Microfinance Credit and Poverty Alleviation in Nigeria (2008 to 2019)

Ifeanyi O. Nwanna (Ph.D) & Ijeoma Chinwe Okeke (Ph.D)
Department of Banking & Finance,
Nnamdi Azikiwe University,
Awka. Nigeria

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ABSTRACT

The study examined the relationship between microfinance credit and alleviation of poverty in Nigeria, Poverty can be regarded as the denial of choices and opportunities, a defiance of human dignity. Despite all the policies and measures, taken to reduce poverty , no noticeable success has been achieved in this direction. The key issue is to find out the relationship between microfinance credit and poverty alleviation in Nigeria. using unemployment rate, fixed capital formation and per capita income as proxy for poverty alleviation, while micro finance credit was used as the independent variable of the study. The study covered a period of eleven years from 2008 to 2019. Ordinary least square regression analysis was used in testing the hypotheses of the study. The regression result found that there is a significant relationship between microfinance bank and unemployment rate in Nigeria, there is a significant relationship between microfinance bank and capital formation in Nigeria and there is a significant relationship between microfinance bank and per capita income in Nigeria. The study therefore concluded that microfinance credit has the ability of reducing rate of poverty in the country. The study therefore recommends that the Central Bank of Nigeria should regulate and monitor the activities of Microfinance and also administer specialized funds set aside to improve microcredit access at affordable cost, especially SME Credit Guarantee Schemes.

***Key words**: Microfinance credit, Microfinance, Poverty, Poverty Alleviation*

1. Introduction

Microfinance bank can be seen as an institution projected to benefit the low income class of a developing country like Nigeria, both in rural and urban areas. Microfinance banking is about providing financial services to the economically poor and low income household, who are customarily not served by the conventional financial institutions. These services include credit savings, micro-leasing, micro-insurance and payment transfers to enable them engage in income productive activities. (Asemota,2012) . Microfinance services are for the active economically poor segments of our society.

The establishment of the microfinance institutions in Nigeria stem from the segregation of the poor from the conventional financial services, which led the government to initiate an extensive variety of informal alternative financial services that satisfy the financial needs of low-income earners (Rai, 2016). Thus, before the emergence of microfinance institutions, informal microfinance activities thrived all over the country. The Central Bank of Nigeria (CBN) as at end of December 2009 gave an approval to 840 microfinance banks to begin operation in the country (CBN 2009), currently there are over 916 licensed microfinance banks actively operational in Nigeria as at October 30, 2020 (CBN, 2020). Despite the high number, the eight largest National Microfinance Banks control 45% of the market share. The idea of microfinance is simple and riveting in the sense that loans are extended to low-income earners to activate or strengthen entrepreneurial activities, thus helping them access the means to build wealth and advance out of poverty.

Poverty alleviation has been a great concern to the Development Economics and the challenges are becoming overwhelming. The issue of poverty capacity and its implications on human lives, particularly those in Africa and the third world, has been a recurring matter of numerous contests for well over three decades till date. The World Bank (2020) sees poverty in absolute terms; that extreme poverty is living on less than US$1.90 and 371.1 Naira per day per capita, low middle income class poverty, less than $3.20 and 625 Naira per day and upper class poverty lives on US$5.50 and 1074.3Naira(World Bank Group) . According to Nigerian National Bureau of Statistics, 83million and 40% of Nigerians are currently living below poverty line; the total number of poor persons globally is approximately one billion.

Poverty adversely affects individuals, groups, nations and the world at large. However, the growing inequality between the rich and poor has long been a source of concern and a big challenge for nations, especially those with high rates of poverty. Poverty threatens the survival of mankind and as such the United Nations, together with support of other International Development Organizations such as the UNDP, World Bank, and the CGAP, declared 1996 as the international year of poverty alleviation. This led to the adoption of the Millennium Development Goals (MDGs) in Nigeria in the year 2000, with much emphasis placed by the United Nations. Microfinance relates to the lending of small amount of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available. The gap filled by microfinance institution has become part of the formal financial system of a country and so can access capital market to fund their lending portfolios, allowing them to considerably increase the number of poor people they can reach.

The Federal government has taken a number of measures to alleviate poverty, Such measures include, allocating an enormous amount of government expenditure at various times to different sectors of the economy to address the issue of poverty through establishment of various programmes aimed at poverty alleviation. Most notable among the programmess are:

• National Accelerated Food Production Programme and the Nigerian Agricultural and Co-operative Bank, established in 1972.
• Operation Feed the Nation, which was established in 1976 to teach rural farmer how to use modern farming tools.
• Green Revolution Programme, established in 1979 to reduce food importation and increase local food production.
• Directorate of Food, Roads and Rural Infrastructural (DFRRI) that was established in 1986 to address the issue of food security, rural roads and making sure that basic infrastructures were put in place for the rural people.
• The 1993 Family Support Programme and the Family Economic Advancement Programme.
• National Poverty Eradication Programme (NAPEP), which was established in 2001 to replace the previously failed Poverty Alleviation Programme.

• The National Directorate of Employment, which was established to address the issue of unemployment facing our youths.
• The 2012 Sure-P programme.
• You win programme to encourage innovation and entrepreneurship, to create more jobs for Nigerians.
• National Economic Empowerment Development Strategy (NEEDS)
• Establishment of Microfinance banks to reduce poverty in Nigeria, Despite all these policies and measures, the Federal Government of Nigeria has taken, the level of poverty has not reduced.

However, the number of beneficiaries of microfinance banks is an insignificant proportion of the people in need of microfinance services. It is therefore necessary to undertake an assessment of the extent to which microfinance has impacted on poverty reduction in Nigeria. It is the above trend of thought that motivated the researchers on the necessity to conduct the study focusing on the relationship of microfinance banks credit and poverty alleviation in Nigeria, specifically on unemployment rate, capital formation and per capita income.

2. Literature Review

Often times, microfinance credit and microfinance banks are used synonymously to mean the same thing, as the microfinance banks specializes in giving microfinance credits to the poor and low income earners. However, this study will be using both term interchangeably in the course of this work.

Microcredit is the extension of very small loans (microloans) to impoverished borrowers who typically lack collateral, steady employment, or a verifiable credit history. It is designed to support entrepreneurship and alleviate poverty. Many recipients are illiterate, and therefore unable to complete paperwork required to get conventional loans (Wikipedia, 2019).

Poverty can be regarded as the denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough food and clothing, not having a school or clinic to go to, etc. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation (World Bank).

2.1 Theoretical Framework

This study anchored on Commercial Intermediation Theory: This theory was propounded by Gurley and Shaw in 1960. They said that if there is information asymmetry in the financial system, it will result into high cost of transaction, lack of complete information in useful time and in method of regulation, problem of adverse selection, associated moral hazard and market imperfection. The theory therefore advocates that there should be a financial institution that will act as an economic agent to link those with surplus economic funds and deficit economic funds together to avoid information asymmetry in the system. Microfinance banks perform this role. They provide a non collateralized fund at affordable cost to the active poor and useful information that they need to boost their businesses.

2.2 Empirical Review of related study

The effect of microfinance credit on poverty alleviation is of great concern to the entire economy. Studies have been conducted in many countries on this subject ,for instance, in a study conducted by Ngong, Thaddeus and Onwumere (2021) on the long-run relationship between micro financial inclusion and poverty alleviation in Nigeria from 1990 to 2018, using the Engle–Granger two-step co-integration and autoregressive distributed lag (ARDL) techniques. Gross domestic product (GDP) per capita proxies poverty reduction. Number of microfinance banks, borrowers of microfinance institutions, commercial bank branches, commercial bank loan to small-scale businesses and broad money supply ratio measure micro financial inclusion. The results indicate a long-run relationship between micro financial inclusion and poverty reduction.

Ochonogor(2020) studied the performance of microfinance institutions (MFIs) and its impact in promoting economic development in Nigeria using error correction model. The OLS was used for long-run analysis following findings from the cointegration result that established the existence of a long run equation. The study found a positive relationship between human development index and microfinance loan. Akinadewo(2020) studied the nexus between microfinance banks and the growth of micro, small and medium enterprises in Nigeria. Research design method through a self-administered questionnaire to respondents was adopted for the study. The respondents comprise the microfinance banks' management and staff and micro, small and medium business entrepreneurs, in Lagos State, the commercial hub of Nigeria. The findings showed that a significant positive relationship exists between microfinance banks, proxied by Small Scale Financial Services (SSFS); Financial Sustainability (FST); Absence of Assets-based Collateral (AAC); and Advisory Services (ADS) and the growth of micro, small and medium enterprises in Nigeria. Omar and Inaba (2020) examined the determinants of financial inclusion and further estimated the impact of financial inclusion on poverty reduction and income inequality. Using fixed effect estimation method, the study revealed that per capita income, age dependency ratio, ratio of internet users, inflation as well as income inequality significantly affect the level of financial inclusion in emerging markets. The paper further revealed that financial inclusion reduces poverty rates and income inequality significantly in developing economies. Also, Churchill and Marisetty (2020) investigated the effect of financial inclusion on poverty using 45,000 households in India. The study revealed that, there is a negative relationship between financial inclusion and poverty, implying that financial inclusion reduces poverty.

Furthermore, Tafamel (2019) examined the effect of microfinance institutions on reduction of poverty as well as entrepreneurial activities in Nigeria. The study employed a survey research instrument through the administration of questionnaires to two hundred (200) micro and small-scale business enterprises in Ikpoba Okha Local Government Area of Edo State, Nigeria. The results showed that microfinance institution and poverty alleviation were positively and significantly related while entrepreneurial activity and poverty reduction were positively and insignificantly related. Inoue (2019) examined the impacts of financial inclusion on poverty reduction in India. The study used an unbalanced panel dataset from India using a generalized method of moments (GMM) estimation to estimate the effect of financial inclusion on poverty ratios for public sector banks and financial deepening for private sector banks. The study revealed that financial inclusion as well as financial deepening is statistically inversely related to the poverty ratio for public sector banks, but not for private sector banks.

Mustapha,Yusuf and Abdullahi(2018) examined the impact of Rima Microfinance Bank on beneficiaries' income and poverty in Goronyo Local Government Area of Sokoto State, Nigeria. A multistage-sampling technique was used to draw the sample and a structured questionnaire was used for data collection. The result shows that the reduction in poverty depth and is significantly. Yahaya, Oni , Ishola, Gbadamosi and Odeseye (2018) examined the contribution of microfinance banks policy to rural development in Kwara State, Nigeria. Results of the regression analysis revealed that there is positive relationship between the adoption of microfinance banks and its policy objectives of savings culture, provision of investment loans, and employment opportunities in rural areas of Kwara state at 5 percent significant level. Umaru and Chibuzo (2018) investigated the relationship that exists between financial inclusion and poverty reduction considering the moderating effects of microfinance in Nigeria. Using simple random sampling technique. The results from the Partial Least Square (PLS)-Structural Equation Modeling (SEM) show a significant positive effect of financial inclusion on poverty reduction. Obayagbona(2018) empirically examines the impact of microfinance bank on poverty alleviation in Nigeria, The study covers a period of 25 years (1992 to 2016). The correlation coefficient and the ordinary least square (OLS) econometric technique were used for the empirical investigation. The results from the empirical analysis reveal that microfinance assets and loan-to-deposit ratio are major determinants of poverty alleviation in Nigeria.

Murad and Idewele (2017) examined the impact of microfinance institution on economic growth of a country, thus using Nigeria as a case study. The study employs the multiple regression analysis given that the data are cross-sectional and time series in nature. Data used in this model are time series secondary data for the period 1992 to 2012.The findings of the study show that microfinance loans have a significant positive impact on the short run economic performance in Nigeria.

Apere (2016) studied the impact of microfinance banks on economic growth in Nigeria over the period of 1992-2013 using error correction model. The results of the study showed that MFB loans and domestic investment has a positive significant effect on the growth of Nigeria's economy build on the enormity and the level of significance of the coefficient and p-value besides, a relationship exist, in the long-run, between MFB loans, investment and economic growth in Nigeria. The findings imply that MFBs has to increase loans extended to business enterprises in order to generate commensurate economic growth. Ifionu and Olieh (2016) examined a decade of microfinance banking operations in Nigeria and its impact on economic development spanning from 2005 to 2014 using Deposits and Loans to proxy Microfinance bank operations while Human Development Index (HDI) was used as proxy for economic development. The study showed deposit as a key driver of MFB operations and positively contributes to economic development, while loans showed a negative contribution which might be caused by high interest rates, diversions, and harsh economic conditions that make loan customers have problem in loan repayments.

Akpan and Nneji (2015) explored the contribution of microfinance banks to the development of small and medium scale enterprises in Nigeria, and the result showed that MFBs contributes considerably to increased enterprising environment by creating conducive business environment and enhance accessibility to finance for small businesses. Variables like loan size, loan 83 duration (financial variables) and networking meetings (non-financial variables) were found to have a positive impact on SMEs. Kasali, Ahmad and Lim (2015) investigate microfinance bank and poverty reduction nexus in the South-West Zone of Nigeria. Employing descriptive statistics and Binary Logit Regression Model, the empirical results indicate that microfinance loan significantly impacts positively on the loan beneficiaries and hence, poverty reduction. Ashamu and Ogundina(2015) investigated the impact of microfinance on poverty alleviation in Nigeria. The researchers used questionnaire as an instrument to collect data. The study centered on two broad variables: poverty alleviation as the dependent variable and microfinance loan disbursement as the independent variable. The study reveals that (i) there is, a significant difference between those people who used microfinance institutions and those who do not use them; (ii) there is a significant effect of microfinance institutions in alleviating poverty by increasing income and changing economic status of those who patronize them and (iii) that there is a significant effect of microfinance activities in predicting sustainable development. The study of Kamel and Jalel-Eddine (2015) examined the effect of microfinance on poverty reduction for about 596 microfinance banks in 57 emerging economies for the period 2005 to 2011. Employing the panel data analysis, the empirical findings revealed that an economy with higher microfinance institutions' gross loan portfolio per capita tends to reduce poverty level among the people. This is an indication that microfinance banks have the ability to effectively alleviate poverty in these countries. Akosile and Ajayi (2014) examined the impact of microfinance Banks credit facilities on micro small and medium enterprises in reducing poverty level and achieving rapid economic growth in Nigeria. Employing the survey and descriptive research designs on five microfinance banks and three (CICSs) in the rural, semi-urban and urban centers, the empirical results revealed a strong positive impact of microfinance credits and financial services on poverty reduction or low income group as well as micro, small and medium scale enterprises in Nigeria.

Ademola and Arogundade (2014) evaluated the impact of microfinance on economic growth in Nigeria, stressing on its primary role of poverty reduction and small scale enterprise financing. Deposit Liabilities, Loans & advances of microfinance banks were used to proxy the activities of microfinance institutions in Nigeria while Gross Domestic Product was used as a proxy for economic growth. Using Ordinary Least Squares method, they found that assets and deposit liability has an insignificant impact on economic growth while loan and advances to the public has a significant impact on economic growth. Thus, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria. Olowe, Moradeyo and Babalola (2013) studied the impact of microfinance on the growth of small and medium enterprises (SMEs) in Nigeria, and found that financial services offered by the MFBs have favourable significant impact on MSEs growth while loan has a favourable impact on SMEs growth but not statistically significant. That is, the loan tenor is too short to show a significant impact on the SMEs growth. They also found that high interest rate, collateral and frequency of loan repayment could paralyze the growth of SMEs in Nigeria. Okwoli, Abubakar and Abubakar, (2013) conducted a study on the role of MFBs in rural transformation and development in Nigeria, and explained the performance of MFBs and the risk they are exposed to across various size categories of the institutions. They found that MFBs were generally profitable over recent years. However, the small size MFBs seems to have significant operating inefficiencies.

Oladejo (2013) examines the impact of access to credit and other specific microfinance bank's related variables on selected SMEs located in Osun State of Nigeria. Using the descriptive statistics on primary and secondary data, the empirical analysis indicates significant positive impact of microcredit delivery services on SMEs performance. In another related study, Okezie, Bankoli and Ebomuche (2013) examine the effectiveness of microfinance bank in eradicating poverty in Nigeria, using descriptive statistics on primary data involving 382 respondents for 3 Senatorial districts in Imo state. The empirical results revealed that high income class has the ability to save the poor living in the rural areas.

Babajide (2012) studied the effects of micro financing on micro and small enterprises (SMEs) in South West Nigeria using Diagnostic Test Kaplan-Meier Estimate, Hazard Model and Multiple Regression Analysis. The study indicates that microfinance enhances survival of small business in South West Nigeria; that microfinance does not enhance growth and expansion capacity of MSEs in Nigeria; that microfinance impacts significantly on the level of productivity of MSEs operators in South West Nigeria and that the provision of non-financial service by microfinance institutions enhances the performance of micro and small enterprises (MSEs) in South West Nigeria.
Oluyombo (2011) attempt to investigate the contributions of microfinance banks to Nigeria's economic growth and employs credits disbursed by the microfinance institutions as a proxy for their operational activities. The study employs the Ordinary Least Squares (OLS) regression technique and finds a weak, though positive relationship between Nigeria's microfinance banking operations and the nation's economic growth. The study of Jegede, Kehinde and Akinlabi (2011) empirically examined the effect of microfinance credit on poverty reduction in Nigeria. Using the chi-square test, F-test and T-test, the results showed that there is a significant difference between those that used microfinance banks and those who do not use them. Thus, microfinance institutions significantly influenced poverty alleviation by increasing the income and changing economic status of those who patronize them.

3. Methodology

The study adopts the ex post facto research design which is a very common and ideal method in conducting research in business and social sciences. The data was sourced from the Central bank of Nigeria (CBN) statistical bulletin for various years. The data relevant for the study were capital formation, gross per capita income, and unemployment rate as were used to measure level of poverty (Dependent variables), Microfinance Bank credit (Independent variable).

Model Specification

The specification of the model involves the determination of the dependent and independent variables that are included in the model. It expresses the mathematical relationship that exists between the dependent (Capital formation, gross per capita income, and unemployment rate) and the independent variable (microfinance bank credit).

Model

$rgdp = \alpha + \beta cp + \beta 2m2 + \beta 3mc + \beta 4vs + \beta ge$

$UNEMP = \alpha + \beta aMFCR_t + U_t$ --(1)

Model 2

$CAPF = \alpha + \beta aMFCR_t + U_t$ --(2)

Model 3

$PCI_t = \alpha + \beta aMFCR_t + U_t$ --(3)

Where

UNEMP = Unemployment rate

CAPF = Capital formation

PCI= Per Capita Income

MFCR = Microfinance credit

4. Results and discussion

Hypothesis One

$H0_1$: There is no significant relationship between microfinance bank and rate of unemployment in Nigeria

HI_1: There is a significant relationship between microfinance bank and rate of unemployment in Nigeria.

Dependent Variable: UNEMP
Method: Least Squares
Date: 06/06/21 Time: 14:50
Sample: 2008 2019
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.16035	7.267019	2.636617	0.0249
MFCR	0.000239	9.01E-05	2.649140	0.0243

R-squared	0.412385	Mean dependent var	35.63667
Adjusted R-squared	0.353623	S.D. dependent var	16.19492
S.E. of regression	13.02032	Akaike info criterion	8.121911
Sum squared resid	1695.287	Schwarz criterion	8.202729
Log likelihood	-46.73147	Hannan-Quinn criter.	8.091990
F-statistic	7.017941	Durbin-Watson stat	2.422134
Prob(F-statistic)	0.024349		

Source: Output from E-view 21 Software

The result shows that if microfinance bank credit is held constant, unemployment rate will grow by 19%. Given the P-value of the result which is 0.024349 is less than 0.05 significance value, we reject the null hypothesis and accept the alternate that there is a significant relationship between microfinance bank and rate of unemployment in Nigeria.

Hypothesis Two

$H0_2$: Microfinance bank has a significant effect on Capital Formation in Nigeria.
HI_2: Microfinance bank has a significant effect on Capital Formation in Nigeria.

Dependent Variable: CAPF
Method: Least Squares
Date: 06/06/21 Time: 14:50
Sample: 2008 2019
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.631596	3.557506	1.301922	0.2221
MFCR	3.787474	0.440933	8.589684	0.0000

R-squared	0.880644	Mean dependent var	307846.2

Adjusted R-squared	0.868708	S.D. dependent var	175910.5
S.E. of regression	63739.85	Akaike info criterion	25.11402
Sum squared resid	4.06E+10	Schwarz criterion	25.19484
Log likelihood	-148.6841	Hannan-Quinn criter.	25.08410
F-statistic	73.78268	Durbin-Watson stat	2.861685
Prob(F-statistic)	0.000006		

Source: Output from E-view 21 Software

The result shows that if microfinance bank credit is held constant, capital formation will grow by 4%. The adjusted R-squared shows that the regression line is well fitted. The error margin is within acceptable limit. The adjusted R-squared coefficient shows that only 0.86% change in the dependent variable is caused by a change in the independent variable. Given the P-value of the result which is 0.000006 is less than 0.05 significance value, we reject the null hypothesis and accept the alternate that there is a significant relationship between microfinance bank and capital formation in Nigeria.

Hypothesis Three

$H0_3$: Microfinance bank has no significant relationship with Per capita income in Nigeria.
HI_3: Microfinance bank has a significant relationship with Per capita income in Nigeria.

Dependent Variable: PCI
Method: Least Squares
Date: 06/06/21 Time: 14:50
Sample: 2008 2019
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.091986	1.814937	0.115265	0.9105
MFCR	0.128275	0.022495	5.702339	0.0002

R-squared	0.764798	Mean dependent var	9066.750
Adjusted R-squared	0.741278	S.D. dependent var	6393.081
S.E. of regression	3251.823	Akaike info criterion	19.16283
Sum squared resid	1.06E+08	Schwarz criterion	19.24365
Log likelihood	-112.9770	Hannan-Quinn criter.	19.13291
F-statistic	32.51667	Durbin-Watson stat	2.001630
Prob(F-statistic)	0.000198		

Source: Output from E-view 21 Software

The result shows that if microfinance bank credit is held constant, capital formation will grow by 2%. The adjusted R-squared shows that the regression line is well fitted. The error margin is within acceptable limit. The adjusted R-squared coefficient shows that only 0.74% change in the dependent variable is caused by a change in the independent variable. Given the P-value of the result which is 0.000198 is less than 0.05 significance value, we reject the null hypothesis and accept the alternate that there is a significant relationship between microfinance bank and rate of capital formation in Nigeria.

5. Conclusion and Recommendations

Based on the findings of this study, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance alleviation of poverty in Nigeria. Therefore, we conclude that microfinance bank can serve as a veritable tool for alleviating poverty in Nigeria, especially in the rural areas and non-informal financial communities. To ensure that MFBs contribute significantly to reduction of poverty level, the following recommendations are hereby proposed:

i. The regulation and monitoring of the activities of MFBs should be strengthened to address identified challenges by the regulators the Central Bank of Nigeria
ii. MFBs should be encouraged to create the needed awareness of their activities to craving entrepreneurs especially in rural and semi-urban areas
iii. Since microfinance loan is a major factor that impact the low income earners , the CBN should designate MFBs in administering specialized funds set aside to improve microcredit access at affordable interest cost, especially SME Credit Guarantee Schemes.
iv. The Governments can channel more funds particularly to MSMEs though the MBFs

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