

# *The Macrotheme Review*

*A multidisciplinary journal of global macro trends*

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## Microfinance Banks and Rural Poverty Alleviation in Nigeria

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### **Abstract**

*This study examined the extent to which Microfinance Banks have contributed to poverty reduction of the active poor rural dwellers in Nigeria. The survey research design was adopted in this study. Questionnaires were used in data collection while the data obtained were presented and analysed using tables and simple percentages respectively. The results show that Microfinance Banks in Nigeria have not significantly contributed to rural poverty alleviation. The major reasons being that most Microfinance Banks are found in urban centres and cities as well as the poor information available to rural dwellers on the activities of these Banks. The paper thus recommends that government should encourage the establishment of Microfinance Banks in rural communities as this will afford rural dwellers who do not have direct access to formal banking services, an opportunity of enjoying banking services at their doorstep.*

Keywords: Microfinance Banks, Rural Poverty, Nigeria

### **1.0 Introduction**

Poverty is a plague affecting people all over the world, Nigeria inclusive. It is dehumanizing since by its very nature, it signifies or depicts a condition that denies individuals the right to exercise their full potentials. Poverty is most predominant in rural areas. According to Ebong (2000), rural areas constitutes areas characterized with poor infrastructural facilities, poor access roads, poorly equipped healthcare centres, inadequate employment opportunities, inadequate physical assets such as land/capital and reduced access by the poor to credit even on a small scale and insufficient access to market where the poor can sell goods and services. Rural poverty refers to poverty found in rural areas, but more importantly, to factors of rural society, rural economy and rural political systems that give rise to the poverty found there (Bassey, 2011). Poverty culminates into low income, youth restiveness, insecurity, kidnapping, and all other social vices (Okoroafor and Nwaeze, 2013).

Robust economic development and growth cannot be achieved except by putting in place well-focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. In line with this, overtime, government has introduced different programmes and policies to address the issue of poverty and its attendant consequences. Examples are the National Directorate of Employment, Poverty Eradication Programmes, etc.

However, a good number of these programmes have not been able to achieve the aims for which they are established because of their unsustainable nature and other factors such as poor funding, poor implementation and poor management.

The major aim of government in encouraging rural banking in Nigeria is an attempt to expand the universal banking system to the rural areas in order to give credit assistance to the rural communities and to mobilize rural resources. In 2001, the Community Banks were converted to Microfinance Banks by the Central Bank of Nigeria (CBN). The main policy objectives for the establishment of these banks in Nigeria is to assist small and medium scale enterprises raise their productive capacity and level of employment generation. Thus, alleviating poverty and enhancing human capital development of the economically active poor and low income rural dwellers amongst others.

According to the Central Bank of Nigeria (2005), a Microfinance Bank (MFB), unless otherwise stated, shall be construed to mean any company licensed by the Central Bank of Nigeria to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients. The Central Bank of Nigeria further stated that a Microfinance Bank's target client shall include the economically active low-income earners, low income households, the unbanked and under-served people, in particular, vulnerable groups such as women, physically challenged youths, micro-entrepreneurs, informal sector operators and subsistence farmers in urban and rural areas.

The specific objectives of the microfinance policy of government according to Njoku (2008) are as follows:

1. To make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
2. To promote synergy and mainstreaming of the informal sub-sector into the national financial system.
3. To enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
4. To contribute to rural transformation.
5. To promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

It is on the basis of this background that this research is motivated towards examining the effectiveness of Microfinance banks in alleviating rural poverty in Nigeria.

## **2.0 Literature Review**

The challenges of poverty have been a daunting one in almost all the states of the federation. Despite the fact that Nigeria is endowed with numerous resources, the country has not been able to break the circle of poverty.

The United Nations uses such indices as life expectancy, infant mortality rate, primary school enrolment ratios, number of persons per physician in examining the meaning of poverty (Bassey, 2011). It is emphasized that poverty must be conceived, defined and measured in absolute quantitative ways that are relevant and valid for analysis and policy making in a given time and

space. Poverty specifications should become relative, once circumstances in the country change. According to the World Bank (1986), poverty refers to a condition where people are below a specific minimum level of income; that is an imaginary international poverty line. It is determined by their ability to afford an adequate diet and other minimal necessities. The poverty line knows no national boundaries and exists in virtually all countries. However, the magnitude differs from one country to another. Antai (2007) posits that poverty denotes lack of basic needs. It implies a lack of command over basic consumption needs, which means that there is an inadequate level of consumption, giving rise to insufficient food, clothing and shelter. Edame (2007) states that people are poverty-stricken when their income even if adequate for survival, falls radically behind that of the community. They are degraded, for in the literal sense, they live outside the grade of categories which the community regards as acceptable.

Robust economic growth cannot be achieved without putting in place well-focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit (Joseph and Eseoghene, 2010). Most definitions by scholars tend to restrict micro finance to only the offering of credit or money to borrowers. However, micro financing includes such other services as savings mobilization, micro insurance, money transfers, micro investment services as well as the provision of professional advice and monitoring of the development of the funds disbursed in order for the borrower to enjoy large risk aversion and thereby achieve his desired purpose, (Eluhaiwe (2005), Igbinedion and Igbatayo (2004), Ehigiamusoc (2006)).

Several works and studies have been carried out on microfinance and poverty reduction. Some of these studies show that microfinance has impacted positively on the lives of people, boost the ability of the poor people to improve their conditions and also indicated that the poor have taken advantage of increased earnings to improve their consumption level, health, status and also acquire assets. Several empirical studies have shown that microfinance reduces poverty. Goldberg (2005), reported that the poor no longer remained poor as a result of microfinance in Bangladesh. Zubair (2004) as cited in Appah et al (2012) posits that microfinance has reduced vulnerability to domestic violence in Bangladesh. Various studies on microfinance and poverty reduction have recorded increased vulnerability of microfinance clients (Little, Murdich and Hashemi, 2003). They refer to projects in India, Indonesia, Zimbabwe, Bangladesh, Ethiopia and Uganda which all show very positive impacts of microfinance in reducing poverty.

In the same vein, some scholars are of the view that microfinance alone is inadequate to fight poverty. Such views do not negate the role of microfinance. However, they fail to appreciate the role of microfinance on its own advantage. According to Latifee (2003), nobody says that microfinance alone is a cure for all. Muhammed Yunus as cited in Appah et al (2012), advocates that microfinance is a human right. Once this is established the entitlement to other rights for leading a dignified life becomes easier. It empowers people to break the vicious cycle of poverty by instantaneously creating self-employment and generating income. These scholars argue that the need for other services is important in addition to that of microfinancing.

However, other studies have shown that microfinance is said to play insignificant role towards poverty reduction or alleviation. Studies by Mayoux (2001), Doung and Izumida (2002) have shown that there is no positive impact of microfinance on poverty reduction. These various studies and arguments on the impact of microfinance banks on poverty reduction in different

parts of the world propelled the researchers into examining the impact of microfinance banks on rural poverty in Nigeria using selected communities in Obingwa Local Government Area of Abia State, Nigeria.

### **3.0 Methodology**

#### **3.1 Research Design**

This study made use of the survey research design using questionnaires in obtaining data on what the respondents think or feel about the subject under study.

#### **3.2 Source of Data Collection**

The data used in this work were mainly collected through primary sources – structured questionnaires and interview. The questionnaires were pre-tested with a small group of the active poor rural dwellers to ensure that irrelevant questions were not included. This action also ensured the content validity of the questionnaires.

#### **3.3 Method of Data Analysis**

A total of 1200 questionnaires were randomly administered to the economic active poor rural dwellers in four rural communities in Obingwa Local government Area of Abia State, Nigeria. 1000 were duly completed and returned by the respondents. Descriptive statistical methods involving tables and simple percentage were used in data presentation and analysis respectively.

### **4.0 Data Analysis and Results**

The table below shows the demographic profile of respondents whose responses are used in data analysis in this work.

**Table 1: Demographic Profile of Respondents**

<b>Respondent's Category</b>	<b>Number</b>	<b>Percentage (%)</b>
<b>Gender</b>		
Male	750	75
Female	250	20
<b>Educational Qualification</b>		
No Formal Education	100	10
Primary Education	280	28
Secondary Education	580	58
Tertiary Education	40	4
<b>Age</b>		
20yrs – less	70	7
21yrs – 30yrs	320	32
31yrs – 40yrs	400	40
41yrs – 50yrs	180	18
51yrs – above	30	3
<b>Business</b>		
Artisans	350	35
Traders	370	37
Farmers	150	15
Drivers	130	13
<b>Marital Status</b>		
Single	240	29
Married	670	67
Separated	40	4

*Source: Researchers' Field Data, 2014*

The table above shows that majority of the respondents (75%) are males, 580 respondents representing 58% of the respondents are School Certificate holders. A very small proportion of the respondents (4%) are graduates, 40% of respondents are in the age bracket of 31 – 40. On the type of business activity engaged, majority of the respondents (37%) are traders, 35% are artisans – technicians, welders, shoe menders, barbers, etc., 15% are farmers while 13% are commercial taxi and bus drivers. A total of 67% of the respondents are married while others 33% are either single or separated.

**Table 2: Responses on the Impact of Microfinance Banks on rural Poverty Reduction**

Issues	No. of Respondents	Percentage (%)
<b>Engagement in Productive Activity</b>		
■ Yes	1000	100
■ No	0	0
<b>Awareness of the Existence of MFBs</b>		
■ Yes	300	40
■ No	700	60
<b>Business Transaction with MFBs</b>		
■ Yes	50	5
■ No	950	95
<b>Source of Finance for Business</b>		
■ MFBs/Community Banks	20	2
■ Contributions	280	28
■ Personal Savings	120	12
■ Local Money Lenders	430	43
■ Borrowing From Relatives	100	10
■ Empowerment Programmes	50	5
<b>Challenges in Accessing Funds for Business</b>		
■ High Interest Rates	420	42
■ Provision of Guarantors	80	8
■ Absence of Banks in Rural Communities	258	26
■ Lack of Awareness	172	14
■ Lack of Collateral	100	10
<b>Effect on Economic Activity or Business</b>		
■ Inadequate finance for business	380	38
■ Poor Turnover	220	22
■ High Cost of Production	200	20
■ Low Income/Poverty	150	15
■ Low Standard of Living	50	5
<b>Challenges in the Rural Communities</b>		
■ Absence of Regular Power	300	30
■ Poor Road Network	170	17
■ Absence of Financial Institutions	250	25
■ Poor Patronage	280	28
<b>MFBs and Poverty Reduction</b>		
■ Significant	20	2
■ Fairly Significant	230	23
■ Not Significant	650	75

*Source:* Researchers' Field Data, 2014

All the respondents are engaged in one form of economic activity or the other. They include artisans such as mechanics, technicians, shoe menders, furniture makers, hair dressers, etc. Others include traders, farmers and drivers.

On the level of awareness of the existence of Microfinance Banks, 60% of the respondents do not have any information about the existence of Microfinance Banks while 30% know about the existence of Microfinance Banks. However, only an insignificant number of the respondents (5%) have actually had a business transaction with the bank. The reason may not be unconnected with the fact that most of the Microfinance Banks are situated in urban cities.

From the table also, it is deduced that these rural active poor finance their businesses mainly through local money lenders (43%) and contributions they make within groups in their rural communities. Other sources of finance to them include: personal savings (12%), borrowing from relatives (10%), Empowerment Programmes from politicians (5%) and from Microfinance Banks (2%).

The analyses on the challenges facing the rural active poor in accessing funds for their businesses show an array of challenges. 42% of the respondents reiterated that high interest rate charged by the private money lenders are the major challenge. It should be noted that these lenders operate in the informal sector and therefore are not regulated by government. The absence of banks in rural communities (26%) is another major challenge. Others include the request for guarantors by lenders (8%), lack of awareness of where to source funds (14%) and lack of collaterals (10%).

The study shows that the inability of the respondents to access finance for their business has a lot of adverse effects. 38% of the respondents are of the opinion that as a result of the above mentioned challenges, they lack funds to finance their business, turnover is always poor (22%) possibly as a result of low income of rural dwellers. There is also high cost of production (20%) especially for those engaged in activities which require power. They burn a lot of fuel due to the epileptic nature of power supply in Nigeria. Other effects include low income level (poverty) (15%) which also results in low standard of living (5%).

On the issue of the challenges facing the respondents in carrying out their businesses in the rural areas, the analysis shows a whole lot of them. Absence of regular power (30%) remains a very important challenge in doing business in Nigeria in general, poor patronage (28%) as a result of rural poverty and low income level of the rural dwellers and absence of financial institutions (25%) as most Microfinance Banks are located in urban cities in Nigeria. The other challenge is the poor road network (17%) linking villages to urban centres. Most of the rural feeder roads are in very deplorable state.

When posed with the question, whether Microfinance Banks have impacted significantly on poverty reduction of the active poor in rural communities, 75% of the respondents are of the opinion that Microfinance Banks have in no way reduced poverty in the rural communities. The reason being that, majority of them are not aware of their existence and therefore have not had any dealing with the banks. Again, these banks are not visible in the communities under study, rather they are found in mostly urban areas.

## **5.0 Conclusion and Recommendations**

The result of this study indicates that a good proportion of the active poor in rural communities are not aware of the existence of Microfinance Banks as these banks are mainly found in urban centres. As a result, they finance their businesses through the unregulated private money lenders who charge very high interest rates. The result also shows that the active poor is faced with a lot of challenges which are not limited to absence of regular power supply but includes: poor patronage, absence of financial institutions in the rural areas and poor road network. These people as a result are adversely affected as they lack enough capital to run their businesses, turnover is usually low, cost of product is high and they also experience low living standards.

The rural active poor need a lot of encouragement in order to transact their businesses, live comfortably and also contribute to economic growth and development of Nigeria. The Microfinance Banks have a major role to play here. In general, Microfinance Banks have not made any significant contribution towards reducing rural poverty in the communities under study.

Based on the above, the following recommendations are made:

1. Government should encourage the establishment of Microfinance Banks in rural communities as this gesture will afford rural dwellers who do not have direct access to formal banking services the opportunity of enjoying banking services at their door step.
2. Microfinance Banks and other financial institutions should waive unnecessary stringent credit conditions which will discourage the rural active poor from accessing their credit facilities e.g. provision of guarantors, etc.
3. There is the need for creation of awareness of the services and products of Microfinance Banks by both Microfinance Banks and government. This will encourage more people in the rural communities to patronize their services.
4. The rural communities should be provided with adequate social amenities and infrastructures, as it will encourage a good number of people to live and transact their businesses there.
5. Interest rates on credit should be kept low to enable the rural active poor access these facilities with ease while the bank effectively monitors any activity financed through them.

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