

MICROFINANCE BANKS AND THE CHALLENGES OF POVERTY ALLEVIATION IN NIGERIA

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ABSTRACT

In Nigeria, more than 65% of active populations are often served by informal financial sector while 35% of the economically viable population benefits from the formal financial system. This paper therefore examines microfinance institutions and the challenges of poverty alleviation with implications for sustainable rural development. Using a linear model, we model the relationship between the activities of microfinance institutions and its impact on poverty alleviation in Nigeria which were disaggregated into Microfinance Loans and Advances (MFC), Long Term Investment by Microfinance Institutions (INV), and Number of Microfinance Institutions (NMFI). Time series data on these disaggregated variables are collected for the period 1990 – 2016 from Central Bank of Nigeria Statistical Bulletin. The conclusion of the result shows that microfinance loans and advances have an impact on poverty alleviation and also, investment by microfinance institutions if not targeted at the poor, will have no significant impact on poverty reduction. Therefore, making investments of microfinance institutions trustworthy, available and accessible to patrons by down-playing the importance of collateral, favoritism, conditionalities and inequalities can expressly translate into income earning capacity which would lead to an improved physical quality of life as well as sustainable rural development in Nigeria.

Keywords: Microfinance, poverty alleviation, challenges, rural development, sustainable.

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Introduction

According to Adeyemi (2008) various governments of the world mostly the developing countries (including Nigeria) have continued to sought for ways of providing financial service to the poor through creation of agricultural development banks, special lending schemes, supporting the growth of co-operatives as well as encouraging other self-help groups. In addition to these, provision of credit to the less privileged has been considered a veritable tool for poverty reduction.

Poverty is difficult to define. The multi-dimensional nature of poverty makes it to be most easily recognized than define.

According to Watt (2000) “poverty is a state of being in which one is unable to meet his needs”. Poverty has been identified as one of the greatest challenges facing the Nigeria society in recent times. As noted by Central Bank of Nigeria (CBN) (2010) and World Bank (2009), this situation is unfortunate given the country’s rich resources in terms of agriculture, crude oil, human capital and many other benefits of nature. Unfortunately, estimated 70% of the country’s population are classified as poor, the situation is severe in the rural areas where about 80% of the country’s population resides. According to Adam (2007) and Littlefield (2005), these people lack access to basic social services and infrastructure.

Their dependence is on subsistence agriculture for their food and meager income. As further noted by Eadgerwood (2009) women group are the most vulnerable to the incidence of poverty.

It is important to state that efforts geared towards expanding the economic frontiers of the rural areas always fail because of paucity and hindered access to loanable funds. According to Ijere (1992) Okafor (1999) and Tanko (2007) financial capital plays significant role in terms of production capacity to induce economic growth and development. These informed the need to direct credit to rural economies in order to stimulate/empower the rural poor. It therefore calls for effective mobilization of domestic financial resources and appropriating them efficiently mostly to boost the rural economies. As further opined by Soludo (2005), there is need to put in place well intended financial programmes in order to reduce poverty through empowerment. This is considered as critical factor that would support a robust economic growth which is necessary through eliminating various hindrances to accessing credit facilities and other factors of production. By so doing, the unintended capacity of the rural poor in terms of entrepreneurship would be positively influenced through the provision of microfinance services to enable them engage in economic activities. The effects of this on the general economy would mean-greater self-reliant, increased employment, boosted household income and general wealth creation (Collins, Johnny, M-epbari, and Barikui, 2017; Collins, M-epbari, Sira.and Miebaka, 2018).

As enumerated already, the federal government has, in the past, initiated various policies that enabled the growth of the MFIs with the aim of enhancing the flow of financial services, and which target was the rural poor. It could therefore be said that microfinance institutions have witnessed rapid growth in recent times. It has enjoyed a quantum leap from low level income based initially considered to the mainstream of development discourse in respect of poverty reduction/alleviation. Against this celebrated position of the MFIs, Soludo (2006) observed that “rural markets in Africa and Nigeria in particular are ill-prepared for the 21st century”. This is because about 75% of the country populations still have hindered access to institutional financial services.

Taking the CBN (2006) position into consideration, MFIs can be seen as one of the major poverty reduction strategy. This means that an improved access to credit facilities can boost the consumption level of the poor people and they can manage some aspects of their risk, improve assets base as well as develop micro enterprises.

Methods and Model Specification

Secondary data was employed to ascertain the impact of the activities of microfinance institutions on poverty alleviation in Nigeria. The activities of these microfinance institutions are disaggregated into Microfinance Loans and Advances (MFC), Long Term Investment by Microfinance Institutions (INV), and Number of Microfinance Institutions (NMFI). Time series data on these disaggregated variables are collected for the period 1990 – 2016, from Central Bank of Nigeria Statistical Bulletin.

Using a linear model based on the works of Obisesan and Oyedekede (2015), we model the relationship between the activities of microfinance institutions and its impact on poverty alleviation in Nigeria.

$$PI = f(MFC, INV, NMFI) \quad (1)$$

For estimation purpose, we linearize equation (1) above as follows:

$$PI_t = \beta_0 + \beta_1 MFC_t + \beta_2 INV_t + \beta_3 NMFI_t + \varepsilon_t \quad (2)$$

Where:

PI_t = Poverty Index (%)

MFC_t = Microfinance Loans and Advances (₦m)

INV_t = Long Term Investment by Microfinance Institutions (₦m)

$NMFI_t$ = Number of Development and Specialized Banks/Institutions (Microfinance Banks)

ε_t = Random Error Term

Based on the theoretical framework, the a priori expectations are β_1, β_2 and $\beta_3 < 0$

To avoid obtaining spurious regression results that would make the estimate biased and inconsistent, the time series properties of the data set employed in estimating equation (2) was ascertained.

Using the Augmented Dickey Fuller (ADF) test due to Dickey and Fuller (1979) and Philip-Perron (PP) test due to Philip and Perron

(1988), the stationarity of the data set was established. Stationarity – that is absence of unit root, entails the stability of the data set employed over time. This implies that the purpose of forecasting (policy formulation) from the data set employed will be more of practical value compared to when the data set is non-stationary. Furthermore, the study adopted the Maximum

likelihood test procedure due to Johanson and Juselius (1990) to test for the presence or otherwise of co-integration. Equation 3 is estimated using the ordinary least square method. E-views 7.1 statistical package is used for the data analysis.

Empirical Results and Discussions

Table 1: Unit Root Test Result

Variables	ADF Statistics			Order of Integration	Phillip-Perron Statistics			Order of Integration
	Levels	1st Diff	2nd Diff		Levels	1st Diff	2nd Diff	
P.I	-3.2896 (-3.5950)	-5.3483 (-3.6032)	-	I(1)	-3.6257 (-3.5950)	-	-	I(0)
MFC	4.0887 (-3.6584)	0.9650 (-3.6736)	4.8725 (-3.6736)	I(2)	4.0887 (-3.6584)	-5.8103 (-3.6032)	-	I(1)
INV	-1.6082 (-3.5950)	-3.8248 (-3.6032)	-	I(1)	-1.6082 (-3.5950)	-3.7100 (-3.6032)	-	I(1)
NMFI	-3.7960 (-3.6121)	-	-	I(0)	-2.8682 (-3.5950)	-3.4472 (-3.6032)	-17.8907 (-3.6121)	I(2)

Source: Computed by the Authors using E-views 7

Note: Numbers in parenthesis represent critical values at the 5% probability level. Variables are as defined in section above.

The result of the unit root test is contained in table 1 above. After comparing the test-statistic value (values outside parenthesis) against the Mackinnon critical value (values in parenthesis) at 5% level of significance, it was observed that most of the variables in the two test statistics employed that is ADF and PP were stationary at levels, first difference and second difference respectively (see table 1). The result of the ADF statistics shows that Poverty Index (PI) and Long Term Investment (INV) were found to be stationary at first difference, while Microfinance Loans and Advances (MFC) and Number of Microfinance Institutions (NMFI) were stationary at second difference and levels respectively.

The result of the Phillip Perron statistics also shows that all the variables tested were integrated of the order zero $I(0)$, first difference $I(1)$ and second difference $I(2)$. Thus, since stationarity of the variables has been established, we proceed to determine the relationship the activities of Microfinance institutions and its impact on poverty alleviation in Nigeria.

Table 2: Activities of Microfinance Institutions and Poverty Alleviation in Nigeria.

Dependent variable: PI – Poverty Index

Dependent Variable	Activities of microfinance Institutions
Constant	12.6227** (2.1433)
MFC	-9.49E-06 (-0.2272)
INV	0.0025*** (3.1716)
NMFI	0.0482*** (7.2399)
\bar{R}^2 (Adjusted R-Square)	0.7162
F-Statistic	22.8725***
Prob(F-statistic)	0.0000

Note: (1) Asterisks *, **, and *** denotes 10%, 5% and 1% significant levels, respectively.

(2) Variables are as defined in equation 2.

(3) Values in parenthesis are the t-statistics.

Regression Analysis

Table 2 shows the results of the OLS regression performed to estimate Equation 2. The F-value (22.8725) indicates the model is

significant at the 1 percent level and therefore has explanatory power. The adjusted R Square value of 0.716 indicates that the model explains 71.6 percent of the variability in the dependent variable poverty. That is MFC, INV, and NMFI explains about 71.6% of the total variation in poverty index in Nigeria.

The results of the regression analysis show that the independent variable, microfinance loans and advances (MFC) is not significant. Though not significant, the coefficient has a negative value of -9.49, confirming that microfinance loans and advances has a positive impact on poverty alleviation. A 1% increase in MFC will lead to -9.49% decreases in Poverty index (PI) in Nigeria. This result is in line with the works of Okpara (2010) who concluded that poverty level in Nigeria has decreased as access to microfinance credit has increased.

The coefficient of long term investment by Microfinance institutions (INV) indicates a positive and significant correlation with Poverty Index (PI) at 1% level of significance. That is, a 1% increase in investment by these institutions will lead to about 0.0025% increase in poverty. It implies that as Microfinance institutions increases its investment, the nation's level of poverty decreases. The result, however, does not conform to a priori expectation. This implies that on the aggregate, if the investment of these microfinance institutions are not targeted to include the marginal poor that have been left out for long in economic participation which would have helped in ameliorating the suffering of these vulnerable group, its impact on poverty alleviation may not be realizable. On the other hand, this result could also mean that if the programmes (INV) of these microfinance institutions are high-jacked by the rich and mighty in the society thus, making it impossible for its target (objective) to be achieved.

Finally, the coefficient of Number of Developed and Specialized Banks/Institutions (Microfinance Banks) (NMFI), showed a positive and significant relationship with poverty index. The result shows that a 1% increase in the number of microfinance institutions, will lead to decrease in poverty level. This does not conform to a priori expectations. This result with a different notion is in line with the findings of Linn (2017) which

suggests that the number of microfinance institutions in a state is not a determinant of the poverty level unless it is put in relation to the population. The result could be as a result of the locations of these institutions as a greater number of them are located in the cities, thus making it inaccessible by the vulnerable poor.

Concluding Remarks and Policies Chances

The evidence in literature shows that microfinance services have made significant impact on the various efforts made to reduce poverty. The poor therefore are left with variety of opportunities to extricate themselves and their household from the poverty web. Zaman (2004) supported this view by concluding that microcredit scheme serves as intermediary link between the poor and the available financial services, be it from donor agencies, the government or the formal financial system. Microfinance leads to an improved resource allocation, it promotes markets, contributes to economic growth and development. Access to microfinance opens up households to wider range of choices rather than relying on the informal sources. This would lead to their active participation and also benefit from the growth and development opportunities. Microfinance is seen as a veritable tool to empower the vulnerable groups in the rural areas and even the urban poor such as women and youths who occupy the lower rung of the poverty ladder. Thus, making microfinance institutions available, accessible and trustworthy to patrons by down-playing the importance of collateral, conditionalities and inequalities can expressly translate into income earning capacity which would lead to an improved physical quality of life as well as sustainable rural development in Nigeria.

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