**ASSESSMENT OF MICRO FINANCE BANK ON POVERTY ALLEVIATION IN NIGERIA**

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**Abstract**

This study is focused on the identification of critical factors that cause poverty in Nigeria and the investigation of the extent to which microfinance institutions have helped in the alleviation of poverty. To identify the critical factors, the researcher adapts the data on reasons for poverty generated by National Bureau of Statistics and employed the method of factor analysis. For the purpose of investigating the contribution made by the microfinance institutions in poverty reduction, the researcher uses the method of chi-square analysis which is found to be most appropriate in explaining the variations between the two variables.

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Microfinance has gradually developed to be a worldwide movement, no longer being a subject matter of microfinance practitioners alone.  Governments, donors, development agencies, banks, foundations, corporations, business communities, civil societies, researchers, universities, consultants, philanthropists and others are taking an increasing interest in it (Sale Huddin and Hukinil, 2004). Throughout the world, poor people are excluded from formal financial system. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in Less Developed Countries (LDCs). Absent access to formal financial services, the poor have developed a wide variety of informal community based financial arrangement to meet their financial needs. Microfinance is created to fill this gap (Irobi, 2008). Microfinance pertain to the lending of small amount of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available to the wealthy, alert at a small scale. According to Anyanwu (2004), microfinance bank is not just providing capital to the poor, but to also combat poverty at an individual level, it also has a role at institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. In Africa and other developing regions, microfinance institutions (MFIs) are regarded as the main source of funding micro enterprises (Anyanwu, 2004). Formal credit and savings institutions for the poor are also available around the globe providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperative and development finance institution. Suffice it to say that the unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria. The gap filled by microfinance institution has made become part of the formal financial system of a country and so can access capital market to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach. The, importance of microfinance is to eradicate poverty, made the Federal Government of Nigeria adopted it as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy and framework for the operations of MFIs. Despite this, however, the number of beneficiaries of microfinance banks is an insignificant proportion of the people in need of microfinance services. It has been estimated that formal microfinance bank only services less than one million clients in a county where over 70% of the country population of 140 million lives below poverty line (Irobi, 2008).

The increasing level of acceptance of microfinance among the various groups of stakeholders worldwide presents the following questions: is microfinance becoming popular because it is a good business to make money or is it a powerful tool to fight poverty or is it because of both (Annibale and Bob: 2006).  Since the concept was born is Bangladesh almost three decades ago, microfinance has proved its values in many countries, as a weapon against poverty and hunger.  It really can change people’s live for the better, especially the lives of those who need it most (Ashmawians El-fouadh: 2006) it has been evidenced worldwide that microfinance helps the poor to overcome poverty and not through charity.  It is a financial system that serves the poor with financial services in a most effective and productive way.

The experience of many microfinance institutions so far strongly suggests that it is possible for the institutions to reach the goal of serving people in extreme poverty without having to sacrifice their profitability.  This is mostly because microfinance is designed with the poor in mind, while at the same time being founded on market principles of competitiveness, pricing and sustainability.  There is nothing wrong in earning money while serving the poor, as long as earning money does not become the prime or the only goal of microfinance providers.  Microfinance institutions throughout the developing world are proving small loans to the poor for self-employment and providing to be sustainable enterprises in the fight against poverty (Daley – Harris: 2006).

The global picture regarding microfinance outreach is quite impressive from a mere 7.6million poorest families in 1997, the micro-credit of more than 92million clients by December 31, 2004, this number includes 66.6million families who were among the poorest when they started with a program (Adams and Ivatury: 2004): of these 66.6million poorest clients, 55.7million or 83.6% were served by the 52 largest individual institutions, all with 100,000 or more clients.  Among these largest microfinance institutions, 79% is in Asia, 17% are in Africa and only 4% are in Latin America.

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.  The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income and create wealth.

On July 1, 2001, Nigeria joined the ranks of developing nations adopting laws and policies to regulate the microfinance sector.  Under the new microfinance policy of the Central Bank of Nigeria, community bank and microfinance institutions must increase their capital base from 5million naira (approximately 42,000 USD) to 20million naira (approximately 169,000 USD).  The purpose of this policy is to create microfinance banks that are financially sound, stable, self-sustaining and integral to their communities with potential to attract more customers.

Microfinance is about proving financial services to the poor who are traditionally not served by the conventional financial services, the federal government through the Central Bank of Nigeria established community banks in every locality.

A reversal of that led to the establishment of microfinance banks to replace them, which is now better constituted and equipped to function.  The SEEDVEST microfinance bank is an example of one of these micro-financial services institutions committed to poverty reduction within its jurisdiction.

**1.2 STATEMENT OF THE PROBLEM**

In envisioning the future of microfinance, it is important to know the rationale for microfinance movement.  Poverty focused microfinance came into existence as a private initiative growing almost unnoticed through process of learning by doing.

The global concern for the level of poverty in Africa is well known to all.  Africa is have lest hit by the crippling problems of chronic hunger and malnutrition.  The great concentration of poverty is sub-Saharan African which is also a matter of concern for all.  Despite such disappointing facts, microfinance in Africa is growing.  A broad range of diverse institutions offers financial services to low income clients in Africa.  These include non-government organizations, non-bank financial institutions, co-operatives, credit unions rural banks, Rotating Savings and Credit Associations (ROSCA), postal financial institutions, and increasing number of commercial banks.

When the present administration came into office on the 29th May 1999, it paid attention to poverty reduction.  During the regime preceding this administration, the World Bank tried to focus on poverty reduction in Nigeria and so commissioned a study on poverty assessment in Nigeria.  The study not only profiled poverty but also established quantitatively the trend of poverty encroachment to development from 1980 to 1986.  the study showed that poverty level in Nigeria has been extremely high, with about two thirds of the population living below poverty line (Akanji, 2008).  Consequently, mainframe economic though established that to conquer poverty requires action at the local, National and global levels to expand poor people’s opportunities empower  them and increase their security.

This study aims to establish the need to empower the poor, which has been estimated to be on the increase through the operation of microfinance banks as a strategy for poverty reduction.  This study intends to address the following questions:

i What are the roles of microfinance banks on poverty reduction in Port Harcourt town?

ii How does SEEDVEST microfinance bank extend financial services and credits to beneficiaries?

iii What are the impediments to micro-financial services faced by SEEDVEST microfinance bank?

**1.3 OBJECTIVES OF THE STUDY**

The broad objective of this study is to estimate the role of microfinance banks on poverty alleviation with a special focus on SEEDVEST microfinance bank.  The specific objectives shall include:

i To determine the impacts of microfinance banks on poverty alleviation in Port Harcourt town.

ii To trace how SEEDVEST microfinance bank extend micro-financial services to customers or recipients.

iii To evaluate the likely obstacles to micro-financial services faced by SEEDVEST microfinance bank in the discharge of their duties.

**1.4 HYPOTHESES**

The research hypotheses of the study are:

**H0:** SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town

**H1:** SEEDVEST microfinance bank play significant role in poverty reduction in Port Harcourt town.

**H0:** SEEDVEST microfinance bank does not extend financial services and credits to potential beneficiaries.

**H2:** SEEDVEST microfinance bank extends financial services and credits to potential beneficiaries.

**H0:** There are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank

**H3:** There are impediments to the discharge of micro-financial services by SEEDVEST microfinance bank.

**1.5 IMPORTANCE AND RELEVANCE OF THE STUDY**

Poverty is a hydra-headed social and economic problem facing Nigeria for nearly half a century with diverse and far reaching implications for current and future generations.  Likewise, efforts at stemming the tide have also been crucial among policy makers and the concerned authorities.

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions.  Three features distinguish microfinance from other formal financial products.  These are:

i. The smallness of loans advanced and or savings collected.

ii. The absence of asset-based collateral and

iii. Simplicity of operations.

To this end this study is relevant and important to the extent that it explores the nature of micro-financial services available in microfinance banks.   The study shall equally illuminate the derivable benefits from micro-financial services are well as acts as guide to scholars and commentators whose basic interest is in microfinance banks in Nigeria.

**1.6 LIMITATION AND SCOPE OF THE STUDY**

This study is limited to the roles of microfinance banks on poverty alleviation in Nigeria:  a case study of SEEDVEST microfinance bank.  The analysis touched on both the focus point as well as national impacts.

In another vein, there were limitations encountered in the process of undertaking this study which include:

**(a)Availability of research material:** The research material available to the researcher is insufficient thereby limiting the study.

**(b)Time**: The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**(c)Finance:** The finance available for the research work does not allow for wider coverage as resources are very limited as the researcher has other academic bills to cover.

**1.7 OPERATIONAL DEFINITION OF TERMS**

**Microfinance**

Microfinance initially had a limited definition - the provision of microloans to poor entrepreneurs and small businesses lacking access to banking and related services.

**Microfinance bank**

A Microfinance bank is any company licensed by the Central Bank of Nigeria (CBN) to carry on business of providing microfinance services such as savings, loans, domestic funds transfer, and other financial services that are needed by the economically active poor, micro, small and medium enterprises to conduct or expand their businesses as defined in the guideline for MFB in Nigeria.

**Poverty alleviation**

Poverty reduction, or poverty alleviation, is a set of measures, both economic and humanitarian, that are intended to permanently lift people out of poverty

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Introduction**

The study of poverty and its alleviation are not new. Rather what are revisited are the spatial differences in levels of poverty among real units. Poverty is a global phenomenon, which affects continents, nations and peoples differently. It afflicts people in various depths and levels, at different times and phases of existence (Oyeyomi, 2003). The most commonly way to measure poverty is based on income or consumption line. A person is considered poor if his or her consumption level falls below 1USD per day, a level necessary to meet basic needs. This minimum level s called the poverty line (The World Bank, 2002). The Central Bank of Nigeria (1999) views poverty as a state where an individual is not able to cater adequately for his or her basic needs of food, clothing and shelter; is unable to meet social and economic obligations, lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructure such as education, health, portable water, and sanitation; and consequently, has limited chance of advancing his or her welfare to the limit of his or her capabilities”. Narayan et al (2000) systematically defined poverty when he said that “don’t ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty”. Micro-finance is a term used to refer to different methods for giving poor people access to financial services. Irobi (2008) defined microfinance as the provision of financial services such as credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small businesses. Microfinance is sectionally defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings. Furthermore, Robinson (2001) defined microfinance as the supply of loans, savings and other basic financial services to the poor. Microfinance evolved as an economic development approach intended to benefit the low-income part of a given society, both men and women (Irobi, 2008). According to World Bank (2007), the term refers to provision of financial services (including saving and credit) to the poor. Micro-finance banks therefore are institutions that are established to provide financial services to the poor. Microfinance institutions can be non-governmental organizations, savings and loan cooperatives, loan unions, government banks, commercial banks, or non-bank financial institutions (Ledgerwood, 1997). The policy seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through privately owned enterprises. The objective of microfinance according to Otero (1999) is not providing capital to the poor to combat poverty; it seeks to create an institution that delivers financial services to the poor who are ignored by the formal banking sector. Earlier studies about micro-financing have evaluated whether micro-credit programs such as popular in Nigeria reach the relatively poor and vulnerable in their operations. Recent studies have shown evidence of positive impact as it relates to first six out of seven Millennium Goals (Adamu, 2007; Irobi, 2008; Wrigth, 2000; Zaman, 2000; McCulioch and Baulch, 2000), all subscribed to the believe that microfinance is an effective and powerful tool for poverty reduction. For example, Amin, Rai, and Topai (2003) focus on the ability of microfinance to reach the poor and affirmed that microfinance has served people below and above the poverty line. Also, Hossain (1988), in his study on “Credit for the Alleviation of Rural Poverty in Bangladesh found that Grameen members who are poor and landless have average household of 43 percent higher than marginal landowners. The results of empirical evidence indicate that the poorest can benefits from microfinance from both an economic and socio well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the Micro-financial institutions (Zaman, 2000; Robinson, 2001; Dahiru and Zubair, 2008). For instance, Khandker (1998), in several related studies using statistical method on assessment of impact of microfinance among three Bangladesh programs found that every additional taka lend to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in an updated study using panel data in Bangladesh, Khandker (2005), found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. These studies showed overwhelming benefit of increase in income and reduction of vulnerability. On the other hand, some authors have challenged the positive effects of microfinance on poverty alleviation. For instance, Hulme and Mosley (1996) while acknowledging the role of microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They stated that microfinance is not a panacea for poverty – alleviation and that in some cases the poorest people have been made worse-off by microfinance. Also, Adamu (2007) observed that microfinance institutions Nigeria have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging microenterprises. But, the number of beneficiaries of microfinance institutions is an insignificant proportion of the people in need of microfinance services. It has been estimated that formal microfinance institutions only service less than one million clients, in a country where over 70% of the country’s population live below the poverty line (Dahiru and Zubair, 2008). The results also suggested that micro-financing is unsuccessful at reaching the group most prone to destitution, the vulnerable poor. The major challenges of microfinance in Nigeria include: communication gaps and inadequate awareness; insufficient support from governments; inadequate donor funding; less attention on financial sustainability of MFIs; lack of adequate loan or equity capital to increase loan-able funds; high turnover of MFI staff; limited support for human and institutional capacity building; illegal government and NGO operations that spoil the market; and lack of standardize reporting and performance monitoring system for MFIs (Irobi, 2008). The theoretical frameworks for this study are economic and psychological theories. The economic theory argued that the success in any business venture, including microfinance, is determined by the entrepreneurs’ ability to deliver appropriate services and profitability (Remenyi, 2006). The psychological theory on the other hand, argued that a species of profitmaking private venture that cares about the welfare of its customers can be conceived, in other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests of their customers (Mohammed, 1998).

**2.2 UNITED NATIONS MANDATE FOR MICROFINANCE AND POVERTY ALLEVIATION**

The World Summit for Social Development (WSSD) in March 1995 articulated a global commitment by Governments to eradicate poverty as an ethical, social, political and economic imperative. Poverty eradication was one of three core themes of WSSD. The Programme of Action affirmed the primacy of national responsibility for social development, including poverty eradication, but also called for international support to assist governments in developing strategies. The Programme of Action suggested ways to involve civil society in social development and to strengthen their capacities. It called on Governments to mobilize resources for social development, including poverty alleviation. The WSSD Programme of Action was to be implemented within the framework of international cooperation that integrated the follow-up to then recent and planned UN conferences relating to social development, for example, the Children's Summit in 1990, the Environment and Development Conference in 1992, the Human Rights Conference in 1993, the Population and Development Conference in 1994 and the Women's Conference in1995. The United Nations System Conference Action Plan (UNSCAP) designated poverty alleviation as the integrating theme for follow-up to world conferences. It called for UN system action in five areas:

1. Jobs and sustainable livelihood.

2. Regenerating the environmental issues.

3. The enabling environment.

4. Social service for all.

5. Arrangement of women and gender mainstreaming.

UNDP and UN Resident Coordinators were asked to coordinate UN system efforts in the five areas. UN development organizations have their own individual mandates. Microfinance is one tool for poverty alleviation. The enabling environment influences the effectiveness of microfinance in the other four areas of poverty alleviation interventions. The UN organizations' mandates in the area of microfinance primarily lie in the area of technical assistance and demonstration of models that contribute effectively to poverty alleviation. The responsibility for provision of capital rests with governments, with support from bilateral donors and international financial institutions (Report of United Nations, 1995).

**2.3 MICROFINANCE IN NIGERIA**

The licensing of Microfinance Banks in Nigeria is the responsibility of the Central Bank of Nigeria. The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds. In order to enhance the flow of financial services to Nigerian rural areas, Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. Despite these measures, it became increasingly evident that such governmental policies failed to grant financial access to those most in need (i.e. the rural poor) and that the programs were largely unsustainable. The CBN at the sixth Annual Microfinance Conference and Entrepreneurship Awards held recently in Abuja said the microfinance development fund would be established in 2012 and would include both commercial and social components that would enhance its operations and outreach. The fund will also aim at improving access to affordable and sustainable sources of finance by microfinance institutions and microfinance banks. This, being the second time that the CBN is making such pronouncement, the first one was pronounced at the 5th Annual Microfinance Conference and Entrepreneurship Awards in 2011, where Kingsley Moghalu, the deputy governor, financial system stability said the CBN would establish a microfinance development fund to promote accessibility to financial services for low income earners.

**2.4 JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE BANKS IN NIGERIA**

**Weak Institutional Capacity:** The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

**Weak Capital Base:** The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to N20 million shareholders’ funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of N50.0 billion, has N10.0 billion paid up capital and only N1.3 billion shareholders’ funds unimpaired by losses, as at December, 2004.

**The Existence of a Huge Un-Served Market:** The size of the unserved market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000, that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit, with an average loan size of N8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This, reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy. The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

**Economic Empowerment of the Poor, Employment Generation and Poverty Reduction:** The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28 % of the available work force) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

**The Need for Increased Savings Opportunity:** The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at N34.2 billion. Similarly, their total loans and advances amounted to N11.4 billion while their aggregate deposit liabilities stood at N21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at N545.8 billion, out of which N458.6 billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

**The Interest of Local and International Communities in Micro financing:** Many international investors have expressed interest in investing in the microfinance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor. **Utilization of SMEEIS Fund:** As at December, 2004, only N8.5 billion (29.5 %) of the N28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10 % of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

**2.5 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES**

**Universal Banks:** Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guidelines.

**2. Community Banks:** All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks licensed to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank licensed to operate in a State if it meets the specified capital and other conversion requirements.

**Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs):** This policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and not to mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN. NGO-MFIs that wish to obtain the operating license of a microfinance bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

**Transformation of the Existing NGO-MFIs:** Existing NGO-MFIs which intend to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB. NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating license and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

**2.6 JUSTIFICATION FOR THE CAPITAL REQUIREMENT**

1. The present capital base of N5 million for community banks has become too low for effective financial intermediation. Indeed, to set up a community bank, at least N5 million is required for the basic infrastructure, leaving zero or a negative balance for banking operations. From a survey of community banks, an operating fund of N50 million is about the minimum capital (own capital and deposits) a community bank needs to provide effective banking services to its clients. However, it is recognized that since many community banks are based in rural areas, their promoters may not be able to effectively raise N50 million as shareholders’ funds. Hence, the stipulation of N20 million as shareholders’ funds for the unit microfinance banks. The banks are expected to engage in aggressive mobilization of savings from micro-depositors to shore up their operating funds.

2. A State coverage microfinance bank that would operate multiple branches would be expected to take off with funds sufficient to operate a full branch in at least two-thirds of the Local Government Areas in that State. Hence, a minimum paid-up capital of N1.0 billion shall be required to obtain the license to operate a State coverage MFB. Expansion to another State shall be subject to the provision of N1.0 billion minimum shareholders’ funds unimpaired by losses, and after opening branches in at least two-thirds of the Local Government Areas of the State it is currently licensed to operate in, and if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines.

3. The experience of other countries sheds light on the level of capitalization required for microfinance banks. In most countries, the level of capitalization depends on the geographical coverage of the banks, and for some countries, even for a particular scope International Letters of Social and Humanistic Sciences Vol. 16 101 of coverage (district or province), the population and volume of business of the area further determine the level of capitalization. The capitalization requirements in other countries were also considered in arriving at the capitalization levels for the two categories of MFBs in this policy.

**2.7 M ICROFINANCE AND POVERTY ALLEVIATION**

In this section, we provide a capsule summary of the theoretical issues on the relationship between microfinance and poverty. Micro credit is simply the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. The institution of micro credit is premised on the argument that most people in the developing countries lack access to financial services from institutions either for credit or savings, which further reinforces the vicious cycle of poverty. Microfinance therefore serves as vehicle through which the poor are empowered, thereby providing a valuable tool to assist the economic development process. Theoretically, several other channels through which microfinance assists the poor have been properly articulated in the literature (Little, et al. 2003, Hulme 2000, Binswanger and Khandker 1995 and Chowdhury, 2009). However, the role of microfinance in reducing poverty has been disputed in the literature. DFID (2009) asserts that international microfinance experience shows that micro credit is not a suitable tool to assist the chronically poor. Hickson (2001) submits that most microfinance institutions have a long way to go in reaching the extremely poor so as to effectively achieve the goal of poverty alleviation. Srinivas (2004) argues that microfinance facilitate the diversion of valuable aid money from untested and non-viable microfinance programs- away from vital programs on health, education that are in dire need of such funds. Asides, some other critics of microfinance have contended that poor people are bad borrower, especially women; or that microfinance is not profitable. In short, conflicting views surround microfinance and its effectiveness at reducing poverty in the less developed economies (LDCs). This has led to several empirical studies on microfinance and poverty reduction in the developing economies.

**2.8 EMPIRICAL REVIEW**

Several empirical studies have been conducted to ascertain the impact of microfinance on poverty alleviation worldwide. However, no consensus has emerged on the impact of microfinance on poverty reduction. Some studies found that micro credit positively impacted poverty (Goldberg 2005, Khander 2003); while some others reported no positive effect (Mayoux 2001, Duong and Izumida, 2002, Hulme and Mosley 1996). Study by Asemelash (2003) for Ethiopia showed that microfinance had positive impact on the poor. Specifically, the results showed that microfinance led to increased income for the poor. Asides, it helped to increase poor people access to better schools and medical facilities. In the same way, study by Alemu (2006) reported positive impact of microfinance on the poor in five different zones of the Amhara region. In particular, the results reported that microfinance helped the poor to smooth their income in the study area. All the same, the study reported cases of loan diversion. Some clients were found to have used their loans for unintended purposes. The study by Rajendran and Raya (2010) for India showed that microfinance had positive impact on poverty reduction, women empowerment and environmental sustainability. Imai, et al. (2010) reported similar findings as Rajendran and Raya’s for India. Littlefield et al. (2003) found that micro finance allowed poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger. In the case of Nigeria, few recent studies conducted on the subject matter have shown that microfinance impacted positively on poverty. For example, study by Nwigwe, et al. (2012) showed that microfinance as an effective instrument for lifting the poor above the level of poverty working through increased self employment opportunities and improved credit worthiness. Similarly, Yahaya, et al. (2011) for Kwara State, Nigeria found that microfinance played a significant role in poverty alleviation through provision of financial services to the active poor, creation of self employment opportunities and provision of small loans to small businesses. In the same way, study conducted by Ebimobowei, et al. (2012) for Bayelsa State, Nigeria revealed significant positive relationship between microfinance and poverty reduction. However, the study found that microfinance would require the existence of basic infrastructure such good roads, steady power supply, and good transport system to play a more effective role of poverty alleviation. In contrast to the above, studies collected by Hulme and Mosley (1996) reported that households do not benefits from microfinance. According to them, it is only non poor borrowers (with income above poverty lines) that benefitted from microfinance. Indeed, it was reported that a vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting microfinance loans, as compared to a control group which did not get such loans. Some other studies that arrived at similar findings as Hulme and Mosley’s include Majoux (2001) and Doung and Izumela (2002). The basic reason adduced for the limited success of micro finance is that most poor lack the basic education, experience, skills amongst others, to manage business activities (Karnani 2007, Mahajan 2005, and Pollin 2007). Essentially, the general consensus from studies that reported little or no positive impact of micro credit on poverty is that former is a necessary but not sufficient condition for poverty reduction. It is contended that basic infrastructure coupled with capacity development of the poor in terms of skills, and education are required for making microfinance an effective tool of poverty alleviation

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to assess the performance of microfinance bank on poverty alleviation in Nigeria.

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information for the study assessment of microfinance bank on poverty alleviation in Nigeria. 200 staff of selected microfinance banks was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N(e)2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. They staff were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the organizations. The questionnaires contained about 16 structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion.

The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

**TEST OF HYPOTHESES**

There are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **There are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test** **statistics** | |
|  | **There are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank** |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that state that there are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state that there are impediments to the discharge of micro-financial services by SEEDVEST microfinance bank.

**TEST OF HYPOTHESIS TWO**

SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town |
| Chi-Square | 28.21 1a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that state that SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that SEEDVEST microfinance bank play significant role in poverty reduction in Port Harcourt town.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was on assessment of microfinance bank on poverty alleviation in Nigeria.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges microfinance banks and poverty alleviation in Nigeria.

**5.2 Summary**

This study discussed the Assessment of Microfinance Institutions as poverty reduction mechanism in Nigeria. The main achievement of proper management of Microfinance Institutions has been stimulating economic growth by strengthening the Small and medium Scale Enterprises (SMEs) and has also brought savings orientation to the people at the grass root. Moreover, at an aggregate level, microfinance services are means of broadening economic participation to include marginal groups that have been left out previously, which makes microfinance institutions effective and thereby have impact on the Nigerian economic development by its ability for poverty reduction as revealed by the result of the analysis. The result also revealed that Microfinance Institutions have played vital roles on the Nigerian economy by providing diversified, affordable, and dependable financial services to the active poor in a timely and competitive manner, which has the active poor to undertake and develop small, medium, and long time sustainable entrepreneurial activities, mobilising savings for financial intermediation,(at their own level), create employment opportunities and also increase their productivity in the economic unit of the country. The Development Finance Institutions (DFIs) tried to bridge this gap created by the aparthy from conventional banks, which was equally inhibited by the drastic reduction in government subventions to them in the 1990s when their operations declined considerably. The FDIs were restructured in the early 2000s to equip this economic sub-unit to be able to cope with entrepreneurial finances more vigorously. We therefore concluded that microfinance is a vehicle for savings mobilization, as it has provided affordable channels of funding for the people, mostly women, in the rural areas and influenced a great deal in their activities and standard of living, with its positive effect on poverty reduction in Nigeria which has helped the desire for macro-economic growth and development.

**5.3 Conclusion**

The study found that access to formal financial services increases with level of respondents’ income in rural areas and also most of the variables that were examined indicated a very high probability of reducing poverty. It could therefore be concluded that enhancing access to formal finance especially credit has a high likelihood of reducing poverty in rural areas. The implication of this study is that the federal government of Nigeria and financial institutions in the country should take up the challenge of establishing bank branches in the rural areas or make formidable arrangement for supplying more credit to the rural dwellers. This study suggests that group lending strategy of Grammen Bank of Bangladesh could be copied since the bank recorded very low default rate. This is based on the premise that the government policy priority is poverty reduction.

**5.4 Recommendations**

In view of the findings from this work, the following recommendations aiming at promoting and further enhancing microfinance activities and the trend of input made by this sub sector of the economy were made:

Proper Administration and Management of Microfinance Institution services.

Central Bank of Nigeria (CBN) should put in place more effective control of Microfinance Institutions in Nigeria

Central Bank of Nigeria (CBN) should ensure that Microfinance banks are not hijacked by the money bags in order not to deprive the rural dwellers and the poor from having access to funding.

The monetary authorities: The Central Bank of Nigeria (CBN), and the Nigeria Deposit Insurance Corporation (NDIC) to ensure more effective management and control of Microfinance banks to prevent abuses by their proprietors,

Any erring proprietor of any Microfinance bank and any of their staff that are involved in malpractice must be duly prosecuted and sanctioned, without an option of fine.

For effective and sustainable poverty reduction, Microfinance should be made to be more viable by creating more outreach and depth. Microfinance policies must be carefully implemented by the monetary authorities.

Basic infrastructures must be provided by the government to enhance appreciable improvement in the quality of life of the rural dwellers in particular and the generality of the people. Proper enlightenment programmes to be put in place to sensitize the people in order to capture more people into the scheme.

Adequate domestic entrepreneurial capacity must be put in place by government to facilitate rapid expansion of microfinance industry.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been in the Banking sector?
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in the Microfinance bank
7. Manager { }
8. Accountant { }
9. Senior staff { }
10. Junior staff { }
11. How long have you been working with microfinance institutions
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. How does SEEDVEST microfinance bank extend financial services and credits to beneficiaries?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Are they roles of microfinance banks on poverty reduction in Port Harcourt town?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Are they impediments to micro-financial services faced by SEEDVEST microfinance bank?
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. SEEDVEST microfinance bank does not play any significant role in poverty reduction in Port Harcourt town?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. SEEDVEST microfinance bank does not extend financial services and credits to potential beneficiaries?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. SEEDVEST microfinance bank play significant role in poverty reduction in Port Harcourt town?
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. SEEDVEST microfinance bank extends financial services and credits to potential beneficiaries?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. There are no impediments to the discharge of micro-financial services by SEEDVEST microfinance bank?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }