AN ASSESSMENT OF MICROFINANCE BANKS AND POVERTY REDUCTION IN OTUKPO LGA OF BENUE STATE

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ABSTRACT

The study was carried out to assess the impact of Microfinance Banks (MFBs) on Poverty Reduction in Otukpo Local Government Area. 200 questionnaires were administered to both beneficiaries and non – beneficiaries of MFBs in Otukpo using stratified random sampling for beneficiaries and purposive sampling for non – beneficiaries. Using the adult equivalence scale and dollar per day measure of poverty, there was high incidence of poverty in both categories. The Logistic regression result shows that two of the variables- age and monthly savings were both positive for all the categories while household size, educational status and marital status were negative for both categories. The T-Test of difference in real household consumption expenditure gives an insignificant mean difference of -116.1300 at 1% confidence level hence the Ho was accepted. Recommendations made include increase in minimum capital base, employment of competent management, re-location to the rural economy, constant training workshops and continuous monitoring by the CBN to enhance the performance of the programme.

Keywords: Assessment, Microfinance Bank, Poverty Reduction, Otukpo LGA

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1. Introduction

Microfinance Bank (MFB) has evolved as an inclusive economic development approach intended to benefit especially the low-income and particularly those in the rural areas where poverty appears to be entrenched and is deep rooted. This approach is intended first to alleviate poverty in the short-run and eradicate it to a large extent in the long-run as provided for in the Millennium Development Goals and Vision 2020-20 documents in Nigeria.

Having noticed that a robust economic development can not be achieved without putting in place a well focused programme to finance microenterprises on a sustainable basis and reduce poverty by creating wealth for the less privileged in the economy and by increasing their access to credit and other financial services, the government over the years initiated series of micro/rural programmes targeted at the poor with over- riding objective of making these services available continuously which included: Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better Life for Rural Women, Family Support Programme, Family Economic Advancement Programme (FEAP), National Directorate of Employment (NDE), National Poverty Eradication Programme (NAPEP), People's Bank, Community Bank and now the Microfinance Bank (Akinboyo, 2007).

Specifically, the microfinance policy recognized the existing informal institutions and brought them under the supervisory purview of Central Bank of Nigeria (CBN)/Nigeria Deposit Insurance Company (NDIC) to amongst others enhance monetary stability, expand the financial infrastructure to meet the financials requirement of Small and Medium Enterprises (SMEs), create a vibrant microfinance sub-sector that would adequately integrate it into the mainstream of the economic system for the purpose of stimulating economic growth and development, harmonize operating standards, promote appropriate regulation, supervision and adoption of best practices. Thus, in exercise of powers conferred on CBN by the provisions of Section 28, sub-section (1) (b) of the CBN Act 24 of 1991 (as amended) and in pursuance of the provisions of Section 56-60 (a) of the Bank and Other Financial Institutions Act (BOFIA) 25 of 1991 (as amended) the CBN in 2005 established a microfinance policy, regulatory and supervisory framework for Nigeria MFBs and allowed establishment and operation of the banks by public-private ownership (CBN, 2005, NDIC, 2007).

The operations of MFBs in Nigeria and particularly in Otukpo LGA of Benue State has since grown phenomenally in the recent past, driven largely by expanding informal sector activities and the reluctance of conventional banks to fund the emerging micro enterprises. There is however the fear that the number of beneficiaries of MFBs operators is an insignificant proportion of over 60 million people that are in need of microfinance services (Anyanwu, 2004). Even where they are operated like the 5 (five) found in Otukpo LGA of Benue state, the practice and result appears never in consonance with the propounded theories. There is thus, a palpable fear in the midst of so many identified short comings in the operations for the present rural development intervention effort in MFBs that achieving its obligations at the target population is still a mirage.

The extent to which the MFBs have reduced poverty in Otukpo LGA and the country at large is yet to be ascertained as more than 57% of Nigerians are still living below the poverty line (UNDP, 2007). Several posers come to mind at this juncture: will there be another agony of yet a defunct scheme? Can MFBs create job opportunities? Redistribute income? And cause provision of basic human needs by creating financial independence for targeted population? It is at least 8 years that the law for the bank was made and it has witnessed ups and downs and people are asking these questions. This work is set out to clear such controversy by going to assess the impact of MFBs on poverty reduction in Benue State using Otukpo LGA as a test case.

The major objective of this study therefore, is to critically and empirically assess the impact of MFBs on poverty reduction in Otukpo LGA of Benue State. The specific objectives of the study are to: (i) examine the level of poverty among the beneficiaries of MFBs in Otukpo LGA of Benue State. (ii) Investigate other activities of MFBs in Otukpo Local Government Area. (iii) Find out the problems faced by both the operators and beneficiaries of MFBs and suggest solutions based on findings. The Null Hypothesis is; **HO**: Microfinance Banks have no significant impact on poverty reduction in Otukpo LGA.

The study is divided into five sections. The foregoing is the introductory section, followed by theoretical issues and literature review, methodology, data analysis and recommendations.

2. Theoretical Issues and Literature Review

Theory of Financial Dualism

Developed by Professor Myint in 1971, refers to the co – existence of different interest rates between the organized and unorganized money markets in the LDCs. The traditional financial sector is characterized by money-lenders, landlords, shopkeepers, traders, or a combination of some of them in the names Esusu, Adashi etc. There is a real shortage of savings in the traditional sector thereby making it possible for the operators to monopolize the available savings and also skyrocket the interest rate (Jhingan, 2006).

The modern sector is efficient with enough savings but with stringent borrowing conditionality in the form of collateral securities which the poor cannot afford. The MFBs is set out to integrate the former into the latter thereby reducing the wide income disparity and poverty.

The Vicious Circle of Poverty

Poverty is seen in different perspectives namely; the vicious circle of poverty approach, the basic need approach, the income approach etc. But for the purpose of this work, only the first two are relevant and would be discussed. The vicious circle of poverty approach is one of the most widely known theories that is based on the notion that lack of capital is the key factor preventing growth and development. It is a theory explaining economic stagnation of every low levels of per capita output. At the time it was propounded in the early 1950s, the model seemed to be an accurate description of the conditions in many countries including Nigeria. Since then however, most developing countries have achieved higher per capita GNP and improvements in other socio-economic indicators, and there is nothing in the vicious circle model to indicate why this growth and development have occurred. Ragner Nurske (1960) as quoted by Ogiji (2004) puts the theory simply thus;

> *"It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty". For instance, a poor man may not have enough to eat; being underfed, his health may be weak; being physically weak; his working capacity is low, which means that he will not have enough to eat; and so on. A situation of this sort relating to a country as a whole can be summed up in the proposition "a country is poor because it is poor".*

The basic circle stems from the fact that in Least Developed countries (LDCs), total productivity is low due to deficiency of capital, market imperfections, economic backwardness and underdevelopment.

However, the Basic Needs Approach argues that economic development should be seen in terms of income progress towards reducing the incidence of poverty, unemployment and income inequalities. Poverty is defined under the Basic Needs Approach not in terms of income but rather as the lack of good nutrition, good welfare. The basic need approach emphasizes the need for development to provide the necessities and defined it to include adequate food for shelter, education, and greater employment opportunities. The lack of all these basic necessities is both a symptom and a cause of absolute poverty. The advent of MFBs is to make the necessary finance available thereby improving the level of productivity and employment creation hence improvement in the levels of welfare and general standard of living. This is very consistent with the objective of this study as the ultimate aim is that of increasing capital formation, employment creation, poverty reduction and economic growth and development.

Microfinance Banks as a Strategy for Poverty Reduction in Nigeria

Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. Nonetheless, deposit mobilizing banks seldom serve the down-market to satisfy the low-income families. There are observations in certain quarters that reason of high interest rates and other terms of lending are not necessary reason why the conventional banks refuse to serve the low-income families. The lack of access to financial services of the formal financial institutions is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by the banks viz-a-vis the economic characteristics and the financial needs of low-income house-holds. Johnson, and Rogaly, (1996) chronicle some of those difficulties as the requirement of the conventional banks or their services beneficiaries to have stable source of income to ensure that principal and interest of every exposure return back after lending, a large number of small loans for the poor, absence of collateral with clear title, high information monitoring costs, high rate of migration and mobility amongst the rural dwellers, unskilled staff, time taking process, pressure for high repayments, lack of financials sector prudential norms, wrong selection of activities and beneficiaries, lack of policy, regulatory and supervisory framework for MFBs, credit alone can not alleviate poverty.

Successful experience in India has shown that microfinance services when provided timely and responsively at market rates, the poor repay their loans and make use of the proceeds to increase their assets and income. This is so because their only alternative is to resort to informal markets- Community banks. NGOs and grass root savings and credit group at interest much higher than market rates. This has made a potent case for microfinance banks to the extent that they become financially viable, self sustaining, and integral to the communities in which they operate with the potential to attract more resources and expand services to clients. However, Barry (1995) lamented that only about 2% of the world's roughly 500 million small entrepreneurs are estimated to enjoy microfinance services. They opined however that with the rising needs for MFBs, their services must reach a certain level before their financial operations becomes self sustaining-the scale problem need to be resolved to enable it serve a vast majority of potential market. The question then is how MFBs services characterized in short term can be sustained as an integral part of the financial sector and how their services can be further expanded using effective principles, standards and modalities.

Otero and Rhyme (1994) opined that capacity to meet high standards by MFBs that provide financial intermediation is a necessary condition for its sustainability: ability to achieve excellent repayments and provide access to clients, cut down of costs of administration- via simplified and decentralization of loan application, approval and collection processes, broaden resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. The resource base can make large. Scale lending operations possible and help provide client-friendly savings facilities for the poor.

Christen and Braithwaite (1994) add that convenience of location, positive real rate of return, liquidity, and security of savings should not also be forgotten as necessary ingredients of successful mobilization of deposits. Consequently, they further enthused, moderate prudential regulations become necessary to ensure solvency and financial soundness of the bank to protect the depositors. This will require the banks to maintain a minimum capital base as well as a stringent capital adequacy rate (capital: risk assets) as a shield for the uncollaterized exposure. An enabling legal and regulatory framework will encourage the development of a range of banks operating as recognized financial intermediaries subject to simple supervisory and reporting requirements. Usuary laws should also be repelled to enable the MFBs set meaningful interest rate that will cover their cost of operations.

Another way of sustainability of MFBs is strengthening of linkages with their sector counterparts. This will help them develop mutually beneficial partnership base on comparative strength of each of them: MFBs have comparative advantage in terms of small transaction costs because of their adaptability and flexibility of operations and are better equipped to deal with credit assessment of the poor while conventional banks have access to broader resource-base and high leverage through deposit mobilization (Ghate 1992). They therefore advocated a joint venture or refinancing of facilities where the conventional banks provide funds as equity for MFBs to extend savings and loans to the poor as they now have additional resources and incentive to exercise greater financial discipline in their management. This then lead us to the strategic, institutional and connectivity issues of MFBs to unravel for the purpose of its sustainability: is there clearly defined foundation building locks such as organizing principles, gender preferences and operational imperatives, any methodological issues, is there a prevailing paradigm of clearly visible pattern, where should it be located, what will be its contextual interconnections, who lead it and who should be its beneficiaries, how should be its beneficiaries, how should communities be involved and what are the political issues to be considered if there are government policy issues?

3. Methodology

The study was conducted in Otukpo Local Government Area of Benue State covered by 5 MFBs namely; Apa MFB (Otukpo), Otukpo MFB (Otukpo), Pillar MFB (Otukpo), Ugboju MFB (Otukpo) and YAF MFB (Otukpo). The LGA has an estimated population 266,411 out of which the male and female population is 136,612 and 129,799 respectively (NPC, 2007). About 70% of the population is rural base, though the tendency for high migration from rural to headquarter is high since the development in the rural settings is at very slow speed. The MFBs currently has about 2,800 customers carrying out various medium scale businesses in the town. The research considered only 200 customers and 200 non – beneficiaries of MFBs were also considered to make a comparism between beneficiaries and non- beneficiaries. A stratified random sampling procedure was used in the selection of the customer beneficiaries for the study. The selection of the non-beneficiaries was purposively done.

The primary data was collected through structured questionnaires, which was administered to customers of the banks in the study area. Secondary data relevant to the study was sourced from relevant publications. The simple descriptive statistics used were tables while the inferential statistics involved were dollar per day measure of poverty, the adult equivalent scale, popular p-alpha class of poverty measure and a Logistic regression analysis. The P-Alpha class of poverty measure was used to determine the incidence, the depth and severity of poverty in study area (Foster, 1984). The measure relates to different dimension of the incidence of poverty; P_o, P_1 & P_2 defines as:

P_o = Head count/incidence: This counts the number of people with expenditure below the poverty line.

P_1 =Depth of poverty: This is the percentage of expenditure/income required to bring each individual below the poverty line up to the poverty line.

P_2 =Severity of Poverty: This is indicated by giving longer weight to the extremely (core) poor. It is achieved by squaring the gap between their expenditure/income and the poverty line to increase its weigh in the overall poverty measure.

A logistic regression model was used. The model uses socio-economic variables of the respondents to determine the factors influencing poverty (Remarkrishma and Demeke , 2002). Thus, the model is explicitly expressed as:

$$Z1 = \beta_o + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \mu$$

Where: Z1=Poverty status of households, βo =Constant term, B·s (1-6) is vector of parameters to be estimated, X_1=Age of households, X_2=Household size, X_3=Educational status of the respondents (No formal education = O primary education = 6 Post primary = 12; and tertiary institution=16), X_4=Child dependency ratio (Ration of 0-14 years to Household size), X_5=Average monthly savings of the respondents, X_6=Marital status of the respondents (married = 1 single = 0. Note: Divorce, windows and widowers are also single people), μ = error term

On a priori expectation: This refers to the expected behaviour of the independent variables on the dependent variable. Thus, we have: $X_1>o$; $X_2<o$; $X_3<o$; $X_4<o$; $X_5>o$; $X_6>0$ or $X_6<0$

4. Data Analysis

Measurement of Poverty incidence, depth and severity was done and the result is presented in table 4.1 below:

Table 4.1: Poverty incidence, depth and severity among the households in Otukpo L.G.A using Minimum Consumption expenditure of N54,969.00 per Adult per Annum (Poverty Line)

MFBs	Number of poor people	Poverty incidence (Po)	Depth of Poverty (P_1)	Severity of Poverty (P_2)
Beneficiaries	104	53.45	0.5351	0.6324
Non-Beneficiaries	150	55.20	0.4530	0.5462

Source: Field Survey by the Authors, 2013

In estimating the incidences of poverty in Otukpo LGA comprising both the beneficiaries and non-beneficiaries of MFBs, household consumption expenditure and their household size was adopted using the adult equivalent scale formula. A minimum consumption expenditure threshold of #54,969.00 per adult per annum was used to separate the poor from the non poor (an equivalent of #150.6 naira per day). From this, the P-alpha class of poverty measure was used in calculating the incidence Po, the depth (P_1) and the severity of poverty (P_2) in Otukpo was derived and presented in table 1 above.

The result revealed that there was high incidence of poverty in both beneficiaries of MFBs (53.45%) and non-beneficiaries (55.20%). This result is in line with the findings of the World Bank (1996) that rural areas of Nigeria accounted for 66% of incidence of poverty, 72% of the depth of poverty and 69% of extreme poverty. Detailed analysis also revealed that the beneficiaries had deeper poverty depth of 0.5351% than the non beneficiaries who had 0.4530%. From this result, we can establish that the beneficiaries were still very poor even after benefitting from MFBs than their non-beneficiaries counterparts.

Table 4.2: Summary of Regression Analysis for Determinants of Poverty Status of Beneficiaries and Non – Beneficiaries of MFBs.

Variables	**Beneficiaries Coefficient (B) and Wald (T-Test)**	**Non-Beneficiaries Coefficient (B) and Wald (T-Test)**
Age	0.006 (0.039)*	0.014 (0.341)
HS	-0.126 (2.271)	-0.083 (1.214)
EDU	-0.062 (0.959)	-0.002 (0.001)*
CDR	-0.113 (0.031)*	0.408 (1.473)
AVMS	0.000	0.000

	(0.071)*	(0.457)
MS	-0.007 (32.910)	-0.004 26.186
Constant	371.879 (33.071)	224.988 (26.357)

Source: Data Analysis by the Authors, 2013

Values in parenthesis represent t-Test at 5% level of significance.

The result of the regression analysis revealed that two of the variables regressed namely age (0.006 and 0.014) and average monthly savings (0.000 and 0.000) were both positive for beneficiaries and non-beneficiaries of MFBs as shown in parenthesis of table 4.2 above.

The result also shows that three of the exogenous variables regressed namely household size (-0.126 and -0.083), educational status (-0.062 and -0.002) and marital status (-0.007 and -0.004) were negative for both beneficiaries and non- beneficiaries respectively. Child dependency ratio was however found to be negative (-0.113) for beneficiaries but positive (0.0408) for non beneficiaries of MFBs.

The positive values of the coefficient of variables for both beneficiaries and non-beneficiaries shows that a higher value tend to increase the probability of better welfare and the negative values tend to increase the poverty of the people. The coefficient for educational status has depicted a unique result contrary to a priori expectation for both beneficiaries and non-beneficiaries. It was theoretically expected that the higher the level of education, the better the standard of living. This result may however support the school of thought which says education without a good job is poverty in the worst form. Since there is high level of unemployment in the country, this result is totally accepted.

The result also shows that the positive values of the estimates for age and average monthly savings for both beneficiaries and non-beneficiaries of MFBs were all significant at 5% confidence level. This simply implies that, increase in age and monthly savings would increase the welfare of the respondents and vice–versa. The negative values for the coefficients of household size and marital status also does not conflict the a priori expectation.

Table 4.3: T-Test of Difference in Real Household Consumption Expenditure of Beneficiaries and Non-Beneficiaries of MFBs in Otukpo LGA

MFBs	No of Respondents	Mean(#)	Standard Deviation	Mean Difference	D.F	T	Sig.
Beneficiaries	200	566.86	6859.630				
				-116.1300	265	-221	0.825
Non – Beneficiaries	200	568.02	2838.285				

Source: Data Analysis by the Authors, 2013

Table 4.3 shows that 200 beneficiaries of MFBs had a mean real household consumption expenditure of #56,686 per annum while the 200 non- beneficiaries of MFBs had #56,802 per annum. This gives an insignificant mean difference of -116.1300 naira at 1% confidence level.

This shows clearly that beneficiaries of MFBs had less real household consumption expenditure than the non- beneficiaries. This may be attributable to the fact that MFBs due to series of challenges facing the programme in Nigeria, are yet to perform to the expectations of the people hence cannot effectively reduce poverty in the country except if the policy is reviewed.

Decision of Hypothesis: Based on the insignificant value of the t-Test of difference in the real household consumption expenditure of beneficiaries and non – beneficiaries of MFBs in the study area, the null hypothesis is accepted. The acceptance of the hull hypothesis entails that microfinance banks have not yet impacted positively on the lives of beneficiaries in Otukpo LGA as anticipated hence the need to properly review the programme in line with the global best practices.

5. Recommendations

Based on the findings of this study, the following recommendations are made:

i. There are too many dependents in most of the households' sampled hence the need to control population explosion in the area.

ii. Majority of the respondents sampled were not aware of the existence and importance of microfinance banks hence awareness should be increased.

iii. The beneficiaries of MFBs are still very poor hence minimum capital base has to substantially increased to cope with the current exorbitant cost of doing business in Nigeria.

iv. Training workshop on financial management should be organized for management and officials of MFBs to enhance their performance especially in the area of marketing.

v. There should be continuous monitoring of the programme and constant reviews of some operations in line with the best global practices.

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