A REVIEW OF THE IMPACT OF MICROFINANCE BANKS ON POVERTY REDUCTION IN GBOKO AND MAKURDI LOCAL GOVERNMENT AREAS 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 Makurdi and Gboko Local Government Areas. A logistic regression model was used to estimate the factors influencing household poverty and t-test statistic to examine the impact of the programme. 200 questionnaires were administered to both beneficiaries and non – beneficiaries of MFBs in the study area using stratified random sampling for beneficiaries and purposive sampling for non –beneficiaries. The result showed high incidence of poverty in both categories. The non-beneficiaries however show deeper poverty more than the beneficiaries implying the relative impact of the scheme on the beneficiaries. The T-Test of difference in real household consumption expenditure gives a significant mean difference of 8.800 at 1% confidence level hence the Ho of no significant impact of MFBs was rejected. A recommendation is for the policy formulators/operators to increase the capacity of MFBs to ensure poverty reduction and economic development.

Keywords: Microfinance; Poverty; Reduction; Benue State

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1.1 Introduction

Microfinance Bank (MFB) refers to the financial institution responsible for the provision of financial services to low-income clients, including the self-employed, low-income entrepreneurs in both urban and rural areas. These clients are often traders, street vendors, small scale farmers, service providers, artisans and small producers such as black smiths and seamstresses. These groups of people enjoy small credit lines ranging between #5,000.00 and #200, 000.00. Some MFBs provide insurance and payment services in addition to financial and social intermediation such as group formation, development of self-confidence, financial literacy and management capabilities (Von Pischke, 1991).

Estimates of the global demand ranges from 400 million to 500 million households of which only around 30 million are reported to have access to sustainable microfinance services (Snow, 2007). Even though the number of many poor and low income people that gain access to microfinance services in Nigeria have grown between 25% and 30% annually over the past four years (CBN, 2009), the demand for the services is largely unmet. 60% of the population is said to be under-banked and are prospective customers of the microfinance institutions (Dijk, 2010).

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, the government over the years initiated series of programmes targeted at the poor with over- riding objective of making financial 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).

There is however 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). 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 (Iorver, 2010). This work is set out to clear such controversy by going to evaluate the impact of MFBs on poverty reduction in Benue State using Makurdi and Gboko LGAs as a test case.

1.2 Objective of the Study: The specific objective of the study is to: examine the impact of MFBs in reducing the level of poverty of its beneficiaries in Makurdi and Gboko LGAs.

1.3 Research Hypothesis

Ho: Microfinance Banks have no significant impact on poverty reduction in Makurdi and Gboko Local Government Areas of Benue State.

1.4 Scope of the Study

The study is limited to MFBs operating in Makurdi and Gboko Local Government Areas of Benue State. The choice of Makurdi and Gboko LGAs is because; Makurdi LGA is the headquarters of Benue State while Gboko LGA apart from being the headquarters of the Tiv people, is the biggest commercial city in Benue State, where most of the operators of microenterprises are found for assessment.

2.1 Theoretical and Empirical Review

2.1.1 Concept of Microfinance Bank

In the past two decades, creating access to financial services for owners of micro and small businesses has become a thriving industry. The fabricators on the streets of Nairobi in Kenya; street traders of Lagos and farmers and food vendors in Makurdi and Gboko are increasingly turning to microfinance institutions for financial services of various sizes and shapes. In response to these demands, institutions have emerged and developed across developing countries. Such institutions are called microfinance banks.

Ehigiamusoe (2008) defines microfinance as the provision of small units of financial services to low-income clients who are usually excluded from mainstream financial system. Such institutions doing so are called Microfinance Banks. It is a form of financial intermediation, which primarily focuses on alleviating poverty through provision of financial services to the poor owners of microenterprises. Service users include artisans, smallholder farmers, food processors, petty traders and other persons who operate microenterprises.

In practice, microfinance means more than delivery of small units of financial services. It goes beyond disbursement and collection of loans (Gisaor, 2010). It is also refers to the flexible structures and processes by which affordable financial services are delivered to the owners of microenterprises on a sustainable basis (Iorver, 2010). At the onset what is now termed *microfinance revolution*, credit was the dominant financial service. Working capital loan was in most cases the only product delivered to clients. Over the years, the scope of financial services has been expanded to include savings, consumer's loans, money transfers, micro-leasing, micro insurance and micro investment services.

It is important to make some clarifications about microfinance practice. Despite its poverty alleviation appellation, microfinance is not charity. It is simply the provision of opportunity for poor persons to access financial services on affordable terms. Microfinance in spite of the current emphasis is not a new creation especially for us in Africa. We have always had our *Esusu*, *Bam* and *Adashi* in communities across Nigeria.

Modern microfinance practice has moved towards commercialization and promotion of innovations. This is largely in response to the fact that owners of microenterprises like other economic actors need a wide range of financial services that are flexible, dependable and reasonably priced. For instance, the poor need financial services to build up assts, meet consumption needs, hedge against business risks and other emergencies (Ehigiamusoe, 2008).

Microfinance recognizes the peculiar challenges of owners of micro and small enterprises especially in accessing financial services. In service design, it takes into consideration the ability of the poor to provide the tangible collateral required by formal financial institutions (Iorver, 2010).

2.1.2 Concept and Measurement of Poverty

It is very difficult to define the concept of poverty. There is therefore, no consensus among the scholars on the definition of poverty and how poverty is measured.

Ajegi (2002) defined poverty as a situation of being unable to have what most people have. The body of economic literature defined poverty in absolute terms as a situation where a population or section of the population is able to meet only its bare subsistence essentials of food, clothing and shelter in order to maintain a minimum standard of living. The poor are considered as those earning below a particular income recognized as minimum amount needed to provide the basic necessities of life. This absolute definition requires that some yardstick be set which could be used and has been the per capita income. Using the 1990 World Development Report, a per capital income of US $370 was used, meaning that persons whose consumption levels fall below this level were considered to be poor.

According to Levy (1991), the benchmark for poverty was put at US$275 per annum for the extreme poor and for the moderate poor respectively.

However, poverty is more than income and cannot be narrowed to a precise concept and measurement. It entails lack of access to a range of basic services and infrastructure which include education, health, and access to clean water, life expectancy and even farm inputs. Majority of Nigerians do no have access to the quantity and variety of food needed for healthy living and are as well living below the poverty line i.e. less than $1 a day. World Bank estimates put more than 60% of Nigerians as those living below the poverty line of $1 a day.

Economist have categorized poverty in terms of absolute, relative, chronic, transient, and mass or localized poverty. But in whatever form it is experienced, poverty inflicts both real and psychological pains on its victim (Anyanwu, 1993).

There are some techniques used for measuring poverty. These include the head count index, the Lorenze Curve, the Adult Equivalent Scale, the Gini coefficient, the Poverty gap index, the Human Development Index (HDI), Dollar per day measure, p-Alpha etc. Each of these techniques with application of various statistical methods can be used to determine the extent and severity of poverty.

2.2 Theory of Financial Dualism

Developed by Myint (1946), it 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 and Bam. 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.

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

2.3 MFBs' Policy, Regulatory and Supervisory Framework

In other to provide veritable avenues for the administration of microfinance programme the existing informal institutions were brought under the supervisory purview of CBN/NDIC to amongst others enhance monetary stability, expand the financial infrastructure to meet the financial requirement of 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).

According to the CBN(2005), there is overwhelming evidence since previous efforts of DFIs and other informal activities failed to provide the sustained development stimulus owing to the fact that they were bedeviled with weak capacity such that the CBs and DFIs loaded with incompetent management, weak internal controls and lack of deposit insurance schemes, weak capital base which failed to cushion the risk of lending to micro businesses in the midst of a hug un-served market and the rising need for economic empowerment of the poor, employment opportunity and poverty alleviation. Besides, there was need to increase savings opportunities since the existing 753 CBs had total assets of #34.2billion, total loans and advances of #11. 4billion an aggregate deposit mobilization of #21.4billion out of #545.8billion that was in circulation that 2004 (it was confirmed that about #458.6billion or 84.21% was outside the banking system). There was also need to utilize the SMEEIS fund which government contributed 1% of her budget annually and enhance the interest of local and foreign communities in micro financing.

Based on the foregoing objectives of government, the policy targets is to eliminate gender disparity by improving women participation in financial services, cover majority of the low income earners by 2020, increase job opportunities thereby, increase the number of linkages among financial institutions by 10% annually, increase the share of micro credits as a percentage of total credit in the economy from 0.9% in 2005 to at least 20% in 2020 and the share of micro credit as a percentage of GDP from 0.2% in 2005 to 5% in 2020 (CBN, 2005).

These laudable objectives according to CBN (2005) are to be achieved through the following strategies amongst others: license and regulate the establishment of MFBs promote the establishment of NGO-MFBs, encourage public participation in microfinance banks by states and local governments to devote at least 1% of their budgets to MFBs, mobilize domestic savings and promote the banking culture amongst low-income earners, strengthen the capital base, promote sound microfinance practice, clearly define stakeholders' roles in the development of the sub-sector, increase the skills of promoters, operators, regulators and beneficiaries of the initiatives and broaden the scope of activities of microfinance banks. Measures and instruments for private sector-driven microfinance banks are established to include either a unit MFB or a state MFB: A unit bank (community bank) shall operate within a given local government with initial minimum paid-up capital of #20 million for each branch while the state operates within the state with a minimum paid-up capital of #1 billions for each branch. Subject to their meeting the prudential requirement, each category can grow organically to state or national level respectively-by covering 1/3 of their statutory required area of coverage each new branch requiring #20 million of #1 billion as the case may be.

Any of them can be established by individuals, group of individuals, community development associations, private corporate entities, or foreign investors. None of them will be allowed to operate more than one bank under different names. CBs wishing to transmute into MFB shall increase its paid-up capital to the required type of MFB. The same thing goes with NGOs: they can operate a subsidiary MFB or fully convert to the bank. Registration and licensing of MFBs shall be the prerogatives of the CBN. In compliance with the Companies and Allied Matters Act (CAMA) 1990, all MFBs shall be registered with Corporate Affairs Commission (CAC). According to Gisaor (2010), this gives it a dual legal status like the commercial banks. In place of the Board for community Banks, a National Microfinance Consultative Committee (NMFCC) is constituted to provide direction for the implementation and monitoring of the policy. Other apparatus like the Credit Reference Bureau, Rating Agency, Deposit Insurance Scheme, Linkage Programme, and Management certification process, Microfinance Development Fund, Corporate Governance and Prudential Requirements are put in place to ensure sustainability of the bank.

2.4 Empirical Literature

Some of the studies conducted on microfinance bank's contribution to rural development is reviewed below:

Kurmar & Newport (2007) discussed relationship-based financing as practiced by MFIs in the United States; analyze their lending process, with the aim of determining the break-even price of microcredit product. After comparing his results with actual prices offered by existing institutions, the study revealed that credit is generally being offered at a range of subsidized rate to micro-entrepreneurs. They recommend the impact of nonprofit organizations in small credit markets, the pricing on their potential sustainability and self sufficiency, and the need to strategize to better structure the credit market for micro businesses.

Amengai (2010) wrote on Microfinance Bank and poverty Alleviation: A Case Study of Zion Microfinance bank in Makurdi, Benue State using only descriptive statistics established that there was reduction in the poverty levels of the beneficiaries in terms of their increase access to finance for business, consumption expenditure and savings.

Iorver (2010) carried out an Assessment of Microfinance Banks and Poverty Reduction in Otukpo Local Government Area using descriptive statistics; Logistic regression and T-Test statistic. T-test result showed that the beneficiaries had deeper poverty incidence and lower annual consumption mean as compared to the non-beneficiaries. This implies that microfinance banks have not yet impacted positively on the lives of her beneficiaries in Otukpo LGA.

This research is out to examine the impact of MFBs in a very different case study of Makurdi and Gboko where no such research work had existed.

3.1 Methodology

3.2 The Population, Sample Size and Techniques

The study was targeted at all the beneficiaries of microfinance bank's financial support or intervention scattered in Makurdi and Gboko LGAs of Benue State. These are the two biggest towns in Benue State. The two MFBs (Gboko and Zion) currently have about 2,000 benefitted customers carrying out various medium scale businesses in these towns. The researchers considered 100 customers (50 each in Makurdi and Gboko). 100 non – beneficiaries of MFBs were also be considered (50 each in Makurdi and Gboko). The sample size thus becomes 200 respondents to make a comparative analysis between beneficiaries and non- beneficiaries.

3.3 Method of Data Collection/ Analysis

Questionnaires were administered directly to both beneficiaries and non beneficiaries of microfinance banks in the study area to obtain the needed primary data for processing and analysis. Logistic regression analysis was used. In this regard, the research made a comparative analysis between beneficiaries and non beneficiaries of microfinance bank by obtaining the mean difference in terms of household annual consumption expenditure on the assumption that consumption is a function of income (Keynes, 1936).

3.4 Model Specification

A logistic regression model recommended by the Organization for Economic Co-operation and Development (OECD) and was used by Remarkrishma and Demeke (2002) and Gafar (2009) was adopted for this research work due to its simplicity of use. 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, βs=(1-6), vector of parameters to be estimated, X_1 =Age of households, X_2=Household size, X_3=Educational status of the respondents, (No formal edu. = O, prim edu. = 6, Post prim edu. = 12; and tert. edu. = 16), X_4=Child dependency ration (Ration of 0-14 years to Household size), X_5=Average monthly savings (N) of the respondents, X_6 =Marital status of the respondents (married = 1 single = 0. Note: Divorce, windows and widowers are also single people), U=error term to capture the stochastic elements in the model.

4.1 Data Analysis

Table 4.1 Poverty incidence, depth and severity using Minimum Consumption Expenditure of N54, 969. per Adult per Annum (Poverty Line)

MFBs	Number of poor people	Poverty incidence (Po)	Depth of Poverty (P1)	Severity of Poverty (P2)
Beneficiaries of MFBs	45	62.25	0.4392	0.5641
Non-Beneficiaries of MFBs	25	59.20	0.5720	0.6352

Source: Field Survey, 2012

In estimating the incidences of poverty, 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 popular P-alpha class of poverty measure was used in calculating the poverty incidence (Po), the depth (P_1) and the severity of poverty (P_2) in Makurdi and Gboko LGAs. The result is presented in table 4.1 above. The result revealed that there was high incidence of poverty in both the beneficiaries of MFBs (62.25%) and the non-beneficiaries (59.20%). This result does not contradict the previous empirical 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 non-beneficiaries had a deeper poverty depth of 0.5720% than the beneficiaries who had 0.4392%. From this result, we can establish that the beneficiaries of MFBs were relatively better off after benefitting from MFBs. The severity of poverty among the household also confirm the above position with the beneficiaries having an index of 0.5641% against the non- beneficiaries with a worse index of 0.6352%. This result however, contradicts the findings of Iorver (2011) that in Otukpo LGA, the beneficiaries of MFBs had a deeper poverty depth than the non-beneficiaries even after benefitting from MFBs loans.

Table 4.2: Summary of Regression Results

Variables	Beneficiaries Coefficient	Non-Beneficiaries Coefficient
Age	0.009	0.140
	(0.021)*	(0.201)
HS	-0.126	-0.038
	(2.271)	(1.421)
EDU	0.026	0.002
	(0.599)	(0.001)*

CDR	-0.311	-0.084
	(0.130)*	(1.743)
AVMS	0.001	0.200
	(0.071)*	(0.100)
MS	0.007	0.014
	(2.109)	(6.200)
Constant	222.000	234.701
	(22.062)	(23.570)

Source: Data Analysis, 2012

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

The single asterisk indicate significant at 5% level of significance

The result of the regression analysis revealed that four of the variables namely age, educational status, average monthly savings and marital status were all positive for beneficiaries and non-beneficiaries of MFBs in study area. The result also shows that two of the independent variables regressed namely household size and child dependency ratio were negative for both beneficiaries and non- beneficiaries respectively. By exhibiting both positive and negative characteristics, the variables have clearly demonstrated that they are the true determinants of the level of poverty in the household. The positive value of some of the coefficients for both beneficiaries and non- beneficiaries of MFBs in Makurdi and Gboko LGAs shows that a higher value tend to increase the probability of better welfare for the household and the negative value tend to increase the poverty of the household. The negative values for the coefficients of household size and child dependency ratio also does not conflict with our a priori expectation. It was theoretically expected that a large household would put pressure on the amount of resources available for consumption and also, that a household dominated by dependency population of children and old people would put severe negative pressure on financial resources.

Table 4.3 T-Test of Difference in Real Household Consumption Expenditure

MFBs	No of Respondents	Mean (#) Mean(#)	Standard Deviation	Mean Difference	D.F	T	Sig.
Beneficiaries	100	556.85	5559.330	8.800	125	111	0.825
Non-Beneficiaries	100	548.05	3238.852				

Source: Data Analysis, 2012

Table 4.6 shows that 100 beneficiaries of MFBs in Makurdi and Gboko LGAs had a mean real household consumption expenditure of #55,685 per annum while the 100 non-beneficiaries of MFBs had #54,805 per annum. This gives a significant mean difference of 8.800 naira at 1% confidence level. This shows clearly that beneficiaries of MFBs had more real household consumption expenditure than the non- beneficiaries in the study area. This may be attributable to the impact of MFBs on their beneficiaries. Even though, there is a general consensus in economic literature that MFBs in Nigeria are yet to perform to the expectations of the people, there is empirical evidence from this research that the programme is not faring so badly as speculated hence should not be completely jettison.

4.2 Test of Hypothesis

Based on the significant value of the T-Test of difference in the real household consumption expenditure of beneficiaries and non – beneficiaries of MFBs in Makurdi and Gboko LGAs, the null hypothesis of no significant impact of MFBs on beneficiaries is rejected.

5.1 Conclusion

The research was out to examine the impact of MFBs on poverty reduction in Gboko and Makurdi LGAs of Benue State. Using a logistic regression complimented by the t-test, it was discovered that the non-beneficiaries of MFBs had deeper poverty and the t-test gives a significant mean difference hence the impact of the program.

5.2 Recommendations

i. The minimum capital base of MFBs in the country should be increased substantially from #20m to #100m to cope with the exorbitant cost of doing business in Nigeria.

ii. The location of most of the MFBs has to be reversed. Now, they are heavily concentrated in the urban cities.

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

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.

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