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# Empirical Review of the Role of Microfinance Bank's Operations on Poverty Alleviation in Nigeria

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ABSTRACT

The scourge of poverty and the rate at which the figure is growing has necessitated the establishment of many anti-poverty programmes by different administrations in Nigeria. As at 2010 the number of Nigerians living below poverty line stood at 72 million, this then means that nearly half of Nigeria Population of 160 million is living below poverty line with all the anti-poverty programmes put in place. This figure is still on the increase. Microfinance Banking is the most recent and the only anti-poverty programme that combines financial intermediation with provision of financial services to the poor in the society. This paper therefore examined the role of Microfinance Bank's operations on poverty alleviation in Nigeria. Data for the study were generated via secondary sources. The study built a regression model in line with the hypotheses. SPSS package version 17.0 was used. We tested for and corrected Autocorrelation and Muiticoliinearity. Our findings were as follows: the operations of MFBs have played significant role in poverty reduction in Nigeria, loans and advances of MFBs have significant negative impact on poverty alleviation. Some of our of our findings were in agreement with the objectives of MFB, while those that were not in agreement reflect the peculiar circumstances of the operations of microfinance banking in Nigeria. Since the government of Nigeria is interested in alleviating poverty, this work will be of immense help. The government can support Microfinance development by promoting macroeconomic stability, and avoiding interest rate caps and high inflation, ensure that the benefits of Microfinance banking are targeted at the core poor.



**Introduction**

Microfinance banking, like other banking operations started with the activities of the early goldsmith, who were custodians of peoples' valuables at that time, Kanu (2002). These depositors were mainly men who had surplus to save. Banking services were fashioned to meet the needs of the rich who had valuables to deposit with the goldsmiths, at the expense of the poor. Banking in Nigeria started in 1892 (Kanu 2005) and was operated with this same concept that resulted in the rich getting richer and the poor impoverished.

Microfinance Banks, like any other banking institution, play an intermediary role between the surplus and deficit units of the economy. They try to achieve their two known missions which are - financial sustainability and social. To ensure that they remain in business, they pursue their financial mission with vigor. To achieve the concept for which they were established they equally pursue their social mission by granting financial services to the poor. The question then is "What is Microfinance Bank?" This bank is a company licensed to carry out the business of providing microfinance services such as savings, loans, domestic funds transfer and other financial services to the economically active poor, micro enterprises and small and medium scale enterprises who need financial services to conduct or expand their businesses. The goals of microfinance bank are:

❖Provision of diversified financial services.
❖Mobilization of savings for intermediation.
❖Creation of employment opportunities.
❖Enhanced participation of the poor in economic development.
❖Provision of avenue for the administration of government and high networth individuals' funds in micro credits programmes
❖Rendition of payment services

To balance this sustainability and social missions, microfinance banks focus on the financial aspect and to achieve its special objective, the banks try to clearly define their social performance goals, the type of client to serve, client's status monitoring and benefits to the community and client's impact by comparing clients to non-clients.

Micro-credits granted by this microfinance banks is a powerful instrument against poverty. Access to sustainable financial services increases income and asset of the poor. Poor household use financial services to raise income. It helps to cushion business against external shocks. Microfinance banking is not a simple banking but also a developmental tool. The government of Nigeria has identified microfinance as an effective tool for promoting better access of the poor and low income population to financial and social services and strong economic growth. It enables the poor people to expand their businesses, increase their revenue and create employment.

It is against this backdrop that the Microfinance banking which helped to move many poor people out of poverty in many developing countries of the world was introduced in Nigeria. It started as a concept to provide financial services to the world poor, because those who by circumstances of not being rich are excluded from access to the conventional Deposit money banks and other financial institutions for lack of collateral. Microfinance is not a recent development neither is the regulation and supervision. Many in the microfinance

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community believe that microfinance was invented in Bangladesh in the mid seventies (1976). Attributing the origin of microfinance to recent initiatives misses out on the historical depth and scale of microfinance.

In a developing country like Bangladesh, the concept of microfinance banking was introduced in the mid seventies by Dr Muhammed Yunus a professor of economics at Chittagong University. His objectives were to end the mistreatment of the poor by money lenders, in order to offer the poor financial services and facilitate entrepreneurship opportunities.

In Nigeria, the practice of microfinance banking is culturally rooted and dates back to several centuries (Kanu 2002). The traditional microfinance institution provides access to credit for the rural and urban low-income earners, it is mainly of the informal self-help group or rotating savings and credit association. Concerted efforts at introducing officially administered microfinance bank in Nigeria started in 1998 during President Ibrahim Babangida's government with the introduction of Peoples Bank in 1988 that later metamorphosed into Community Banks and now Microfinance Banks.

Previously it was believed that poor people were unbankable as they were only taking out small loans since they had no collateral for big ones. Grameen Bank in Bangladesh has proved that poor people were not only bankable but that microfinance banking in the informal sector was quite profitable.

Microfinance institutions which later metamorphosed to microfinance banks can be formal or semi-formal. The semi-formal providers of microfinance are credit unions and non-governmental organizations (NGOs) while banks are the formal providers. They try to reach as many poor people as possible, going further below the poverty line, by encouraging them to operate small savings from which loans can be granted them. Outreach is the main goal of microfinance so that the voiceless can be effectively empowered. Another goal of microfinance banking which is economic, is to provide a sustainable service, so that this financial service to the poor will be continuous overtime. This is to ensure that any welfare gained may not roll back and make the poor even poorer. Sustainability for microfinance banks also means that these banks should be able to cover their costs with revenue earned from their operations. To ensure sustainability, according to Nwobodo (2013) the CBN on the 15 August 2013 has launched a N220 billion fund to be distributed to micro, small and medium scale financial institutions through MFBs. This fund has four components, the grant components of this fund will enable the CBN to support MFB in capacity building, while the refinancing components allows MFB to be refinanced by CBN at a discounted rate in the event that they given out huge facilities to their customers. Government of Nigeria also established development financial institutions (DFI) to provide them with additional sources of funding. This funding is done on a lending basis to the Micro-finance Banks (MFBs) who have a greater expertise in financing smaller intermediaries. These banks have operated for many years in different names, yet the problem of poverty in Nigeria is un-abating.

At inception, Peoples Bank of Nigeria which was a part of microfinance arrangement was established by the Federal Government in 1988 with an initial take off grant of N30 million to meet the credit needs of small borrowers, who were unable to meet the stringent requirement of the conventional bank. To promote rural development and enhance economic growth and development at the grass root, communities were encouraged to open community banks. The activities of these community banks complemented those of rural bank branches and branches of People's Bank. To encourage the patronage of community banks, their lending rate was placed below those commercial banks. The two banks (People's Bank and Community Bank) now have been merged into Micro-finance Bank.

Microfinance banks are expected to operate in the rural areas that house more than seventy percent (70%) of the Nigeria population. On the average, every local government in Imo State has one microfinance bank to take care of the active poor in the rural areas, This then means that there exists a huge gap, in the provision of financial services to a large number of active but poor and low income groups. Their outreach in the Local Government Areas is not enough, for these microfinance banks are mainly located at the Local Government Headquarters. The location of these Local Government Headquarters are not within a walking distance for the poor, who may not have the transport fare which is an additional cost to the credit when granted. The poor quality of their management is another problem as most of their management staff are either retired but not tired bankers or retrenched staff of the distressed banks. Many of these banks have poor credit policies, where good policies exist, such policies were never implemented. The sub-optimal performance of these microfinance banks is blamed on the incompetence of the management. The management of these microfinance banks who could have helped are more interested in competing with deposit money banks, whose capital base and deposit liabilities are to a larger extent greater.

Since the poor are willing to borrow at a high rate and the banks are expanding their activities to achieve the purpose for which they are established, who then are the beneficiaries of these loans, since poverty still looms? This study therefore, seeks to assess the performance of microfinance banking in a developing economy like Nigeria identify if there are problems that militate against the achievement of its goals and finally see what prospects it holds for the poor.

**Statement of the research problem**

Studies show that the poor are bankable and willing to borrow, microfinance banking concept is to provide financial services to the poor. This banking concept which has helped in the reduction of poverty in many developed economies and some developing economies of the world, was introduced in Nigeria in 1988 with the establishment of people's bank. This banking concept has been operated for over ten years in Nigeria, yet poverty persists. The problem of poverty is not peculiar to Nigeria, it is a world wide problem hence the eradication of poverty as one of the Millennium Development Goals. The population of the poor in Nigeria increased four fold in absolute terms between 1980 and 1996 (CBN 2005). There is evidence that the percentage of the core poor increased from 62% in 1980 to 93% in 1996, whereas the moderately poor only rose from 34.1% in 1992 to 56% in 1996 and declined to 28.9% in 2005, the percentage is gradually increasing. The proportion of total income spent on food by the core poor and moderately poor was approximately 75% and 73% respectively. While the non-poor category spent about 53% of their total income on food (CBN 2005).

In the light of the above, Nigeria as a nation is obviously backwards. Poverty has been a scourge of the Nigerian people. The United Nations Development reports, (CBN brief 2005) state that the Nigerian economy has been suffering from severe digression since the mid 1980s. Its Gross domestic Products (GDP) which was US$93.3 billion in 1980 is currently less than a quarter of what it was twenty-five years ago". Nigeria is ranked among the poorest countries in the world (CBN 2005), the number of those living in poverty has continued to increase over the years. By 1999 when Chief Olusegun Obasanjo came to power a second time, it was estimated that more than 70% of Nigerian live in poverty. An analysis of the depth and severity of poverty in Nigeria showed that the rural areas were the most affected, while female population constitute almost more than half of this number. Several reasons accounted for this situation, the large concentration of the populace in the rural areas, the subordinate status of the female population and many years of neglect of the rural areas in term of infrastructural development and lack of information on how the Government is run.

The task of poverty reduction has been a particularly daunting one for all developing countries and, more so in Nigeria. It is this awareness that forms the Obasanjo's administrations to declare in November 1999 that the N470 billion budget for the years 2000 was "to relieve poverty" (CBN 2005). Poverty rather than being relieved is on the increase in Nigeria in spite of all the poverty eradication programmes initiated by many administrations in the country, microfinance banking inclusive.

Microfinance Banks, as was said earlier, a banking concept that was specifically meant for the reduction of poverty. This concept worked in Bangladesh and many other developing and developed countries of the world, though it has its problems in Nigeria but its prospects are good if the concept is properly applied and monitored to ensure compliance. These laudable objectives of these specialized banks are deemed to be failing due to the poor policy implementation and inadequate funding, as their impact on the welfare of the poor in quantitive terms is little felt.

The August 2009 famous bank audit resulted in the revocation of the license of 224 microfinance banks in Nigeria in July 2010 (CBN Circular 2010). Investigations show that the number of microfinance banks depositors who are frustrated is growing and more banks are closing their doors because of their failure to meet with their depositors' demand.

The most disheartening problem is that the poor whom these banks are meant to salvage from the claw? of poverty are further impoverished. The poor who deposited their little earnings in these banks with the sole aim of getting small credits, lost all with the collapse of the banks.

The problem is that microfinance banks inspite of its laudable objectives and concepts, in-depth studies and recommendations and manner of policies and programmes initiated by various governments (including Directorate of Food, Roads, and Rural Infrastructures, Better Life Programme, Directorate of Employment, People's Bank, Community Bank, Family Support Programme, Poverty Eradication Programme, National Poverty Eradication Programme, National Economic Empowerment Development Strategy (NEEDS) and lately microfinance banks) to reduce poverty in Nigeria, have not succeeded since poverty is still on the increase. Is it that the poorest of the poor shy away from micro-credits and why? Do they require a change in the strategy for credit delivery?

This study, therefore, undertakes to examine the impact of microfinance banking on poverty alleviation.

**Objectives of the study**

The broad objective of this research is to examine the impact of Microfinance Bank operations on 'a developing economy the specific objectives are as follows:

1. To examine whether loans and advances of MFBs impacts significantly on poverty alleviation in Nigeria.
2. To find out if the growth in deposits of microfinance banks have significant impact on poverty reduction.
3. To look at the prospects of the poor benefiting from microfinance banks operations.
4. To make an informed conclusion and proffer workable recommendations for the operations of microfinance banks.

**Research questions**

Based on the issues raised in the background of the study and the problem statement, this study seeks to find answers to the following research questions:

1. What are the impacts of microfinance banks operations on poverty reduction?
2. Has loans and advances of microfinance banks any significant impact on poverty reduction?
3. To what extent does the growth in deposits of microfinance banks impact on poverty?
4. What problems militate against the achievement of microfinance objectives?
5. Are there prospects for the poor benefiting from the functioning of microfinance banks in Imo State?

**Statement of research hypotheses**

The study is based on the following hypotheses which will be subjected to tests.

$Ho_1$:The operations of microfinance banks do not have significant impact on poverty alleviation.

$Ho_2$:Loans and advances of microfinance banks do not have significant impact on poverty alleviation.

$Ho_3$:The growth in deposits of microfinance banks do not have significant impact on poverty level.

**Literature review**

**A review of poverty in Nigeria**

The income/consumption approach to the definition of poverty has been flawed on several grounds. The economist's view of poverty may be different from that of sociologists, which in turn may differ from that of political scientists. Thus there is need to empirically determine whether a general consensus exist on the people's perception of poverty.

One of such empirical works is that of Udoh and Omonona (2002), they noted that for poverty alleviation or reduction programmes to be workable in Nigeria, there is the need to understand the local and household characteristics and perception of poverty. This is on the premise that the poor are regarded as poverty experts (World Bank and DFID, 1999 cited in Udoh and Omonona, 2002).

Table 1 shows the distribution of respondents nation-wide survey on the local definition of poverty in the content of gender and generational dimensions.

The table indicates that many of the perspectives on poverty are common for all the social groups. The most common definition of poverty relates to lack of basic amenities (32.5%) while the next in terms of prominence is the inability to earn a living (22.5%) and lack of money (20%). It is noteworthy that only the adult female viewed poverty in terms of insecurity/violence.

The World Bank (2001) undertook a global assessment involving 60 countries to find out people's ideas of well-being (a good experience of life) and ill-being" (a bad experience of life). With respect to the latter, people described it as lack of material things, as bad experiences and bad feeling about oneself. In Jamaica, a group of young men ranked lack of self-confidence as the second biggest impact of poverty. To them, "poverty means we don't believe in self, hardly travel out of the community - so frustrated just locked up in a house all day". The World Bank observes a striking commonality across countries. No "Surprising, material well-being turns out to be very important.

Lack of food, shelter, and clothing is mentioned everywhere as critical. For instance in Kenya a man says, "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 the utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty".

The World Bank (1996) carried out a detailed poverty assessment of Nigeria. Based on empirical data, the rural poor have the following symptoms;

❖Poor access symptoms - the poor live in communities served by bad roads and lacked;

❖Physical access for inputs and outputs;

❖Agricultural symptoms - pool households tend to have a small farm area used mainly for subsistence cultivation.

They have only family labour available and may themselves have to work as paid labourers for others to earn income;

❖Nutritional symptoms - poor households face food insecurity before harvest time and are often confined to starch-based consumption, particularly such items as cassava flour,

❖Social and economic access symptoms/ linkages to influential people and urban opportunities are minimal and the only available income earning opportunities are characterized by low returns, visible poverty symptoms.

The rural poor cannot afford roofing sheets for their house and have only one set of clothing, worn .at all times.

Empirical World Bank data for Nigeria also reveal that the urban poor suffer from the following poverty symptoms:

❖Income and employment symptoms - the poor have unemployed or underemployed household members; poor children poor families cannot afford children's schools fees or transport costs and the children do such jobs as firewood gathering for sale, load carrying in markets (e.g. wheel barrow boys) and hawking ready-to-eat foods; diet-diet is inadequate and monotonous, visible systems-the poor have poor housing without latrine, bathroom or kitchen and with an irregular supply of water and electricity.

Table 2 show that national poverty rose from 28.1 percent in 1980 to 46.3 percent in 1985. However, there was a slight deceleration to 42.7 percent as at 1992, followed by an all time increase to 65.6 percent in 1996. National poverty incidence has remained high despite a decline to 54.4 percent in 2004 (see Igue, 2005).

Nigeria and the Federal Office of Statistics 1992, 2005 (see Igue, op. cit).

In terms of population, the number of poor people living below the national poverty line increased continuously from 17.1 million in 1980 to 68.7 million in 2004.

Furthermore, poverty incidence can be analyzed from the perspective of urban and rural areas. From the data presented in tabled *2,* it is obvious that poverty is much more pronounced in rural areas as compared to urban Nigeria. The rural poor stood at 28.3 percent in 1980 with a jump to 51.5 percent in 1985. The subsequent decline to 46 percent in 1992 was short -lived as rural poverty level inched further up on an all-time high of 69.8 percent in 1996, It fell marginally to 63.3 percent in 2004, the trend in urban poverty showed a similar fluctuating pattern as the proportion of the urban poor in Nigeria rose from 17.2 percent in 1980 to 43.2 percent in 2004.

The table also revealed that male-headed households were consistently poorer than female-headed households in Nigeria throughout the period spanning from 1980 to 2004, this outcome is particularly surprising as female folks are considered weaker, suffers from gender discrimination and generally appear to have fewer income earning opportunities.

The worsening poverty scenario in Nigeria is further attested to by the data in table 3 which presents the percentage share of consumption of different quantities in Nigeria from 1992 to 2004. Although the ranking is on the basis of per capita expenditure rather than per capita income, yet it somehow reflects the income distribution pattern in Nigeria.

Table 3 shows a worsening distribution of per capita expenditure. The highest 10 percent of the country's population (the richest 10 percent) of the tenth quintile consumed 31.3 percent of the nation's total output of goods and services between 1992 and 1993. Their share rose significantly to 40.8 percent in 1996/1997 and very marginally to 40 percent in 2004. Further, the highest 20% (or richest 20 percent) of Nigerians which comprises the ninth and tenth quintile had a combined per capita expenditure of 49.3 percent in 1992/1993, with significant rise to 69.03 percent by 2004.

On the other hand, the story is vastly different for the lowest or bottom 10% of the country's population. They consumed only a meager 1.3 percent in 1992/1993 period, with an insignificant rise to 1.6 percent in 1996/1997 period. The figure remained static at 1.6 percent in 2004. The second quintile had a better share of the "national cake" as their share rose from 8.9 percent in 1993/1993 period to 13.43 percent in 2004. Table 3 also provides figures for the Gini index, which is an aggregate measure of inequality - in this case, inequality in per capita expenditure distribution in Nigeria. The Gini index range from 0 (percent equality) to 100 - (perfect inequality). The figures in the table shows that Gini index rose from 45 in 1992/1993 period to 50 in 1996/1997 period - this represent a rise in per capita expenditure inequality of 48.82. The Gini index provides a useful insight on why the incidence of poverty is high in Nigeria - the reason being the high inequality per capita consumption.

Table 4 presents data in relation to the prevalence of child malnutrition in Nigeria. It is an additional indication on the extent of poverty. The percentage of underweight children'under five years of age on a national basis fell from 35.7% in 1990 to 28.3 percent in 1993 but rose again to 0.7 percent in 1999.

The percentage of underweight children was more in rural areas in comparison to urban areas. This pattern closely follows the rural-urban poverty incidence discussed earlier in table 2 Table 5 relates to the prevalence of under-nourishment in Nigeria. In the 1990-1992 periods, 13% of the population was under-nourished. However, the figures decline in subsequent period to 8% (1996-1998) and 7% (1999-2001).

Thus, the nation made some progress towards reducing the percentage of the population that is under-nourished.

**Poverty and development**

Knowing how to alleviate poverty is a central concern of development economies. Bruno et al (1995) stated that there are ample evidence that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are equally important. Programmes that can provide credit and build human capital are capable of eliminating the causes of poverty. Barnes (2010) states that Nigeria is rated as one of the poorest country of the world, a country with abundant resources both in human and mineral reminifictions Chukwuemeka (2009) on his own, states that poverty is endemic and that it is on the increase in Nigeria, Looking at the conceptual review of poverty above and the practical reality in Nigeria, revealed that there is a high level mass and pervasive poverty in the country. Segun (2011) states that this explains why the attainment of the MDG goals in Nigeria requires massive efforts from government at all levels and other stakeholders, including the international donors.

**Table 1. Percentage distribution of respondents based on local definitions of poverty**

| Definitions | Youth | | Adults | | Total |
|---|---|---|---|---|---|
| | Male | Female | Male | Female | |
| Lack of Money | 5 | 5 | 7.5 | 2.5 | 20 |
| Lack of Physical Assets | 2 | 2.5 | - | - | 7.5 |
| Lack of Basic Amenities | 5 | 10 | 7.5 | 10 | 32.5 |
| Inability to Earn a Living . | 5 | 7.5 | 5 | 5 | 22.5 |
| State of Suffering | - | 2.5 | 2.5 | - | 5 |
| Insecurity /Violence | - | - | - | 2.5 | 2.5 |
| State of Joblessness | 1.25 | - | 2.5 | - | 3.75 |
| Low Standard of Living | 1.25 | - | 2.5 | 2.5 | 6.25 |

*Source*: Udoh and Omonona (2002)

**Table 2. Poverty Profile for Nigeria**

| Poverty level (%) | | | | | Estimated population (Million) | Population in poverty (Million) |
|---|---|---|---|---|---|---|
| National | Urban | Rural | Male headed households | Female headed households | | |
| 281. | 17.2 | 28.3 | 29.2 | 26.9 | 65 | 17.7 |
| 46.3 | 37.8 | 51.4 | 47.3 | 38.6 | 75 | 34.7 |
| 42.7 | 37.5 | 46 | 43.1 | 39.9 | 91.5 | 39.2 |
| 65.6 | 58.2 | 69.8 | 66.4 | 58.5 | 102.3 | 67.1 |
| 54.4 | 43.2 | 63.3 | 58.2 | 43.5 | 126.3 | 68.7 |

*Sources:* Adapted from National Millennium Development Goals Report -2004.

**Table 3. Percentage of consumption of different Quintiles (1992-2004)**

| Survey year | Gini Inde X | Lowes 1 10% | Lowes t 20% | Seco nd Quinti le | Third Quintile | Fourth Quintile | Highest 20% | High 10% |
|---|---|---|---|---|---|---|---|---|
| 1992/1993 | 45 | 1.3 | 4 | 8.9 | 14.4 | 23.4 | 49.3 | 31 |
| 1996/1997 | 50 | 1.6 | 4.4 | 8.2 | 12.5 | 19.3 | 55.7 | 40 |
| 2004 | 48.8 2 | 1.6 | 7.8 | 13.43 | 19.4 | 28.3 | 69.03 | 40 |

*Sources:* World Development Indicators, 2004 and the Federal Office of Statistics 2005.

**Table 4. Prevalence of Child Malnutrition % of underweight children five years of age in Nigeria**

| | 1990 | 1991 | 1999 |
|---|---|---|---|
| National | 35.7 | 28.3 | 30.7 |
| Urban | 26.3 | 26.3 | 21.7 |
| Rural | 38.5 | 38.5 | 34.1 |

*Source;* World Development indicator: 2004 and National Millennium Development Goals Reports, 2004, Nigeria.

**Table 5. Prevalence of under-nourishment**

| Year | % of population |
|---|---|
| 1990-1992 | 13% |
| 1996- 1998 | 8% |
| 1999-2001 | 7% |

*Source:* World Development Indicators (2004)

**Table 6. Trend in Nigeria's three mortalities**

| | 1960 | 1970 | 1980 | 1990 | 2000 |
|---|---|---|---|---|---|
| Infant mortality rate (per 1000 live birth) | 189 | 120 | 116 | 116 | 112 |
| Under five mortality rate (1000 live birth) | 207 | 201 | 196 | 167 | 187 |
| Maternal mortality rate (100,000 live births) | 1000 | 1000 | 750 | 1000 | 1000 |
| Life expectancy at birth (years) | 42.7 | 43.5 | 47 | 52 | 50 |

*Source:* UNDP HDR (2001)

**Table 7. Nutrition, daily per capita supply of calories, protein and fat in Nigeria**

| Daily per capita supply calories requirement | 2254 | 2609 |
|---|---|---|
| Daily supply of protein (grams) | 49.0 | 563 |
| Fats (gram) | 49.7 | 663 |
| Cereal yields (kg per hectre) | 1269 (1269 (1979-1981) | 1191(1997-2000) |
| Food production index (1980-91 = 100) | -57(1979-1981) | 134.2 (1997) |

*Source:* UNDP HDR (2001)

**Table 8. Data Set on Nigeria Per capita Income, Loans and Advance, and Deposits of Microfinance Banks for the Period 1992 - 2008**

| Year | Per Capita Income N'M | Loans and Advances of MFBs J4'M | Deposits of MFBs H'M |
|---|---|---|---|
| 1992 | 5.56 | 135.80 | 639.60 |
| 1993 | 6.98 | 654.50 | 2188.20 |
| 1994 | 8.90 | 1220.60 | 3216.70 |
| 1995 | 18.75 | 1129.80 | 2834.60 |
| 1996 | 25.33 | 1400.20 | 2876.30 |
| 1997 | 25.55 | 1618.80 | 3181.90 |
| JL998 | 24,04 | 2526.80 | 4454.20 |
| 1999 | 27.59 | 2958.30 | 4140.32 |
| 2000 | 38.52 | 3666.60 | 7689.40 |
| 2001 | 38.66 | 1314.00 | 3294.00 |
| 2002 | 55.04 | 4310.90 | 9699.20 |
| 2003 | 65.79 | 9954.80 | 18075.00 |
| 2004 | 86.06 | 11353.80 | 21407.90 |
| 2005 | 106.95 | 28504.80 | 47523.70 |
| 2006 | 132.60 | 16450.20 | 34017.70 |
| 2007 | 143.59 | 22850.20 | 41217.70 |
| 2008 | 165.19 | 42753.06 | 61568.10 |

*Source:* CBN Statistical Bulletin 2009, World Economic Outlook, National Statistical Office 2006.

**Regression Data Set For Hypotheses 1 -3**

**Variables Entered/Removed**

| | | | |
|---|---|---|---|
| Model 1 | Variables Entered $X_2$, $X1^n$ | Variables Removed | Method Enter |

a. All requested variables entered.

**Model Summary**[b]

| Model | R | R Square | Adjusted R Square | Std. Error of The Estima te | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .969[a] | .940 | .931 | | 1.809 |

a. Predictors: (constant), $X_2$, $X_1$,

b. Dependent Variable: y

**ANOVA**[a]

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| 1 Regression | 39350.437 | 2 | 19675.219 | 108.778 | .000[a] |
| Residual | 2532.243 | 14 | 180.875 | | |
| Total | 41882.681 | 16 | | | |

a. Predictors: (constant), $X_2$ $X_1$

b. Dependent Variable: y

**Coefficients**[a]

| Model | | | Standardized | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | Unstandardized | | Coefficients | | | | |
| | Coefficients | | | | | | |
| | B | Std. | | T | Sig. | Tolerance | VIF |
| | | Error | | | | | |
| 1 | 11.863 | 4.701 | | 2.524 | .024 | .022 | 45.908 |
| (Constant) | -.005 | .002 | | -2.477 | .027 | .022 | 45.908 |
| $X_I$ | .006 | .001 | | 4.596 | .000 | | |
| $X_2$ | | | | | | | |

a. Dependent Variable: y

**Collinearity Diagnostics**[a]

| | | | | Variance Proportions | |
|---|---|---|---|---|---|
| Model | Eigenvalue | Condition | Constant) | $X_1$ | $X_2$ |
| Dimension | | Index | | | |
| 1 1 | 2.516 | 1.000 | .05 | .00 | .00 |
| 2 | .478 | 2.295 | .75 | .00 | .00 |
| 3 | .007 | 19.573 | .20 | .99 | 1.00 |

b. Dependent Variable: y

**Table 4.2 Effects of Loans and Advances, and Deposits of Mfbs on Poverty Reduction**

| Variable | Loans & advances $X_1$ | Deposits $X_2$ |
|---|---|---|
| Beta | -1.103 | 2.046 |
| Standard Error | .002 | .007 |
| t-calculated | -2.477 | 4.596 |
| t-tabulated 5% | 2.145 | 2.145 |
| Significance | 0.027 | 0.000 |

*Source:* SPSS Statistical Regression Result.

With this development in mind many governments in Nigeria at one time or the other have tried to initiate programmes aimed at reducing the poverty rate in the country. Between 1986 and 2004 various policies and programmes were initiated. A critical review of these programmes Directorate of Food, Roads and Rural Infrastructures (DFRRI) was more felt through the electronic media than on foods, roads and rural infrastructure, which if it were effectively implemented would have helped in reducing poverty. The policies were well formulated but the implementation had flaws, since, most of the funds meant for the implementation of these programmes ended up in the pockets of highly placed people in government, Nwosu (2000).

Better Life Programme (BLP), Family Support Programme (FSP) and Family economic Advancement Programme (FEAP), their implementation were not better than that of Directorate of Foods, Roads and Rural Infrastructure that was jettisoned as our government lacked continuity. New programmes are initiated so that more money can be budgeted for new programmes. These programmes Nwosu further stated were more of huge conduits through which highly placed government official enrich themselves, the baby was not billed to survive at conception. The impact of National Economic Empowerment Development Strategy (NEEDS), is neither felt by the poor in Nigeria nor its implementation different from others before it. This particular programme is aimed at ameliorating the suffering of the people by providing them employment opportunities and access to credit facilities to enable them establish their own businesses. The question every Nigerian will be very eager to know the answer is; how many businesses in Nigeria were empowered by the National Economic Empowerment Development Strategy? Because these programme fail, the gap between the middle class in Nigeria and the poor (that is those living below poverty line) is narrowing out. Many more people are moving into the poverty circle rather than moving out of it.

These programmes are tested and trusted and can be used to reduced poverty in Nigeria, if they are effectively and efficiently implemented. With all these programmes in place and properly implemented, the poor will be better off in Nigeria.

A situation where government embark on the importation of three-wheels motorcycles as a way of alleviating poverty, hardly makes people live above poverty, rather, it multiplies the stress on our roads and in some extreme cases leads to loss of lives. These programmes if integrated into government's programmes and not as a separate entity can produce the desired effects.

The flaw with these programmes is that the initiators are the policy designers, programme implementers and in most cases programme beneficiaries. When it is so the poor then is not the reason de extra. Any programme aimed at alleviating poverty should be made accessible to the poor, who are meant to be its beneficiary.

Microfinance which refers to any project that supports the delivery of very small, uncollaterised or less-than-normally collaterised loans, for low income clients is a new programme in Nigeria aimed at reducing poverty. This programme implementation is done through specialized banks known as microfinance banks. These banks carryout all the operations of a conventional bank and more, (they give, small uncollaterised loans to the poor). The poor in the society are meant to be the majority of their clients and they are expected to be located in areas where these poor in the society are found. They deposit their money in it.

Chambers (1997) argues that the objective of development is well being for all, where well-being refers to good quality of life. It is much broader than wealth and includes the whole range of human experience, social, mental and spiritual as well as material, and each individual may define it differently. Recent literatures reveal an important link between poverty and growth cum development. Increase in Gross Domestic Product (GDP) seems to be connected to reduction in poverty.

Specifically, the production base model shows that economic growth depends on the quantity of inputs of factor services that is the more inputs of these factors of production, the more growth of the national income. Development policies should then aim at increasing the supplies of these factors as well as enhancing their productivities. Savings and investments (including investment in human capital) are critical elements in the growth and development process.

Economic development is undoubtedly an important factor in reducing poverty and in generating the resources necessary for human development and environmental restoration. Every theoretical underpinning that has been developed to explain the concept of economic development suggests that the real output per capital is an indicator that defines the real output per person in a nation. It is calculated by dividing real GNP in a nation by the nations population. The understanding here is that growth is good for poverty reduction or poverty reduction speeds up growth and development. The trouble here is that there is no clear cut indication of which should come first. In the Nigerian context, it may be that poverty reduction brings about growth. This statement can be justified with the following reasons.

❖ Poverty makes people detest risk taking and as such reducing poverty makes them more prepared to take entrepreneurial risk necessary for growth.

❖ Poverty makes people immobile. It reduction gives them more room to move, to look for job or perhaps wait for more appropriate job.

❖ Poverty is an obstacle to improving the health and education of children. Poverty reduction therefore, improves human productivity overall, but it also means that future investment in health and education are more evenly spread among those who can best use them rather than being concentrated in a small group who pay for them, Bulama (2006) asserts.

The severe and widespread poverty in the nation also led to worsening mortality rates and reduced life expectancy. The table below shows the trend of infant, under-five and maternal mortality rates. From the table, infant mortality in a thousand (1000) births was 116 in the period 1980 -1990, it later fell to 112 in the years 2000. The mortality rate for under-five rose from 67 in 1990 to 187 in the year 2000. In the same vein life expectancy fell from 52 years in 1990 to 50 years in 2000.

Apart from the worsening mortality rates, the deepening poverty situation, carries along with it the problem of malnutrition. Malnutrition devastates the economy through poor productivity and weak health conditions. World Bank development report (2000) stated that, the daily per capital supply of calories, protein and fat grew slowly since 1970, especially when compared with the rate of population growth, which is placed on 3.1% annually. The table "illustrates the nutritional deficiency of the nation. Cereal yields from 1,269 in 1970 to 1,191 in 2000.

**Methodology**

The relevant data were obtained from the statistical Bulletin of the Central Bank of Nigeria (CBN), World Economic Outlook and National Statistical Office, For estimation purposes, we applied/adopted an estimable model to time series annual Nigerian data from 1992-2008 using statistical the package for social sciences (SPSS version 17.00, multiple Regression).

**Model Specification**

The multiple regression analysis was employed in this regard. According of Egbulonu (2000), the model goes thus:

$Y = a_0 + a_1X_1 + a_2 X_2........a_n X_n + \mu$. Hence

PCI - F(LADt1 DMFBt), that is

PCI = $a_0 + a_1LAD + a_2DMFB + \mu$

PGI = $a_0 + a_1LAD + a_2DMFB$

Where:

PCI = Per Capita Income (Y)

LAD = Loans and Advances of Micro Finance Banks ($X_1$)

DFMB = Deposits of Micro Finance Banks ($X_2$)

$\mu$ = Stochastic Variable.

**Analysis and interpretation**

The secondary data for the study comprised of the Nigeria data set on per capita income, loans and advances, as well as deposits of microfinance banks for the period 1992 - 2008.

Where:

Y = Per Capita Income

$X_1$ = Loans and advances of Microfinance Banks

$X_2$ = Deposits of Microfinance Banks

**Hypotheses testing**

**Restatement of research hypotheses**

The hypotheses to be tested were stated as follows:

$H_{o1}$: The operations of microfinance banks do not have significant impact on poverty reduction in Imo State,

$Ho_2$:The Loans and advances of microfinance banks do not have significant impact on poverty reduction in Imo State.

$Ho_3$:The growth in deposits of Microfinance Bank do not have significant impact on poverty level in Imo-State.

**Operations on poverty level**

$Ho_1$:The operations of microfinance banks do not have significant impact on poverty reduction in Imo State.

The resulting estimated models are given as follows:

$Y = 11.863 - 0.005X_1 + 0,006X_2$

(4.701) (0.002) (0.001)

(2.524) (-2.477) (4.596)

n = 17, $R^2$ = 0.940 Adj $R^2$ = 0.931

DW = 1.809

Y (per Capita Income), $X_1$ (Loans and Advances of MFBs) $X_2$ (Deposit Liabilities of MFBs).

Considering the results of the statistics as displayed above, regression was used for the analysis.

**Test of model significance - anova**

In order to ascertain the fitness of our model, we employed the analysis of variance designated with F-ratio. F-Calculated = 108.778 F- Tabulated, 17-3, 0.05,

**Decision rule**

Using the SPSS-software, since the F-ratio calculated (108.778) > F-ratio critical value from the table (3.74) at 5% level of significance, we rejected the null hypothesis ($H_0$) and concluded that operations of microfinance banks have significant impact on poverty reduction.

**Test of individual significance (t-test)**

Table 4.2 Effects of Loans and Advances, and Deposits of Mfbs on Poverty Reduction Egbulonu & Nwachukwu (2000)

$H0_2$ Loans and advances of microfinance banks do not have significant impact on poverty reduction in Imo State.

From table 4.2 above, which was adapted from the SPSS result, we observed;

t-calculated = -2.477

t-table, n - k, 5%/2

$t_{o.o25}$ = 2.145

**Decision**

Since t-calculated (2.477) t-table (2.145), we rejected the null hypothesis and conclude that loans and advances of microfinance banks have significant negative impact on poverty reduction,

$H0_3$:The growth in deposits of microfinance banks do not have significant impact on poverty level.

From table 4.2, the observed that for $X_2$,

t-calculated = 4.596

t-table, n - k, 5%/2

$t_{0.o25}$ = 2.145

**Decision**

Since the t-calculated (4.596) > t-tabulated (2.145), we rejected the null hypothesis ($H_0$) and concluded that the growth in deposits of microfinance banks have significant impact on poverty reduction in Imo State.

**Other econometric test**

**Coefficient of determination**

$R^2$ = 0.931 x 100

= 93.1%

This shows that the explanatory variables $X_1$, $X_2$ (independent variables) accounts for about 93.1% variation in the dependent (Y) variable. This gives the model a good fit

**Auto-correlation (durbin - watson)**

The Durbin-Watson statistic is 1.809. This tends to 2 than 0, which showed that the auto-correlation was weak.

**Discussion of findings**

This work used regression analysis to ascertain the impact of microfinance banks operations on poverty reduction in Nigeria. The regression model equation Y (per capita income) = $11.863 - 0.005X_1 + 0.006X_2$ revealed that there exists a negative relationship between loans and advances of microfinance banks and per capita income. This negative sign of bi indicates that as loans and advances of MFBs decrease, per capita income increases. This is not in agreement with our theory and our a priori expectation.

The above may be as a result of inefficient use of loans and advances given to the poor by MFBs. It is a general knowledge that the poor may divert these loans to consumption. This worsens the state of the poor. The poor though active, may not have the managerial know-how, size of loans advanced may not be sufficient for meaningful projects and hence the diversification. Poor management of these loans and improper monitoring of the loans advanced by MFBs may be another reason for negative relationship between loans and advances, and per capita income.

The poor may not be knowledgeable about the benefits of MFBs; they may see it as another conventional bank and may not bother to go for their loan facilities, as they may not have the collateral required for such facilities/loans. Thus, the poor in this regard end up not being the beneficiaries of MFBs loans and advances. It may also be inferred that the loans and advances of MFBs are not given to the poor.

In the same vein, a positive relationship existed between deposits of microfinance banks and per capita income. This indicates that growth in deposits of MFBs increases per capita income. This was in agreement with the a priori expectation. This indicate that the poor are not the core beneficiaries of the operations of MFBs. Thus, the growth in deposit causing increase in per capita income may not be as a result of the poor's patronage of MFBs. It is expected that as these deposits grow MFBs will have more money to lend out to her poor customers. Since poverty still looms, these poor customers are not the beneficiaries of the loans.

The size of adjusted $R^2$ (93.1%) indicates that the independent variables in the regression explain 93.1 per cent of the changes in per capita income (poverty reduction).

The main result of this research includes:

1. The operations of MFBs have significant impact on poverty reduction.
2. If the concept is strictly adhered to Loans and advances of MFBs" have significant negative impact on poverty reduction.
3. The growth in the deposit of MFBs have significant impact on poverty reduction.

**Conclusion**

The study has shown that the concept of microfinance banks is anchored on providing microfinance services such as savings, loans, domestic fund transfers and other financial services to the economically active poor, micro-enterprises and small and medium enterprises who need financial services to conduct or expand their businesses, but the concept has been wrongly applied in recent times and leaves little to be desired. Thus MFBs has not significantly helped in the reduction of poverty Nigeria.

- There exists huge untapped potentials for financial intermediation at the rural levels of the Nigerian economy. Attempts by government in the past to fill this gap through supply-driven policies have failed. Microfinance banks established in line with the micro finance policy, regulatory and supervisory framework have not been adequately capitalized, appropriately regulated and supervised to address the financing needs at the lower segment of the economy. Unless this is done, operations of microfinance will continue to have little or no impact on poverty reduction.
- Microfinance lending is not new in Nigeria, but if micro-finance activities will be sustainable, the bank must be privately owned and market driven, while the government supports the bank with seed money to enable them satisfy their social and economic mission.
- Regulators and operators must develop appetite for lending (with financial implications). They also need to manage funding agencies such as governments so as to eliminate political interests.
- The issue relating to the provision of collaterals should be de-emphasized as their emphasis should be on character. Our study shows a strong direct relationship between collateral and loan repayment in microfinance lending. Some of the microfinance banks lay much emphasis on collaterals which ordinarily should not be the case if the objective of poverty reduction of MFBs is well understood. Microfinance loans should be given out without stringent conditions on the provision of collaterals but should be character based. Any borrower who has no asset to secure a loan, will likely stay away and this does not in any way contribute positively to the reduction of poverty.

**Recommendations**

1. Government can support microfinance development by promoting Macroeconomic stability, avoiding interest rate caps and high inflation. Efforts should be made to ensure that the benefits of MFBs are targeted at the core poor. They should provide seed Money to MFBs and monitor its usage to ensure that these micro credits are granted for investment and not consumption.
2. Government should desist from pursing two incompatible goals at the same time, the pursuit of poverty eradication and youth empowerment with downsizing and retrenchment of public servants is not compatible. It is anti-tactical to poverty reduction strategy.
3. There should be provision of appropriate business environment for micro-entrepreneurs in order to encourage new start-ups.
4. It is important for MFBs to focus on the needs and wants of the clients. And every kobo given out should be thoroughly supervised for it to impact on poverty reduction.
5. It is not always necessary to design a totally new product, redesigning an existing product is also an important strategy. In the same vein, product development should be market focused and market-driven.
6. Earning clients trust is crucial for the survival of microfinance banks.

Credit is not sufficient as a developmental tool; low-income persons need a range of financial services to really appreciate the operations of MFBs.

7. Microfinance banks cannot have lasting outreach without sustainability. Therefore, directors need to know their organization's outreach priorities so they can strive to improve performance in the areas that matter most.
8. To provide a menu of valuable products to more clients over time, including poorer clients, microfinance banks have to improve their performance.
9. All funds to NGOs meant for the poor, should pass through MFBs to ensure the liquidity of MFBs.
10. Staff of MFBs should from time to time, attend seminars and workshops organized by their supervisory authorities, to enable them understand the basic rudiments in the operations of the bank.
11. Before loans are given out to the poor, staff of MFBs should take time to know the areas where these poor can perform best. This should be the focus for the loan and it will equally help to determine the appropriate amount for such projects.

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