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MICROFINANCE BANKS' CREDIT ACCESSIBILITY AND POVERTY REDUCTION IN NIGERIA

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ABSTRACT

The study investigated the effect of access to microfinance banks' credit accessibility (MCA) on poverty reduction in Nigeria. The regressand is poverty reduction proxied by GDP per capita growth rate as a measure of standards of living, while the regressors are deposits (DEP), micro-loans and advances (LAD). The study gathered (sourced) from the annual bulletin of the Central Bank of Nigeria (CBN) for 16 years from 2000 to 2021. The Ordinary Least Square regression technique was employed for data analyses. The results showed that Loans and advances of microfinance banks have insignificant negative effect poverty reduction. Microfinance banks' deposits have increased poverty minimally. The study thus concluded that Microfinance banks intermediation is not effective for poverty reduction/alleviation in Nigeria.

Keywords: Micro Financing, Poverty Reduction, Bank Intermediation, Nigeria.

INTRODUCTION

Over the years, microfinance banks' activities have emerged as an effective strategy for enhancing economic growth across developing countries. This justifies the reason why microfinance banks were established to ensure that the cycle of poverty is reduced by extending credit facilities to the poorest poor. Yunus pioneer the idea of micro-financing method with Grameen Bank (Tafamel, 2019). However, heated arguments has been raised that, the poverty level in Nigeria continually increased since the introduction of the Structural Adjustment Programmes (SAP) in 1986. Ochonogor (2020) stated that, a run through of the poverty level in Nigeria noted that, urban poverty rate increased from 3% to 25.6% from 1980 to 1996. Meanwhile, rural poverty increased from 6.5% to 31.6% from 1980 to 1996. As reported by the United Nations Development Programmes, 68% of Nigerians are living below $ 1.25 per day (UNDP, 2021). The reason is that, majority of Nigerians were not able to access microfinance banks' services (Peachey & Roe, 2004). As such, for more Nigerians' income level to be increased, the poorest amongst the poor must access credit facilities. Khandker (2005) noted that, through microfinance banks activities, Bangladesh poverty level reduced by 40%. Accordingly, the need for individuals to access microfinance banks' services was enshrined in the Millennium Development Goals (MDGs) on poverty reduction.

From the Nigerian context, microfinance banks are known for giving micro loans to the poorest poor but the argument is that micro loans given to the poor make them to be highly indebted. Evidently, the Constructive Group to Assist the Poor (CGAP), in its Financial Access 2010 report shows that Nigerian microfinance institutions have 34 accounts per 1000 adults, 2.87 branches per 100,000 adults, and loans amounting to 0.17% of the GDP. These data show that most people could not access to the services of microfinance banks and that, the set objectives of the CBN are far from being achieved by microfinance banks in the country. This is the main problem of this study. Notwithstanding, most Nigerians are still improvised (Apere, 2016).

Worthy to note is that, in spite of the global declaration of intention to reduce poverty through financial inclusion of poor households and SMEs, the existing financial firms consider such people and enterprise un-bankable. Since the poor are willing to borrow at a high rate and the banks are expanding their activities to achieve the purpose for which they are established, who then are the beneficiaries of these loans, since poverty, developing Country Studies still looms? Again, Cole and Akintola (2021) stated that, the CBN microfinance policy reforms have led to a rapid growth of microfinance institutions but access to finance by low income households and SMEs has not been observed to increase, neither, has the level of poverty in Nigeria reduced. The microfinance market failure or mission drift requires explanation to ascertain whether the problem comes from regulatory failure, institutional failure or failure on the part of the populations. This study therefore, seeks to evaluate the effect of access to microfinance banks' service accessibility on poverty reduction in a developing economy like Nigeria**.** Specifically, the study examined whether loans and advances of MFBs and deposits affect poverty reduction in Nigeria significantly or not.

LITERATURE REVIEW

Conceptual Review

Microfinance banks in every economy are highly critical. Tafamel (2019) defined microfinance as the process of providing credit facilities to the poor in rural and urban areas, especially women to set up or expand businesses, invest in self-employment activities, and at the same time increase household security. Schreiner and Colombet (2001) added that, microfinance is "the attempt to increase access to soft loans and deposits for the poor households that were formally neglected by banks. Further, microfinance involves the provision of financial services such as loans, advances, overdrafts, savings, and insurance services to the poorest poor in both urban and rural settings that were unable to obtain such services from the formal financial sector previously (Cole, & Akintola, 2021).

One of the main reasons why these banks are established is to help reduce the poverty rate in a country through its financial intermediation. Within the Nigerian context, microfinance banks are rooted culturally. First, it began as a credit and thrift association such as informal Self-Help Groups (SHGs) or Rotating Savings and Credit Association types or ESUSU. Others that provide microfinance services include collectors and co-operative societies.

To further increase the reach of financial resources, the flows of financial services to Nigerian rural areas, Nigerian government were the Rural Banking Programmes, concessionary interest rate, sectoral allocation of credits, Agricultural Credit Guarantee Scheme, the people's Bank of Nigeria (PBN), the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB). This is with a view to reduce the rising Poverty rate ravaging the Nigerian economy (Cole, & Akintola, 2021). These programs persistently failed because they were in many cases politicized and incompatible with the traditional concept of savings and loan operated by target communities (Ifionu, & Olieh, 2016). Hence, microfinance banks' operations have the capacity to either reduce poverty rate or increase it.

At present, the major target of the Nigerian government is to improve the productive capacity of both rural and urban dwellers. This in turn alleviates the poverty level in the country. After failed trials in Directorate of Food, Road and Rural Infrastructure (DFRRI), Rural Banking by commercial Banks and even People's Bank programme (1986), the government of the Federal Republic of Nigeria took the bull by the horns by enacting legislation for the establishment of community banks (now microfinance institutions). To complement government efforts, over the years, a lot of NGOs has formally been licensed to operate as micro finance institutions. Some existing NGO microfinance institutions were transformed and Universal Banks were encouraged to engage in microfinance services. However, the dismal performance of the conventional finance sectors triggered the advocating for micro financing by policy makers, practitioners, and international organizations as a tool for economic growth. Since its emergence, the number of microfinance institutions around the world has proliferated at a fast pace after the 1970s. Today there are more than 7000 micro – lending organizations providing loans to more than 25 million poor individuals around the globe (Mohammed & Hasan, 2008).

The Nigerian microfinance industry has come a long way. It boasts of the entire four well - known models in the industry. Nnamocha, Igwemma and Ekpenyong (2017) reported that, Nigeria's aggregate savings worth N99.4 million while its outstanding credits worth N649.6 million, indicating huge business transactions in the sector. Specifically, 2004, the microfinance intermediation activities of community banks shows a total mobilized deposits of N21.4 billion, asset base of N34.2 billion and loans and advances to the tune of N11.4 billion (CBN, 2021). Currently microfinance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to Microfinance Bank.

The term 'poverty' is not just a state of inadequate income but is considered as a state wherein an individual or group has insufficient income for securing basic goods and services. It is therefore considered as a human deprivation in terms of economic opportunities, health, education, nutrition etc (World Bank, 2021). Wright and Rowe (1999) argued that, increased income should not be considered as a major driver of poverty level but should see poverty as a deprivation of basic capabilities. Ifionu, and Olieh (2016) noted that, poverty has a harmful effect on the poor. The author added that, poverty is the absence of food, clothing, shelter etc. Ochoonogor (2020) however, argues that finance alone is not enough. As such, other factors such as the borrower's credit history, the level of competition in the industry, the prevailing economic condition, and the judicial processes in credit recovery should be considered if policy makers may desire to reduce poverty rate. As such, if other factors are relaxed, higher microfinance loans and deposits, reduces poverty rate.

Theoretical Review

Theories within the confine of the subject matter includes: cyclical interdependency poverty theory economic and political and social distortion poverty theory, demand-following and supply-leading hypothesis and Financial Liberalization or Repression Hypothesis. However, the current study is rooted on the supply-lending financial hypothesis and the cyclical interdependence of poverty. This is because establishing microfinance banks in the rural areas will make financial services accessible to poor rural dwellers and this is the only way MFIs can function effectively in breaking the poverty circle. Specifically, the cyclical Interdependency Poverty Theory was founded by Myrdal in 1957. This theory states that, if majority of persons are unemployed in a community and not supported by the government, it may increase the poverty rate in such community. More so, if individuals do not have enough resources to take part in economic activities, it has a negative effect on such community since only few people will only pay tax. These factors' relatedness increases poverty rate especially if such cycle declines. On the other hand, the supply-leading hypothesis/theory stresses that, an economy's level of development influences the volumes of credit facilities given to the deficit economic units (Taiwo, 2012). Put differently, provision of credit facilities for the acquiring capital goods is a major signal of effective economic development. By implication, for microfinance to reduce poverty rate, it is dependent on the state of the economy.

EMPIRICAL REVIEW

Cole and Akintola (2021) studied the effects of microfinance activities (MCA) on economic growth of Nigeria from 1999 to 2018 and reported that MCA improved rural enterprises significantly.

Akinadewo, (2020) reported that Microfinance banks loans helps to promote entrepreneurial activities in rural areas to a very large extent but they are faced with the high operating costs issues most often.

Murad, and Idewele (2017) studied the micro-finance services on the development of the Nigeria. Both descriptive and regression analyses were used. The study reported that, micro-finance services are significant determinants of access to credit facilities.

Ifionu, and Olieh (2016) did a recount into the activities of micro-finance banks' programmes in Nigeria and found that, micro-finance banks' programmes in Nigeria has helped reduced the poverty rate in Nigeria but there is much still much to be done.

Apere (2016) carried out similar study on effectiveness of microfinance on economic growth of Nigeria. The researcher reported revealed that microfinance reduces poverty rates to the economic active poor, in generating employment opportunities, and also provides loans to grow small scale businesses. On the overall, improve economic growth.

METHODOLOGY

The data for this work is secondary sourced. Data for poverty reduction is collected from CBN Statistical Bulletin, 2021. Likewise, the data for the variables of access to microfinance intermediation are sourced from the CBN Bulletin published by the CBN, 2021. The data covers the period of 2000-2015, the variables used are poverty index, loan and advances, and deposits of MFBs. The multivariate analysis was employed in this regard. The model adapted from Egbulonu (2000) is stated thus:

PR – F (LADt1 DEPt), that is

$$PR = a_0 + a_1LAD + a_2DEP + \mu$$

Where:

PR = Poverty reduction is the regressand represented by GDP per capita growth rate (Y)

LAD = Loans and Advances of Micro Finance Banks (X_1)

DEP = Deposits of Micro Finance Banks (X_2)

μ = Stochastic Variable

RESULTS AND INTERPRETATION

Data Analysis

The regressed data was analyzed using descriptive statistics:

Table 1

Descriptive Statistics

	PR	LNDEP	LNLAD
Mean	4.761613	10.57111	10.10174
Median	3.093350	10.88031	10.46051
Maximum	30.34220	11.97951	11.91388
Minimum	-0.009900	8.099858	7.180827
Std. Dev.	7.087061	1.101727	1.339479
Observations	16	16	16

Source: E-Views 9.0 (2022)

From the result on table 1, the pr being poverty reduction proxied by GDP per capita growth rate has an average value of 4.76% but deviated by 7.08%. This signals wide variation. more so, the maximum is 30.34% and minimum of -0.0099. Furthermore, microfinance intermediation (deposit and loans & advances) have mean/average value of 10.57 and 10.10 respectively but deviated by 1.10 and 1.33. This signals that the variables clustered around their mean values suggesting that the study variables best fit parametric analysis.

Model Estimation

Table 2

Regression Estimates

Regressand: PR
Method: Least Squares
Date: 03/25/22 Time: 06:30
Sample: 2000 2015
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNLAD	-0.022139	0.032917	-0.672562	0.5130
LNDEP	0.013808	0.022093	0.624991	0.5428
C	0.177449	0.525895	0.337423	0.7412

R-squared	**0.657224**	Mean dependent var	4.761613
Adjusted R-squared	0.587819	**Durbin-Watson stat**	**2.013385**
F-statistic	**0.394530**	**Prob(F-statistic)**	**0.681799**

Source: E-Views 9.0 (2022)

The OLS estimate reported an R-squared and adjusted R-squared values of 0.657224 and 0.587819 respectively indicating that the model 58.78% variation in poverty level is caused jointly by access to mortgage loans and advances alongside its deposits. Meanwhile, the 2.013385 indicates that the model is free from serial/autocorrelation issue. More so, the estimated Prob.(F-statistic) value of 0.681799 indicates that microfinance banks' activities reduced the Nigerian poverty level minimally.

To answer the two specific objectives, the regression coefficients, t-statistics, and their corresponding p-values were considered. Evidently, the study reported that, microfinance loans and advances reduced the poverty rate of Nigeria by minimal units of 0.022139. Meanwhile, microfinance banks 'deposits increased poverty rate of the country to a minimal units of 0.013808. This indicates that, the microfinance banks' operations are yet to fully address the current poverty rate in the country. Justifiably, the study reiterates that micro-finance banks' proxies only explains 6% of poverty reduction policies and programmes in Nigeria. This implies that Microfinance banks intermediation is not effective for poverty reduction in Nigeria.

CONCLUSION AND RECOMMENDATIONS

The study evidenced that, microfinance loans and advances reduced the poverty rate of Nigeria very minimally. Meanwhile, microfinance banks 'deposits increased poverty rate of the country minimally. Since the activities of microfinance banks reduced the poverty rate of Nigeria very minimally, it is recommended that the management of the banks be properly investigated. Having a negative effect from loan implies that the people become poorer from borrowing from microfinance banks. Professionals should be encouraged to take up the management of microfinance banks in Nigeria.

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