

# **MICROFINANCE AND RURAL POVERTY ALLEVIATION: A REALITY?**

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## **ABSTRACT**

It is a truism that if Microfinance Institutions (MFIs) play their expected role, poverty will reduce and there will be more employment opportunity and adequate economic development particularly in the rural areas. Poverty is more devastating in Sub-Saharan Africa than the rest of the world. This paper examines the contributions of microfinance towards the rural poverty reduction. To achieve this objective, the study adopted multi-stage random sampling technique to collect primary data through the structured questionnaire. A total sample of 1,134 microfinance loan beneficiaries and non-beneficiaries were used as respondents from three (Ogun, Osun and Oyo states) out of six states in South- West Nigeria. Statistical Percentage Techniques were used to describe the characteristics of the sample from the study. The results revealed that microfinance has marginal effects on the rural poor in Southwest Nigeria. Policy makers are advised to provide adequate infrastructural facilities that will encourage MFIs to establish branches in the rural areas. MFIs should endeavor to create more awareness to the rural poor with realistic loan procedure that will encourage the poor to access microcredit loan.

**Keywords:** Economic Development; Poverty; Microfinance Institutions; rural poor; Nigeria.

## **1. INTRODUCTION**

Development connotes the activities geared towards the improvement of quality of lives of human beings in raising their level of wellbeing, freedom and capabilities for self-actualization (Todaro and Smith, 2011:5). To make life meaningful therefore implies having access to the basic necessities of life.

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Poverty is a multi-faceted fabric which involves economic, social, cultural and psychological dimensions. It is a world phenomenon whose consequences are dehumanizing, devastating and traumatic. In the light of this, and recognizing the importance of the devastating effect of poverty and inequality, the awareness is much more favored at the international level of finance and governance. For instance, the World Bank, United Nations (UN) and International Monetary Fund (IMF) have developed various programmes and projects that would improve the life of the poor, ensure health improvement and sustainable growth and development (Ssewamala, et al.,2010) .

It is on record that about half of the world's population (about three billion people) lives on income of less than two dollars a day (Goel and Rishi,2012) while 70 percent of the extremely poor live in rural areas (IFAD, 2011, Mustapha et al,2014). This is also aggravated by the fact that one child out of five living in these poor communities does not live to see his or her fifth birthday! Hence, in September 2000, the United Nations declared Millennium Development Goals (MDGs) in order to ensure global development. The major policy thrust of this program is to make life more meaningful to the poor and downtrodden. By implication, reduction of poverty and hunger is adjudged to be the basic root of all other problem issues focused on MDGs (Kalirajan and Singh, 2009).

Hunger, which shows the inability to obtain minimum calories and protein food in a country, is one of the important dimensions of poverty. According to 2013 World Hunger and Poverty Facts and Statistics, almost one in eight people in the world were affected by malnutrition in 2010-2012. The report further expressed that "almost all the hungry people, 852 million, live in developing countries, representing 15 percent of the population of developing countries". In Sub-Saharan Africa, hunger rises 2 percent annually since 2007. The statistics shows that from Year 2010 to 2012, the population of people affected by hunger increased from 175 million to 239 million. This indicates that nearly one in four Africans are hungry. The number of hungry people also rise from 13 million in 2004 - 2006 to 16 million in 2012 in the Developed regions (FAO, 2012) cited in 2013 World Hunger and Poverty Facts and Statistics. In essence, hunger causes and is both caused by poverty as hungry worker cannot make reasonable production. Poverty and hunger are caused by non-availability of quality food, poor sanitation, malnutrition and poor health standard (Oliveira et al, 2010).

Malnutrition, as an agent of poverty has more damages particularly in children. For instance, malnourished pregnant women give birth to children with low birth weight, high child mortality rate, learning disabilities, mental retardation, blindness and poor health. Hunger can also aid maternal death. But what is really responsible for hunger? Poverty has been adjudged to be the main cause of hunger. Hence, it can be noticed from Table1 that no country is free from poverty even the advanced nations that record high growth rate are plagued by high unemployment which is another indicator of

poverty. This implies that countries should not rely on growth rate to tackle the menace of poverty but take specific strategies directed towards poverty alleviation. Also to be noticed in table 1 is that the number of people trapped in extreme poverty has increased tremendously in Sub-Saharan Africa. In this table, the Sub-Saharan Africa has 50.9 percent of its population in extreme poverty level. It is the highest percentage out of the regions in the whole world. This is a clear manifestation of the fact that extreme poverty remains an alarming problem in developing country in general and in Sub-Saharan Africa in particular.

**Table 1: Poverty Indicator**

<b>Region</b>	<b>% in \$1.25 a day poverty</b>	<b>Population (millions)</b>	<b>Pop. in \$1 a day poverty (millions)</b>
East Asia and Pacific	16.8	1,884	316
Latin America and the Caribbean	8.2	550	45
South Asia	40.4	1,476	596
Sub-Saharan Africa	50.9	763	388
Total Developing countries	28.8	4673	1345
Europe and Central Asia	0.04	473	17
Middle East and North Africa	0.04	305	11
<b>Total</b>		<b>5451</b>	<b>1372</b>

*Source:* World Bank PovcalNet "Replicate the World Bank's Regional Aggregation" cited in 2013 World Hunger and Poverty Facts and Statistics.

In Nigeria, it has been asserted that poverty is more devastating in the rural areas where the majority of the population resides. According to the Nigeria Living Standards Survey (NLSS) Report in 2011, 73.2 percent of the rural population is described as poor compared to 61.8 percent in the urban area. In the Southwest, the poverty incidence stood at 49.8 percent in 2010 with Ogun State having the highest incidence (69 percent) in the zone (NBS, 2012, Obisesan and Akinlade, 2013).

Poverty incidence in Nigeria became worse in 1980s. The oil prices downturn in the international market further aggravated the poverty condition in Nigeria. The Government Policy on fuel subsidy removal in 2011 worsens the poverty situation.

Microfinance has been adjudged as a reliable tool for poverty alleviation. It can be used to boost the investment which eventually entails the reduction of poverty and improves the standard of living of the poor (Obisesan and Akinlade, 2013). However, microfinance has been used on several occasions to reduce poverty, in rural areas in particular which are believed to harbour the poorest people in the world. It is an important aid that can improve the economic performance of the poor. The poor people need microfinance to improve their entrepreneurial skill and socio-economic needs. But the poor people could not meet up with the requirements of the conventional banks and

microfinance is not reachable. They continue to wallop in abject poverty and vicious circle.

This study has its target on the rural poor as statistics have confirmed that the rural sector harbour more poor and impoverished people (Chukwuemeka, 2009). Table 2 depicts the contribution of Urban and Rural sectors to the poverty incidence in Nigeria. Ironically, less than 2% of rural households have access to financial services (CBN, 2005).

**Table 2: Poverty contribution by sector**

<b>Sector</b>	<b>Incidence</b>	<b>Contribution</b>
Urban	43.2	35.0
Rural	63.3	65.0

*Source:* National Bureau of Statistics (2004) pp22-24 as cited in Chukwuemeka (2009) pp.405-410.

Despite the fact that microfinance has been used for decades as an important development tool and as a formidable programme for poverty alleviation, development practitioners still know little about the possible efficiency of microfinance activities in reducing poverty (Khandker, 2005). Consequently, little efforts have been advanced to study the effect of these programmes on the rural poor particularly in the study area of this research. This exercise will be the foremost study in this geographical area when an independent research will be conducted to study the impact of microfinance on the rural poor. The study is expected to spur the government policy directed to empower the poor with adequate credit facilities and necessary infrastructure for economic development. In this study, an attempt was made to appraise the content and performance of Micro-Finance Bank as a catalyst for enhancing economic growth, income redistribution and poverty eradication particularly in South-West Nigeria, having adjudged that Micro-Finance Banks have a key role to play in poverty alleviation programmes.

The research study is grouped into five sections. Following the introduction is Section 2 where the previous literature on the subject matter is reviewed. Section 3 enumerates the methodology of the study while section 4 discusses the findings. Section 5 concludes the report with necessary recommendations to the policy makers and other stakeholders.

## **2. REVIEW OF PREVIOUS LITERATURE**

Poverty means deprivation from the basic essentials of life. The level of poverty is determined by the income level and degree of inequality among others. The roles of microfinance in poverty reduction have attracted various researchers to the extent that different opinions have been formed. For instance, while some researchers conclude that microfinance loans are mainly used for health, education of school children and production related expenses, others are of the opinion that microfinance has played a

tremendous role in reducing the depth and incidence of rural poverty and serves as aid for shocks from natural disaster and health related calamities. Even microfinance reduces poverty at the macro level (Anriquez and Stamoulis, 2007).

In view of the fact that Microfinance programmes have been identified as the necessary development strategies to reduce poverty, researchers have made it expedient to carry out studies on the effectiveness of the programmes. To this end, the impact of microfinance loan on poverty reduction has attracted the attention of some scholars in the last three decades. For instance, Khandker and Pitt (1998) studied the impact of microcredit on 1,798 households in Bangladesh and concluded that the loan obtained by women in particular increased the household expenditure, family level of education and good nutrition among others. In the same vein, Morduch (1998) conducted research on the impact of microcredit on about 1,800 microfinance clients and non-client households taken from 1991-92 Cross-sectional survey in Bangladesh. The findings revealed that microfinance loans encourage mild increase in consumption and less vulnerability of the clients to poverty. Also Khandker (2005) conducted research on microfinance and poverty in Bangladesh; and concluded that there is always 20 percent increase on microcredit given to women. The research further emphasised that impact of microfinance is always greater on the extreme poverty than the moderate one and that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh. Coleman (2002) studied the beneficiaries of microfinance in Northeast Thailand. It was opined that the wealthy people do participate in microfinance loan and become wealthier. Edgcomb and Garber (1998) assessed the microfinance participants and non-participants in Honduras. It was revealed that the profits of microfinance loan participants increased by 75 percent over that of non-participants.

Also, MKNelly and Lippold (1998) assessed the impact of microfinance loan on clients in Mali. The findings revealed that the more the circles or rounds of participation in microfinance, the greater the income. Karlan (2001) discussed the impact of microfinance and concludes that participants' skill in entrepreneurship always enhance prompt loan repayment and business profit. In his study on microfinance in Peru, Alenxander (2001) cited in (Goldberg, 2005) affirms that microcredit assists the poor. Khalily (2004) also agrees that microfinance institutions can achieve the poverty reduction objective through their impact on increase in income, employment generation, increase in consumption of basic necessities, greater acquisition of assets and savings.

Furthermore, in his study of an area in Pakistan on the impact of microfinance on poverty alleviation Ayuub,(2013) concludes that microfinance contributes tremendously in the reduction of poverty, increase of standard of living and income, adequate empowerment, and it also revives the economy. This was agreed upon by Kashif, et al. (2011) who added that microfinance can contribute to the improvement of the business performance of the beneficiary. In the same vein, Shane, (2004) confirms that

microfinance can enhance the increase in well-being of the borrower with increase in children education and consumption of health services. Assessing the impact of microfinance on the Millennium Development Goals in a district in Pakistan Setboonsarng and Parpiev, (2008) affirm that microfinance has positive impact on production capacity, consumption, assets and Income.

The above studies confirm that microfinance activities have been categorized as an effective development intervention which plays a vital role in poverty reduction.

### **3. METHODOLOGY**

To enhance the objectives of this study, primary data were collected between July and September, 2014 from the study area: South-West Nigeria. South-West Nigeria is one of the six geo-political zones in Nigeria with a population of 27,722,432 people out of the Nation`s total population of 140,431,790 (National Population Census, 2006). The zone composed of six states - Ekiti, Lagos, Ogun, Ondo, Osun and Oyo states. However, the vegetation of South-West Nigeria is rainforest with about 12% (114, 271km<sup>2</sup>) of Nigeria`s coverage space of 923, 768 square kilometers. Microfinance Institutions are much more concentrated in South West Nigeria than any other zone of the country. For instance 346 (about 40%) of the total 870 Microfinance Institutions in the six geopolitical zones were established in the zone alone, while the balance of sixty percent is shared among the remaining five Geo-political zones.

In addition, cross-sectional data collected through the structured questionnaire were used. Purposive survey was also used to select three out of six states from the Geographical zone namely Ogun, Oyo and Osun states. 1,145 Questionnaires were distributed to the respondents out of which 1,136 were collected from the sampled respondents. 1,134 were effectively used for the analyses; comprising 594 loan beneficiaries and 540 non-beneficiaries. In this context, loan beneficiaries are those individuals who obtained microfinance loan in at least previous three years. While the non-Beneficiaries are those who have similar characteristics with the latter and applied for microfinance loan in the previous three years but could not scale through the process. In this study, an individual beneficiary of microfinance loan is regarded as a derived one from the household perspective. In essence, if one or more members of a household obtain microfinance loan, the entire household is classified as beneficiary (Ashraf and Ibrahim, 2014).

The field survey collated information on the demographic characteristics of the respondents, business and owner`s profile, consumption expenditure, loan procurement procedure, assets and business management among others. Furthermore, operators of Microfinance Institutions in the study area were also interviewed on their mode of

operations, problems faced on the clientele and the assistance required from the Government.

#### **4. FINDINGS AND DISCUSSIONS**

Table 3 shows the demographics and socio-economic characteristics of the rural poor collected from the sampled area through the surveyed questionnaire. From the total sample size of 1,134 household heads, 594 (52.4%) are microfinance loan beneficiaries and the remaining 540 (47.6%) are non-beneficiaries. The survey sample comprises 53% males and 47% females. In essence, about 51% of microfinance loan beneficiaries are males while almost 49% are females; whereas about 56% of non-beneficiaries are males with around 44% females. An indication that both loan beneficiaries and non-beneficiaries have similar gender characteristics.

Considering the education level, the sampled respondents are grouped into five categories. This consists of those with no formal education, those with primary education, those who attended High School, Graduates of National Diploma and those who are degree holders. As depicted in table 3, majority of the respondents have obtained education in one form or the other; about 14% of the total respondents reported no formal education. The proportion of no formal education for the microfinance loan beneficiaries is 12.5%, lower than that for the non-beneficiaries (15.4%). About 87.5% of the microfinance loan beneficiaries and 84.6% of non-beneficiaries have acquired primary education or more (including High School, National Diploma and Higher Diploma/University degree). Moreover, the proportion of microfinance loan beneficiaries with post High School education (Diploma and Degree) is higher than that of non-beneficiaries (38.7% against 30.9%).

The age dimension indicates that the respondents have age range of between 20 and above 60 years old. And the mean age for the sample is around 39 years. A confirmation that most of the respondents are still active and young enough to exhibit their entrepreneurship. When grouped into different age categories, the vast majority of both microfinance loan beneficiaries and non-beneficiaries fall into similar age bracket of 31-40 years old (46.7% and 49.5% respectively).

It was also revealed that a large proportion of the respondents are married (75.6% of microfinance loan beneficiaries and 80.2% of non-beneficiaries). This shows that most of the sampled respondents are responsible to their families and have the tendency to cater for them.

The religion category for the respondents is similar for both Islam and Christianity. Only 2.4% of microfinance loan beneficiaries have Traditional belief while that of non-beneficiaries is 7.6%.

Analysis of the skill/Experience in business entrepreneurship is classified into four categories. The vast majority of the respondents have acquired less than 10 years business experience. While the proportion of the microfinance loan beneficiaries that belong to this category is almost 80%, that of non-beneficiaries is 68%.

Table 3 shows that monthly income for the household head is grouped into five levels. The monthly income for most of the microfinance loan beneficiaries reported is above 30,000 Nigerian Naira (28.3%) while that of the non-beneficiaries group respondents is between 21,000 and 30,000 Nigerian Naira. Also the household head monthly expenditure of microfinance loan beneficiary group respondents is mainly less than 5,000 Nigerian Naira (41.1%); most of the household heads monthly expenditure in the non-beneficiary respondents group falls between 5,000 and 10,000 Nigerian Naira (33.2%).

There is also indication that the proportion of the household size is similar in the sampled survey. About 44% of microfinance loan beneficiaries have 2-4 persons as members of the household while almost 68% of non-beneficiaries have 2-4 persons as members of their households. The survey also revealed that mostly less than 2 persons work and earn income (49.1%) in the microfinance loan beneficiary respondents group; while from 2-4 members of the non-beneficiary respondents group mostly work and earn income (64.9%).

**Table 3:** Demographic characteristics of respondents

Total Sample	Non-Beneficiary	Beneficiary	Total Sample
	N <sub>0</sub> =540 (47.6%)	N <sub>1</sub> =594 (52.4%)	N <sub>3</sub> =1134 (100%)
	% to N <sub>0</sub>	% to N <sub>1</sub>	Subtotal % to N <sub>4</sub> N <sub>4</sub> = N <sub>0</sub> + N <sub>1</sub>
<b>Demography</b>			
<b>Gender</b>			
Male	55.6	50.7	53
Female	44.4	49.3	47
<b>Education Level</b>			
No formal education	15.4	12.5	13.8
Primary education	28.1	19.5	23.6
High school	25.6	29.3	27.5
National Diploma	18.7	20.2	19.5
Higher Diploma/University degree	12.2	18.5	15.5
<b>Age (in years)</b>			
20-30	14.3	17.1	16.1
31-40	49.5	46.7	48
41-50	27.3	25.1	26.2
51-60	6.5	8.7	7.6
>60	2.4	2.6	2.7
Mean Age	39.25	39.19	39.22

**Table 3:** Demographic characteristics of respondents (con't)

Total Sample	Non-Beneficiary	Beneficiary	Total Sample
	N <sub>0</sub> =540 (47.6%)	N <sub>1</sub> =594 (52.4%)	N <sub>3</sub> =1134 (100%)
	% to N <sub>0</sub>	% to N <sub>1</sub>	Subtotal % to N <sub>4</sub> N <sub>4</sub> = N <sub>0</sub> + N <sub>1</sub>
<b>Marital Status</b>			
Single	11.3	17.0	14.3
Married	80.2	75.6	77.8
Divorced	5.9	3.9	4.9
Widow	1.9	3.2	2.6
Widower	.7	-.3	.5
<b>Religion</b>			
Islam	44.2	40.8	42.5
Christianity	48.2	56.8	52.7
Traditional	7.6	2.4	4.8
<b>Household Profile</b>			
<b>Skill/Experience in Business (in years)</b>			
≤ 10	68.1	80.0	74.3
11-20	29	18.4	23.5
21-30	2.3	1.7	2.0
> 30	.8	.2	.5
Mean Experience in Business	9.4	7.81	8.57
<b>Monthly Income</b>			
Less than N5000	13.1	14.1	13.7
N5000 - N10000	11.7	21.0	16.6
N11000 - N20000	24.4	19.2	21.7
N21000 - N30000	27.2	17.3	22.0
Above N300000	23.5	28.3	26.0
<b>Monthly Expenditure</b>			
Less than N5000	24.9	41.1	33.4
N5000 - N10000	33.2	24.5	28.
N11000 - N20000	30.6	18.5	24.3
N21000 - N30000	5.8	7.3	6.5
Above N30000	5.6	8.6	7.2
<b>Household Size</b>			
< 2 persons	13.5	28.5	21.4
2 - 4 persons	67.5	44.3	55.3
5 - 7 persons	17.4	23.6	20.7
8 - 10 persons	1.1	3.4	2.3
Above 10 persons	.4	.3	.4
<b>Number of Income Earners</b>			
< 2 persons	27.5	49.1	38.8
2 - 4 persons	64.9	42.2	53.0
5 - 7 persons	7.4	7.8	7.6
8 - 10 persons	.2	1.0	.6

*Source:* Field Survey Data (2014)

Table 4 shows the cross-tabulations of the percentages of some of the variables that can be used to measure the level of poverty. As depicted in table 4, the acronym in the first column (BN<sub>1</sub>) indicates the percentage characteristics of microfinance loan beneficiaries before obtaining the loan; column two (NBN<sub>1</sub>) shows the same characteristics of non-beneficiaries before applying for the loan. In the same vein, column three (BN<sub>2</sub>) shows the percentage characteristics of microfinance loan beneficiaries after obtaining the loan while column four (NBN<sub>2</sub>) indicates the same for non-beneficiaries after the application for the loan. Column five (D<sub>1</sub>) shows the difference in percentages of the microfinance loan beneficiaries before and after obtaining the loan with regards to the listed variables; while column six (D<sub>2</sub>) shows the same characteristics for non-beneficiaries before and after the application for the loan. Column seven shows the difference in the differences that indicate the final results. The negative signs in the last column indicate the situation where the percentage increase in the difference characteristics of the non-loan beneficiaries is higher than that of loan beneficiaries. Conversely, the positive signs in the last column can be interpreted that the situation portrays more difference in the

**Table 4: Impact of Microfinance**

	Before		After		D <sub>1</sub>	D <sub>2</sub>	D <sub>1</sub> - D <sub>2</sub>
	BN <sub>1</sub>	NBN <sub>1</sub>	BN <sub>2</sub>	NBN <sub>2</sub>	BN <sub>2</sub> - BN <sub>1</sub>	NBN <sub>2</sub> - NBN <sub>1</sub>	%
<b>Education</b>							
No formal education	12.5	15.4	12.0	15.4	-(0.5)	0	-0.5
Primary education	19.5	28.1	16.7	27.2	-(2.8)	-(0.9)	-1.9
High school	29.3	25.6	27.4	22.0	-(1.9)	-(3.6)	1.7
National Diploma	20.2	18.7	17.8	15.9	-(2.4)	-(2.8)	0.4
Higher Diploma/University degree	18.5	12.2	26.1	19.4	7.6	7.2	0.4
<b>Household Size</b>							
Less than 2 persons	28.5	13.5	26.1	9.1	-(2.4)	-(4.4)	2
2 - 4 persons	44.3	67.5	43.9	68.8	-(0.4)	1.3	-1.7
5 - 7 persons	23.6	17.4	25.4	18.6	1.8	1.2	-5
8 - 10 persons	3.4	1.1	3.7	3.0	0.3	1.9	0.6
Above 10 persons	.3	.4	.8	.6	0.5	0.2	0.3
<b>Daily Sales</b>							
Less than N50,000	73.2	85.5	70.9	81.6	-(2.3)	-(3.9)	1.6
N50,000 - N100,000	16.5	10.9	15.1	9.6	-(1.4)	-(1.3)	-0.1
N101,000 - N300,000	7.0	3.2	7.4	5.2	0.4	2	-1.6
N301,000 - N500,000	2.1	.2	4.4	2.4	2.3	2.2	0.10.2
Above N500,000	1.2	.2	2.3	1.1	1.1	0.9	
<b>Monthly Income</b>							
Less than N5000	14.1	13.1	5.9	8.3	-(8.2)	-(4.8)	-3.4
N5000 - N10000	21.0	11.7	17.5	9.4	-(3.5)	-(2.3)	-1.2
N11000 - N20000	19.2	24.4	18.7	26.5	-(0.5)	7.3	-7.8
N21000 - N30000	17.3	27.2	18.2	26.9	0.9	-(0.3)	1.2
Above N30000	28.3	23.5	39.7	28.9	11.4	5.4	6
<b>Health Standard</b>							
Very poor	.5	.2	.3	0	-(0.2)	-(0.2)	0
Poor	2.2	2.0	.8	.2	-(1.4)	-(1.8)	0.4
Good	54.9	67.2	53.5	61.2	-(1.4)	-(6)	4.6
Excellent	42.4	30.6	45.3	38.6	2.9	8	-5.1

Source: Field Survey Data (2014).

differences of the percentage characteristics of the microfinance loan beneficiaries than non-beneficiaries.

Therefore, the overall results revealed that the microfinance beneficiaries have higher level of education, greater increase in household size, greater level of sales, greater level of income and moderate improvement in health standard than the non-beneficiaries from the loan programme. This indicates that microfinance loans extended to the rural poor have transformed their wellbeing. These assertions can be justified by the success glory ascribed to microfinance institutions in some parts of the world. For instance, Amanah Ikhtiar Malaysia (AIM) in Malaysia, Bank of Rakyat in Indonesia and Grameen Bank in Bangladesh (to mention three) have performed creditably towards the poverty reduction and increase in income of the rural poor households in their respective domains. In addition, the notion that microfinance can contribute towards the poverty reduction by increase in income, improved health standard, increase in the level of education and others have been confirmed by various studies (for example, Asghar (2012); Green et.al. (2006); Jha and Dang, (2010); Bashir, et.al., (2010); Muller and Bibi, (2010), Otu and Eko, (2011); Smith, (2010); Arun, et.al (2006); Khalily, (2004).

## **5. CONCLUSION AND RECOMMENDATIONS**

This study considers the contributions of microfinance institutions towards the rural poverty reduction in Southwest Nigeria. The outcome of the study revealed that there is marginal contribution of microfinance institutions towards the increase in the welfare of the households in the study area as a result of benefiting from microfinance programmes. This is in line with the findings of Morduch (1998). However, in order to make Microfinance Institutions (MFIs) more effective in the rural poverty reduction and to reach the target poor in the rural areas, the Government should create more enabling environment by improving on the rural physical infrastructural facilities. Also, there has to be constant promotion of health and education facilities. All this would reduce the operational costs of MFIs and make their services in the rural areas more attractive.

Moreover, MFIs should always adjust their loan terms and conditions towards the situation of their potential rural clients. For instance, short term loan and weekly repayment may not augur well for a rural peasant farmer whose harvesting period is seasonal and the crop gestation period is a bit long. In essence, MFIs should endeavor to make flexible client specific repayment schedules. In addition, MFIs can reduce the cost of operation and improve on Corporate Governance by recruiting the local educated people that can earn less than their counterparts in urban centers. Officers from local areas are expected to understand rural poverty better and should be able to convince the poor to join microfinance programmes.

The issue of security is also paramount in the development process. Nigerian Government should solve the problem of insurgents like “Boko Haram” and “MENDS” in order to ensure peace and stability for economic growth.

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