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Impact of micro finance banks on poverty alleviation in Ondo state, Nigeria

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Abstract

The study investigates the impact of microfinance banks on poverty alleviation in Ondo state, Nigeria. A simple random sampling technique was used to collect primary data from both customers and the staff of some selected micro finance banks in the state. The data collected from respondents through structured questionnaire were analyzed using descriptive statistics. Descriptive statistics such as frequency count and simple percentage were used to analyze the data gathered. The chi square was used to test the hypotheses of the study at 0.05 levels of significance. Findings from the analysis revealed that the services of microfinance banks reduce the level of poverty in the state. The result also showed that the CBN provides a conducive and enabling environment for the growth and sustainability of micro finance banks. Following from the findings of this study the researcher recommended that the microcredit institutions should increase the credit facilities to the customers at a low rate of interest to promote economic activities so as to make greater impact on the poverty reduction of people of Ondo State.

Keywords: Microfinance Banks; Poverty alleviation; CBN; Economic Growth; Financial Services; The poor

1. Introduction

Microfinance is the provision of financial service to the poor who are traditionally not served by the conventional banks. These financial services include credit, saving, micro-leasing and money transfer and payment services. The features that distinguish microfinance from other forms of formal financial products are smallness of loans advanced and savings collected, almost absence of asset-based collateral as well as simplicity of operations. It can be deduced from the foregoing that micro finance is a poverty alleviation strategy which operates by providing credit and other financial services to economically active but low income households and their businesses. To achieve this poverty alleviation objective, microfinance helps the poor increase their income, build viable business, reduce vulnerability and create employment.

The practices of microfinance are not new in Nigeria as people try to provide themselves with needed finance through informal microfinance approaches like self-help groups, rotating saving and credit associations, accumulating credit and saving association, and direct borrowings from friends and relations. These approaches may have sufficed in the traditional society but the growth in complexed economy and the increasing incidence of poverty among citizens have revealed the shortcoming of this approach. The Central Bank of Nigeria in 2008 pointed to this when it pointed out that the informal financial institutions that attempt to provide microfinance service generally have limited outreach due primarily to paucity of loanable funds. It was in a bid to resolve this identified deficiency of the informal microfinance sector that the CBN in 2005 introduced a microfinance policy for microfinance banking in Nigeria.

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This policy document is to provide a microfinance framework that would enhance the provision of diversified microfinance services on long-term and sustainable bases for the poor and low income groups, create a platform for the establishment of microfinance banks and improve CBN's regulatory/supervisory performance in ensuring monetary stability and liquidity management.

Nigeria is one of the countries with the highest number of people living in extreme poverty, the data revealed an estimated 87 million Nigerians are living on less than $1.90 a day (Adebayo, 2018). However, currently the national bureau of Statistics (NBS) recently released the 2019 poverty and inequality in Nigeria report, which highlights that 40 percent of the total population, live below the country's poverty line of 137, 430 naira ($381.75) per year.

Microfinance banks are often considered as an effective way for poverty reduction, as access to finance enables economic agents to make long-term consumption and investment decisions, participate in productive activities and cope with unexpected short-term shocks (Caskey, Durán, & Solo, 2006).

Successive governments in Nigeria continued to fund programmes aimed at poverty reduction, however poverty level continues to rise. Various programmes have been launched by the Nigerian government to address poverty issue like National Directorate of Employment in 1987, family Economic Advancement programme in 1997, Agricultural Development Programmes in 1991, and the Strategic Grains Reserves Programmes, among others, still poverty and income inequality remain an obstinate challenge in Nigeria. It is against this background that the present study aims at examining the impact of microfinance on poverty alleviation in Ondo state.

2. Statement of Problems

In Nigeria the economy has long been battling with the problems of unemployment and deepening poverty among others. Over the years several efforts have been made by successive governments in Ondo state and Nigeria in general to alleviate poverty and develop the economy faster. Among government efforts include various forms of microcredit programmes/ schemes embacked upon by different government institutions, Non-governmental organizations and other private initiatives. It has been observed that majority of these institutions especially the government established ones have not been able to make significant impact on poverty level in the country despite the amount of money injected in such poverty reduction programmes.

Also, there are mixed reports of studies in literature regarding the impacts of micro financing on poverty level. In some literatures like (Murdoch & Haley, 2001; D'Souza, Gangopadhyay, Gokarn, Mohanty, and Shah, 2007, etc), microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and have taken advantage of increased earnings to improve their consumption level, health and build assets. However, other scholars argued that the poor are being dominated and losing their identity through the operation of micro-credit programs. Ditcher (2007) argued that the average poor person in the past is not an entrepreneur and largely used credits for consumption or cash-flow smoothing. However, other studies have shown that microfinance play insignificant role in poverty reduction. Regarding this, some argue that microcredit may not be the most useful financial service for the majority of the poor people (Chowdhury, 2009). The findings of David Hulme and Paul Mosley (1996) show that poor households do not benefit from microfinance; it is only non-poor borrowers that can do well with microfinance for positive impacts (Chowdhury, 2009).

Forgoing from the above therefore, this study attempts to assess the actual impact of micro finance banks on poverty alleviation in Ondo state.

3. Objective of the Study

The main objective of this research work is to examine the impact of microfinance on poverty alleviation in Ondo state. The specific objectives are as follows:

- To determine the extent to which micro-finance banks assist in eradicating poverty in Ondo State.
- To assess the role of micro-finance banks in increasing the productivity level and income generation of small and medium scales entrepreneurs.
- To assess the strategies put in place by micro-finance banks in alleviating poverty in the state.
- To determine the extent to which micro-finance banks are able to build up capacities for wealth creation among the enterprising poor in the state.

- To assess how far micro-finance banks are achieving the Millenium Development Goal as related to poverty eradication in the state.

4. Theoretical Framework

The underpinning theory of this study on the impact of micro finance activities on poverty reduction is hinged on the Grameen bank theory.

4.1. Grameen Bank Theory

The Grameen bank theory was developed in Bangladesh in 1993. This theory was based on the voluntary formation of small groups of five people to provide mutually binding group guarantee in place of the collateral required by conventional banks. The scheme initially gave women equal access to the loans, and were proven to be reliable borrowers and able entrepreneurs. The theory successfully removed collateral requirements by the conventional banks by developing a banking system based on mutual trust, accountability, creativity and participation as an effective tool to enhance the income of the poor by way of creating self- employment in various informal activities (Usifoh, Chukwuemeka & Ezeanyeji, 2017). Thornton (2000), says that the microfinance phenomenon significantly expanded in recent years. The success of microfinance institutions like the Grameen Bank in Bangladesh, the Banco Sol in Bolivia and many others elsewhere, was a testimony that microfinance can indeed improve the living standards of the poor, by facilitating access to financial services as well as creation of job. This theory points out the efficacy of group based lending as a model that lends small amounts of money to a large number of customers who cannot offer collateral. As a collateral, a percentage of the loan is required to be saved in advance to prove the ability to make regular repayments. Members are jointly accountable for the repayment of the loans and usually meet at a specified time to collect repayments. Peer pressure and joint liability work very well to ensure repayment. If any member defaults, the entire group will be disqualified and not be eligible for further loans. In essence, individual members receive loans but the entire group is held liable for repayment. Any member that defaults will make other members of the group ineligible to further loans (Usifoh et al, 2017).

A single borrower is granted small amount of loan (US $100) for a year and the bank requires regular repayments of 10% per week. These repayments encourage more savings. The loan granted is purely for productive and income generating activities selected by each member with the assistance of the group (Owualah, 1999). However, this model operates through collective guarantees, close supervision and peer pressure from the group members. Therefore, the model has been quite successful as a bank for the poor which facilitates active participation of the poor.

Hence, this study is based on the Grameen bank theory as explained above.

5. Empirical Review

Onyele, and Onyekachi (2020) studied the effect of microfinance banks on poverty reduction in Nigeria , 1992 - 2018 with the use of Autoregressive Distributed Lag regression analysis. The ARDL bounds test suggested that the MFBs' loans-to-deposit ratio and liquidity ratio brought about reduction in poverty in the long-run. However, the short-run estimates revealed that the MFBs did not reduce poverty in the short run. These findings imply that the MFBs can only reduce poverty after a long period of such intervention. Kasali (2020) tested the impact of microfinance loans on poverty alleviation in Southwest Nigeria with the use of primary data collected through a structured questionnaire. The Propensity Score Matching method revealed that microfinance loan actually reduced poverty in the study area.

Ezeanyeji, Usifoh, Obi, and Ejefobihi (2020) investigated the linkages between microfinancing, poverty alleviation, and economic growth in Nigeria, 1992 - 2018. The Autoregressive Distributed Lag model revealed that microfinance banks loans did not have any impact on economic growth but there exist a negative impact on poverty in the long-run. Also, Akhter and Cheng (2020) examined the effectiveness of microcredit as an instrument to enhance financial accessibility among the rural poor women in Bangladesh. Using regression analysis, the finding revealed a significant effect of microcredit on improved women empowerment. Using data from ninety-six countries, Sohn and Ume (2019) examined the impact of microfinance on poverty reduction . it was found that microfinance institutions significantly reduce poverty and also turned out to be effective tools for long-term economic development.

Mhlanga et al. (2020) used simple regression analysis to determine the extent of poverty alleviation in Zimbabwe with small holders farmers being financially included. The results revealed that there exists a positive impact on poverty alleviation. The study found that in order to fight poverty particularly among smallholder farmers, it is necessary to make sure that they are effectively included in the services of the micro finance institutions. Using a case atudy approach, Jaka and Shava (2018) investigate the implementation of economic empowerment of women in the Chivi District, Zimbabwe. The finding revealed that women are facing many challenges like lack of access to credit facilities, etc.

The study of Hossen, Miah, and Ruhi (2019) revealed that microcredits have effective impact on poverty reduction in Bangladesh. Tafamel (2019) examined the effect of microfinance institutions on poverty reduction in Ikpoba Okha Local Government area of Edo State, Nigeria. The result of the Pearson correlation and multiple regression analysis showed a positive and significant relationship between microfinance banks and poverty reduction. In the same vein, Mustapha, Yusuf, and Abdullahi (2019) showed that the microfinance bank credit facilities reduced poverty and also increase income of the poor in Sokoto. Nwibo, Okonkwo, Eze, Mbam, and Odoh (2019) also affirmed the effectiveness of micro-credit facilities on poverty reduction among rural farmers in Nigeria.

Chikwira, Edson & Petronella (2022) examined the role of microfinancing in poverty alleviation by employing a Vector Error Correction Model on quarterly time-series data. The results revealed a significant long-run relationship between microfinance bank credit facilities and agricultural growth. However, microfinancing turned out to raise poverty level in the long run. Agricultural development and the SMEs turned out to reduce the poverty level in the short and long runs.

Although, microfinance institutions were established in order to provide credit to the marginalized poor to reduce poverty and improve their socio-economic well-being. In reality however, poverty level rise as these microfinance institutions increase. Chikwira, et al (2022) submit that, contrary to expectations, microfinance activities were found to increase poverty level in the long run. Of course, with the growth of microfinance institutions in Africa and yet the increasing poverty levels in these countries raise a serious question on the effectiveness of microfinance institutions in alleviation of poverty.

No doubt, there are mixed reports of studies in extant literature regarding the impacts of micro financing on poverty level. Thus, this study aims to cover this gap by investigating the relationship between microfinancing and poverty reduction in Ondo state.

6. Methodology

Survey design was used in this research work and it entails the use of questionnaire. Survey design was used because of its in- depth aspect collecting personal information that helps in learning peoples attitudes, values and opinions. It would also help to cover a wide area using representative samples.

The population of study consists of all the 16 micro finance institutions in the state and their entire customers

The study employed simple randomn sampling technique to select staff of the selected MFIs and customers because it enabled the study to achieve desired representation from the population. The sample size was based on 5 branches that were randomly selected from microfinance banks in the state. 10 staff from each branch and 50 customers were sampled. A total number of three hundred (300) questionnaires were given out to the respondents out of which two hundred and twenty (220) were retrieved dully answered and this formed the basis of the analysis. The data collected from respondents through structured questionnaire were analyzed using descriptive statistics. A simple percentage was used to analyze the data. The chi-square (x2) test was used to test the hypothesis at 5 percent level of significance. The decision rule is to accept the Null hypothesis (H0) if the calculated chi square is less than the critical value of the chi-square and reject the alternative hypothesis (H1) if otherwise. The reverse holds, i.e. reject H0 and accept H1, if the calculated chi square value is more than the critical chi square value.

7. Results

The results and discussion of data analysis are presented as follows:

The above table indicate that 77.3% of the respondents agreed that the services of microfinance banks reduce the level of poverty while 22.7% disagreed. The result proved that majority of the respondents agreed with highest percentage that the services of microfinance banks reduce the level of poverty in the state. Also, respondent constituted 50% strongly agreed, 27.3% agreed, while 18.2% disagreed and 4.55% strongly disagreed that microfinance banks build on trust to grant credit to their customers.

Respondents representing 77.3% agreed that microfinance banks give loans to their customers at moderate rate while 22.7% disagreed. This showed that microfinance banks give loans to their customers at moderate rate. On whether the CBN provides an enabling environment for the growth and sustainability of micro finance banks in the state, 59.1% agreed while the remaining 40.9% disagreed. The result proved that the CBN provides a conducive and enabling environment for the growth and sustainability of micro finance banks. Similarly, majority (81.8%) of the respondents pointed out that micro finance banks provide credit facilities to their customers to support their businesses.

Table 1 The impact of microfinance banks in poverty reduction in the state

Responses	**S/A (%)**	**A (%)**	**D (%)**	**S/D (%)**
The services of microfinance banks reduce the level of poverty in the state	27.3	50	13.6	9.1
Microfinance banks build on trust to grant credit to their customers	50	27.3	18.2	4.55
Microfinance banks give loans to their customers at moderate rate	50	27.3	9.1	13.6
The CBN provides a conducive enabling environment for the growth and sustainability of Micro finance banks	50	9.1	27.3	13.6
Micro finance banks provide credit facilities to their customers to support their businesses.	63.6	18.2	9.1	9.1
Microfinance banks have adequate supervision on the facilities issued to the customers	45.5	9.1	27.3	18.2
Bank staff followed well set criteria in accessing credit facility	50	9.1	27.3	13.6
Micro finance banks increase the level of loans being issued to rural people than urban people	13.6	9.1	27.3	50
Microfinance bank loans have positive impact on their customers	59.1	18.2	13.6	9.1
Microfinance services improved the standard of living of people in the state	50	27.3	13.6	4.55

Source: Questionnaire Administered 2024.

On the issue of supervision, 54.6% of the respondents agreed that microfinance banks have adequate supervision on the facilities issued to the customers, while other respondents representing 45.4% disagreed. The result showed that majority of the respondents strongly agreed that microfinance banks have adequate supervision on the facilities issued to the customers. Also, majority of respondents representing 59.1% agreed, while 27.3% disagreed and 13.6% strongly disagreed that bank staff followed well set criteria in accessing credit facility.

However, majority of the respondent disagreed with highest percentage of 77.3% that micro finance banks increase the level of loans being issued to rural people than urban people. On the impact on customers, majority of the respondents constituting 77.3% pointed out that microfinance bank loans have positive impact on customers. While respondents representing 13.6% disagreed and 9.1% strongly disagreed. The result proved that microfinance bank loans have positive impact on their customers. In the same vein, 50% of respondents strongly agreed, and 27.3% agreed that microfinance services improved the standard of living of people. Only 22.7% disagreed. This shows that microfinance services improved the standard of living of people in the state.

8. Test of Hypothesis

In order to achieve the objective of the study, the following hypotheses were tested:

- H_0: that the services of microfinance banks do not significantly reduce the level of poverty in the state.
- H_1: that the services of microfinance banks significantly reduce the level of poverty in the state.

Table 2 Microfinance banks reduce poverty level in the state

Response	S/A	A	D	S/D	Total
Male	20	40	30	8	98
Female	10	70	30	12	122
Total	30	110	60	20	220

Source: Questionnaire Administered, 2024.

Table 3 The chi-square (x2) test

O	E	O-E	$(O-E)^2$ /E
20	13.36	6.64	3.3
40	49	-9	1.65
30	26.72	3.28	0.4
8	8.91	-0.91	0.09
10	16.64	-6.64	2.65
70	61	9	1.33
30	33.27	-3.27	0.32
12	11.09	0.91	0.07
			x^2 = 9.81

Source: Author's computation, 2024.

From the decision rule, the H0 is rejected and accept H1 if the computed x2 is more than the critical value and vice versa. The computed x2 (9.81) is greater that the critical value of (7.815). Hence, the alternative hypothesis (H_1) is accepted that the services of microfinance banks significantly reduce the level of poverty in the state. The Null hypothesis that state otherwise is rejected. This shows that micro-credit availability has a positive impact on living standards of recipients of these facilities. The reason for this assertion is that when people with micro enterprises have access to credit, they are able to expand their businesses, employ more people, improve their living standards as well as improve the standards of living of their employees.

9. Discussion

The result showed that the services of microfinance banks reduce the level of poverty in the state. This was also confirmed by the test of hypothesis conducted. The microcredit to the rural poor and low income earners, is thus considered essential to alleviate poverty and promote economic development (Rulle, Bamie & Turay, 2008). No doubt, microfinance institutions, by providing the access to finance enable economic agents to make concrete investment decisions and engage in productive activities which are considered as an effective way for poverty reduction.

The study also indicate that microfinance bank loans have positive impact on their customers. This is in consonance with Murdoch & Haley, 2001; D'Souza, Gokarn, Mohanty, and Shah, (2007), among others that posited that microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and have taken advantage of increased earnings to improve their consumption level, health and build assets.

It also revealed that microfinance services improved the standard of living of people in the state.

Ayodele & Kayode (2014) pointed out that the process of microcredit has helped to create an infrastructure where the poor, previously each as isolated and without accountable capital, can now be organized in large numbers and provided credit to participate effectively in economic and social initiatives. The microcredit to the rural poor and low income earners, is thus considered essential to alleviate poverty and promote economic development (Rulle, Bamie & Turay, 2008).

10. Conclusion and Recommendation

From the result it can be established that microcredit indeed is a strategy of poverty alleviation. The test of hypothesis also affirm that the services of microfinance banks significantly reduce the level of poverty in the state. Microcredit is a platform where the vulnerable poor formerly seen without capital, have now witnessed a tremendous improvement in their income, whereby they can now invest in business with profit. The basic assumption is that the poor are the best judges of their situation and know how best to make of the use of the microcredit when available.

Finally, at an aggregate level, microcredit serve as a means of broadening participation to include marginalized group that have been left out. The main benefit is economic stability that flows from having more stakeholders participate in economic activities in the state and thereby bringing about a drastic reduction in poverty level in the state.

Following from the findings of this study the researcher recommended that the microcredit institutions should increase the credit facilities to the customers at a lower rate of interest to promote economic activities so as to make greater impact on the poverty alleviation of people of the State. The government should also provide a conducive and enabling environment for the growth and sustainability of Microcredit finance institutions as well as all agencies in charge of giving microcredit to the poor. Provision of infrastructure such as road, water, electricity etc. in rural communities are necessary to facilitate micro finance activities. This will reduce the cost of operation and increase outreach. The customers should be monitored to invest the credits given to them in productive activities that lead to increase in their income and savings in order to poverty.

Compliance with ethical standards

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No conflict of interest to be disclosed.

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