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MICROFINANCE BANKS: ANTIDOTE TO POVERTY ALLEVIATION IN NIGERIA: CASE STUDY OF EKITI STATE, NIGERIA

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Abstract:
This study aimed at investigating the roles microfinance bank plays in alleviating poverty in Nigeria beaming the search light on Ekiti State. Microcredit firms provides small loans to poor people and small enterprises, this study therefore provides an overview of the role and performance of micro finance institution in alleviating poverty at different levels in Nigeria. The study made use of structured questionnaires administered to a sample of 150 randomly selected staffs of ten microfinance institutions in Ekiti state and some people that have benefited from the program in the service and cottage industries. The Multiple Linear Regression models adopted for the study reveals that the effectiveness of microfinance bank and other explanatory variables are positively and significantly influencing poverty alleviation. Microfinance institution are now being considered as one of the most important and effective mechanisms for poverty alleviation through which precious information on ways to improve the health, education, legal rights, sanitation and other living standards which are of relevant concerns to the poor can be disseminated. It is hereby, recommended that the government should intensify her efforts in promoting, monitoring and adequately supervising the micro finance bank activities so as to reduce poverty in Nigeria.

JEL: E50, E51, G21

Keywords: microfinance bank, poverty alleviation, Nigeria

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1. Introduction

There are some factors that affect the eradication of the poverty facing the performance of cooperative society in discharging micro credit effectively and perhaps the reason for lack of interest by the policy maker in Nigeria. Generally, the capacity of cooperative societies to provide funds to the poor and low income group is limited by inadequate capital base. For instance, some cooperative societies maintain very low amount of capital suggesting maximum amount they can give out as loan to members. The other critical element according to Adelaja (2006) was leadership problem because if there is purposeful leadership, that is transparent, dedicating and showing true service the cooperatives will succeed.

A true leader does not cut corners, does not inflate contract so as to receive kick-back, does not have favorite among members, and does not mismanage resources. Most leaders are not focused and in most cases engage in embezzlement of the little funds available, making members to lose interest in the viable economic method. Other problems identified in the literature are lack of training for leaders and members such that they are not exposed to modern entrepreneurial skill as well as exposure to new technology. Level of literacy among members is also creating awareness problem. Poor accounting and record keeping has crippled the activity of most cooperative society in Nigeria Adereti and Oladejo (2008). The general problems facing the cooperatives are due to political and social-economic factors as identified by mass mobilization for social and economic recovery.

The Federal government issued a Microfinance policy supervisory and regulatory frame work in 2005, through the Central Bank of Nigeria (CBN) to allow the establishment of Micro Finance Banks (MFBs) that will meet the need of small scale business and the low income group thereby closing the gap of cooperatives societies' effectiveness. The policy provides for establishment of Unit MFBs licensed to operate in one location which must be capitalized to the tune of at least N20 million for a unit institution and State MFBs license to operate branches within a state with a paid up capital of N100 million and a National MFBs to operate with branches in all the states in the country with capital requirement of N2 billion.

Despite the effort of government in the country, about 128 micro enterprises have continued to be denied access for fund from the formal financial institution (Akanji, 2006). This has made for increasing rate of poverty in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. The study showed that the poverty level of Nigeria has been extremely high with about two third of the population living below the poverty line in 1996. The delivery of financial service to the poor and low income people change significantly during the past decade. This is further confirmed by national poverty eradication programme report (NAPEP). The willingness of the low income group to borrow at seemingly high interest rate confirms the view that their financial problem has more to do with access to fund. The question that arose is how has the adoption of cooperative methods improve the micro credit delivery effort to the government? And how has it impacted in alleviating the poverty level of the people. The objectives of this study are therefore to examine the impact of micro finance banks on poverty alleviation in Nigeria and access performance of micro credit scheme in alleviating poverty in the country.

2. Literature Review

Microfinance is the provision of financial service to the economically active poor who are hitherto unserved by the mainstream finance service provider (CBN 2005). Micro-credit is commonly defined in terms of loan amount as a percentage of average per capital income. In the content of Nigeria with a per capital GDP of N112,800 (about $750) in 2008, loans up to N112,000 ($750) will be regarded as micro loans while savings are define as savings account with a balance of less than N22.500 (U.S.A 10, 2004). That is less than 20% of average annual income per capital (U.S.A 10, 2004). The central bank of Nigeria (CBN, 2005) defined microfinance as the provision of financial services to the economically active poor and low income households. Their service includes credit, savings, micro-leasing, micro insurance and payment transfer.

In a similar notation, Nwigwe, Omonona and Okoruwa (2012) described microfinance as a simple approach that has been proven to empower very poor people around the world to pull themselves out of poverty. According to central bank of Nigeria 2004, annual report the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial service. The size of the unserved market by existing financial institution is large. The average banking density in Nigeria's financial institution outlet to 1,157,000 inhabitant in the rural areas is 32700, that is, less than 2% household have access to finance which constitute one of the main constraint to the growth and expansion of small business. A review of the literature reveals that the provision of financial services is an important tool for mobilizing resources for more productive use (Watson and Everett 1999). The extent to which financial services are made available for small enterprise is a measure of the degree to which small firms can save and accumulate own capital for further investment at firms level (Hossain, 1988).

Evidence from the research paper by Watson and Everett, (1999) on the impact of microfinance bank and poverty alleviation in Nigeria showed the extent to which financial services are made available to small enterprises which is a measure of the degree to which they can save and accumulate their own capital for further investment at firm level. The work was also supported by the Czech science foundation grant. This result indicates that MFBs alleviates poverty in Nigeria considerably.

Lawanson (2016) examined the impact of microfinance on poverty alleviation by estimating the effects of unemployment, inflation, interest rate and exchange rate volatility on the Human development index in Nigeria. The results showed the positive role of microfinance in poverty alleviation in Nigeria thereby corroborating the findings of Nwigwe, Omonona and Okoruwa (2012) that microfinance is a good strategy of poverty reduction. Nwigwe, Omonona and Okoruwa (2012) found microfinance scheme to be an effective tool that has been proven to empower very poor people around the world to pull them out of poverty.

Hulme and Paul (1996) in their study of broad survey of the usage of microfinance to fight poverty, revealed that innovative microfinance plan can enhance the incomes of the poor and can lift them out of poverty and a well-designed microfinance schemes can be used to fight poverty and thereby improve the lots of the poor and lift them out of poverty.

Hulme and Paul (1996) argued further, that clear evidence exists that the effect of a loan on a borrower's income is a function of the level of his income, the higher the income the wider the scope of investment opportunities opened to him which makes microfinance schemes to likely be advantageous to the middle and upper class. However, they also show that when MFIs such as the Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) provided credit to very poor households, whereby those households were able to raise their incomes and their assets.

Khandker (1998) found that, there had been an increase in household incomes which were a direct result of microfinance programmes while Morduch (1998) found that the income effect was due to the mis-targeting of the microfinance programme and that the perceived increase in income was due solely to those already above the poverty line who had managed to access the programme.

Timmous and Spinell (2004) in their study categorize the causes of bankruptcy in small enterprises into three; which are lack of access to finance, lack of vital business skill or knowledge and unfavourable economic climate. However, savings and credit facilities have the potential for improving the incidence of survival among more enterprises.

2.1 Conceptual Frame Work

Understanding how to alleviate poverty is a central concern of the development economics Bruno, Square and Ravallion (1995) indicated that there are ample evidence that policies designed to factor economic growth significantly reduce poverty but that policies end specifically at alleviating poverty are also important for example, programmes that provide credit and build human capital try to eliminate the cases of poverty. Such program can have a short run or long run perspective. Basely [1996] took a short run assuming that income –earning abilities are fixed. He took two desperate approaches to program design, which he called the technocratic and the institutional. The technocratic approach usually associated with economists focusing on targeting, exploring the theoretical and empirical implications of trying to direct limited resources to people with the greatest need. These efforts emphasize the difficulties of identifying target groups and used creative approaches to program design that substitute for detailed information required to achieve first-best results. Central to such exploration are the incentives effects of programme design, which underscore the need to know key behavioral parameters such as labour supply responses, in order to formulate policy.

The institutional approach is more common among non-economists. For them the question why the program for the poor does or do not work has much more to do with social institutions than with policy design. In this view, anti-poverty policies fail because the poor lack political power or because administrative incompetence or corruption keeps governments from delivery services. Thus improving the lives of the poor requires developing institutions, improving government performance and changing political structures and attitudes towards the poor.

The gulf between these two perspectives is evident in their views of the role of non-governmental organizations (NGOs), in poverty alleviation programs. The technocratic approach rarely refers to NGOS, while the institution approach considers them vital to the attack on poverty in developing countries. The increasing concern with better targeting in poverty alleviation program steams from governments desire to minimize the cost of achieving poverty alleviation objectives. This desire is an implication of models in which tax payers as financiers of transfer programs, seek fiscally efficient methods of helping the poor that is, they wants program to be designed in a way that minimizes the financial burden imposed. Thus the insight from technocratic literature are legitimate concern a well-defined decision making model of anti-poverty policy.

A commonly accepted model of program design is the cost minimizing approached which addresses a number of salient features in current debates about transfer to the poor. Moreover, it is consistent with the desire for targeting. The model by Besley (1996) makes no pretense at realism. Thus, the model is a useful vehicle for clarifying thinking about a number of issues relating to poverty alleviation programs. The literature and economic theory of credit markets and savings decision in economics characterized by incomplete market and imperfect information is growing. The most current literature after Stighitz and Weisis (1981) are Adjei, Arun and Hossain (2009) who provided a new theoretical foundation for policy interventions to correct market failure.

This paper therefore, considers the concept discussed so far to proffer the basic principles for using the credit market, micro credit in particular as a strategy for alleviating poverty.

3. Methodology

This study which seeks to examine the impact of microfinance bank on poverty alleviation in Nigeria made use of primary data and was analysed with Linear Regression. The resaerch instrument was designed to answer fundermental questions to test the formulated hypothesis of how Microfinance has significantly helped in alleviating poverty in Nigeria thereby put the study in a proper perspective.

A total of One Hundred and Fifty (50) questionnaires were administered to a sample of 50 randomly selected staffs of ten microfinance institutions in Ekiti state with about 16 local governments and some people that have benefited from the program. The model employed specifies the dependent variable (Microfinance Bank effectiveness) as a function of way out of poverty, burden reduction and tools for alleviating poverty representing the independent variables. The model is specified as follows:

ME= f(WOP, BR, TAP)………..(1)

Where:
ME= Microfinance Effect
WOP= Way out of Poverty
BR= Burden Reduction
TAP= Tool for Alleviating Poverty.
f = Functional Relationship

The econometric form of equation (1) is represented as:

$$ME = B_0 + B_1WOP + B_2BR + B_3TAP + e \ldots\ldots\ldots. (2)$$

Where:
B_0 = Intercept of relationship in the model/constant
B_1-B_3 = Coefficients of each independent or explanatory variable
e = Stochastic or Error term

3.1 Data Analysis and Presentation of Result

The research instrument administered is hereby presented in tables and data are analyzed following a methodological approach that allows for reliable findings to be revealed; hence this study use classical Ordinary Least Square (OLS) and linear regression method. The questionnaire was administered to 150 respondents made up of five staff each from the randomly selected ten MFBs spread over sixteen local governments in Ekiti State and some individuals who have benefited from the program.
Table 1 Questionnaire Distribution Analysis

Type of Business	No of respondents	Percentage
MFBs Staffs	50	33.0
Service Industry	40	27.0
Cottage Industries	60	40.0
Total	150	100.0

Source: Field Survey (2015)

The table above revealed that thirty three percent of the respondents are staffs of MBFs in Ekiti State and the remaining sixty seven percent are those that have benefited from MBFs program in one way or the other cutting across service industry with 40 respondents representing 27% and people engaged in cottage industry with 60 respondents representing 40%.

Table 2: Summary of OLS Results

Model	Beta	T	Sig	Pearson	Sig	R	R^2
Microfinance Bank Effectiveness				1.000	.000	.973	.946
Way out of Poverty	.365	2.817	.007	.959	.000		
Burden Reduction	.496	4.550	.000	.951	.000		
Tool for alleviating	.155	2.609	.012	.799	.000		

Microfinance Effect = 2.817 + 4.550 + 2.609 + U
Author's computation 2015

The result above reveal that a strong positive relationship exist between the effectiveness of microfinance bank and other explanatory variables as the Pearson correlation coefficient explained about 96%, 95% and 80% relationship for the way out of poverty, reduction in burden of poverty and the tool of alleviating poverty respectively. The implication of this is that any attempt at improving on any of the independent variables will bring about a boost in the effectiveness of micro finance bank in alleviating poverty.

The coefficient of multiple determination denoted as R square (R^2) with a value of 0.946 showed that 94.6% of total variation in effectiveness of the microfinance banks can be explained by the independent variables. Considering the contributions of each independent variable in the model to the result, it was discovered that way out of poverty contributed 0.365, burden reduction contributed 0.496 and tool for alleviating poverty contributed 0.155 which are all considered significant contribution in explaining the behavior of the dependent variable with their p-values less than 0.05.

Table 3: Summary of F-Statistics

	F- Statistics	Sig.	Decision
Regression	268.697	**.000**	**Accept**

Source: Author's computation (2015)

Testing for the overall significance of the whole model to affirm the acceptance or rejection of the formulated hypothesis, the F-Statistics of 268.697 is highly significant (.000) implying that microfinance has significantly helped in alleviating poverty in Nigeria.

In testing, the hypotheses earlier formulated to investigate whether Microfinance has not significantly helped in alleviating poverty in Nigeria. The findings from the results summarises and confirm that Microfinance bank has positively and significantly alleviate poverty in the society as shown from the case in Ekiti State.

4. Conclusion

The study has shown that microfinance will alleviate the problem of active poor and low income earners to access credit thereby enabling them carry on various small and medium scale enterprises, which will in turn empower the poor financially to be self-employed thereby reducing the poverty level in the country. The study further showed that microfinance institutions has reached out to the poorest of the poor by implementing integrated programmes that addresses the diversified needs of destitute families. Incoming numbers of microfinance institutions are achieving financial sustainability and widening the outreach while still focusing on the most important thing in the society. The benefits of microfinance are not only felt by those who directly participate but by their families and household.

It can be concluded that the study has been able to describe the roles that microfinance have to play in the economy of Nigeria, which includes the provision of diversified, affordable and dependable financial services to the active poor in a timely and competitive manner by various microfinance banks. These financial services would enable the active poor to undertake and develop long time, sustainable entrepreneurial activities, mobilizing savings for financial intimidation, create employment opportunities and also to their productivity.

However, Microfinance is not a miracle solution as it is not solely responsible for poverty alleviation. To record an appreciable success that could completely remove the nation from the doldrums of poverty, the policy should in addition been given good publicity and must also be backed up with other social programmes that are flexible to meet the diverse needs of destitute families.

Furthermore, government should make available necessary infrastructural facilities that will help boost and increase the output of the small and medium scale enterprises as well as institute regulatory and other statutory bodies who would monitor the interest rate on loans and advances to make it accessible to the small and medium scale entrepreneurs that need it.

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