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Effectiveness of Microfinance Banks in Alleviating Poverty in Kwara State Nigeria

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Abstracts - Microfinance banks supply loans, savings and other financial services to the poor and low income population on a sustainable basis and help in the alleviation of poverty. This article therefore examines the effectiveness of microfinance banks in alleviation of poverty in Kwara state Nigeria. The data collected were analyzed through the use of t-test and Analysis of Variance (ANOVA). From the research findings, results revealed that microfinance has significant role to play in the economy, as it helps reduce poverty by providing financial services to the active poor, help in generating employment and also provide small loans to grow small businesses. It is therefore recommended that regulatory and other statutory bodies should monitor the interest rate on loans and advances to make it accessible to micro-clients that is the economically active poor. Government should make available necessary infrastructural facilities that will help increase the output of micro entrepreneurs. Also, Microfinance policy should further be publicized so that members of low income groups will be aware of what microfinance institutions have to offer them and how they can obtain financial services to grow their small businesses.

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Classification: *GJMBR-B Classification: JEL Code: I3, P46*

EFFECTIVENESS OF MICROFINANCE BANKS IN ALLEVIATING POVERTY IN KWARA STATE NIGERIA

Strictly as per the compliance and regulations of:

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I. Introduction

The impact of microfinance in the economic growth and development of a state can not be overemphasized. The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, “Ajo” in Nigeria, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (Archives 2006). Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions CGAP (2006). Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions (e.g. commercial banks). It is about extending the frontiers of financial service provision. The provision of such financial services requires innovative delivery channels and methodologies. Bruno, Squire and Ravallion (1995) indicated that there are ample evidences that policies designed to foster economic growth significantly reduce poverty but that policies aimed significantly at alleviating poverty are important. For example, program that provide credit and build human capital try to eliminate the causes of poverty; it is therefore relative to the establishment of microfinance banks a strategy for poverty alleviation in kwara state. According to Muktar (2009) credit has been recognized as an essential tool for promoting small and medium enterprises (SMEs). Over the years, several traditional microfinance institutions, such as self help groups, esusu, and rotating savings and credit associations (ROSCA) have been set up to provide credit to both the rural and urban dweller in kwara state. When the civilian administration came into office on 29th of May 1999, it paid attention to poverty reduction. This was based on the fact that robust economic growth cannot be achieved without putting in place well focused program to reduce poverty through empowering the people by increasing their access to factor of production, especially credit.

During the regime preceding this administration, the World Bank tried to focus on poverty reduction in Nigeria. The study not only profile poverty but also established qualitatively the trend of poverty encroachment to development from 1980-1996. The study showed that poverty level in Nigeria has been extremely high with about two- third of the population living below the poverty line in 1996. In absolute figures however, the population in poverty continued to rise over the sixteen year period (i.e. 1980-1996). The estimated number rose from 18 million in 1980 to 35 million in 1985 to 39 million in 1992 and 67 million in 1996 and by the end of 1999, estimated number of poor rose to 74.2 million (CBN economic and financial review vol 39 no 4) this high level of poverty is an indication that point out the need to improve the output of democratic governance and this output is expected to have an impact on the poverty level.

Several efforts and programs have been made in the past by Nigerian Government to cater for this sector, but have proved ineffective. Nigeria is the seventh world largest exporter of oil, yet ranks 158 out of

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the 188 countries of the world in terms of quality of life (UNDP, 2007). The latest Human Development Programme indicates that 70.8 per cent and 92.4 per cent of Nigerian population live below US$1 (N117) and US$2 (N234) a day respectively (UNDP, 2007). Available statistics indicate that poverty has become endemic in Nigeria and is on the increase. Nkamnebe (2008) stated that in Nigeria poverty increased from 18 million people in 1980, to 35 million people in 1985; 39 million people in 1992; 67 people in 1996; and 74 million people in 1999. At present, about two-third of the Nigeria's population (about 150 million) are poor. All these support the ranking of Nigeria among the world's least developed nations of the world (UNDP, 2007). Statistically in Nigeria, the formal financial system such as commercial banks provide services to about 35% of the economically active population, while the remaining 65% (over 80 million people) who carry on micro, small and medium scale enterprises (MSMEs) and who are generally regarded as the engine of growth for the economy remain unserved, they are excluded from access to financial services (CBN 2005) and (Bamisile 2006).

The government of kwara state have also in past initiated a number of publicly financed micro/rural credit program targeted at the poor to enhance the flow financial services to rural areas, example of such program are Agricultural Credit Guarantee Scheme (ACGs) Rural banking program and sectoral allocation of credit. Other institutional arrangement include the establishment of Nigerian Agricultural Cooperative and Rural development Bank (NACRDB) the national directorate of employment (NDE) to mention a few with the mandate of providing financial services to alleviate poverty. This concern has bought the need to focus attention on the microfinance banks as an existing pragmatic scheme capable of having the desired goal of poverty alleviation in the Nigerian society and as well as contributing significantly to the economic development of the country.

II. Objectives of the Study

The objectives of the study include:

i. to examine the poverty situation in Kwara State, Nigeria.
ii. to investigate the activities of microfinance banks in Kwara State Nigeria.
iii. to examines the effectiveness of microfinance banks in the alleviating of poverty in Kwara state, Nigeria.
iv. provide suggestions on how to solve the problems as a step towards enhancing the economic status of members, thereby serving to reduce the rate of poverty alleviation among them.

III. Research Questions

In order to pursue the objective of the study, the following research questions were formulated namely:

1. Do microfinance banks assist in promoting financial success of their customers?
2. Do microfinance banks provide loans to start small scale businesses?
3. Do microfinance banks help in the alleviation of poverty in Kwara State, Nigeria?

Hypotheses were thereby formulated and stated in the null form as stated below:

Ho1: There is no significant difference in the effectiveness of microfinance banks in the alleviating of poverty in Kwara state based on location.
Ho2: There is no significant difference in effectiveness of microfinance banks in the alleviating of poverty in Kwara state based on based on information technology operation.

IV. Literature Review

History and Definition of Microfinance

In the 1800s, credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors. In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units.

In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive. Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers. Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of micro-enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "micro-enterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers.

According to Ledger wood (2002) the term microfinance refers to the provision of financial services to low income client including self employed. Integrated Microfinance Bank (IMFB 2007) was of the opinion that microfinance is the supply of loans, savings and other basic financial services to the poor. Everyone needs a diverse range of financial instruments to run their business, build asset, stabilize consumption and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings pension insurance and money transfer services. Jamil (2008) opined that microfinance is the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low income population on a sustainable basis. It recognized poor and micro entrepreneur who are excluded or denied accesses to financial services on account of their inability to provide tangible assets as collateral for credits facilities. Microfinance can be seen as a supply of loans, savings and other financial services to the poor. It is the practice of delivering those services in a sustainable manner so that poor households will have access to financial services so that they can build sustainable micro enterprise. While micro enterprise is a business that is independently owned and operated by its owners and does not meet certain standards of size which in most cases operated as informal business. Central bank of Nigeria guidelines (2005) defined microfinance as providing the economically active poor and low income households with financial services such credit to help them engage in income generating activities to expand or grow their small businesses, savings, micro leasing, micro insurance and payment transfer. According to Johnson and Rogaly (1999) very small deposits and loans are referred together as microfinance. Also Rutherford (2000) stated that access to microfinance is very important because it enables the poor to create, own and accumulate asset and smooth consumption. Microfinance involves the provision of credit, savings, repositories, and financial services to low income earners or poor households to create or expand their economy and to improve their standard of living, (Olaitan 2001).The similarity among all the definitions above is that microfinance is about the provision of financial services to the poor, low-income earners and people operating small business in order for them to improve their standard of living.

V. Definition and Poverty Strategies

Schubert (1994) saw poverty as either absolute or relative or both. Absolute poverty being that which could be applied at all time in all societies, such as, the level of income necessary for bare subsistence, while relative poverty relates to the living standards of the poor to the standards that prevail elsewhere in the society in which they live.

In Nigeria, various efforts were made by the government, non-governmental organizations and individuals to alleviate poverty in the country. According to Ogwumike (2001) poverty alleviation measures implemented so far in Nigeria focuses more attention on economic growth, basic needs and rural development strategies. The economic growth approach focuses attention on rapid economic growth as measured by the rate of growth in real per capital Gross Domestic Product (GDP) or per capital national income, price stability and declining unemployment among others, which are to be attained through proper harmonization of monetary and fiscal policies. The basic need approach focuses attention on the basic necessities of life such as food, health care, education, shelter, clothing, transport, water and sanitation, which could enable the poor live a decent life, where rural development approach focuses attention on the total emancipation and empowerment of the rural sector. Ogwumike (2001) further grouped the strategies for poverty reduction in Nigeria into three eras – the pre–Structural Adjustment Programme (SAP) era, the Structural Adjustment Programme (SAP) era and the democratic era. In the pre-SAP era, the measures that were predominant were the Operation Feed the Nation, the River Basin Development Authorities, the Agricultural Development Programmes, the Agricultural Credit Guarantee Scheme, the Rural Electrification Scheme and the Green Revolution. In the SAP era the following poverty alleviation measures were introduced; the Directorate for Food, Roads and Rural Infrastructures, the National Directorate of Employment, the Better Life Programme, the Peoples' Bank, the Community Banks, the Family Support Programme and the Family

Economic Advancement Programme. The democratic era witnessed the introduction of the Poverty Alleviation Programme (PAP) designed to provide employment to 200,000 people all over the country (Yusuf, Ijaiya and Ijaiya 2009).

VI. Microfinance Model for Poverty Alleviation in Kwara State

Looking at the conceptual dimension of wealth and the transfer through Government fiscal operations, one will want to agree that in the current dispensation that country can realistically afford to adopt a model of transfer from the rich through the government fiscal operation and deliberate fiscal allocation to the poor to implement programs that will alleviate poverty. Nigeria must pursue a progressive microfinance model. The program must be such that will assist the totality of the need of those groups that will participate. The credit must facilitate production (economic activities), consumption (hunger etc), social/welfare (health and education etc).

The program must be such that can serve as a seed capital to provide fund for the development of promising ideas or products including the development of prototype. There are many school leavers with promising ideas and handicraft workers who need one small seed capital to move out of poverty. The program must be such that can finance expansion of commercially viable/successful business in order that the operator will not sink back into poverty. Consequently microfinance model for kwara state should be such that would have linked the institutional frame work coupled with fiscal support for effectiveness.

There would be flow of revenue to the program and credit service required of the program. The services must ensure the following (CBN 2001)

- Operations are concentrated in the rural areas and focus on the micro enterprises.
- Ensure working capital loans, as regard credit most micro entrepreneurs need working capital loans
- Do not include restrictions concerning the use loans, allow for guarantee that match their capacities such as personal guarantees and peer pressure

However, in implementing the strategy through the new institution, it would be quite instructive to utilize the results of the poverty assessment in order to establish priorities for financing. First identify the region with level of poverty and organize them into cohesive group, to determine what transfer program you can adopt. This region would form pilot project with adequate supervisory, monitoring and evaluation terms for replicating in other regions more importantly is the need to have financial regulatory authority to be part of the team for effectiveness and for completeness considering the current dispensation of universal banking (CBN 2001 economic and financial review)

VII. Effectiveness and Contributions of Microfinance Banks

Thomas Dichter admits that microfinance can help the poor smooth consumption over periods of cyclical downturns or unexpected crises. This positive role of microfinance should not be dismissed altogether. If this consumption smoothing means parents can send their children to school, or buy essential medications, and maintain nutritional in-takes of their children then microfinance is likely to have positive long-term impacts on productivity. Dasgupta (1995) noted that at low levels of nutrition and health care, increase in current consumption improves future labour productivity: if nothing else, morbidity is reduced. For example, Pitt and Rozenweig (1985) observed from Indonesian data that an increase in the consumption of fish, fruit, or vegetables by 10 percent reduces the chances of illness there by 9, 3 and 6 percent respectively. Microfinance, thus, fulfils an important safety-net task, especially in countries where there is no state-sponsored social security system. In difficult times, the poor can first turn to family and neighbours. But in a situation of generalized poverty or economy-wide crisis, the poor will have to go to money lenders or to the employer/landlord for whom she or he works. If microfinance institutions (MFIs) extend lending to the very poor in these circumstances then they can help break the power and hold of such creditors who operate in the inter-locking credit and factor markets. Although high, the interest rates charged by the MFIs are lower than the rates charged by informal creditors (Chowdhury 2009).

- Microfinance is a way of reducing poverty: accessing small amount of credit at a reasonable interest rate gives the economically active poor an opportunity to set up their own business. Many studies have shown that poor people are trustworthy with the repayment of loans.
- Microfinance is established to provide financial services to the economically active poor and low income earners to help them engage in income generating activities or expand their small business.
- Microfinance banks help in providing services that sustain entrepreneurs in their self employment and also assist in generating employment.
- A noticeable economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to microfinance which is aimed at providing credit to the economically active poor.

- There are main features that distinguish microfinance banks from other types of banks, which are smallness of loans advanced and or savings collected, the absence of asset based collateral and simplicity of operations.
- Microfinance banks are also established to replace the community banks because of the weak capital base of the community banks coupled with weak institutional capacity.
- Efforts ranging from traditional, governmental, non-governmental, formal and informal have over the years been directed at the development of sustainable microfinance in Kwara State but due to one problem or the other, these efforts have been futile and have led to the establishment of microfinance banks.

VIII. Methodology

1) Data Source

Both secondary and primary data were used in generating information on the effectiveness of microfinance banks in alleviating poverty as expressed by their customers in Kwara State, Nigeria. A questionnaire was designed title “Questionnaire on the Effectiveness of Microfinance Banks in Alleviating Poverty in Kwara State (QEMBAPKS)”. Descriptive survey was adopted for the study. Survey method was chosen because of its inherent advantages over other research methods (Adewumi, 1981).

2) Sampling Method

A stratified sampling method was used in the selection of the customers that expressed their viewed on the effectiveness microfinance banks in alleviating poverty in Kwara state, Nigeria. In order to have unbiased selection of samples, the study area was divided into 16 sample units based on the various local government area in Kwara state, Nigeria. The population of the study comprises 80 microfinance institutions (MFIs) in the 3 Senatorial Districts of the study area, which consists of 16 Local Government Areas (LGAs). Five (5) registered MFIs were purposefully selected from each of the 16 LGAs, making a total of 80 registered MFIs. Four hundred and twenty questionnaire (420) were randomly distributed to customers of these selected microfinance institutions in the three senatorial districts as follows, namely: North (126), Central (168) and South (126). Kwara Central has the highest concentration of MFIs therefore having more customers. This is probably due to the fact that it is more urban and the availability of better infrastructural facilities. However, only four hundred (400) questionnaire properly filled and used for analysis. Respondents were asked to respond to the questions contained in the questionnaire by indicating level of relevance of the implicated variables on a 4-point scale. Data generated from the survey were analyzed using descriptive and inferential statistics such as percentage, mean, standard deviation, t- test statistics and Analysis of Variance (ANOVA) at 0.05 alpha level.

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IX. Results

Table 1: Distribution of MFIs based on Location and operational IT technique

Variables	Frequency	Percentage
Location		
Rural	160	40%
Urban	240	60%
Operational IT technique		
Manual operation	260	65%
Partial IT operation	140	35%
Fully IT operation		

Source: Field Survey (2010)

Table 2: Mean, Standard deviation and T-test comparing the respondents view on an evaluation of microfinance as a strategy for poverty reduction based on gender.

Variable	Frequency	Percentage	X	SD	DF	T-cal	T-tab
Male	168	42%	61.857	5.266	398	1.07	1.005
Female	232	58%	62.621	5.102			

Source: Field Survey, 2010

Table 2 presents a comparative data on respondents view on the impact of Microfinance as a strategy for poverty reduction in Kwara State. The table shows that the calculated value of 1.07 and critical t-value of 1.05 at 0.05 level of significance.Therefore there is a significant impact on the study since the calculated t-value is greater than the tabulated t-value. Therefore the null hypothesis (Ho) is rejected and the alternative (Hi) is accepted in evaluating Microfinance as a strategy for poverty reduction as influenced by gender.

Table 3: Mean, sum of Squares and ANOVA values comparing respondents view on the impact Microfinance on the growth of small businesses as influenced by educational qualification.

Variable	Sum of squares	X	DF	Cal t-value	Tab t-value
Between groups	93.4000	31.1333	40	1.1963	2.56
Within groups	1197.1000	26.0239	360		
Total	1290.5000		400		

Source: Field survey, 2010.

Table 3 presents data on the respondents view on the impact of microfinance on the growth of small businesses in Kwara State. The table shows t-value of 1.1963 and a critical f value of 2.56. There is no significant difference in the study since the tabulated F value is greater than the calculated F value, the null hypothesis (Ho) which states that there is no significant difference on the impact of microfinance on the growth of small businesses as influenced by educational qualification is accepted, while the alternative hypothesis is rejected.

Table 4: Mean, sum of Squares and ANOVA values comparing respondents view of impact of Microfinance on employment generation based on working experience.

Variable	Sum of squares	Mean	DF	Cal t-value	Tab t-value
Between groups	115.8843	38.6281	25	2.6127	2.56
Within groups	1174.6157	25.5351	374		
Total	1290.5000		399		

Source: Field survey, 2010.

Table 4 presents data on the respondents view on the impact of microfinance on employment generation in Kwara State. The table shows calculated t-value of 2.6127 and a critical f value of 2.56. There is a significant difference in the study since the calculated F value is greater than the tabulated F value, the null hypothesis(Ho) which states that there is no significant difference on the impact of microfinance on employment generation as influenced by working experience isrejected, while the alternative hypothesis is accepted. Since (Ho) null hypothesis is rejected in the hypothesis tested, it shows that the issue of gender, and working experience have significant impact on microfinance as a strategy for poverty reduction in Kwara State, while educational qualification has no significant impact on microfinance as a strategy for poverty reduction in Kwara state.

X. Discussion of findings

From the findings on demographic data, it shows that more female participated in the study than male.It also shows that respondents below the age of 25 participated more in the study than every other age bracket.Based on educational qualification, respondents were majorly B.Sc /HND holders as compared to OND/NCE, SSCE/Technical and MBA/MSc holders.It can also be deduced from findings that senior staff of Microfinance Banks participated more in the study, than junior or management staff.Findings revealed that respondents with 3-5 years working experience were more actively involved in the study than staff with 0-2 years, 6-10 years and 11 years working experience.After a critical analysis of the hypothesis through the use of T-test and ANOVA, the study showed the issue of gender and working experience have significant impact on microfinance as a strategy for poverty reduction, while educational qualification has no significant impact on the study.

XI. Conclusion

This study has established that microfinance will alleviate the problem of active poor, low income earners to access credit thereby enabling them carry on various small and medium enterprises, this will in turn empower the poor financially to be self employed thereby reducing the poverty level in the economy.It can be concluded that this study has been able to describe the roles that microfinance have to play in the economy of Kwara state, 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 intermediation, create employment opportunities and also to increase their productivity.

XII. Recommendation

In order to achieve this objectives of Microfinance policy, the following recommendation are made:

1. Government should make available necessary infrastructural facilities that will help increase output of the micro entrepreneurs.
2. Microfinance policy should further be publicized so that more of the members of the low income group will be aware of what microfinance banks have to offer them and how they can obtain financial services to grow their small businesses.
3. Regulatory and other statutory bodies should monitor the interest rate on loans and advances to make it accessible to micro clients that is the economically active poor.
4. Microfinance banks should further encourage the active poor and low income earners to save

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more, thereby giving them enough cash to lend out as loans.

5. Since Microfinance banks give loans without requiring asset based collateral, they should ensure that customers are monitored in the utilization of the loans obtained by them in order to pay back the loan as at when due.

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