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Microfinance, Poverty and Youth Unemployment of Nigeria: A Review

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Microfinance, Poverty and Youth Unemployment of Nigeria: A Review

Mazharul H. Kazi [1] & John E. Leonard [2]

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I. Introduction

Poverty and unemploymentissues have been the subject of discussions for many centuries. Often poverty is described as the enemy of mankind and it is thought to be the gross violation of our civilization. The history of mankind demonstrates that poverty is nothing but a curse, not only for the individual who is poor, but for remainder of the community, nation and global society at large. It compels people to think that famine, misery and deprivation are natural course of life; and the poor people are not entitles for living a better lives. In the seminal work on Poverty and Famines, Nobel Laureate Professor AmartyaSen evaluated the causation of starvation and famines and proposed the 'entitlement approach' as an alternative method for understanding poverty (Sen, 1983).

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In his another book entitled *Development as Freedom,* AmartyaSen (1999) explains how in a world of unprecedented increase in overall opulence millions of people living in the Third World are still lacks freedom. Even if poor people are not technically slaves, they are denied elementary freedoms and remain imprisoned in one way or another by economic poverty, social deprivation, political tyranny or cultural authoritarianism (Sen, 1999). By incorporating individual freedom as a social commitment into his analysis AmartyaSen allows economics once again, as it did during the time of Adam Smith, to address the social basis of individual well-being and freedom. Accordingly, the main purpose of economic development and growth is to spread freedom and its endless 'charms' to those un-free global citizens who are currently living in poverty.

Although the nature and extent of poverty varies from one nation to another, ordinary people generally think that the lack of opportunity to work and earn sufficient income to maintain a descent livelihood is the main cause of poverty. The World Bank (2003) reported that the major causes of poverty vary across countries around the globe. Although the measure and causes of poverty are misleading as they hardly reflect true natures, poverty may arise either from simple or very complex reasons. The simple and common cause of poverty is thought to be acute unemployment; while it may originate from negative wealth effect, unexpected inflation, hyperinflation, low productivity, natural calamity, civil war, political unrests, and so on.

The nature of the problems of Africa in general, and Nigeria in particular, is paradoxical. Although Africa is very rich continent in terms of resources, the poverty level of its nations is very acute. Africa today is known to have substantial reserves of natural resources. Some argue that Africa holds 99% of the world's chrome reserves, 85% of the world's platinum reserves, 70% of the world's tantalite reserves, 68% of the world's cobalt reserves, 54% of the world's gold reserves, and very substantial world's oil reserves. Thus, it is clearly understandable that the richness of resources in Africa does not have any impact in curbing its poverty that persists for generations. Even the worst is the case in Nigeria, one may argue.

Nigeria has the most of Africa's natural resources including proven oil and gas reserves. Currently Nigeria has 10th largest proven oil & gas reserves in the world; while within OPEC it is in the 6th position in terms of reserves and daily production (NAPIMS). Nigerian oil and gas exports accounts for more than 98% of export earnings and about 83% of federal government revenue, as well as this alone generates more than 40% of its GDP; also It provides 95% of foreign exchange earnings, and about 65% of government budgetary revenues (Wikipedia). Additionally, Nigerian average GDP growth is consistently between 5-8%. Despite the positive macroeconomic indicators of Nigeria, more than 70% of its population lives under poverty line of $2 a day. This may be corroborated from the views of the Statistician General of the Federation Dr. Yemi Kale; who recently told reporters at a press conference in Abuja, that despite the Nigeria's economy is projected to continue growing, poverty is likely to get worse as the gap between the rich and the poor continues to widen. In his view, the poverty rate in Nigeria might have risen to 71.5%, 61.9%, and 62.8% using the relative, absolute and $1 a day measures respectively. Dr. Kale also said, "It remains a paradox ... that despite the fact that the Nigerian economy is growing, the proportion of Nigerians living in poverty is increasing every year". (Nigerian Tribute, 2012).

In Nigeria the poverty and chronic youth unemployment are both clearly evident. Nigeria is the most populous country in Africa, with about 160 millions of population. Its national unemployment rate is around 24%, while the unemployment rate within the age group 15-24 years is around 40%; and that of age group 25-44 years is about 25%; meaning that effectively about 75% of total unemployed population are within age group of 15-44 years. Since youth unemployment is very severe in Nigeria, this alone causing a threat and huge challenges to the nation. The severity of Nigeria's youth unemployment dictates that all available resources be effectively mobilized. Although here are many policies and programs in place to boost up desired economic growth and development, yet the overall condition seems very gloomy unless all avenues can be explored and appropriate measures are taken sooner than later.

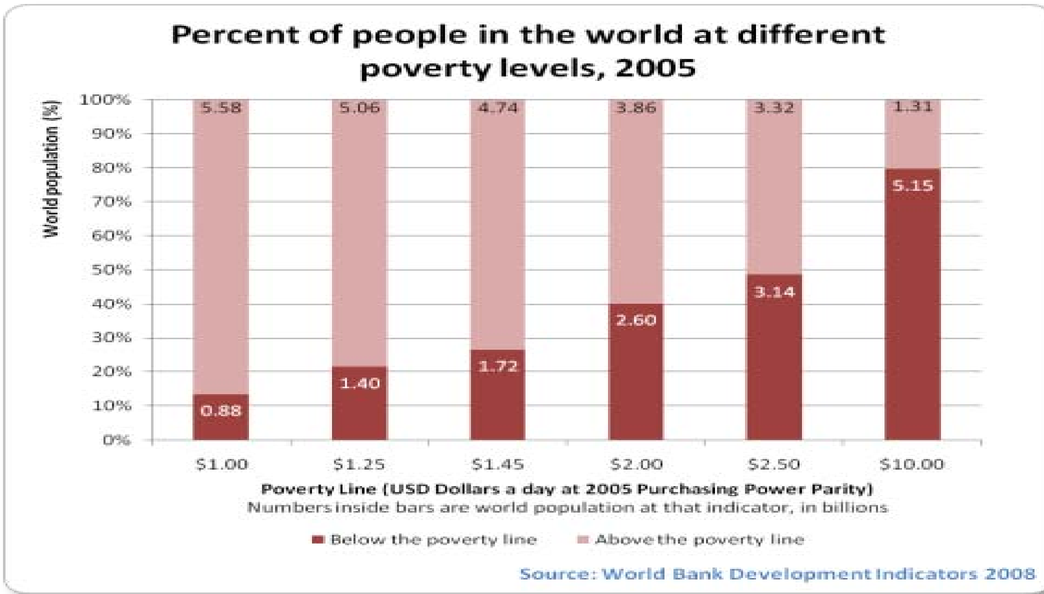
In addressing the problem of poverty in general and youth unemployment in particular, there are many methods currently available in the global stage. One such committed method is the microfinance based on the structure of social business environment. Other approaches might include evolving local development planning, adaptation of welfare economic system for equitable distribution of wealth and income among all citizens of a nation, restructuring the property rights toward enhanced productivity and efficiency, enhancing international trade, pursuing effective fiscal and monetary policies, microeconomic reforms, pushing competitive market oriented business environment, and so on. As investigating all potential approaches are seriously big task and beyond the scope of this paper, this paper only examines whether microfinance can help reduce the extent of youth unemployment and eradicate the poverty from Nigeria within a reasonable time frame. In doing so, this paper also investigates all types of microfinance programs including that of Grameen Bank pioneered by the Nobel Laureate Dr. Yunus of Bangladesh.

The structure of this paper follows: Section 2 examines the relationship of poverty and unemployment in global stage; Section 3 investigates onto the growth theory and the approach of microfinance in addressing poverty; Section 4 investigates the microfinance programs of Bangladesh including Grameen Bank; Section 5 explores the prevailing Nigerian microfinance programs; while Section 6 concludes the paper with some recommendations for future researches.

II. Poverty & Unemployment

Unfortunately, the poverty has become the commonfeature for the majority of the world's population. The notion of poverty varies from one country to another. Generally, the richer a country is, the higher is its national poverty line. For comparisons, in 1985 the World Bank set a poverty line of $1 a day per person at purchasing power parity (PPP). According to this measure around 30% of world populations are living below poverty line. In other words, around 1.3 billion of global populations earn less than $1 a day; while another 2 billion are only a little better off. Furthermore, almost 50% of the world population — over 3 billion — live on less than $2.50 a day; while 80% of world population live below $10 a day (World Bank, 2008). Shaha (2012) reported that the GDP of 41 poor countries is less than the wealth of the world's 7 richest people; 1 billion people entered the 21st century unable to read a book or sign their names; less than one per cent of what the world spent every year on weapons was needed to put every child into school by the year 2000 and yet it didn't happen; 1 in 2 children (1 billion) live in poverty; 640 million live without adequate shelter; 400 million have no access to safe water; 270 million have no access to health services; 10.6 million die before they reach the age of 5, which is around 30,000 children per day.Findings of World Bank is depicted in Figure 01.

Figure 1.



There are various reasons that explain why people are being poor. Economists have long argued that people are poor because of a low level of savings. Their argument is deeply rooted in the concept of vicious cycle of poverty; which holds the view that low productivity leads to low income, low income leads to low savings, and low savings leads to low investment and low investment to low productivity. Other commentators thought that the state of prolonged poverty stick with its distinctive patter called the vicious cycle of poverty or development trap. Often, the cycle of poverty is defined as the 'set of factors or events by which poverty, once started, is likely to continue unless there is outside intervention' (Hutchinson Encyclopedia). More specifically, this is because when poor people have lack of resources necessary to get out of poverty, such as financial capital, education, or connections. In other words, poverty-stricken individuals are deprived of their descent livelihood as a result of their poverty, which in turn force them to stay in the poverty throughout their lives. This cycle can also be viewed as a pattern of behaviors and situations which cannot easily be changed (Valentine, 1968).

Poverty and inequality are real issues around the globe. Often it is thought that the main source of causing poverty is the widespread corruption, both in public and private sectors. Corruption is the cause as well as effect of poverty. It takes place at all levels, from local to national governments, civil society, judiciary and law enforcement authorities, large and small businesses enterprises, military and other services and so on. Again excessive profit motives and greed of corporations and businesses also contributes intensifying the poverty level. Again,the poverty might originate from the global and regional ill political motivationinflicting through war, ethnic clinging, revolutions, etc. Evidently, under the globalization, most nations' economic decisions, policies, and practices are influenced, driven, or formulated by the rich and powerful people, e.g., leaders of rich countries, multinational corporations, influential institutions and lobbyist. Often in the face of such undue influences, the governments of poor nations and their people are powerless. As a result, in the global context, a few get wealthy while the majority struggle. Historically, most of the world's poor live in South Asia, East Asia, and Africa. Countries in which more than half the population live below the international poverty line include Nigeria, Guatemala, Guinea-Bissau, India, Kenya, Lesotho, Madagascar, Nepal, Niger, Senegal, and Zambia(Shaha, 2012).

Poverty as a concept has been defined and explicated from a mixture of viewpoints. One might understand poverty as the absence or lack of basic entitlements. Their entitlements include economic, political, and socio-cultural. Poverty emerges from the lack or absence of financial and physical necessities of creating a suitable environment for sustainable living standard and from the disparities and inequalities in access to, control of, and benefits from economic, social and political resources (Okoroafor&Nwadiaro, 2011).

Poverty has multifarious root causes ranging from cultural disposition to social phenomena. Jones (1986) explained that many causes of it are associated with the socio-political and economic sectors of a society and not necessarily with the people. He argued that the nation of non-government intervention in the economic structure or a laissez-faire approach in terms of job creation for the unemployed has not generated the expected outcomes.

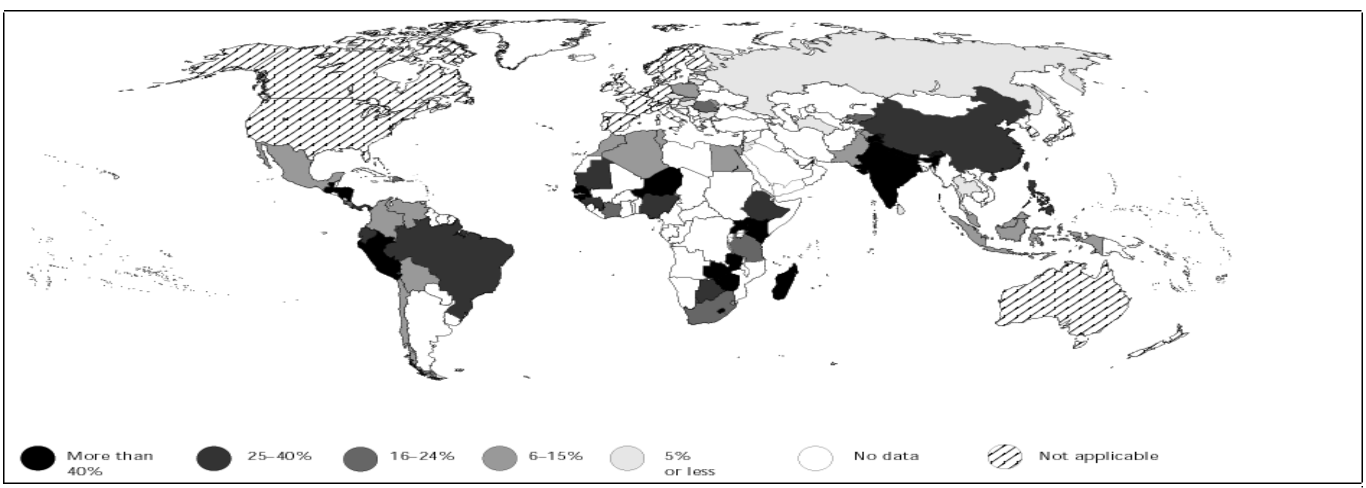
The World Bank (1996), in its analysis of the root causes of poverty, presented following enumeration of the causes of poverty:

a) Inadequate access to employment opportunities (i.e., unemployment);
b) Inadequate physical assets, such as land and capital, and minimal access by the poor to credit, even on a small scale;
c) Inadequate access to markets where the poor can sell goods and services;
d) Inadequate access to the means of supporting rural development in poor regions;
e) Low endowment of human capital;
f) Destruction of natural resources leading to environmental degradation and reduced productivity;
g) Inadequate access to assistance for those living at the margin and those victimized by transitory poverty;
h) Lack of participation, failure to draw the poor into the design of development program.

Although unemployment is just one of many causes of poverty, yet unemployment contributes to poverty. This is because high unemployment has direct relationship with the poverty in any measure. Prolonged unemployment and poverty moves in the same direction without appropriate social welfare and security policies in place. As most underdeveloped countries do not have social welfare and unemployment benefit programs, the end product of prolonged unemployment in such countries contribute towards poverty. Accordingly, high level of prolonged unemployment is as bad as poverty and corruption, which warrants immediate attention; as policies and programs of both public and private sectors that help curb unemployment would ultimately help reduce poverty.

However, in macroeconomics, unemployment is understood from many angles as there are various types and dimensions of unemployment. The definition of unemployment also varies from contemporary measures. Disguised or hidden unemployment figures are not recorded in most cases. The causes of unemployment are understood and explained using demand-supply model in macroeconomics text books. Appropriate policy measures are carried out routinely by most nations to check and balance their short-term policy effects and long-term goals. Yet, the poverty and unemployment problems clearly evidential in one or other form around the globefrom the Map 01,as many nations especially developing countries have been encountering poverty for many generations.

Map 1 : Geography of World Poverty (less than $1 a day).



Source: World Bank (2008)

III. Growth Theory & Microfinance

Recently the literature on traditional growth and pro-poor growth theoriesexperienced resurgence in macroeconomics(Akanbi&DuToit, 2008). Traditional growth theory comprises of many neoclassical growth models including that of Solow (1956). The implications of the neoclassical growth models are seen from both short-run and long-run viewpoints; although thegrowth model of Solow (1956) focusesprimarily on the long-run economic growth issues. Unlike the long-run,the short-runpolicy measures like the tax cuts affect the full-employment level of output. The economy converges to the new equilibrium level of output by accumulating more capital, which is determined by the proportion of output that is not consumed but is used to create more capital via savings and also the rate at which the level of capital stock depreciate; all of which are assumed to be exogenous and constant. This implies that in neoclassical theory, the long-run growth ratedepends on exogenousvariables; higher the savings rate, higher the rate of economic growth achieved(Domar, 1957).

However, in response to series of criticisms with the assumptions of constant returns to scale made in the neoclassical theory, the new type of growth theory evolved during 1980s.The new growth theory assumes anincreasing returns to scale and sees growth as being generated by variables that arebeen determined within the model. Thus, technological progress and human capital are now seen asendogenous variables unlike the neoclassical model that assumed these to be exogenous. According to new growth theory the long-term growth do not depend on exogenousfactors and this model gives room for policies that tend to affectsavings and investment.This is commonly known as endogenous growth theory and becomes popular in national economic planning and policy making. Yet, an accelerated economic growth always may not necessarily be sustainable and translated into an accelerated economic development as one would like to see the effects of growth as an improvement to the welfare of a nation's majority of population. In other words, the growth of a country should have a positive impact onits povertylevel and overall social welfare. Accordingly, Aghion&Howitt(1997) emphasized on other phenomena that interact with growth, such as inequality, unemployment, capital accumulation, education, and so on.

Accordingly, the growth-poverty relationship can be viewed from two perspectives:*traditional* viewpoint and *poverty trap* viewpoint. The traditional view of development sees a country's characteristics, institutions and its policies as a major determinant of its pattern of growth and if these constraints are not favorable to growth, poverty level will rise. Itassumes these as exogenous, meaning that they are not been determined within the system. While, the poverty trap view sees poverty as a major setback to growth. Their growth model with increasing returns to scale will tend towards different equilibrium depending on their initial positions. Thus, countries that are poor will remain poor and those that are rich will remain rich! The explanation why poor nations may not be able to perform well as the rich economies and why the benefits of even good national policies fail to reach poor people are all embedded in the poverty trap models (Azariadis&Stachurski, 2005; World Bank, 2006).

In search of alternative method to address both growth and poverty,during mid 1970s, a revolutionary concept evolved that hasa vision to break the vicious cycle of poverty in a poor country, Bangladesh. This unique approach pioneered byNobel Laureate Dr. Yunus has potential to eradicate poverty from the world is knows as Microfinance– provision of small-scale loans to the poor – and more recently provision of a range of the poor's financial service requirements, including credit, savings, insurance, and remittance management.This concept is embedded on the viewpoint of social business within the capitalistic structure. This recognizes that extreme form of capitalism that only embraces profit maximizing businesses are unfair; as they hardly care for the welfare and benefits of poor people. This method considers poor people as social beings and upholds their rights to have adequate access to credit and establish their livelihoods with dignity. Accordingly, to fight against poverty Dr. Yunusstates:"*The poor themselves can create a poverty-free world … all we have to do is to free them from the chains that we have put around them."*

Dr. Yunusin his book '*Creating World WithoutPoverty'* indicated that the explicit goal of a social business and hence microfinance is to solve a social problem, by addressing the social need and providing social benefit. The major difference between solely profit-maximizing business and social business is that the principle of profit-maximization is replaced by the principle of social benefit. Social business is not a charity, so its products and services are not free. Professor Yunusapproved two types of social business.Type I:The business that is exclusively focuses on providing social benefits. TypeII:The business that is allowed to make profit but it is solely owned by the poor so that ultimate benefit comes to poor in the form of distribution of profits and dividends.

If financial liquidity problems are seen as a central reason for poverty, as perceived by Yunus, the microfinance organization will more or less confine its role to the provision of credit, called the 'credit minimalist approach', where it evaluates the success in terms of financial indicators of outreach and repayment. On the other hand, if poverty is viewed as a result of a more complex process, involving liquidity problems as well as other factors, the microfinance organization's objectives will tend to incorporate the provision of a larger range of financial, economic, social and organizational interventions called the 'credit plus' approach. The immediate goal in this case is generally not service provision in itself, but rather the provision of services that will have a positive and observable impact on poverty (Copestake, 1995).

Evidentially, most microfinanceprograms of developed world target off-farm small and microenterprises (SMEs). In the developing world, microfinance serviceisprovided through the credit-focused peer-monitoring model targeted at poor women as proposed by the Grameen Bank of Bangladesh. Yet, microfinance programs of various countriesof Asia, Africa and the Americas, adapted some very different approaches to financial service provisionthan the Grameen model. Microfinance service providers, often known as microfinance institutions (MFIs), are usually non-governmental organizations (NGOs). However, there are a number of government-sponsored MFIs, as well as statutory banks involved in micro-lending, and institutions that act as intermediaries between banks and borrowers (Copestake, 1995).

IV. Microfinance Programs of Bangladesh & Grameen Bank

Hulme& Moore (2006) affirmed the success of microfinance programs in Bangladesh by saying that, *"Stop a man or woman on the street of any city in the developed world, and ask... if they can name a development policy that work. ………… there is a very strong chance they will say microcredit, and tell you that they have heard it works wonders in Bangladesh"*. This is because, in Bangladesh, microfinance becomes a successful method for addressing poverty. It is now very difficult to find an effective poverty reduction strategy that does not include microfinance as an element of national development. The microfinance industry now has global outreach, with more than 92 million clients reported in developing countries(Hulme& Moore, 2006).

Following independence in 1971, Bangladesh has experienced bouts of democracy and rule by two military regimes as well as a caretaker government, led by military-backed technocrats. While progress has been made in improving the voter registry system, separating the judicial andexecutive branches of government, and reducing corruption, further political reforms are yet to be ensured forsmooth democratic process and economic development(IFC &KfW, 2009).

Based on their degree of regulations, the financial system of Bangladesh is comprised of three broad fragmented sectors: Formal Sector, Semi-Formal Sector, and Informal Sector. The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs). While the semi formal sector includes those institutions which are regulated otherwise and do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank, Non-Governmental Organizations (NGOs) and discrete government programs. On the contrary, the informal sector includes private intermediaries that are completely unregulated (BB, 2012).

The formal financial sector of Bangladesh consists of the central bank known as Bangladesh Bank, government-owned 4commercial banks and5 specialized (development) banks, 47 domestic private commercial banks, 9 foreign-owned commercial banks, and 31non-bank financial institutions (NBFIs). Additionally, 599microcredit organizations are licensed by the Microcredit Regulatory Authority (MRA);while Grameen Bank is out of the jurisdiction of MRA as it is treated as a specialized institution within semiformal sector. However, Bangladesh has the highest microfinance penetration rate in the world; as around20percent of Bangladeshis have a microfinance loan (BB, 2012).

Microcredit programs in Bangladesh is implemented by NGOs, Grameen Bank, state-owned commercial banks, private commercial banks, and specialized programs of some ministries of Bangladesh government. The Microcredit Regulatory Authority (MRA), established in August 2006, received applications from more than 5000 private institutions (NGO-MFIs)for formal licenses, but only 599 were approved by 2011. In recent years, the donor driven NGOs are trying to become more dependent on local funds. In terms of the number of borrowers served, MRA categorizes the size of MFIs institutions into five major types: very large, large, medium, small and very small. Excluding Grameen Bank, there are only two very large MFIs as per MRA categories who areserving over four million borrowers each.

Above90 percent of MFIs andGrameen Bankclients in Bangladesh are women. The group-based lending methodologies prevail. A range of NGO-MFIs, Grameen bank, government programs, nationalized commercial banks, and private commercial banks are the providers of microfinance. The four main players of MFI in Bangladesh are Grameen Bank, BRAC, ASA, and Proshika.The annual growth rate in the microfinance sector in Bangladesh is 23 - 25 percent (IFC &KfW, 2009).According to a 2007 World Bank study, financial penetration in Bangladesh is adequate for its current level of development. While this level of development refers only to the formal financial sector, the use of formal financial sector services is higher in Bangladesh than in comparable low-income countries.

There is substantial evidence that Grameen Bank's poverty alleviation strategy through its credit operations have produced a positive impact on the lives of the poor in terms of higher income and empowerment of the poor rural women. Grameen Bank's operations had direct impacts on rural credit market, capital accumulation by the rural poor, income and employment generation, poverty alleviation, family size and empowerment of the poverty stricken rural poor, particularly the women from the landless households.Grameen Bank reversed conventional banking practice and created a system based on mutual trust, accountability, participation and creativity. They provide credit to the poorest of the poor in rural

Bangladesh, without any collateral. As of August 2009, Grameen Bank had 7.94 million borrowers, 97 percent of whom are women, and repayment rate is more than 97%. With 2,559 branches, Grameen Bank services 84,652 villages, covering nearly 100 percent of the total villages in Bangladesh.

Grameen Bank has now become the ideal model of true microfinance banking pioneered by the Bangladeshi Nobel Laureate Dr. Muhammad Yunus. Five cents a day innovative programs for reaching the destitute with interest free Microcredit loans and other instruments were the exciting experience of Grameen Bank. The Grameen Bank evolved in stages based on visionary and missionary works of Dr. Yunus towards solving a social problem, poverty. As the rural landless and poor people remain outside the orbit of the traditional banking system, Dr. Muhammad Yunus, Professor of Economics launched an action-research projectat a tiny village called'Jobra' near his affiliateduniversityin 1976. The objectives of the project were to extend the banking facilities to the poor men and women; to eliminate the exploitation of the moneylenders; to create opportunities for self-employment for the vast unutilized and underutilized manpower resource; to bring the disadvantaged people within the folds of some organizational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support; and to reverse the age-old vicious circle of poverty.Based on the success of Jobra project, in 1979, with the financial support of Bangladesh Bank (Central Bank) and other nationalized commercial banks the program was extended to Tangail - a district nearby the capital city of Dhaka. Later the activities of the program extended further to several other districts in the country. In October 1983 the project was transformed into Grameen Bank by a government ordinance. The Bangladesh government provided 60% of the initial paid up share capital, while 40% held by the poor borrowers of the bank. The borrowers'share was increased to 75% through subscriptionsin July 1986. Accordingly, Grameen bank is owned and controlled by its poor borrowers. The organizational structure follows: (i) The Chief Executive Officer (Managing Director); (ii) The Board of Directors (the highest policy making body, consists of 13 members of whom 9 are elected from among the borrowers shareholders); (iii) Four tiers of administrative set-up (branch office, area office, zonal office and head office); and (iv) Grassroots Structure (Centers and Groups of borrowers).

Grassroots organizational structureof Grameen credit program is an integral part. Supported by the participatory decision making and management process, the Grameencenters represent collective strengththrough strong group solidarity. The group solidarity represents motivations and enhances the Capacity of the Poor to Bear New Risks.In view of the vulnerabilities of its targeted clientele, Grameen has carefully built into its innovative credit delivery safety features. Thissystem acts like a shock absorber, enabling the Grameen members to better cope with natural as well as man-made disasters. Without them the credit delivery system wouldnot have functioned at all on a regular and continuing basis. Some of these features of the credit delivery system are: (a) There is an exclusive focus on the poorest of the poor; (b) Borrowers are organized into small homogeneous groups; (c) Special loan conditions which are particularly suitable for the poor; (d) Simultaneous undertaking of a social development agenda addressing basic needs of the clientele; (e) Design and development of organization and management systems capable of delivering program resources to targeted clientele; and (f) Expansion of loan portfolio to meet diverse development needs of the poor.

Additionally, Grameen Bank has implemented simple actionplans that can be illustrated by the following principles:

i. Start with the problem rather than the solution: a credit system must be based on a survey of the social background rather than on a pre-established banking technique.
ii. Adopt a progressive attitude: development is a long-term process which depends on the aspirations and commitment of the economic operators.
iii. Make sure that the credit system serves the poor, and not vice-versa: credit officers visit the villages, enabling them to get to know the borrowers.
iv. Establish priorities for action vis-a-vis to the target population: serve the most poverty-stricken people needing investment resources, who have no access to credit.
v. At the beginning, restrict credit to income-generating production operations, freely selected by the borrower. Make it possible for the borrower to be able to repay the loan.
vi. Lean on solidarity groups: small informal groups consisting of co-opted members coming from the same background and trusting each other.
vii. Associate savings with credit without it being necessarily a prerequisite.
viii. Combine close monitoring of borrowers with procedures which are simple and standardized as possible.
ix. Do everything possible to ensure the system's financial balance.
x. Invest in human resources: training leaders will provide them with real development ethics based on rigor, creativity, understanding and respect for the rural environment.

Also, every year Grameen Bank evaluates their work by checking whether the socio-economic situation of its members is improving. To this effect, Grameen Bank evaluates poverty level of the borrowers using 10 indicators. A member is considered to have moved out of poverty if her family fulfills the following criteria:

i. The family lives in a house worth at least Tk. 25,000 (twenty five thousand) or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.
ii. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
iii. All children in the family over six years of age are all going to school or finished primary school.
iv. Minimum weekly loan installment of the borrower is Tk. 200 or more.
v. Family uses sanitary latrine.
vi. Family members have adequate clothing for everyday use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.
vii. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.
viii. The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.
ix. Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.
x. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.

On the other hand, Grameen Bank enumerated some fundamental decision points for its borrowers. Accordingly, borrowers of Grameen Bank take oaths to carry out 16 decisionsas under:

i. We shall follow and advance the four principles of Grameen Bank --- Discipline, Unity, Courage and Hard work – in all walks of our lives.
ii. Prosperity we shall bring to our families.
iii. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
iv. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
v. During the plantation seasons, we shall plant as many seedlings as possible.
vi. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
vii. We shall educate our children and ensure that they can earn to pay for their education.
viii. We shall always keep our children and the environment clean.
ix. We shall build and use pit-latrines.
x. We shall drink water from tube wells. If it is not available, we shall boil water or use alum.
xi. We shall not take any dowry at our sons' wedding; neither shall we give any dowry at our daughters' wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.
xii. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
xiii. We shall collectively undertake bigger investments for higher incomes.
xiv. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
xv. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
xvi. We shall take part in all social activities collectively.

Currently, Grameen Families Organizations consist of Grameen Bank, Grameen Communications, Grameen Trust, Grameen Fund, Grameen Telecom, GrameenCybernet Ltd., Grameen Shakti/Energy, Grameen Phone, GrameenShikkha/Education, Grameen Knitwear Limited, Grameen Solutions, Grameen ByabosaBikash, GrameenKalyan, Grameen America, GrameenCréditAgricole Foundation, etc.

Inspired by the work of Grameen Bank in Bangladesh, Grameen Foundation was created to help accelerate the impact of microfinance on the world's poorest people, especially women. Grameen Foundation is a nonprofit organization that shares the ideas of 2006 Nobel Peace Laureate Muhammad Yunus. It is founded in 1997 to help microfinance practitioners and spread the Grameen philosophy worldwide. It is headquartered in Washington, DC with an office in Seattle, Washington. Although Grameen Foundation and Grameen Bank are independent organizations, they maintain an enduring relationship. Grameen Foundation's mission is to enable the poor, especially the poorest, to create a world without poverty. It is helping to fight against poverty in Sub Saharan Africa, Asia, Middle East/North Africa, and the America. Grameen Foundation collaborates with local organizations and allies and seeks to further the Grameen Bank legacy and objectives by supporting microfinance institutions and poverty-fighting organizations that embody its vision and values on a global scale (Grameen Foundation, 2012).

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V. Microfinance Programs of Nigeria

Nigeria is a major oil exporting country within the region. Nigeria discovered oil in 1956 and began to export in 1958. Nigeria ranks 4th amongst OPEP producing countries and oil has been the dominant factorin Nigeria's economy for more than 50 years; accounting for one third of the GDP,more than 90 percent of the exports and 80% of government revenues. Evidently, the role played by the oil sector in the Nigerian production function cannot be undermined. Total oil production as a share of GDP has been on a rising trend since 1970. Given the comparative advantage that Nigeria has in oil production, it is expected to translate into a significant improvement in the productive capacity that will eventually reduce the high level of poverty over the long run period (World Bank). World Development Indicators of World Bank reveals that there has been a sustained increase in the trend of both the GDP and poverty since 1970; indicating the presence of serious socio-economic constraints impeding a long-term pro-poor growth in the country. Poverty remains a huge challenge despite the rising growth in the country's gross domestic product.

Additionally, Okafor (2011) highlighted the problem of chronic youth unemployment in Nigeria and attempted to identify the main causes linking the explanation of youth unemployment in Nigeria on neo-liberalism that created economic and social dislocations. He argues that many anti-social activities are evident among the unemployed and jobless youths posing real danger to the stability of democracy in Nigeria. Every year thousands of graduates are entering into the job market, but there are not enough jobs available. Nigerian streets are inundated with youth hawkers who otherwise would have involved in gainful employment. The self employed youths are also in trouble owing to poor infrastructure. In conclusion, he suggests that addressing the problem of youth unemployment must involve all the stakeholders.

To address poverty and acute unemployment, Nigeria has been exploring various approaches including microfinance. Accordingly, in December 2005, the Central Bank of Nigeria (CBN) introduced a microfinance policy frameworkto provide the access of small-entrepreneurs and low income households to financial services. This was done by recognizing that no comprehensive growth can be achieved without providing access of the vast segment of the national population to factors of production, especially financial services (NCB, 2011). Also, the NCB recognizes the existence of informal institutions and aims for mainstreaming those into the national financial system, and seeks to harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions. Accordingly, Nigerian microfinance services refer to loans, deposits, insurance, fund transfer and other ancillary non-financial products targeted at low-income clients. The Nigerian microfinance product features are: smallness of loans and savings, absence or reduced emphasis on collateral, and simplicity of finance operations. Now, there are 869 licensed microfinance institutions in Nigeria (NCB, 2012).

However, according to Anyanwu (2004), the interest rates in the microfinance institutions are much higher ranging from 32-48%, than the prevailing rates in the banks. Money lenders at informal sector charge interest rates of 100% or more. Mejeha&Nwachukwu (2008) also confirmed that clients of Nigerian MFI are complaining about very high interest rates that are being charged. The high interest rates might be interpreted from two angles: First, given the fact that people borrowing at this rate indicate that they are industrious and productive; Second, the objective of microfinance to combat poverty might be defeated since the clients have to repay back double of what they have received at all cost. Another problem is that most of microfinance funding now going to the commercial sector instead of the more vital economic activities of the rural areas where the service is needed most. Besides, about 90% of Nigeria's businesses are considered microenterprises and these farm or non-farm activities serve as the main income source for the majority of the labor force.

In September 2011, Nobel Laureate Professor Yunus in his keynote address delivered at the First Bank Impact conference series in Nigeria, indicated that there are fundamental flaws with microfinance programsof Nigeria. He also implicitly hinted that Nigeria is not pursuing the correctform of microfinance banking (Komolafe,2011). According to Dr. Yunus, Nigerian microfinance banking flaws are:

a) This is not designed for the poorest of the poor members of community. Rather it is for traders, suppliers and importers and this explains the cut throat interest rates Nigerian MFBs charge.
b) Because it is for commerce, microfinance banks in Nigeria are predominately in the cities and urban area, a sharp contrast to the rural based nature of the first microfinance bank.
c) Nigerian microfinance banks insist on collateral and they don't lend to start a new business. While true microfinance dismiss completely the idea of collateral.
d) Microfinance banking supposed to be predominantly women focused. In Nigeria this is not the case.
e) Nigerian microfinance banks are owned by the rich hence as the regulation required minimum capital base of N20 million for licensing. While true

microfinance bank should be owned by the poor who are also its customers.

f) Nigerian microfinance banks are allowed to charge any interest rate (even up to 100%). But, in the Grameen Bank concept, the interest rate is capped at 10 per cent margin between the cost of funds and interest rate ranging from 5% to 20 % simple rates. The Grameen Bank's highest interest rate which is for income yielding activities is 20 % and for housing loan it is 8.0 %. For its education loan, given to children of the poor, the interest rate is 5.0 % and they don't start paying until they graduate from school and start working.

g) In Nigeria, microfinance banks branches have spacious, tastily furnished offices. While in Grameen bank, there are no fleshy branch offices; as true microfinance bank should believethat people should not go to banks, rather banks should go to people.

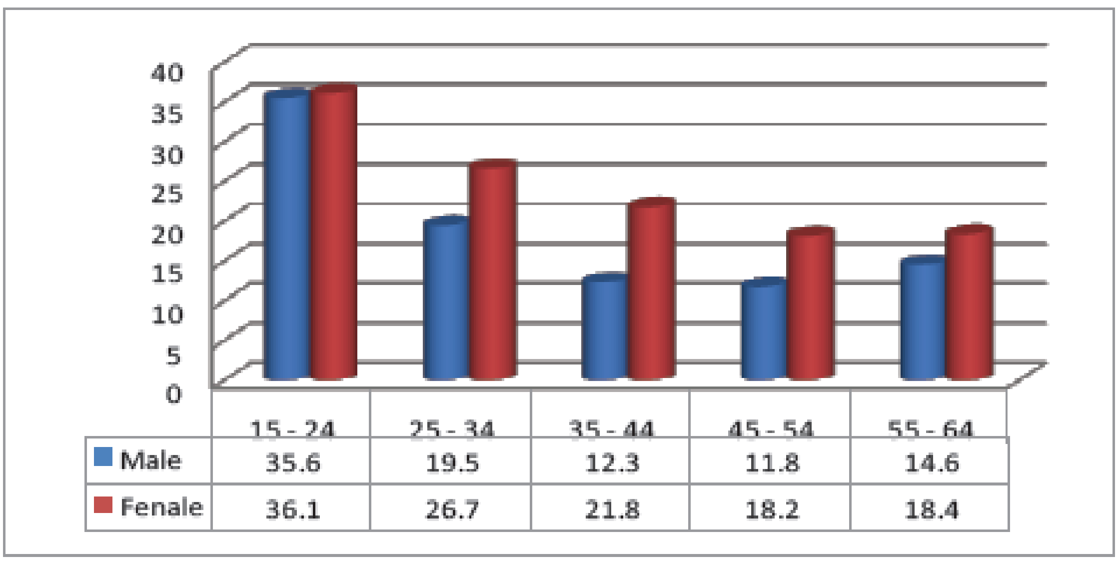
The unemployment and hence poverty level of Nigeria still remain very high despite the microfinance activities of the vast number of licensed MFIs. The Nigerian unemployment rate by age group, gender and location are depicted in Table 01 and Chart 01.

Table 1 : Nigerian Unemployment Rate by Gender, Location, and Age Group.

Age Group	Urban			Rural			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-24	32.2	30.9	31.5	36.7	38.0	37.3	35.6	36.1	35.9
25-34	16.4	19.0	17.8	21.2	31.0	26.5	19.5	26.7	23.3
35-44	8.5	13.8	11.0	14.5	26.8	20.3	12.3	21.8	16.8
45-54	8.6	11.7	10.0	13.5	22.4	17.1	11.8	18.2	14.4
55-64	10.6	13.1	11.6	16.5	21.9	18.3	14.6	18.4	16.0
National	13.3	17.1	15.2	19.9	29.2	24.2	17.7	24.9	21.1

Source: National Bureau of Statistics, Nigeria: National Manpower Stock and Employment Survey, 2010

Chart 1 : Nigerian Unemployment Rate (%) by Age Group.



Source: National Bureau of Statistics, Nigeria: National Manpower Stock and Employment Survey, 2010

However, despite the lacking of adequate data set, an attempt has been made to empirically verify the effects of Nigerian microfinance, poverty and growth on youth unemployment. A modest data set is gathered from various sources that include the World Bank, UNDP, General Household Survey Report and the Nigerian Statistical Fact Sheet for only 17 years from 1995 to 2011,and provided in Annexure 01. Accordingly, we have the youth unemployment for the 15-24 years age bracket, and poverty from UNDP, General Household Survey and estimations; Growth from the World Bank, and Microfinance funds from the MiX (Microfinance Information Exchange, 2010) and estimates.Therelationshipof our four variables is presented in Eq. 01.

$$YUE = f(MICROF, POV, GROW) \qquad 1$$

where, YUE is the Nigerian youth unemployment rate, MICROF is credit provided by microfinance institutions, POV refers to Nigerian poverty level, and GDPG is GDP growth rate of Nigeria. While, our constructed model provided in Eq. 02.

$$Y_i = \alpha + \sum \beta_i x_i + \varepsilon_i \qquad 2$$

The estimation of the model is performed using the econometrics software, Eviews7. We estimated our model at both level and logged values. Outcomes are provided in Table 03 and Table 04.

Table 3 : Dependent Variable: YUE (Y_i); Model: $Y_i = \alpha + \sum \beta_i x_i + \varepsilon_i$; Method: Least Squares; Observations: 17.

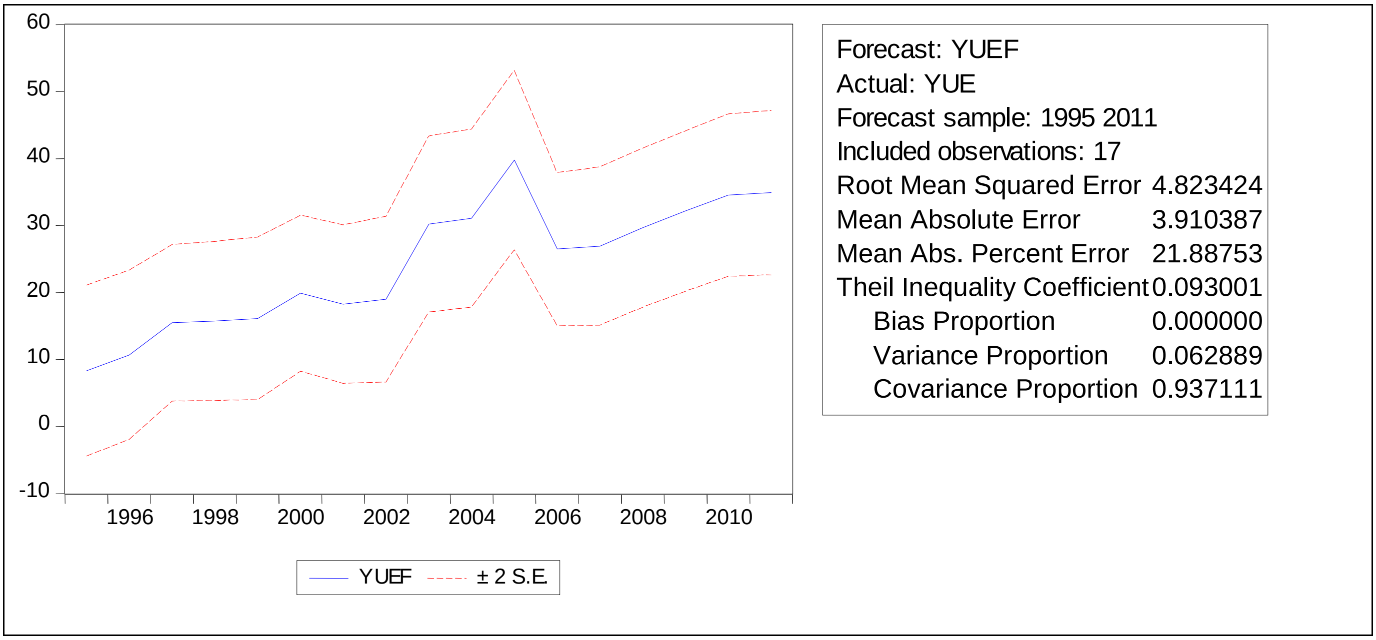
Variables (X)	Coefficient	Std. Error	t-Statistic	Prob.
Constant (α)	36.10779	9.858545	3.662588	0.0029
MICROF	0.783397	0.168673	4.644476	0.0005
POV	-0.450292	0.169139	-2.662255	0.0196
GDPG	0.785065	0.589612	1.331495	0.2059
R-squared	0.777331	Mean dependent var		24.07647
Adjusted R-squared	0.725945	S.D. dependent var		10.53634
S.E. of regression	5.515796	Akaike info criterion		6.455433
Sum squared resid	395.5121	Schwarz criterion		6.651483
Log likelihood	-50.87118	Hannan-Quinn criter.		6.474921
F-statistic	15.12751	Durbin-Watson stat		1.385983
Prob(F-statistic)	0.000157			

Table 4 : Dependent Variable: LYUE (Y_i); Model: $Y_i = \alpha + \sum \beta_i x_i + \varepsilon_i$; Method: Least Squares; Observations: 17.

Variables (X_i)	Coefficient	Std. Error	t-Statistic	Prob.
Constant (α)	6.613857	2.068659	3.197172	0.0070
LMICROF	0.387276	0.109580	3.534192	0.0037
LPOV	-1.106791	0.520843	-2.124999	0.0533
LGDPG	0.121653	0.178440	0.681758	0.5074
R-squared	0.690776	Mean dependent var		3.057736
Adjusted R-squared	0.619416	S.D. dependent var		0.558451
S.E. of regression	0.344517	Akaike info criterion		0.908975
Sum squared resid	1.542992	Schwarz criterion		1.105025
Log likelihood	-3.726290	Hannan-Quinn criter.		0.928463
F-statistic	9.680218	Durbin-Watson stat		1.558266
Prob(F-statistic)	0.001264			

The result clearly evidence that Dr. Yunus is right, that the nature of Nigerian microfinance is contrary to that espoused in Bangladesh. An expansion of gross loans by microfinance institutions leads to higher youth unemployment as loans are provided to the wrong persons. This is alsowitnessed from the Graph 01.

Graph 1 : YUFF = Forecasted YUE.



While, a rise in poverty leads to a fall in youth unemployment, perhaps due to the discouragement of futile job search. On the other hand, GDPgrowth negatively impacts the youth unemployment; thus providing a possible path to reducing this problem through applying the correct model of microfinance pioneered by the Nobel Laureate Dr. Muhammad Yunus. Of course a longer data set would be more conclusive, but constraints of data and time do not permit the construction of the ideal econometric estimation.

VI. Conclusions

From a Nigerian perspective tools which should assist in alleviating poverty and youth unemployment are being mis-applied. We find this both in theory and in our modest effort at empirical verification. Microfinance loans are increasing in the nation, but they are provided to the wrong people. Thus that which should reduce youth unemployment in fact increases it. We may see the textbook phenomenon of the “discouraged worker” as greater poverty leads to less official youth unemployment. However, the interests in applying Microfinance as a policy measure to eliminate poverty from Nigeria appear to be a good sign. Only, the correct model needs to be adopted in Nigerian microfinance programs. This paper identifies that the correct model is the Grameen Bank model of Nobel Laureate Dr. Muhammad Yunus.

Clearly the paper would be strengthened further by the use of a longer data set. Neither the authors nor their assistants could find data going back to 1960 at the time of Nigerian independence and continuing forward to 2011. The authors even tried more sophisticated model namely, vector autoregressive estimation and Granger Causality, but no great results were found due to lack of required data. Construction of a longer data set might permit the use of more arcane tools that might better suit the topic.

Suggestions for further research include the use of the model for other African nations as well as the use of different, perhaps more sophisticated tools. A comparison-contrast with Bangladesh looked interesting in theory and other researchers may have the wherewithal to carry out such a research agenda. Microfinance has wrought major improvements when properly applied, but usurious interest rates and loans to the rich indicate a noteworthy scope for failure which can be studied.

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Annexure 1 : DATA SET.

Obs (Year)	YUE (%)	MICROF(MillionNaira)	POV (%)	GDPG (%)
1995	6.7	1.7	69	2.5
1996	13.2	1.7	66.9	4.3
1997	7.4	2	54	2.7
1998	12.6	2.3	52.5	1.9
1999	12.8	3	51.5	1.1
2000	15.9	3.2	51	5.4
2001	29.3	1.7	48	3.1
2002	27.5	3	46	1.6
2003	32.1	8	45	10.3
2004	28.9	8.5	44.4	10.6
2005	34.2	28	50	5.4
2006	25.9	16	60	6.2
2007	25.9	22	70	6.5
2008	26	26	70	6
2009	35	28.2	70	7
2010	35.9	30.42	70	7.8
2011	40	32.55	71	6.7

Source: World Bank; UNDP; MiX; NBS; CBN; Misc. & Estimates.