

AN ASSESSMENT OF IMPACT OF MICROFINANCE BANKS ON POVERTY ALLEVIATION IN NIGERIA: AN EMPIRICAL INVESTIGATION

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Abstract

This research study investigates the impact of microfinance on poverty alleviation in Nigeria. The researchers used questionnaire as an instrument to collect data. Tables and percentage distribution analysis were used in data presentation. For clear analysis, the study center on two broad variables: poverty alleviation as the dependent variable and microfinance loan disbursement as the independent variable. Three different hypotheses were formulated and tested using various statistical tools such as chi-square test, F-test and T-test. 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 researchers conclude that microfinance institution is indeed a potent strategy of poverty reduction and a viable tool for surveying credit to the poor. However, microfinance can be more viable tool for sustainable poverty alleviation if more is done on programme outreach and depth than the present outreach.

Key words: Poverty, Poverty Alleviation, Microfinance, Microcredit, Nigeria

Introduction

Throughout the world, poor people are excluded from formal financial system. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in Less Developed Countries (LDCs). Absent access to formal financial services, the poor have developed a wide variety of informal community based financial arrangement to meet their financial needs. Microfinance is created to fill this gap (Irobi, 2008).

Microfinance pertain 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 to the wealthy, albeit at a small scale. According to Anyanwu (2004), microfinance bank is not just providing capital to the poor, but to also combat poverty at an individual level, it also has a role at institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

In Africa and other developing regions, microfinance institutions (MFIs) are regarded as the main source of funding micro enterprises (Anyanwu, 2004). Formal credit and savings institutions for the poor are also available around the globe providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperative and development finance institution. Suffice it to say that the unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria.

The gap filled by microfinance institution has made become part of the formal financial system of a country and so can access capital market to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach.

The importance of microfinance is to eradicate poverty, made the Federal Government of Nigeria adopted it as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy and framework for the operations of MFIs. Despite this, however, the number of beneficiaries of microfinance banks is an insignificant proportion of the people in need of microfinance services. It has been estimated that formal microfinance bank only services less than one million clients in a country where over 70% of the country population of 140 million lives below poverty line (Irobi, 2008). It is therefore necessary to undertake an assessment of the extent to which microfinance has impacted on poverty reduction in Nigeria. That is the overall objective of this paper.

Objectives of the study

The specific objectives are to:

- i. Examine the roles of Microfinance institution in reducing poverty;
- ii. Assess the level of Microfinance Bank operation in the nation building through poverty alleviation;
- iii. To make recommendation for effective and efficient realization of the scheme to diversify and increase income sources, the essential path out of hunger. Diversification makes people more resilient to external shocks.

The study of poverty and its alleviation are not new. Rather what are revisited are the spatial differences in levels of poverty among real units. Poverty is a global phenomenon, which affects continents, nations and peoples differently. It afflicts people in various depths and levels, at different times and phases of existence (Oyeyomi, 2003). The most commonly way to measure poverty is based on income or consumption line. A person is considered poor if his or her consumption level falls below USD per day, a level necessary to meet basic needs. This minimum level is called the poverty line (The World Bank, 2002). The Central Bank of Nigeria (1999) views poverty as a state where an individual is not able to cater adequately for his or her basic needs of food, clothing and shelter; is unable to meet social and economic obligations, lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructure such as education, health, portable water, and sanitation; and

consequently, has limited chance of advancing his or her welfare to the limit of his or her capabilities". Narayan et al (2000) systematically defined poverty when he said that "don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty".

Micro-finance is a term used to refer to different methods for giving poor people access to financial services. Irobi (2008) defined microfinance as the provision of financial services such as credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small businesses. Microfinance is sectionally defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings.

Furthermore, Robinson (2001) defined microfinance as the supply of loans, savings and other basic financial services to the poor. Microfinance evolved as an economic development approach intended to benefit the low-income part of a given society, both men and women (Irobi, 2008). According to World Bank (2007), the term refers to provision of financial services (including saving and credit) to the poor. Micro-finance banks therefore are institutions that are established to provide financial services to the poor. Microfinance institutions can be non-governmental organizations, savings and loan cooperatives, loan unions, government banks, commercial banks, or non-bank financial institutions (Ledgerwood, 1997). The policy seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through privately owned enterprises.

The objective of microfinance according to Otero (1999) is not providing capital to the poor to combat poverty; it seeks to create an institution that delivers financial services to the poor who are ignored by the formal banking sector.

Earlier studies about micro-financing have evaluated whether micro-credit programs such as popular in Nigeria reach the relatively poor and vulnerable in their operations. Recent studies have shown evidence of positive impact as it relates to first six out of seven Millennium Goals (Adamu, 2007; Irobi, 2008; Wright, 2000; Zaman, 2000; McCulloch and Baulch, 2000), all subscribed to the believe that microfinance is an effective and powerful tool for poverty reduction. For example, Amin, Rai, and Topai (2003) focus on the ability of microfinance to reach the poor and affirmed that microfinance has served people below and above the poverty line. Also, Hossain (1988), in his study on "Credit for the Alleviation of Rural Poverty in Bangladesh found that Grameen members who are poor and landless have average household of 43 percent higher than marginal landowners.

The results of empirical evidence indicate that the poorest can benefits from microfinance from both an economic and socio well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the Micro-financial institutions (Zaman, 2000; Robinson, 2001; Dahiru and Zubair, 2008). For instance, Khandker (1998), in several related studies using statistical method on assessment of impact of microfinance among three Bangladesh programs found that every additional taka led to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in an updated study using panel data in

Bangladesh, Khandker (2005), found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. These studies showed overwhelming benefit of increase in income and reduction of vulnerability.

On the other hand, some authors have challenged the positive effects of microfinance on poverty alleviation. For instance, Hulme and Mosley (1996) while acknowledging the role of microfinance can have in helping to reduce poverty, concluded from their research on microfinance that "most contemporary schemes are less effective than they might be". They stated that microfinance is not a panacea for poverty – alleviation and that in some cases the poorest people have been made worse-off by microfinance. Also, Adamu (2007) observed that microfinance institutions Nigeria have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging microenterprises. But, the number of beneficiaries of microfinance institutions is an insignificant proportion of the people in need of microfinance services. It has been estimated that formal microfinance institutions only service less than one million clients, in a country where over 70% of the country's population live below the poverty line (Dahiru and Zubair, 2008). The results also suggested that micro-financing is unsuccessful at reaching the group most prone to destitution, the vulnerable poor.

The major challenges of microfinance in Nigeria include: communication gaps and inadequate awareness; insufficient support from governments; inadequate donor funding; less attention on financial sustainability of MFIs; lack of adequate loan or equity capital to increase loan-able funds; high turnover of MFI staff; limited support for human and institutional capacity building; illegal government and NGO operations that spoil the market; and lack of standardize reporting and performance monitoring system for MFIs (Irobi, 2008).

The theoretical frameworks for this study are economic and psychological theories. The economic theory argued that the success in any business venture, including microfinance, is determined by the entrepreneurs' ability to deliver appropriate services and profitability (Remenyi, 2006). The psychological theory on the other hand, argued that a species of profit-making private venture that cares about the welfare of its customers can be conceived, in other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests of their customers (Mohammed, 1998).

Methodology

The method employed in this study is the descriptive survey method. The method is ideal because the study involved collecting data from rural communities members of microfinance institutions (MFIs) with a view to determine whether or not microfinance contribute to poverty reduction by increasing their income and welfare. The population comprised all rural communities member of MFIs and non-members in Lagos State.

A preliminary investigation was carried out on the MFIs in the state. The investigation revealed that Integrated Micro Finance Bank, Susu Micro Finance Bank and MIC Microfinance Bank are the three topmost MFIs in term of outreach and spatial location.

Data were collected from a sample member of these MFIs to determine the relationship between poverty (dependent variable) and microfinance (independent variable). For effective coverage and lower cost, purposeful sampling technique was used to select a sample of 80 members that constituted our sample size.

The major tool of this study was a questionnaire titled “Strategic Impact of Microfinance on Poverty Reduction in Nigeria” (SIMPRNQ). The terms and statements embodied in the questionnaire were related to the objectives and hypothesis of the study. The questionnaire had two sections: Section A contained background information of the respondents while Section B was used to measure perception of respondent on effectiveness of microfinance on poverty reduction in Nigeria, rating Strongly Agree 4; Agree 3; Disagree 2; Strongly Disagree 1.

A reliability test was carried out on respondents in other microfinance banks not part of the study using test-retest methods. The scores obtained from the administration of the questionnaire were corrected, using Pearson product moment correlation coefficient was 0.78.

Out of the 80 copies the questionnaire administered, 68 were returned and used for analysis.

Data collected from questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. Chi-square was used to measure the discrepancies existing between the observed and expected frequency and to proof the level of significance in testing stated hypotheses. Regression analysis and Analysis of variance (ANOVA) were computed with the help of statistical package for social sciences (SPSS). The trend, pattern and relationship among the data were identified and interpreted.

Testing of Hypotheses and Interpretation of Results

Hypothesis 1: There is no significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use microfinance.

Table 1: X² summary

Variable	N	Df	X ²	p-value
Adoption of microfinance institution	57	1	31.117	<0.05
Non adoption of microfinance institution	11			

Source: Researcher’s Survey, 2014.

Chi-square allows testing the statistical significance of differences in a classification system (one-way classification) or the relationship between two classification systems (two-way). To perform this chi-square test, one must already have the data classified in a frequency table (this test is not performed on the raw data). A frequency table shows the number of cases that belong simultaneously to two or more distinct categories as presented under “N” column. The result of ‘SPSS’ using chi-square statistical test at 0.05 level of significance with 1 degree of freedom is 31.117 while the critical value is 3.84. Therefore, we can reject the null hypothesis which specified that there is no significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use microfinance. This indicates that most people chose microfinance institutions (48) 83.8%, and have benefitted greatly from the microfinance programs. Hypothesis one is rejected.

Hypothesis 2: There is no significant effect of microfinance institutions on poverty alleviation.

Table 2: Model summary of the simple Regression for Poverty Alleviation

Model	R	R Square	Adjusted R Square	Std error of the estimate
1	.812	.69	.57	157.4336

a) Predictions: (Constant microfinance institutions)

Conclusion and Recommendations

In conclusion, this study shows that microfinance programs have the potential to alleviate poverty especially in increasing level of income and reducing vulnerability. Poverty reduction improves the quality of life of the people and provides them with the means to acquire and maintain their basic needs. This will promote people economic capacity and bring sustainable development. Based on the findings of this study the following recommendations are made.

Microfinance can be more viable strategy for sustainable poverty alleviation by expansion of program outreach and depth. The program must accommodate the poor in the country. Additionally, government should arrange enabling environment for the microfinance programme by ensuring political stability, a stable macro-economic environment and low inflation rates. In order to have a sustainable microfinance intervention, the government should also keep infrastructures in place that link more remote areas to market. Finally, erring staff of microfinance banks should be prosecuted in the court of law and penalized.

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