, a micro, or small enterprise or a medium enterprise engaged in providing or rendering services may apply for microfinance to support its activities. There are more than 17.3m MSMEs in Nigeria. (Aganga, 2012, Afolabi, 2014). Different countries operate different microfinance models, different and distinct from Nigeria. Some selected models are illustrated in table 1

2.1. Microfinance Models Abroad

Table 1. Example of Microfinance Models.

i.	Peru: In Peru, banking regulation defines microcredit as loans granted to microenterprises with a volume of assets, excluding fixed assets, below US$20,000.00 and accumulated debts below US$20,000	v. Bosnia and Herzagovina. In Bosnia and Herzegovina the law on microcredit organizations states: microcredit organizations in the sense of this law is a none deposit and nonprofit organization whose basic activity is the provision of microcredit to the development of entrepreneurship.
ii.	Colombia: In Colombia according to the definition of the banking supervisory authority microcredits are defined as loans granted to micro enterprises with fewer than 10 employees and total assets below 501 times monthly minimum wages, about US$115. 60 per month (US$58,000) The loan size granted to such an enterprise by a financial institution may not exceed 25 times monthly minimum wages.	vi. Honduras: In Honduras the law for FPDOs includes Financial Private Development Organizations are private companies which are founded with the purpose to offer financial services in support of the economic activities carried out by micro and small enterprises”
iii.	Philippines: In Philippines microfinance loans are defined as small loans granted to poor and low-income households for their micro enterprises and small businesses. The maximum amount of a microloan is approximately 150,000 Philippine Pesos (US$2,700)	vii. Nepal: In Nepal, the preamble to the Development Banks Act includes the following: “Development banks are connected with the development of specific sectors in order to make available financial resources and technology needed for the establishment, development, expansion and increase in the capacity and productivity of agricultural, industrial, services, trade and other commercially viable and productive enterprises, and thus impart dynamism to the development of the nation’s industrial, trade and agricultural sectors and mobilize available skills, labour and capital for the development of rural and urban areas”.
iv.	India: In India microfinance activity has been primarily carried out by nongovernmental organizations (NGOs) organized in the form of trusts, societies, cooperatives and section 25 companies, a form of not-for-profit company in India. Other options available in India include nonbanking finance companies (NBFCs), cooperatives, and local area banks.	

Source: Adapted from Ledgerwood and White, 2006

2.2. Failed Microfinance Models in Nigeria (1990 – 2000)

A primary objective of microfinance particularly in a developing country like Nigeria is to empower the poor as a means to eradicating or at least, reducing poverty, create employment that may ultimately lead to increase in productivity. Given the profile, magnitude and dynamics of poverty in Nigeria, government launched the Peoples Bank of Nigeria (1990) the Community Bank (1992) and the Family Economic Advancement Programme (1997). This was as a reflection of the intention of poverty reduction through the instrumentality of microfinance, but the projects, deceitfully executed, had little or no consequence on the lives of the neediest poor citizens.

i) Peoples Bank of Nigeria (PBN)

Established by Decree No. 22 of 1990, the bank was mandated to engage in the provision of basic credit requirements of under-privileged Nigerians who were involved in legitimate economic activities in both urban and rural areas and who could not normally benefit from the services of the orthodox banking system due to the inability to provide collateral security. Furthermore, the PBN was to be involved in the acceptance of savings from the same group of customers and make repayment of such savings together with any interest thereon, after placing the money, in bulk sums on short term deposits with commercial and merchant banks. According to section 2(2) of Decree No. 22, (1990) “Under privileged Nigerians” as confirmed by their various trades and professional groups include roadside mechanics, self-employed, plumbers and electricians, petty traders, small scale farmers, poultry and other livestock keepers, truck and wheel borrow pushers, petty tailors, dressmakers, barbers, hairdressers, washermen and women, and other persons who need financial assistance to improve their trade and economic wellbeing throughout the country. The provision to place money on short-term deposits was abused as such deposits eventually ended in the pockets of the managers and their collaborators. The bank became unable to meet depositors demands for their deposits, talkless of creating credits, became technically distressed, and eventually failed. (Nzenwa, 2000).

ii) Community Banking

Community Banking in Nigeria was established by Decree No. 46 of 1992. The bank was to engage in micro and macro credit delivery. However, its major objectives included to inculcate disciplined banking habits in the rural populace, inspire in the communities, the spirit of ownership and maintenance of facilities and organizations. To generally promote rural activities such as agriculture, commerce, arts and industries, trade, skills, rural transportation, and other rural economic activities particularly in support of small farmers, micro-entrepreneurs, women, youth and cooperatives, and to promote the emergence of an effective and integrated national financial system that responds to the needs of the whole economy, from the grassroots to the national level. The bank soon abandoned the mandate to focus on microcredit to engage in ambitions conventional banking activities. In terms of spread there were about 1368 community Banks throughout Nigeria as at October 1997. In 1997 the National Board for Community Banks revoked the provisional licences of 282 Community Banks and another 73 in December that year, making a total of 355. By 1999, the distress within the subsector had become hopeless as about 95 percent of existing Community Banks (CBs) were in distress. CB waned seriously and began a downward journey from which it has not returned. (Nzenwa, 2000)

iii) Family Economic Advancement Programme (FEAP)

FEAP was created in 1997 with a takeoff budget of N4.3bn, with a mandate to build cottage industries in 100,000 communities with a revolving loan of N550,000.00 as the maximum limit. The programme was designed for all Nigerians, particularly the low income families, cooperative societies including members of the military and para-military families directly engaged in productive activities and registered with FEAP. The programme emphasized that any group or association participating in the programme must give equal opportunities to men and women. After the death of Abacha as the Head of State in 1998, FEAP's budgetary allocation was reduced to N3.3bn in 1998 from the allocation of N4.3bn in 1997, and further to only N1b in 1999. Within this period, FEAP had received applications from cooperative societies seeking to be given soft loans totaling N32bn, FEAP faced serious liquidity problems coupled with managerial inefficiency before it was scraped by the subsequent government in power (Nzenwa, 2000).

The above three progarmmes were not far in design from others across the world like The Grameen Bank of Bangladesh and the National Bank in Sri Lanka. The Grameen Bank of Bangladesh is among the microcredit leaders in the world today. This bank was founded by one man and has moved over $2bn in micro finance loans, among over 13 million households, mostly to poor women with over 98 percent repayment record. The national bank in Siri Lanka has financed more then 12654, micro and small businesses with US$4.6bn, with a repayment record of 97 percent (Nzenwa, 2000). From these historical accounts, it is safe to state that the failure of the microfinance models in Nigeria relates to corruption and mismanagement. Not when their head offices were located at the helm of political affairs, The Presidency. The hasty scraping of FEAP was a fatal mistake, because agriculture specifically, and the rural economy play key roles in poverty reduction. With the planned massive investments in rural infrastructure in 100,000 rural communities, FEAP held the potential for the absorption of rural labour, stimulation of the rural economy, and help the rural poor find a route of escape from traditional poverty traps. Poverty persists in Nigeria may be, because of lack of rural safety nets, in the form of FEAP (Ugoani, 1999). The activities of Grameen Bank in Bangladesh deserve special mention to reflect the importance of microfinance and poverty reduction management in the world.

2.3. Grameen Bank Microfinance Model

In the past three decades, microfinance has mushroomed from Grameen's tiny nonprofit experiment in Bangladesh to a global industry. Grameen Bank and its founder Muhammad Yunus won the 2006 Nobel Peace Prize for pioneering efforts to provide financial services to the poorest of the poor. Many enthusiasts believe that microfinance is an important tool in the effort to end world poverty. For now, whether they are right is still open to debate. Microfinance provides millions of poor people with no credit history, collateral, or steady income access to basic financial services and makes them better off materially and more in control of their own destiny. According to Kota (2007) half of the World's population, nearly three billion poor people, lack such access. Most mainstream banks consider the poor high-risk and hard to serve because they often live scattered across remote areas and because the small loans they need are costly to make and maintain. But microfinance, which specializes in providing small loans and other financial services even to the world's most destitute, challenges those traditional and basic assumptions of the lending banker. Today, microfinance players include governments, philanthropists, social investors, and commercial banks. Besides tiny loans, microfinance banks offer deposits, savings, pension and insurance products. Microfinance is growing because borrowers need. Assets such as farming equipment that they purchase with microcredit. Microfinance customers live in both rural and urban areas. The rural poor borrow for cattle fattening, dairy farming, arable farming, bamboo making, or weaving, whereas the urban poor borrow to become street vendors, car washers, fabricators, mechanics, etc. Grameen Bank assumes that their customers are clever enough to handle their own affairs, but do not assume that all the poor will be reliable borrowers. The Bank uses two basic approaches:

i. Group lending:

Grameen Bank is considered the pioneer of the group lending model, which has now been adopted in many countries. Individual borrowers are required to form a group and take responsibility for each other's loans. Gremeen Bank depends primarily on peer pressure to guarantee repayment. Moreover it limits risk by targeting female borrowers, who are considered more reliable because of family-based community ties. In early 2007, Grameen Bank reported almost 7 million borrowers – 96 percent of them poor, illiterate women from remote villages. This approach yields about 98 percent rate of repayment.

ii. Individuals lending

These loans are bigger and are made to individuals without a collective guarantee and on more flexible terms. Typical borrowers are not the very poor seeking to start businesses but the self-employed poor who are skilled business people/ in some cases, the borrower has a small amount of collateral. Microfinance institutions that operate in many countries of the world have adopted individual lending in the form of small, short-term loans. Loan officers look not only at a borrowers financial ability but also at reference from customers and neighbours. Incentives such as the possibility of borrowing progressively larger amounts and the opportunity to get business and vocational training encourage repayment. Kota (2007) posits that in countries like Bolivia, credit bureaus have been set up to enforce repayment. The poor people need microcredit to help them to participate in entrepreneurial ventures, have access to social amenities and enjoy a better quality of life.

2.4. Managing Poverty Safety Nets

According to Okafor (2014) virtually no government at all levels in Nigeria, has failed to make public declaration of its commitment to address the issue of poverty. Yet appreciable success has not been achieved. Multiplicities of programmes and projects designed by government have not significantly reduced the poverty level. He asserts that even the accruing national income gains have not translated to enhanced poverty reduction. The problem may be linked to weak poverty reduction management. Policies that promote economic growth are central to poverty reduction. Choosing policies that will best contribute to poverty reduction requires careful management. Such policies like the provision of social amenities and microfinance when put in place must not be micromanaged. Development of rural infrastructure and human capital formation are especially important in poverty reduction management. Poverty reduction management strategies must focus on interventions to assist individuals, households, and communities to better manage their situations. Poverty reduction management must be broad based taking into view necessary social safety nets that would provide support to the critical poor. Poor people are frequently exposed to social risks, such as economic recession, poor harvest, natural disaster, civil unrests, ethic conflicts, war and others that can adversely harm an individual or a family's welfare. Others such as the illness of a family member, loss of the breadwinner's job, aggravate poverty in society. For progressive poverty reduction there must be actions to reduce the likelihood that certain social risks will occur, thereby mitigating the risk by reducing the negative consequences associated with the events, if they occur, and to help the poor cope with the residual effects of the shock so that they do not suffer irreversible negative effects. Promoting economic growth and poverty reduction necessitates regular pension payment to mitigate the perpetuation of poverty among the elderly in society. Promotion of equity and equality and provision of education for all groups through sound management lead to effective poverty reduction. Easy access to basic social services to the poorest population groups and those needing assistance are essential ingredients of poverty reduction management. (Coudouel, et al, 2002) Countries that succeed in poverty reduction management and the provision of social safety nets are those not too polluted by public corruption. Nigeria's failure at poverty reduction management is the result of public corruption and gross mismanagement. In 2000, four institutions: Peoples Bank of Nigeria, Community Banking Programme, Nigerian Agricultural and Cooperative Bank, and Family Economic Advancement Programme that had mandate to attend to the needs of the poor, among others, were dismantled, due to corruption and mismanagement. The scraping gave birth to the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB) to pursue delivery of microfinance services to the poor among others. Until 1990 when the PBN was introduced, no unique attempt was in place at developing a microfinance institution in Nigeria but the golden opportunity was washed away by public corruption and mismanagement. Since poverty is a worldwide phenomenon, a practical approach to poverty reduction management must involve flexible rules for promoting MFIs to reflect their reliance on deposit mobilization and potential positive effect on economic growth. Today the global focus on microfinance is in appreciation of its potency in poverty reduction, entrepreneurship development and economic growth. Provision of basic infrastructure that eases the burdens of the poor is very foundational to poverty reduction management. Microfinance has been accepted as a tool toward poverty alleviation and financial inclusion in most countries. Despite several failed attempts at microfinance, Nigeria embraced a three category microfinance model in 2004. The model is a strategic approach to ensure financial inclusion for the greater majority who are poor. In the model, category 1 MfBs are authorized to operate in one location and with a minimum paid-up capital of N20million. They are prohibited from operating branches or cash centres. Category 2 MfBs are authorized to operate within one state or the Federal Capital Territory (FCT) and with a minimum paid-up capital of N100million and would be allowed to open branches or cash centres within the same state, subject to prior approval of the Central Bank of Nigeria. The category 3 or national microfinance banks are authorized to operate in more than one state, including the FCT with a minimum paid-up capital of N2billion and would be allowed to have branches in any part of the country, subject to prior approval of the Central Bank of Nigeria (Sinha, 2015, NDIC, 2011).

3. Methodology

3.1. Participants

The sample comprised of 359 participants (127 females and 232 males) ranging in age from 18 to 65 (Mean – 42 years, SD - -24). The participants were generated from the general population across Abia State, Nigeria.

3.2. Materials

A 5-point 20 item Likert-type scale adapted from the Core Welfare Indicators Questionnaire (CWIQ) was used to collect primary data. CWIQ is the latest in a series of survey instruments that have been developed by the World Bank and its partners to help provide policy makers with household level information on poverty. The objective of CWIQ is to monitor poverty and the effects of development polices, programmes, and projects on living standards (Klugman, 2002). A second instrument, designed by the investigator, titled "Socially-Oriented Micro Welfare Indicators Report" (SOMIWIRE) was attached to the CWIQ as an appendix, and used to generate secondary data. The mixed methods of data collection were used so as to supplement, complement and validate data through each other.

3.3. Procedure

The data collection materials were administered on the participants by the investigator and two assistants. The participants were given 4 weeks to respond to the questions: All the materials administered were retrieved, the responses pooled, and found suitable for analysis.

3.4. Data analysis Strategies

Qualitative data were analyzed through descriptive statistics using percentages and absolute numbers. While quantitative data were analyzed through the Chi-Square Statistical method using the statistical package for the social sciences. The results were presented in a chart and tables, capable of easy understanding.

4. Presentation of Results

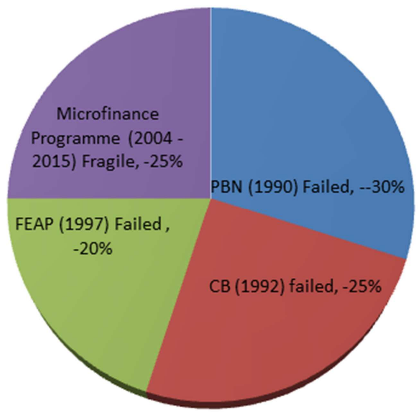

Fig. 1. Microfinance Institutions in Nigeria (1990-2015).

Source: Ugoani 2015.

Table 2. SOMIWIRE Analysis.

S/N	Amenities	No of Responses	Accessible	Not accessible	Inadequate	Percentage	Total
1	Education	170	-	-	170	47.36	170
		81	81	-	-	22.56	81
		108	-	108	-	30.08	108
	Total	359	81	108	170	100	359
2	Health	182			182	50.70	182
		75	75			20.89	75
		102		102		28.41	102
	Total	359	75	102	182	100	359
3	Housing, Roads, Transportation	193			193	53.76	193
		56	56			15.60	56
		110		110		30.64	110
	Total	359	56	110	193	100	359
4	Food, water, energy etc	205			205	57.10	205
		42	42			11.70	42
		112		112		31.20	112
	Total	359	42	112	205	100	359
5	Entrepreneurial ventures	210			210	58.50	210
		35	35			9.75	35
		114		114		31.75	114
	Total	359	25	114	210	100	359

Source: Ugoani 2015, SOMIWIRE

[DataSet0]

Table 3. Frequencies.

	Observed N	Expected N	Residual
8.00	8	71.8	-63.8
13.00	13	71.8	-58.8
53.00	53	71.8	-18.8
87.00	87	71.8	15.2
198.00	198	71.8	126.2
Total	359		

Table 4. Test Statistics.

Chi-Square[a]	334.802
	4
	.000

0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 71.8.

4.1. Discussion of Results

As in Fig. 1, the history of Microfinance Institutions (MFIs) in Nigeria is a history of failed institutions. The country still has the hangover of the problems created by the failed institutions, leaving the latest microfinance programme struggling to cover only about 25% of the microfinance market. This restates the problem that the poor who need microfinance most may not have easy access to microcredit. Based on Fig. 1, -30% + -25% + -20% = -75% and -75% + 25% = 25%. The inability of the present microfinance programme to meet the needs of the poor majority would mean lack of incomes sufficient to cover basic food and nonfood expenditures and other basic necessities of the household that would help in poverty reduction. Bangladesh with a strong microfinance system achieved success on basic health, basic education, and between 1992/2000, the incidence of national poverty declined from 50 to 40 percent (Sen, et al, 2007). In turbulent times microfinance has been shown to be a more stable business than commercial banking. During Indonesia's 1997 crises employment in rural agriculture that was highly supported by microfinance banks increased 13.3 percent between 1997 and 1998 as many workers in the urban economy returned to their rural families and sought productive employment, with the closure of many formal banking and industrial institutions. The rural economy was then the main safety net for millions of poor workers previously employed in the urban economy. According to Timmer (2007) without such rural resilience, the impact of the crises on poverty would have been much deeper. Poverty rate reduced from about 58.1 percent in the early 1990s in Vietnam to about 25 percent by the end of 2004. The miracle or model of poverty reduction management in that country is today tied to a new legal framework for private enterprise which facilitated the emergence of a viable private sector and the movement of employment from formal to informal sector enterprises and services. In the process, income growth and poverty reduction occurred in both urban and rural areas, as the latter increasingly became linked to the growth dynamics of urban centers. (Klump, 2007) India which hosts the highest numbers of poor people in the world with Nigeria as third, identified lack of access to finance as a significant reason for stagnant growth and persistent poverty in rural areas. The entry of banks into the rural areas of India is thought to have spurred entrepreneurship, structural change and poverty reduction. Besley, et al, (2007) posit that through such programmes, poverty rate in Kerala, India, fell from about 60 percent in 1958 to about 15 percent in 2000. Access to finance can enable poor people to exit poverty by transforming their production and employment activities. While the microfinance sector in Nigeria is fragile, the tempo is expected to pick up with better management arrangements because the microfinance movement is fast cruising to the zenith of global acceptability as a major framework for poverty reduction management. Investments in education, healthcare, energy, water, transportation, and others helped in poverty reduction in Indonesia, Vietnam, Bangladesh and others. In contrast, poverty persists in Nigeria as the result of lack of access to such basic amenities by the vast majority who are poor due to corruption. Corruption perpetuates poverty and diminishes self-worth. Corruption derails the course of socioeconomic development (World Bank, 2003b). In Nigeria poor people with no formal jobs, no stable income, no income, bank account have little or no access to social amenities necessary to improve their living standards and reduce poverty. For centuries, poor people have used a wide range of providers to meet their financial needs. While most poor people lack access to banks and other formal financial institutions, informal systems like money lenders, daily savings contributors, have come to their rescue. For example, while the number of accounts per thousand adults in the Philippines is 566, the number of accounts, per thousand adults in Nigeria is 185. Also, while the percentage of micro firms that use bank loans in the Philippines is about 13 percent the same in Nigeria is about – 0 percent. People are poor if their standard of living falls below the amount of associated income, or consumption, with the minimum acceptable level of nutrition and other necessities of everyday life. Poverty has many dimensions. In addition to low income, illiteracy, poor health, gender inequality, and environmental degradation are all aspects of being poor. This is reflected in the MDG1, which is the international community's unprecedented agreement in reducing poverty by 50 percent of the 1990 level by 2015. Nigeria appears to be off from achieving this target because most of its people lack access to credit and other basic amenities that would propel them out of poverty. Available statistical measures of poverty levels in Nigeria show upward movement between 2004 and 2011, the dollar per day index, shows that about 63 percent of Nigerians were living under the poverty level in 2011. Major reflections of poverty in Nigeria are educational level, employability, employment level, quality of the environment, healthcare. Based on these indicators, Nigeria is ranked 85 out of 96 countries on poverty level (Okafor, 2014). These inadequacies are reflected in the SOMIWIRE analysis. For example, the percentage of poor people lacking access to education is about 77 percent, those without access to healthcare, about 99 percent, those without access to good business, roads, housing, transportation about 85 percent, while those without adequate food, water and energy is about 88 percent. Also the active poor without access to entrepreneurial ventures is about 90 percent. When people lack the capacity of access to essential welfare indicators like microfinance, education, healthcare, employment, they may not be able to do much that would see them out of the poverty trap. Reducing poverty would require providing the poor with the opportunities to improve their living standards through education, health, infrastructure, and financial services. Improving the access of the poor to assets and services will help them share in, and contribute to economic growth. The poor believe that poverty is primarily hopelessness, defenselessness, exclusion from social and commercial life, low ability to provide basic necessities for the household, and an inability to continue traditions important to them. The main cause of poverty are unemployment, low income and lack of access to social amenities. According to Coudouel, et al (2006) about 86 percent of poor people around the world lack these basic amenities. The SOMIWIRE analysis which proved on the average, that about 88 percent of the poor people in Nigeria lack access to socio economic amenities is not an exaggeration but a classic result, as it finds agreement with the findings of Coudouel et al (2006) that about 86 percent of poor people in developing countries lack access to socio economic amenities. Reducing poverty will require a substantial increase in external resources and more effective management. From the test statistics in table 4, it was observed that the Chi-Square value of approximately 335 was significantly greater than the table of about 13 with four degrees of freedom, and at 0.01 level of significance. This technically means that there is a strong gap between microfinance and poverty reduction management in Nigeria. This is the objective of the study. This result is in agreement with Kota (2007) and Littlefield and Rosenberg (2004) that microfinance is critical for poverty reduction. Further, it strengthens the hypotheses of Devarajan and Reinikka (2003), Saavedra and Arias (2005) and Pattillo, et al (2006) and Besley and Cord (2007) that access to socio economic amenities is a basic requirement for poverty reduction in the developing world.

4.2. Recommendations

Microfinance forms part of a much broader spectrum of socially oriented financial institutions that include state-owned banks and other credit schemes. For it to achieve its full potential, microfinance institutions must become an integrated part of a country's mainstream financial system. These recommendations may be helpful:

i. Microfinance Institutions should be efficiently managed. For example, the Peoples Bank of Nigeria could not survive due to poor management. People without banking knowledge and experience were appointed into high positions on political patronage.

ii. Microfinance Institutions should not limit exposure to women on cultural or religious basis. The experience of Grameen over the years showed that female borrowers are more reliable than male borrowers, because of family-based community ties. Grameen reports about 96 percent repayment from poor, illiterate women from remote villages.

iii. Individual borrowers should be required to form a group and take responsibility for each other's loans. This is necessary to enforce repayment. Grameen depends primarily on peer pressure to guarantee repayment of about 98 percent of internal and external resources.

iv. There is growing awareness that building financial system for the poor means building sound domestic financial intermediaries that can mobilize and recycle domestic savings. Government should make genuine efforts to better develop the microfinance system against the backdrop of the FEAP experience when the initial take-off grant fell from about N4bn in 1997 to N1bn in 1999 before it was scraped.

v. Microfinance institutions should be managed without undue political interference like the fate of PBN, CB and FEAP. Grameen of Bangladesh and Bank Rakyat of Indonesia have remained strong since the 1970s due to independent and efficient management. But the Nigerian experiments modeled after them in the form of PBN, CB and FEAP crashed within just a few years.

vi. Poverty also persists in Nigeria because governments spend very little of their budgets on poor people, that is on the services poor people need to improve their health and education. Even when social spending is allocated for the poor, such funds hardly reach the poor that need them most. This must change in the interest of the poor.

4.3. Scope for Further Studies

Further study should examine the relationship between government and Microfinance Institutions (MFIs) in Nigeria to see whether something can be done to strengthen it to ensure stability as in the cases of Grameen and Bank Rakyat.

5. Conclusion

Microfinance refers to the provision of financial services in terms of microcredits to poor households that do not have access to formal financial institutions. People are considered poor if their standard of living falls below the amounts of associated income, or consumption, with the minimum acceptable level of nutrition and other necessities of everyday life. Poverty has many dimensions. In addition to low income, illiteracy, poor health, gender inequality, unemployment and environmental degradation are all aspects of being poor. The poor believe that poverty is primarily hopelessness, defenselessness, exclusion from social and commercial life, low ability to provide basic necessities for the household, an inability to continue traditions important to them. Contrary to a common believe, poor people need a variety of financial services to propel them out of poverty. The traditional financial institutions often refuse to lend to the poor because of their inability to provide collateral. This study provides evidence that most of the early pioneer organizations in the modern microfinance movement operated as nonprofit, socially motivated nongovernmental organizations. They developed new credit techniques: instead of requiring collateral, they reduced lending risk through group guarantees, appraisal of household cash flows, and small initial loans to test borrowers. Experience over the years has shown that the poor repay uncollateralized loans reliably and are willing to pay the full cost of providing them, and that access is more important to them than the cost, because without such access they may not have access to important socioeconomic amenities such as education, health care, micro businesses, among others. The SOMIWIRE result of this study which found that about 88 percent of Nigerians lack access to socioeconomic amenities is just wonderful because it supports Coudouel et al (2006) that about 86 percent of poor people in developing countries lack access to basic amenities necessary for minimum everyday life. Microfinance is growing across the world because the poor need it as a good means of coming out of the poverty. Through statistical analysis, the study found a high degree of gap between microfinance and poverty reduction management in Nigeria.

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Biography

Dr. Ugoani is a Senior lecturer and Coordinator, College of Management and Social Sciences, Rhema University, Aba, Nigeria. His research interest focuses on business, management, production management, personnel administration, psychology, strategic management, emotional intelligence, entrepreneurship, governance, leadership, corruption management, and family business among others. John is recognized for presenting the first best PhD Dissertation in Management at the Faculty of Business Administration, Imo State University, Owerri, Nigeria. He has over 40 scholarly publications with full paper readership downloads and abstract views of over 1500 and 8000 respectively and listed among Ten Top Authors by SSRN.