

**ROLES OF MICROFINANCE BANKS
IN POVERTY ALLEVIATION IN NIGERIA**

BY

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NIGERIA**

FEBRUARY, 2018

DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for any other programme. All quotations are indicated and sources of information specifically acknowledged by means of references.



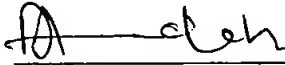
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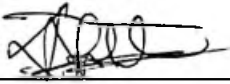
CERTIFICATION

This project "Role of Microfinance Banks in Poverty Alleviation in Nigeria" meets the regulations governing the award of Postgraduate Diploma in Business Administration of the School of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge.



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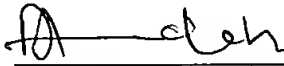
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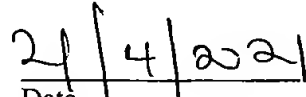
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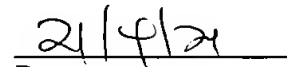
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DEDICATION

This Project work is dedicated to Almighty God.

ACKNOWLEDGEMENTS

The success and outcome of this project required a lot of guidance and assistance from many people and I am extremely privileged to have got this all along completion of my project. All that I have done is only due to such supervision and assistance and I would not forget to thank them.

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Finally, my gratitude goes to all my family, friends and well wishers, thank you.

ABSTRACT

The study x-rays the contribution microfinance banks in poverty alleviation by using primary data collected with the use of questionnaires. The chi-square statistical test was adopted. The study revealed that there is a significant difference between those people who used microfinance institutions and those who do not use them. There is a significant effect of microfinance institutions in alleviating poverty by increasing income, generating employment and changing economic status of those who patronize them. The study concludes that microfinance institution is indeed a potent strategy of poverty reduction and a viable tool for purveying credit to the poor. However, microfinance can be more viable tool for achieving sustainable poverty alleviation if more is done on the programme outreach and depth than the present outreach.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Throughout the world, poor people are excluded from formal financial system. The poor have however developed a wide variety of informal community based financial arrangement to meet their financial needs. It is in this regard that microfinance is created (Irobi, 2008). In Africa and other developing regions, microfinance institutions (MFIs) are regarded as the main source of funding micro enterprises (Anyanwu, 2004).

The importance of microfinance is to eradicate poverty. The Federal Government of Nigeria adopted microfinance banks as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy and framework for the operations of MFIs.

Poverty level in Nigeria like many African and third world countries is perhaps among the worse on the globe. International Fund for Agricultural Development (IFAD) put the country's poverty rate at 72%. This may sound staggering to people given the "apparent" healthy status of Nigerians. The state of armed robbery and insecurity in the country are attributed to the level of poverty and unemployment in the country.

Most young boys and girls in prostitution are there because they are un-employed and have no means of livelihood. Majority of our people languish in Europe in hard lottery, drudgery, indecent and illegal activities because they have no hopes of survival in their father land Nigeria.

The United Nations (UN) has defined people living with less than \$1 a day as people living below the poverty line. This implies that poverty line is somewhere at living with a \$1 a day and maybe a little more than a dollar a day. Worried by the statistical revelation

of the number of people living below the poverty line all over the world, the UN declared the year 2005 as a year of microfinance with the aim of reaching the poor with financial products that would lift them above the poverty line.

Following the degrading effect of habiting the world with large numbers of the poor who can neither fend for themselves nor their dependent family members (children and aged parents) the UN took the bold step that was to change the global status of poverty by setting a target to halve the world poverty level by the year 2015. All countries of the world were required to buy in to this Millennium Development Goal (MDG)

The main objective of micro financing or micro banking all over the world is to provide banking and credit services to the poorest of the poor, the low income earners and the low to medium scale entrepreneurs (CBN, 2008).

Nigeria and many other pro-poor organizations and individuals align with these global goals and phenomena and Millennium Development Goals were implemented.

The MDGs were designed to combat the world's leading concerns in development by eliminating poverty, hunger, disease and more through eight defined goals by the year 2015. The first goal, perhaps the quintessential goal of the MDGs, is to eradicate extreme poverty and hunger. This is where microfinance institutions play a significant role in poverty-reduction by providing access to a key capacity – financial capital. Microfinance brings financial services to people who might not otherwise have access to reliable or formal methods of banking. With Micro Finance Institutions, communities can improve access to other capitals as well, including social capital and human capital. It is therefore necessary to undertake an assessment of the extent to which microfinance has impacted on poverty reduction in Nigeria.

1.2 Problem of the Study

Nigeria was one of the richest fifty countries in the early 1970s. She has retrogressed to become one of the poorest countries at the threshold of the twenty first century. Despite the abundant natural resources in the country, the incidence of poverty has continued to increase as Nigeria is the host of third poorest countries in the world.

The demand for credit has continued to rise due to the abject level of poverty in the society and low level of income to meet the financial needs of the poorest households.

Unfortunately, the commercial bank has not been able to satisfy people's needs and aspirations, as Nigeria ranks among the poorest countries in the world. The country is loaded with dilapidated infrastructure (road and power supply) that has crippled many businesses and resulted to insecurity of lives and property.

The most basic and undisputed fact about Nigerian extreme poverty is that it is overwhelmingly rural. If the country continues at this rate of development, even in 2025 when the majority of the world's population is projected to live in urban areas, 60 per cent of the population will still be in rural. The country is not likely to meet the MDGs, if poverty and hunger, joblessness, diseases, lack of shelter, environmental deterioration are left to continue.

1.3 Objective of the Study

The primary objective of this study is to examine the role of Microfinance Bank in alleviating poverty in Nigeria.

The specific objectives are to:

- (i) Examine the roles of Microfinance institution in reducing poverty;
- (ii) Assess the level of Microfinance Bank operation in the nation building through poverty alleviation;

- (iii) To make recommendation for effective and efficient realization of the scheme.

1.4 Research Questions

- (i) Does microfinance significantly contribute to poverty reduction and improved standard of living of people in Nigeria?
- (ii) Do poor have access to microfinance funds and loans for the development of microenterprises in Nigeria as expected?
- (iii) What are the prospects of microfinance in the reduction of poverty in Nigeria?
- (iv) Does poverty reduction have any implication on sustainable development in Nigeria?

1.5 Research Hypothesis

- (i) There is no significance difference between people who use microfinance and those who do not.
- (ii) There is no significant effect of microfinance in poverty alleviation in the country, Nigeria.
- (iv) There is no significant effect of microfinance activities on sustainable development.

1.6 Significance of the Study

This study will be of immense benefit to both researchers, students, general public and policy makers. This intends to contribute to already existing literatures and knowledge.

The study will assist students gain awareness of the benefit of micro financing and also serve as literature for further studies and research. It will serve as guidance for policy makers on how to make public choices/decision on the supply of credit to micro finance banks. It will also help researchers with good understandings of the activities of the micro finance banks in Nigeria. It will assist the general public with information that will enable them make good investment judgments.

1.7 Scope of the Study and Limitation

This study is restricted to Hasel Microfinance Bank, Dutse Alhaji in FCT. The limitations envisage would likely be time constraint and financing. Reason is that the researcher would have intended to cover more locations.

1.8 Definition of Terms

For proper understanding of issues to be analyzed in this study, it is important to clarify terms that are relevant to the subject under consideration. This researcher shall take a look at the following concepts: Millennium Development Goals, Micro financing, development, SMIEIS.

- **Millennium Development Goals**

The Millennium Development Goals (MDGs) are eight international development goals that were officially established achieve the following goals by the year 2015. The goals are: Eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality rates, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability, and developing a global partnership for development.

- **Micro Financing**

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. In this study, it is also used to mean the supply of financial services to low-income employees, which is closer to the retail finance model prevalent in mainstream banking.

- **Development**

Development as used in this study refers to a rise in the standard of living of the population in such a way that majority can satisfy their economic and social needs adequately and enjoy life more fully.

- **Economic Development**

Economic development can be defined as a sustained community effort to improve both the local economy and the quality of life by building the area's capacity to adapt to economic change.

- **SMIEIS**

SMIEIS stands for small and medium industries equity investment scheme.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is organized as follows. Following the introduction is the Nigerian microfinance practice, micro finance banks and millennium development goals, economic development, key challenges of microfinance banking in Nigeria, empirical studies on public investment and summary.

2.2 Historical Perspective of Microfinance Bank

The history of microfinance begins with one man and one village. Grameen Bank was the first microfinance bank, and it was established by Muhammad Yunus, a native of Bangladesh. He was motivated by the fact that Bangladeshi business owners were forced to repay much of their profits to loan-issuers. In 1976, Yunus extended his first microfinance loan from his personal account to a group of women in a Bangladeshi village, and the concept of microfinance lending grew from there. His intentions were not to gouge the borrowers, but instead to provide them with reasonable funding on terms that would not cripple them financially but instead foster growth.

Microfinance loans are designed for providing financing to the most underprivileged regions in the world, including sub-Saharan Africa and the Democratic Republic of Georgia, where pockets of the population might otherwise have no access to any sort of banking institution. In addition to small loans, individuals gain support, including education and training for personal development in addition to savings and insurance products. The purpose is to break the cycle of poverty in a region (Yunus 2003).

Loans for women living in poverty are among the most widely-issued forms of credit in microfinance. This is because 70% of the world's population struggling through extreme-

poverty conditions is women, according to Opportunity International, a US-based non-profit organization that works with microfinance lenders. A woman is less likely to receive formal education, business training, or a prominent role in society in an underdeveloped region, and without proper financial support may never overcome those obstacles.

According to Chakriya Bowman (2006), Microfinance has become one of the most important mechanisms for the development of informal business in developing economies. As such, it has attracted attention from development practitioners, economists and politicians. Disappointingly, most books on the subject can be best described as infomercials - rarely do they go beyond success stories of happy women in brightly coloured clothes who are now running home enterprises. But practitioners know that there is far more to microfinance than simply providing loans - just as there is far more to development than simply pouring money into a country. There are pitfalls to microfinance: it can crowd out local business, it can catapult poor people further into poverty if incorrectly administered, and there are a host of governance issues surrounding it.

2.3 Nigerian Microfinance Practice

Nigeria positively keyed into the Millennium Development Goal (MDG) by concluding and releasing the Microfinance Operational Guidelines and Policy in December 2005. As at End of October 2007, Over 80 Microfinance Banks including newly licensed MFB's and converted or merged Community Banks were in existence (CBN, 2008).

Currently microfinance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to Microfinance Banks. The two forms of Microfinance Banks (MFBs) are;

(1) Microfinance Banks (MFBs) licensed to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks is N20m for each branch. The branching should be gradual within a local council before it spreads to other local councils and state.

(2) Micro-Financed Banks licensed to operate in a state. These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. The minimum paid up capital for this category of banks is N1 billion. About 600 Community Banks have migrated to Microfinance Banks by January 1st, 2008, and there are several others that have been licensed to operate. (CBN, 2008)

Apart from launching the operational policy, Nigeria has taken positive steps at various levels to ensure that Microfinance operations are not only undertaken but are in fact effective. The aim is to reach as many poor and low income people as possible and improve the standard of living of Nigerians. Some of the steps taken by the Central Bank of Nigeria to actualize this objective include:

- o Encouraging the private sector to set up microfinance institutions
- o Direct dealings in Micro-activities such as undertaken by the National Poverty Alleviation Program (NAPEP)
- o MFI's access to state and local government funds to be established with 1% of their annual allocations
- o Access to National microfinance development funds by MFI's
- o NDIC protection for MFB depositors
- o Access to 10% Small and Medium Scale Industries Equity Scheme (SMIEIES)
- o Reserve Funds set aside for Medium scale Enterprises by Universal banks

Individuals, groups, associations, religious organizations are increasingly taking steps to ensure that the country and UN's objectives are realized.

Obviously going by the number of Unemployed colleges and university graduates in Nigeria, destitute and social miscreants (area boys and girls) on the streets and highways of major cities, and families in the rural areas that cannot afford to send their children to primary schools, Nigeria is a non starter in poverty alleviation programmes. The worse is that with a multiplier effect, this level would continue to increase and the country would continually be an "unsafe" place and thus defeat the millennium development goals (Ketu, 2008).

This is where indeed the challenges of Micro financing in Nigeria lie because most of these efforts made by Government Bodies, and Government and International funded NGO's in the country have not made much visible impact in poverty alleviation in the country.

2.4 The Concept of Development

Development is a process of achieving the personal and community potential to live a good life. According to Awoshakin (2004), development refers to a rise in the standard of living of the population in such a way that the majority can satisfy their economic and social needs adequately, and enjoy life more fully. He further argued that development is the realization of human personality through the progressive elimination of poverty, unemployment and inequality.

Economic development can be conceptualized as a sustained increase in real income/output or real income per capita overtime. The notion that economic development is synonymous with economic growth is predicated on the belief that economic growth would translate into higher quality of life for all in the society (Duilio, 1998). However,

the experience of many developing countries over time has shown clearly that economic growth is necessary but not sufficient for economic development to take place.

Economic development is seen usually as a basic national objective. This is based on the fact that the fundamental reason for creating a nation-state is to improve the living conditions of the citizens of the state (Fajingbesi and Uga, 2003). What constitutes economic development has, however been an issue of heated debate among development economists and policy makers.

Countries of the world are classified as economically developed or underdeveloped. The criteria used in the classification of economic underdeveloped countries include low ratio of population to land area, scarcity of capital and low ratio of industrialized and underdeveloped if they have low levels of industrialization as per capita income and level of poverty are also used as criteria for classification of countries as developed or under developed. These criteria give the impression that an underdeveloped country is a country that is not adequately utilizing its potentials for desirable growth and adequate societal welfare.

Fajingbesi and Uga (2003) and Todaro (1997), are of the opinion that one cannot meaningfully talk about economic development without addressing the questions of: "what is happening to poverty, what is happening to inequality and what is happening to unemployment".

In the words of Pope John Paul II, absolute poverty is a condition in which life is so limited by lack of food, malnutrition, illiteracy, high infant mortality and low life expectancy as to be beneath any rational definition of human decency. According to the World Bank, absolute poverty is a condition of life degraded by diseases, deprivation and squalor. Nigeria is classified as one of the poorest countries in the world.

2.5 Microfinance and the Millennium Development Goals

The microfinance banks in Nigeria were established to partner with MDG in the following areas;

Goal 1: Eradicate extreme hunger and poverty – To achieve the first goal, access to alternative microfinance institutions are needed in order to:

- (i) Diversifies the livelihood opportunities of poor people making them more resilient to adverse negative shocks
- (ii) Allows the poor to plan for unanticipated and future expenses
- (iii) Enhances equitable distribution of national economic growth
- (iv) Provides an alternative mechanism for poverty reduction

Goal 2: Achieve Universal Primary Education – Microfinance can lead to an increase in family income and therefore enhance opportunities for children to participate in full time education through:

- (i) Increases household budget to cover out-of-pocket fees such as books, uniforms and transportation
- (ii) Reduces the economic need to keep children out of school and in income-generating activities
- (iii) Decreases the likelihood that enrolled children will drop out of school

Goal 3: Promote Gender Equality and Empower Women – Enhancing of women's access, control and ownership of resources by:

- (i) Increases women's participation in income-generating activities and decision-making at the household and community levels
- (ii) Strengthens the social and political leadership and livelihood opportunities of women

Goal 4: Reduce Child Mortality Rate

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDs, malaria, and other diseases – Reducing the household income constraints can enable the marginalized and disadvantaged population to address other health issues exacerbated by poverty when it provides:

- (i) Provides financial access to education, prevention and treatment measures for HIV/AIDS, malaria and other infectious diseases
- (iii) Enhances child and maternal health by providing access to health care services and resources
- (iv) Provides access to health care insurance and protection

Goal 7: Ensure environmental sustainability- Microfinance can help to improve environmental sustainability when it:

- (i) Includes education in rural resource management which can enhance the sustainability of income-generating activities and natural resources.
- (ii) Provides access to alternative agricultural inputs which are environmentally friendly.

Goal 8: Develop a Global Partnership for Development – Alternative microfinance institutions provide a new channel for global collaboration for poverty reduction.

With a well-constructed and well-intentioned MFI, microfinance can tackle the global needs of the MDGs. Indeed, it already has. Countless studies depict statistics and stories of clients that have moved past poverty levels and shown improvements in health, education, empowerment, and environmental sustainability due to microfinance.

Of course, microfinance alone cannot solve these immense global issues, nor can it necessarily help the poorest of the poor or those without economic opportunities. Various

approaches are needed. Many of the actions advocated by experts rely on international efforts, with aid as a key approach.

However, unlike aid, microfinance offers a unique approach as it tends to be financially sustainable and has the ability to reuse funds again and again. Furthermore, development experts now value methods like Participatory Rural Appraisal (PRA), which involves the local communities in decisions and changes. With microfinance, rather than a top-down or outsider approach, communities are provided empowering services that allow them to determine the best use of funds for improving their own lives.

2.6 Role of Microfinance Banks in Reducing Poverty and Development of Entrepreneurship

2.6.1 Credit Delivery

This is perhaps one of the most important roles of microfinance banks as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2008) microfinance loans granted to clients is increasing from 2007 to date and most of it goes to financing microenterprises in rural areas. Ketu, (2008) observed that microfinance banks have disbursed more than N800 million micro credits to over 13,000 farmers across the country to empower their productive capacities. As such it is expected that agricultural output will increase with the increase in funding .The entrepreneurial capacity of the farmers will thus improve.

2.6.2 Boosting Small Scale Enterprises/Agriculture

About 60 percent of poor people in the country live in the rural areas, and 80 percent of them are farmers and artisans (NBS, 2005). Microfinance banks have therefore been the main sources of funding to these disadvantaged groups. Rural people are empowered through microfinance loans and services and hence small scale agricultural practice and

2.6.5 Facilitates Poverty Alleviation

Employment and income generation are important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes and in doing that promising entrepreneurs are supported and new ones emerged. The federal governments National Poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS), to mention a few, aimed at achieving the United Nation's Millennium Development Goals (MDGs) by 2015 required these microfinance institutions for success.

The success of these programmes and projects for advancement of the MDGs are linked with the promotion of entrepreneurs in rural areas and subsequent reduction in the level of poverty (Ketu, 2008).

Other roles played by microfinance banks include; reorientation of the rural populace on sound financial practices, as well as issues such as reproductive health care, and girl child education. All these areas have direct link with entrepreneurial capabilities of the rural people.

2.7 Key Challenges of Microfinance Banking in Nigeria

Nigerians, when truly analyzed may not be their brother's keepers as is generally perceived. If we take a hypothetical deep; perhaps not up to 10% of Nigerians would invest in ventures or people that would yield them nothing in return. The returns may be financial, emotional, spiritual or relational. But the fact is, there is something the investors expect in return when they give and these could include being worshipped as personal heroes, for family ties, religious ties, fear of harassments, fear of being harmed etc.

This anti-poor behavior is projected into organizations; official, religious and sometimes even government arms and parastatals as people see only the short end of developments without heeding the social woes of economic imbalance and insecurity.

Consequent upon the above beliefs, the challenges of Microfinance banking in Nigeria may be classified under five (5) main headings:

1. Inadequate and Ineffective Awareness for microfinance banking

The Central Bank of Nigeria and the National Deposit Insurance Corporation as Federal Government's engine of economic development need to do greater and continuous campaigns to all stake holders; investors, universal banks, the banking public, the micro targeted poor and low-medium scale entrepreneurs until the micro banking ideas sink in the society and gets well accepted. The Governor of CBN should assure the public of safety of the microfinance institution.

There is also the issue of lack of trust by the poor themselves who believe that the microfinance banks are just like the unregulated community banks and unregulated finance houses. Going by the antecedents of the banking industry in general, no one would blame the people for lack of trust. Only effective and far-reaching campaigns by the government and the regulators can achieve this desirable confidence.

Generally, a hindrance to economic development in Nigeria is the gift preference of the poor as a culture from political and religious biases. The politicians, the rich in religious circles, towns and villages all over Nigeria have cultured the poor to beggarliness and dependence rather than empowerment for productive and financial independence. Gifts are not usually regarded as re-investment treasures by the receivers. This is why givers ought to challenge the receivers to effectively put their gifts to work by rendering these helps through microfinance banks. Micro funds are meant for the productive activities of the beneficiaries. Consequently, only people who fall within the

active poor or low income earners who are willing and able to utilize the loans for productive activities and repay both interest and capital are the bona-fide candidates for microfinance.

2. Anti-poor Attitudes of Nigerians

Most surplus spenders and investors in Nigeria, because of the lethargic attitudes to the poor, would not invest in Micro finance banks. They prefer to invest in the “billion naira profit making consolidated banks” Again, Nigeria investors are coasted by the quick-return and trader-like attitudes which surely does not result in a meaningful development for the Nation. They are therefore unable to go through the gestation period required in the young microfinance industry for their investments to start yielding good dividends

There is this Snobbish and selfish attitudes by the financially well to do Nigerians. Hopefully, good campaigns would solve the current snub by the rich on poverty alleviation programs and enable these categories of Nigerians see that Microfinance is both a good and rewarding investment and a good development project that directly or indirectly impact their lives.

3. Insufficient Support from the Regulators and Government

The policy direction towards the millennium development goals is that some percentage of the annual votes of the State and Local Governments should be channeled to Microfinance banks for on-lending to the poor and low to medium scale entrepreneurs. Getting these funds out of all segments of government is a very tall order. Rather, all sorts of parastatals spring up and create all types of programs to directly disburse funds to the poor by governmental bodies. These funds in the main do not get to the targeted poor and even when they do, they are so politicized that the beneficiaries see them as their shares of National cakes rather than funds they must work hard to repay. Given the lack of quality investments in micro banks, it would be difficult for the MFB's to, in the

immediate future accomplish the task of meaningful empowerment to the poor without this most desirable government supports through seed and on-lending funds. The government bodies should desist from direct lending and dealings with the micro end users since they have no capacities to analyze manage or collect the loans or grants they give. In the end, these loans and grants end up with ghost collectors of public funds and projects that were never undertaken or at best in projects abandoned midway or before they were commenced.

The Central Bank of Nigeria is not able to enforce Federal Government's objectives on setting up the SMIEIES reserves. It was in appreciation of the need to develop the middle class that the SMIEIES funds were established some years back. These funds were some form of social taxes levied on profits of banks in-order to ensure grass root and small-to medium scale developments, create employments etc. However, neither the Small and Medium Scale Enterprises Development Agency (SMEDAN) nor the CBN was able to enforce this noble objective. This lapse gave rise to Universal Banks not utilizing these reserves for the purposes they were meant, but used them as free funds to increase their activities in the already oversaturated but very few upper segment markets.

The CBN has specified in the policies that the maximum loans per obligor by micro finance banks is N500,000. This policy does not favour transparency as the small to medium scale entrepreneurs served by the micro banks sometimes need as much as N2,000,000 (about \$16,700). These people are not effectively served by mega banks and they are not attended to by the microfinance banks because of single obligor rule. Secondly, the CBN has not determined for universal banks, the minimum transactions they must not deal in. A situation where Ecobank for instance competes with Micro banks

on “esusu”-daily contribution seems to present a position where the young micro banks cannot effectively grow.

4. Undue Competition rather than Cooperation from the Mega Banks

Universal banks have all the financial muscles. They truly do not want to touch the loans of the poor and micro entrepreneurs because of the high risks associated with them and lack of collateral from these group of persons and entrepreneurs. But they discredit micro finance banks to these customers by painting pictures of instability and un-sustainability to the vulnerable micro-clients.

In view of the unhealthy competition rather than co-operation that should exist, correspondence banks are hardly supportive of Micro finance banks. They know they can develop ways of mutually beneficial correspondence relationship, but instead, the current stance appear to be something like “let’s see how they can survive or compete with us”. By this attitude, they fail to see and encourage the gap the Micro banks naturally are created to fill.

5. Possible Malpractices by Micro bank Operators

The Central Bank of Nigeria needs to ensure that the minimum qualification and minimum experience specified for microfinance bank operators are upheld at all times. This is the only way industrial confidence and sanitization may be achieved. There are no cutting corners. People not qualified to man certain departments must be changed by the owners of microfinance institutions. This must form part of the review process of Central Bank of Nigeria (CBN) and National Deposit Insurance Bank (NDIC).

Except the same inspection and monitoring rules applied to Universal banks on liquidity, insider related, types of transactions, bank and board management etc are applied to micro banks, these banks may not be able to work in line with the policy dictates. The regulators must therefore strengthen their inspectorate departments to ensure

compliance of the microfinance banks to the stated rules and regulations and particularly that funds are channeled to micro clients rather than treasury and upper market segments.

The microfinance policy guidelines have specified the qualification of directors. This is to ensure that micro bank directors are knowledgeable in bank and financial management in-order to ensure that management is consistently on the right track. Except this policy is strictly adhered to, there may be failures which will completely erode the public confidence and set the clock of the country some years backwards

5. High Operating Cost:

Small units of services pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from sever allocations especially in rural communities.

6. Repayment Problem:

Loan default is a major threat to microfinance banks' sustainability; it is the deadly 'virus' which afflicts the operation of the banks. It demoralizes staff and deprives beneficiaries of further valuable services.

7. Inadequate Experienced Credit Staff:

Micro financing is more than dispensing loans. To be viable, microfinance banks require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients.

8. Problems of illiteracy:

This affects record keeping and decision-making ability of borrowers and consequently affects their relationship with the banks.

2.8 Ways forward for Effective and Result Oriented Microfinance Banking in Nigeria

In trying overcome the challenges of financing businesses both at the micro and macro level in order to achieve the National and Millennium Development Goals' objectives on Micro financing, the following need to be tackled to effectively empower the poor in Nigeria and reap the economic and social benefits of micro financing

- i. The built up SMIEIES reserves in Universal banks should be invested in Microfinance banks as equity, seed funds or low interest loans. The vision behind the creation of SMIEIES must not be allowed to die until the MDG goals are actualized in Nigeria. These moneys were actually set aside for low-medium scale entrepreneurs but remained in the books of the banks as cheap funds. Banks that fail to invest these funds in Microfinance Banks or small and medium scale entrepreneurs should return these funds to CBN. Any new policy on this type of social tax to universal banks or airlines, oil industry or manufacturing industries must focus on how to effectively, efficiently and speedily get the funds across to these categories of people who are the real engines of enduring economic development. The CBN should not succumb to the pressures from the Banker's Committee to kill a National enduring economic policy.
- ii. Extensive campaigns should be carried by CBN and NDIC to assure the public that MFB's are highly regulated and safe banking institutions. This should engender the investors' interest and the active poor confidence in Micro banking
- iii. Definition of operational areas for universal banks such as to protect MFB is needed. The idea of Universal banks going so low as to take "esusu" (daily contribution) yet micro banks are limited as to their level of credit seem too stringent on MFB's operations.

- iv. Minimum professional qualification and banking experience already instituted by the CBN for micro bankers and directors should be strictly and stringently adhered to and maintained by the regulators.
- v. Training and development functions of the MFB's for their staff and clients should be supported by the regulators and all strata of government
- vi. Government arms to restrict themselves to granting developmental funds through MFB's rather than undertaking these loans themselves
- vii. Government and international donors, Microfinance institutions and well meaning NGO's should intensify quality developmental programs that would enhance the businesses of the micro clients such as financial management programs, pension creation, confidence building, insurance opportunities, security consciousness, vocational programs etc. This is because, an un-informed poor in business is highly vulnerable to the risks of losing his capital.
- viii. Movie makers and television stations should be encouraged to build into their movies and programs, grass root developments issues that touch and change the poor through microfinance activities. These could be very effective tools to reaching both the rich and the poor as Nigerians of all ages and status seem to have bought into the Lollywood and Bollywood shows and family entertainment movies such as Fuji House of Commotion and its likes.
- ix. International bodies and donor agencies should review their funding disbursements to the poor which hitherto are done through bodies and organizations not effectively tooled for loans processing, disbursement and management for effective utilization. These funds should be disbursed through Microfinance Banks licensed by the CBN
- x. CBN should take stringent measures against universal banks found willfully de-marketing MFB's

xi. Scope of operations of Microfinance banks should be improved such as the volume of loans disbursed to effectively cater for small-medium scale entrepreneurs and housing loans for the poor. Clearing house operations should be extended to well - structured and fully computerized MFB's.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails the examination of the research instruments, research design, and type of data needed, data sources and the operational procedures for collection and analysis of data. These instruments will assist the researcher to achieve the key objective of the study which is to examine the contribution of microfinance Banks in alleviating poverty.

3.2 Research Design

For the purpose of this thesis, the quantitative instrument of measurement of variables will be adopted.

The quantitative component of the research design will involve the survey design method. This type of survey falls into the descriptive research method. That is why the research is concerned with information obtained from the sampled population.

3.3 Population of the Study

A research population is the total number of elements involved in a research study. The sampled population will be made up of 200 randomly selected staff and customers of Hasel microfinance Bank and their customers.

3.4 Sampling Technique

The sampling procedure to be used for this study is the simple random sampling technique for collecting the cross-sectional data. This method is used to give every member an equal representative or a fair chance of being selected.

3.5 Instrument of Data Collection

This study relies on primary source of data collection. The main instrument of collecting this data is the questionnaire.

The questions are structured in a very simple and straight forward manner to allow the respondents find them easy to answer.

3.6 Method of Data Analysis

The responses that will be gathered from the questionnaires will be analyzed using the following statistics;

3.6.1 Descriptive Statistics

Descriptive statistics will be used for all the questions. Tables and frequencies of the responses will be converted into percentage for easy application and manipulation. The reason for this is to aid easier reference and understanding into the observed phenomenon.

3.6.2 Chi-Square Test

The data obtained will be analyzed and studied carefully using the chi-square statistics (χ^2). The chi-square is defined as the ratio of square of sum of the differences between the observed frequency (O) and the expected frequency (E). This is written as;

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

The degree of freedom $v = k - i$

Where;

O = Observed value of the sample

E = Expected value of the sample

\sum = Summation of

χ^2 = Chi-square

K = No. of parameters

$V =$ Degree of freedom

The decision rule for chi-square is that, the null hypothesis will be rejected if the calculated chi-square value is greater than the critical value of chi-square obtained from the chi-square table at 5% level of significance. Otherwise it will be accepted.

The reason for using the chi-square statistics is to make and draw inference about the research population relying on the content of the information in the sample.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter explains the procedures employed that leads to the attainment of the chi-square result. It also tries to analyze the data in terms of percentage. The research looked at how the micro finance banks have been able to assist in eradicating poverty.

One hundred and forty six questionnaires collected from staff and customers of Hasel microfinance bank was used for this analysis.

4.2 Data Presentation and Analysis

The questionnaire was designed in two sections, A and B. Section A is for personal information about the respondents while section B is meant to obtain data on the ability of microfinance to alleviate poverty. The responses are presented and analyzed below:

4.2.1 Sex Distribution

The sex of the respondents is presented in table 4.1

Table 4.1: Sex of the Respondents

SEX	NO.OF RESPONDENTS	PERCENTAGE	CUMULATIVE FREQUENCY
Male	86	58.9	58.9
Female	60	41.1	100
total	146	100	

Source: field survey, 2014

Table 4.1 depicts that majority of the respondents representing 58.8% of the total population are male.

4.2.2. Distribution on Marital Status

The distribution on marital status of the respondents is shown in table 4.2.

Table 4.2.Marital Status of the Respondents

Status	Frequency	Percentage	Cumulative
Married	64	43.8	43.8
Single	58	39.7	83.5
Others	18	12.3	100
total	146	100	

Source: field survey, 2014

The data in the table above shows that 43.8% of the respondents are married people, 39.7% of the respondents are unmarried while 12.3 of the respondents fall under the group of others.

4.2.3. Distribution on Educational Qualification

Table 4.3 shows the educational level of the respondents

Table 4.3: Educational Qualification of Respondents

Qualification	Frequency	Percentage	Frequency
Secondary	20	13.7	13.7
OND/HND	84	57.5	71.2
Degree	42	28.8	100
Total	146	100	

Source: field survey 2014

The table above shows that 28.8% of the respondents are university graduates while 57.5% of the respondents are ND/HND holders. This shows that the respondents have greater ability to learn new things and be highly productive.

4.2.4. Distribution on the Effectiveness of the Bank in Alleviating Poverty

The distribution on whether microfinance banks in Nigeria are effective in alleviating poverty is depicted in table 4.4

Table 4.4: The effectiveness of the Bank in Alleviating Poverty

Department	Frequency	Percentage	Cumulative Frequency
Very Effective	58	39.7	39.7
Effective	56	38.4	78.1
Not Effective	32	22	100
total	146	100	

Source: field survey, 2014

Majority of the respondents representing 39.7% attest that microfinance bank is very effective in helping to reduce poverty in the society. 38.4% of the respondents indicated that the bank is effective while 22% of the respondents do not think the bank has tried enough in its goal to eradicate poverty.

4.2.5. Microfinance contributed to Real Economy

The distribution on whether microfinance in line with the millennium development goals has contributed significantly to the real economy is shown in table 4.5.

Table 4.5: Significant of Microfinance to the Real Economy

Option	Frequency	percentage	Cumulative frequency
Strongly Agree	44	30.1	30.1
Agree	58	39.7	69.8
Undecided	20	13.7	83.5
Strongly Disagree	14	9.6	93.2
Disagree	10	6.8	100
Total	146	100	

Source: Field Survey, 2014

The data in table 4.5 shows that 30.1% of the respondents strongly agree that the bank has significantly contributed to the real economy. 39.7% of the equally agree to the statement while 13.7% are not sure whether the bank has contributed or not to the economy. 9.6% and 6.8% strongly disagree and disagree respectively to the fact that the bank has contributed significantly to the economy.

4.2.6 Distribution Lending Policies/Facilities

The response on the perception of difference in lending policies/facilities of microfinance banks compared to commercial banks is shown in table 4.6

Table 4.6: Perception of difference in Lending Policies/Facilities

Option	Frequency	Percentage	Cumulative frequency
Access to credit	30	20.5	20.5
Credit duration	37	25.3	45.8
Cost of Loan	33	22.6	68.4
Collateral	32	22	90.4
Loan packaging time	14	9.6	100
Total	146	100	

Source: Field Survey, 2014

From the above table, 25.3% of the respondents representing majority of the population believe there is a difference in the duration of credit of the microfinance banks compared to commercial banks. 22.6% of the respondents think it is the cost of loan while 22% of the respondents perceive the difference in lending policies of microfinance banks compared to commercial banks to be in terms of security required collateral. 20.5% think it is the access to credit that determines the difference and only 9.6% of the respondents believe it is in the time of packaging a loan.

4.2.7 Distribution Promoting Entrepreneurship and Eradicating Poverty

Table 4.7 depicts the response on the role of microfinance banks in promoting entrepreneurship and eradicating poverty.

Option	Frequency	Percentage	Cumulative frequency
Cheap Credit	53	36.3	36.3
Advice provided	22	15.1	51.4
Varieties of Services Offered	30	20.5	71.9
Proximity to customers	41	28.1	100
Total	146	100	

Source: Field Survey, 2014

The data presented in table 4.7 shows that 36.3% of the respondents suggest that microfinance banks plays a role of providing cheap credit to its customers in a bid to promote entrepreneurship and eradicate poverty. 15.1% believe the role played by the bank is in the area of providing advice to its customers and 28.1% think it is because the bank is close to its customers.

4.4.8 Contribution to Development

The response on how the bank has contributed to development of the people of Dutse Alhaji in Abuja is shown in table 4.8

Table 4.8: Contribution to Development

Option	Frequency	Percentage	Cumulative frequency
Poverty reduction	36	24.7	24.7
Promoting Entrepreneurship	38	26.0	50.7
Employment Generation	38	19.2	69.9
Income Generation	20	13.7	83.6
All of the above	24	16.2	100.0
Total	146	100	

Source: field survey, 2014

Majority of the respondents representing 26% of the population think the bank helped in encouraging and promoting entrepreneurship. 24.7% believe the bank has assisted in reducing poverty and 19.2% think it is in the area of employment generation. Those who believe the bank has assisted the people in generating income are 13.7% while 16.45 are of the opinion that the bank has contributed to the development of the people in reducing poverty, promoting entrepreneurship, and generating employment and income.

4.2.9: Problems encountered by Microfinance Banks in their Operations

The distribution on the problems inhibiting the operations of microfinance banks is shown in table 4.9

Table 4.9 Problems Encountered

Options	Frequency	Percentage	Cumulative frequency
Unfavourable policy environment	52	35.6	35.6
Lack of technology	22	15.1	50.7
Inadequate capital	46	31.5	82.2
Inability to attract Quality Personnel	26	17.8	100
Total	146	100	

Source: field survey, 2014

Table 4.9 shows the distribution of respondents on the problems inhibiting the bank's operation. 35.6% of the respondent opined that the policy environment is unfavourable while 31.5% of the respondent stated that the problem could be inadequate capital for smooth operation. 15.1% think is the lack of appropriate technology and 17.8 suggested that it is the inability to attract quality/specialized personnel.

4.2.10 Micro financing and Poverty Reduction

The response on whether micro financing and poverty reduction have any relationship is depicted in table 4.10.

Table 4.10: Micro financing and Poverty Reduction

Options	Frequency	Percentage	Cumulative Frequency
Positive	113	77.4	77.4
Negative	33	22.6	100
Total	146	100	

Source: Field Survey, 2014

Table 4.10 shows that 77.4% the respondents opined that there is a positive relationship between micro financing and poverty reduction while 22.6% think otherwise.

4.2.11 Building Depositors’ Confidence

The distribution on how the activity of the bank has been able to build up depositors’ confidence is shown in table 4.11 below.

Table 4.11Building Depositors’ Confidence

Option	Frequency	Percentage	Cumulative Frequency
Yes	121	75.6	75.6
No	25	24.4	100
Total	142	100	

Source: Field Survey, 2014

The table above shows the 75.6% confirmed that the bank’s activity in reducing poverty has been able to build depositors’ confidence.

4.2.12 Credit Related Services

The distribution on whether promotion people are satisfies with the bank's credit-related services is shown in table 4.12

Table 4.12 Credit Related Services

Options	Frequency	Percentage	Cumulative Frequency
Very satisfactory	44	30.1	30.1
Not satisfactory	28	19.2	49.3
Satisfactory with reservation	31	21.2	70.5
Neither satisfactory nor unsatisfactory	43	29.5	100
	146	100	

Source: Field Survey, 2014

The data in the table above shows that 30.1% of the respondents are very satisfied with the credit related services of the bank. 19.2% of the respondents are not satisfied with the credit services while 21.2% are satisfied with reservation and only 29.5% of the respondents are neither satisfied nor unsatisfied with the credit related services of the bank.

4.3 Testing the Hypothesis

(1) H_0 : There is no significant difference between people who use microfinance and those who do not.

The distribution in table 4.12 will be used to test the hypothesis at 1% level of significance.

Table 4.12b Observed frequency

S/No	Option	Frequency
1	Very satisfactory	44
2	Not satisfactory	28
3	Satisfactory with reservation	31
4	Neither satisfactory nor satisfactory	43
	Total	146

Expected frequency (E) for this table is calculated as total frequency divided by 4.

Table 4.13: Observed and Expected Frequency

S/No	Observed frequency(o)	Expected frequency(e)
1	44	36.5
2	28	36.5
3	31	36.5
4	43	36.5
	146	146

Table 4.14: Presentation of Chi-Square Test

S/No	O	E	O-E	(O-E)	(O-E)/E	$X_{0.01}$
1	44	36.5	7.5	56.25	1.54	-
2	28	36.5	8.5	72.25	1.98	
3	31	36.5	5.5	30.25	0.83	
4	43	36.5	6.5	42.25	1.16	-
	146	146			5.51	11.3

The degree of freedom for this study is $v=4-1=3$

Given the level of significance of 0.1% at 3 degree of freedom,

Thus:

$$X_{0.01} < X_c = (11.3 > 5.51)$$

(2) H_0 : There is no significant effect of microfinance in poverty alleviation in the country

The distribution in table 4.4 will be used to test the hypothesis at 1% level of significance.

Table 4.4b Observed Frequency

S/No	Option	Frequency
1	Very effective	58
2	Effective	56
3	Not effective	32
	Total	146

Expected frequency (E) for this table is calculated as total frequency divided by 3.

Table 4.15 Observed and Expected Frequency

S/No	Observed frequency(o)	Expected frequency(e)
1	58	48.7
2	56	48.7
3	32	48.7
	146	146

Table 4.16: Presentation of Chi-Square Test

S/No	O	E	O-E	(O-E) ²	(O-E) ² /E	X _{0.01}
1	58	48.7	9.3	86.49	1.78	-
2	56	48.7	7.3	53.29	1.09	
3	32	48.7	-16.7	278.89	5.75	-
	146	146			8.6	9.21

The degree of freedom for this study is $v=3-1=2$

Given the level of significance of 1% at 2 degree of freedom, thus:

$$X_{0.01} < X_c = (9.21 > 8.6)$$

(3) H₀: There is no significant effect of microfinance activities on sustainable development

The distribution in table 4.8 will be used to test the hypothesis at 1% level of significance

Table 4.8b Observed frequency

S/No	Option	Frequency
1	Poverty reduction	36
2	Promoting entrepreneurship	38
3	Employment generation	28
4	Income generation	20
5	All of the above	24
	Total	146

Expected frequency (E) for this table is calculated as total frequency divided by 5.

Table 4.17 Observed and Expected Frequency

S/No	Observed frequency(o)	Expected frequency(e)
1	36	29.2
2	38	29.2
3	28	29.2
4	20	29.2
5	24	29.2
	146	146

Table 4.18: Presentation of Chi-Square Test

S/No	O	E	O-E	(O-E) ²	(O-E)/E	X _{0.01}
1	36	29.2	6.8	46.24	1.58	-
2	38	29.2	8.8	77.44	2.65	
3	28	29.2	-1.2	1.44	0.05	
4	20	29.2	-9.2	84.64	2.90	
5	24	29.2	-5.2	27.04	0.93	-
	146	146			8.11	13.3

The degree of freedom for this study is $v=5-1=4$

Given the level of significance of 1% at 4 degree of freedom,

thus:

$$X_{0.01} < X_c = (8.11 < 13.3)$$

4.4 Discussion of Result

The critical value $X_{0.01}$ for 3 degree of freedom is 11.3. Thus, since $5.51 < 11.3$, the study rejects the hypothesis 1, and concludes that there is a significant difference between people who use microfinance and those who do not.

Also, we reject hypothesis 2 for 2 degree of freedom and same critical value $X_{0.01}$. Since $8.6 < 9.21$, the study concludes that there is a significant effect of microfinance in poverty alleviation in the country.

In the same vein, since $8.11 < 13.3$, the study rejects the hypothesis 3 at 1% and 4 degree of freedom and concludes that there is a significant effect of microfinance activities on sustainable development.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The findings of this study have shown that the bank has been able to build depositors' confidence in their activity of reducing poverty in line with the millennium development bank.

The study also revealed that there is a difference in the lending policies/facilities of microfinance bank and commercial banks. The difference is perceived in the area of access to credit, duration of credit, cost of loan, collateral required and the time of packaging the loan.

The study also proved that to an extent, microfinance banks have contributed to the real economy in terms of promoting small business.

5.2 Conclusion

In conclusion this study show that microfinance programmes have the potential to alleviate poverty especially in increasing level of income, generating employment and promoting entrepreneurship and reducing vulnerability. This will promote people economic capacity and bring sustainable development.

5.3 Recommendations

Based on the findings of this study the following recommendations are made possible;

1. Microfinance can be more viable strategy for sustainable poverty alleviation if more is to be done on programme outreach and depth. The programme needs to accommodate the poor in the country.
2. Government should arrange enabling environment for the microfinance programme by ensuring political stability, a stable macro-economic environment and low inflation rates.

3. In order to achieve the millennium development goals by 2020 and to have a sustainable microfinance intervention, the government should also keep infrastructures in place that link more remote areas to market.

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Research Project Questionnaire
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Introduction

This questionnaire is aimed at generating data for a study on the role of microfinance Bank in alleviating poverty in Nigeria. The information gathered by this questionnaire is strictly for academic purposes and will be treated with utmost confidentiality.

Thank you for your anticipated co-operation

Section A: Socio – Demographic Data

Please mark “X” against your appropriate choice

- (1) Sex: (a)Male () (b) Female ()
- (2) Marital Status: (a) Married () (b) Single () (c) Others
- (3) Educational Qualification: (a) Secondary () (b) OND/HND ()
(c) Degree ()

SECTION B

Please assess the contribution of microfinance bank in alleviating poverty in Nigeria by ticking the alphabet, which matches your opinion about the subject matter.

Section B: Please circle alphabet as appropriate

- (1) How effective is the micro finance bank in meeting alleviating poverty? (a) Very Effective (b) Effective (c) Not Effective
- (2) Microfinance banks in line with the millennium development goals has contributed significantly to the real economy (a)Strongly Agree () (b) Agree () (c) Strongly disagree (d) Disagree
- (3) Does your organization give financial help to its customers? (a) Yes () (b) No ()

(4) What is the perception of difference in lending policies/facilities of microfinance banks compared to commercial banks? (a) Access to credit () (b) Duration of credit () (c) Cost of loan () (d) Collateral/Security required () (e) Loan packaging time ()

(5) What is the Role of microfinance banks in promoting entrepreneurship and eradicating poverty?(a)Provision of cheap credit () (b) Advice provided () (c) Varieties of services offered () (d) Proximity to customers ()

How have your bank contributed to the development of the people of Dutse Alhaji? (a) Poverty reduction () (b) Promoting entrepreneurship () (c) employment generation () (d) income generation () (e) all of the above

(6) What are the problems inhibiting the operations of microfinance banks? (a) Unfavourable policy environment () (b) Lack of appropriate technology () (c) inadequate Capital (d) Inability of attract Quality Personnel

(8) How do you view the relationship between micro financing and poverty reduction? (a) Positive () (b) Negative ()

(9) Has the activity of your bank in reducing poverty build up depositors' confidence?(a)Yes () (b) No ()

10) Are you generally satisfied with credit-related services? (a)Very satisfactory () (b) Not Satisfactory () (c) Satisfactory with reservation () (d) Neither satisfactory nor unsatisfactory ()