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Full Length Research Paper

Beyond Financial Services: Evaluating the Impact of Microfinance Banks on Poverty Alleviation in Rural Nigeria

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Poverty is a large and growing problem in Nigeria resulting in an immense amount of unavoidable suffering. Part of the panacea for the situation includes the policy on the establishment of microfinance banks. This paper aims at investigating the effectiveness of these banks at improving the status of their customers. The rural community was purposively selected because of the presence of three microfinance banks in the area. A total of 80 questionnaires were administered using systematic random sampling technique. The data were analyzed using descriptive statistics, delay time index and the multinomial logistic regression. The results show that the respondents were mainly within the active working age and that different factors constrain men and women's access to loans. Delayed loan disbursement and high interest rates are the constraints common to both male and females in accessing loans. Further tests with the delay time index revealed that 75% of the respondents experienced delays. The poverty index showed that more male respondents were in the core and moderately poor groups. The multinomial logistic regression showed that the period of loan repayment and marital status are two factors that keep respondents below the computed poverty line. It is therefore recommended that microfinance operators go beyond financial services to include business management and social development in the array of programs/services targeted at the poor.

Key words: Nigeria, poverty, microfinance, men, women.

INTRODUCTION

Poverty for long has been a major contending force against the pace of development in Nigeria especially the rural areas. It has remained persistently unabated despite many programs designed to alleviate it. Thus, poverty has become a major concern for development experts and international agencies. The level and incidence of poverty have been on the increase since the imple-mentation of the Structural Adjustment Program (SAP) in the 1980s (UNDP, 2008). Reports from UNDP (2008), Federal Office of Statistics (2001) and World Bank (2001) showed that the incidence of poverty rose from 28.1% in 1980 to 43.6% in 1985, and by 1996, it rose to 65.6%. As far back as 1990, the UNDP human development report described Nigeria as a rich country with poor population and also as the poorest and most deprived OPEC Country (UNDP, 2008). Moreover, Nigeria ranks 158th in the Worlds human development index (HDI) (UNDP, 2007). This means the country ranks very low in the indices of development and her chances of halving poverty and achieving other Millennium Development Goal targets by 2015 remains elusive. Apart from the increase in the incidence of poverty, the population of the poor has been on the increase. Report from the Federal Office of Statistics (2001) revealed that the depth and severity of poverty can also be seen in the proportion of

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income spent on consumption. The core and moderately poor spent 75 and 73% of total income for consumption purpose respectively, while the non-poor spent only 53% of total income on consumption. This is more or less an indication that the economy is still largely underdeveloped.

Credit is important in the lives of the rural poor in a developing economy, it is an agreed fact that most of the small and medium scale entrepreneurs in rural areas lack the necessary financial services especially loans from the commercial banks; this is because they are considered not credit worthy (Chavan and Ramakumar, 2002; Akinsanmi, 2005). Despite all different policies that the Nigerian Government has put in place to alleviate poverty, people are still trapped in the vicious cycle of poverty. In Nigeria, credit has been recognized as an essential tool for promoting small and micro enterprises (SMEs) but only about 50% of these have access to credit. The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the rural areas is vital, being the reposi-tory of the predominantly poor in society and in particular the SMEs. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspirations, various policies including the micro finance policy of 2004 were instituted over time by the Federal Government of Nigeria to im-prove rural enterprise production capabilities (CBN, 2008; Olaitan, 2001). This has encouraged the proliferation of Microfinance Banks in rural areas since the year 2005; the location of interest has three micro finance banks which were all included in the survey since they were servicing the rural people with a similar goal of alleviating poverty. Several studies have investigated the effective-ness of microfinance banks from the point of view of the services rendered such as loans supplies and savings (Yahaya et al., 2011) or the attitude of business owners to such banks (Asikhia, 2009). The studies cited showed that microfinance banks need to go beyond the plethora of services rendered to be more effective in poverty alleviation. These studies however did not directly relate access to credit and the efficiency of micro finance banks to the poverty status of the respondents as carried out in this research; the gender dimension of the issues investi-gated were also not included as considered in this study.

It is imperative to have gender disaggregated information on the poverty level among users of micro-finance banks, the timeliness of loan delivery and the constraints faced in loan acquisition from microfinance banks. This will aid in policy recommendation and project delivery of the banks as well as ensure that the targets are the beneficiaries. Therefore, the main objective of this study is to examine the effectiveness of Microfinance Banks in reducing poverty. The specific objectives are:

1) To identify the socio-economic characteristics of male and female respondents who patronize existing microfinance banks.
2) To examine the poverty status of male and female respondents who patronize microfinance banks.
3) To examine the effectiveness of loan delivery of the banks and the constraints faced by the banks' customers.
4) To investigate the influence of microfinance banks operation on the poverty status of the respondents.
5) To suggest policy recommendations based on the findings of the study.

RESEARCH METHODOLOGY

Description of the study area

The study area is a local government in Oyo State, Nigeria. It is one of the thirteen local governments that make up Ibadan metropolis. Akinyele was created in 1976 and it is bounded by Ibadan North Local Government in the South and Ido Local Government in the State. It is also bounded by Lagelu Local Government Area in the east, Afijio in the north. According to Akinyele Local Government, It occupies a land area of 464.892 km^2 with a population density of 516 persons per km^2. Using 3.2% growth rate from 2006 census figures, the 2010 estimated population for the area is 239,745. The occupations of the inhabitants are farming, trading, food processing etc. The headquarters is Moniya which is about 10 km from Ibadan and it is divided into 12 political wards. Inhabitants of Akinyele Local Government are mainly Yoruba, who co-exist peacefully with other Nigerian tribes like the Igbos, Hausa etc. among others who are mainly settler traders and farmers as well as immigrants from neighboring countries particularly the Republics of Benin and Togo. The local government area houses three Microfinance banks which have been meeting the needs of some of the rural populace for credit.

The banks are the Pacesetters Microfinance Bank (Ojoo and Moniya), Multivest Microfinance Bank and Moniya Microfinance Bank. The banks are privately owned and have been in existence for at least 4 years in the study area.

Sampling procedure and data collection

The study covered basically Ojoo, Sasa and Moniya which were randomly selected from the 12 political wards. Primary data were collected by a systematic random sampling of the banks' customers. The first person to be interviewed was randomly selected from the queue and thereafter every 7th customer was interviewed. The customers were met in the banks' premises though and oral interviews using a structured questionnaire were carried out. Respondents varied from traders to artisans, farmers, civil servants etc. The primary data obtained socio-economic information, relationship with the banks in terms of services being accessed, loans and repayment terms as well as perceived constraints to accessing loans. Additional information were obtained from texts, internet and from the local government being studied; information concerning the customers were not divulged by the banks (Figure 1).

Econometric tools

Multinomial logistic regression (Menard, 2002) was used to

Figure 1. The map of Oyo State showing different local government areas.

investigate the influence of microfinance banks operation on the poverty status of the respondents. This is an extended form of the logistic regression capable of handling polytomous responses which are assumed to be multinomial in nature. The multinomial distribution can be factored into a sequence of conditional binomials but in this case a single multinomial model is fit into the entire response using a baseline-category model. The general form of the model is derived as follows:

If $y_i = (y_{i1}, y_{i2}, \ldots, y_{ir})^T$ has a multinomial distribution with index, $n_i = P, r, j = 1\ y_{ij}$ and parameter, $\pi_i = (\pi_{i1}, \pi_{i2}, \ldots, \pi_{ir})T$. When the response categories $1, 2, \ldots, r$ are unordered, the most popular way to relate π_i to covariates is through a set of $r - 1$ baseline-category logits. Taking j^* as the baseline category, the model is $\log \pi_{ij}\ \pi_{ij^*} = x^T{}_i\beta_j$, $j = j^*$ If x_i has length p, then this model has $(r - 1) \times p$ free parameters, which we can arrange as a matrix or a vector. For example, if the last category is the baseline ($j^* = r$), the coefficients are $\beta = [\beta 1, \beta 2, \ldots, \beta r - 1]$ or vec $(\beta) = \beta 1\ \beta 2, \beta r - 1$.

The kth element of βj can be interpreted as: the increase in log-odds of falling into category j versus category j* resulting from a one-unit increase in the kth covariate, holding the other covariates constant:

i) Removing the *k*th covariate from the model is equivalent to simultaneously setting $j - 1$ coefficients to zero.
ii) Any of the categories can be chosen to be the baseline. The model will fit equally well, achieving the same likelihood and producing the same fitted values. Only the values and interpretation of the coefficients will change.

A simple empirical form is given as follows:

$$\text{Poverty status} = f(X_i, X_{ii}),\ PS_i = B_o + B_iX_i + B_{ii}X_{ii} + U_t \quad (1)$$

Where:
PS = poverty status (if moderately poor = 1, core poor = 2) where non poor is the reference or base line category.

Explanatory variable

X_i = socio-economic variable, X_1 = educational status (1 if 0 to 3 years, 2, if 4 to 6 years, 3, if 7 to 9 years and 4, if 10 to 12 years that is years of exposure to formal education), X_2 = marital status (1 if single, 2, if married, 3, if divorced and 4, if widowed), X_{ii} = microfinance banks operation variables, X_3 = expected date of loan repayment (days): The date by which loan is to be paid up. X_4 = amount borrowed (₦): the amount lent out to the borrower, X_5 = delayed time index: an estimate of the timeliness of loan delivery by the banks, X_6 = interest charged (₦): the amount charged by the lender for the use of the cash, it is usually a fraction of the principal.

This model is applicable because the dependent variable, poverty status has more than two categories with no natural ordering representing microfinance banks operation.

Studies such as ADB evaluation study (2007), Lindsay (2010) and Murdoch (2002) indicate that microfinance banks seldom reach the ultra and core poor whom they were designed to reach. However, when reached, income levels are mildly improved upon while the impact on household total or consumption expenditure can be retrogressive. This implies that it has positive impact on the consumption expenditure of poor households at certain levels of income. Also, the banks' effectiveness can be better evaluated on the basis of their social performance in terms of poverty reduction using criteria such as average loan disbursed, length of loan repayment; cost and interest rates charged. Also, discussions on the cycle of poverty have shown that socio-economic variables such as level of education, household size, marital status etc are important in exiting poverty (Adams and Kebede, 2005; Pick and Sirkin, 2010).

Indices of delay

The calculation of the delay time index is based on the period of loan application, expected date of loan delivery and the time the loan was delivered:

$$I = \frac{Ta - To}{Te - To} \times \frac{100}{1}$$

Where I = index, Ta = actual date of loan disbursement, To = theoretical or expected date of delivery, Te = last date for which the loan becomes ineffective.

Based on this, the effectiveness of loan delivery was classified into the following mutually exclusive groups:

<0%: No delay in loan acquisition, 1 to 50%: the delay in loan acquisition has mild effect on households, 51 to 100%: the delay in loan acquisition has moderate effect on households > 100%: the delay in loan acquisition has high effect on households.

Construction of poverty line

The classification into poverty groups was based on the computation of the poverty line using their level of consumption expenditure for both food and non-food items on a monthly basis. Then, a moderate poverty line which is equal to two-third (2/3) of the mean per capita expenditure was drawn; and a core poor poverty line which is equal to one-third (1/3) of the mean per capita expenditure was also drawn. Based on this, the households were classified into one of the mutually exclusive groups.

Core poor

They are those households whose per capita expenditure falls below the poverty line.

Moderately poor

They are those households whose per capita expenditure is not below the moderate poverty line but higher than the core poverty line. Mean total household expenditure = ₦46,242.75, average per capita household expenditure = ₦13,037.11, moderate poverty line (2/3 APCHHE) = ₦8,691.41 and core poverty line (1/3 APCHHE) = ₦4,345.70.

RESULTS

Socio-economic characteristics of microfinance banks loan beneficiaries

Table 1 reveals that about 73.8% of the respondents were within the age range of 40 years or less, while 26.3% were above 40years. It also shows that 65.0% of the respondents were married while 26.3% were single. A similar pattern was noticed with the breakdown by sex but a greater percentage of male respondents were polygamists. 75% of the respondents spent 12 years or less in school while only 25% spent above 12 years but a greater percentage of the male respondents spent more years in school than the female respondents. It also shows that most of the respondents were traders and civil servants but the female traders tend to be more than the male while there were more male artisans than the female, therefore, more traders and civil servants patro-nize microfinance banks than other occupations.

Indices of delay

This computation and classification is based on Idachaba (1998); and it shows that in this case at least 90% of the men and women experience some form of delay or the other in loan acquisition (Table 2).

Poverty status of respondents

Based on the computation process described earlier, it can be seen that there were equal percentage of poor and non-poor respondents, but the male respondents were poorer than the female respondents (Table 3).

Constraints to loan acquisition

Men and women face a lot of constraints in the process of loan application. The delay in loan disbursement, the insufficiency of loan, possible disappointments (that is the assumption that the borrower may not be granted the loan request) and poor educational level are the major constraints for women while men consider location, interest rates and delay as major limitations (Table 4a and b). About 61.5% of the sampled respondent ranked interest rate as the most important constraint they face in loan acquisition, 23.08% believed that the high level of interest rate is a secondary problem while 11.54% ranked interest rate as a minor problem in loan acquisition. Insufficiency in loan given was another major problem faced by respondents in loan acquisition, about 28.6% of the respondent's ranked insufficiency as the most important problem, 42.9% ranked it as secondary problem, 14.3% ranked it as tertiary problem and 9.5% ranked it as the fourth problem they face in loan acquisition. With respect to the sex of respondents, the male customers faced more constraints than the female customers in the acquisition of loan from microfinance banks.

Also, of note is the fact that about 10% of men and 25% of women consider the lack of collateral a major limitation.

Table 1. Socio-economic characteristics of respondents.

Item	Female (N=40)		Male (N=40)		All	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Age						
18-25	9	22.50	6	15.00	15	18.75
26-30	9	22.50	7	17.50	16	20.00
31-35	10	25.00	8	20.00	18	22.50
36-40	4	10.00	6	15.00	10	12.50
>40	8	20.00	13	32.50	21	26.25
Marital status						
Single	11	27.50	10	25.00	21	26.25
Married	25	62.50	27	67.50	52	65.0
Divorced	1	2.50	0	0.0	1	1.25
Widowed	1	2.50	1	2.50	2	2.50
Separated	2	5.0	2	5.0	4	5.0
Years in school						
0-3	2	5.00	3	7.50	5	6.25
4-6	10	25.0	5	12.50	15	18.75
7-9	11	27.50	9	22.5	20	25.0
10-12	8	20.00	12	30.00	20	25.0
12-16	8	20.00	7	17.50	15	18.75
>16	1	2.50	4	10.00	5	6.25
Primary occupation						
Farming	1	2.50	2	5.00	3	3.75
Trading	20	50.00	9	22.50	29	36.25
Civil service	7	17.50	10	25.00	17	21.25
Private salary job	8	20.00	7	17.50	15	18.75
Artisan and craft	4	10.00	7	17.50	11	13.75
Others	0	0.00	5	12.50	5	6.25

Source: Field Survey (2011).

Table 2. The delay time index.

Index	Classification	Female		Male		All	
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1-50	Mild	39	97.5	36	90	75	93.75
51-100	Moderate	1	2.5	4	10	5	6.25
>100	Severe	0	0	0	0	0	0
Total	Total	40	100.00	40	100.00	80	100.00

Source: Computed from field survey data (2011).

Influence of microfinance bank operations on poverty status

The multinomial logistic (MNL) regression was used to analyze the influence of microfinance banks operation on the poverty status of the respondents. In this model, the three categories are non-poor, core poor and moderately poor which represent the dependent variables where non-poor is the reference group while the socio-economic variables and microfinance banks operation variables are

Table 3. Distribution of households according to poverty status.

Poverty status	Female		Male		All	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Core poor	7	**17.50**	11	**27.50**	18	22.50
Moderately poor	6	**15.00**	16	**40.00**	22	27.50
Non-poor	27	67.50	13	32.50	40	50.00
Total	40	100.00	40	100.00	80	100.00

Source: Computed from field survey data (2011).

Table 4a. Factors limiting women's access to loans.

Constraint	Rank								All
	1st	2nd	3rd	4th	5th	6th	7th	8th	
	--------------Percentage-----------								
Location	-	-	-	-	-	-	-	-	-
Educational level	0	0	0	25	50	25	0	0	100
Collateral	0	25	25	25	25	0	0	0	100
Interest rate	60	20	20	0	0	0	0	0	100
Administrative aspect	0	0	0	0	25	25	25	25	100
Delay	50.0	50.0	0	0	0	0	0	0	100
Disappointment	0	0	25	25	0	50	0	0	100
Insufficiency of loan given	37.5	25	25	12.5	0	0	0	0	100

Source: Field survey (2011).

Table 4b. Factors limiting men's access to loans.

Constraint	Rank								All
	1st	2nd	3rd	4th	5th	6th	7th	8th	
	----------------Percentage-------------								
Location	0	0	40	0	20	0	0	40	100
Educational level	16.7	0	0	0	50	16.7	16.7	0	100
Collateral	11.1	0	33.3	11.1	22.2	11.1	11.1	0	100
Interest rate	62.5	25.0	6.3	0	0	0	0	6.3	100
Administrative aspect	25	12.5	25	25	0	0	12.5	0	100
Delay	0	16.7	50	16.7	0	0	16.7	0	100
Disappointment	0	33.3	0	33.3	0	16.7	0	16.7	100
Insufficiency of loan given	23.1	53.9	7.7	7.7	0	7.7	0	0	100

Source: Field survey (2011).

the explanatory variables. The result of the multinomial logistic regression is presented in Table 5. Expected date of loan repayment has a coefficient with a positive sign for both the moderately poor and core poor status and they were both significant. The result also showed that all things being equal, if the expected date for the repayment of loan is increased by 1, the moderately poor status is likely to increase by 0.087 and the core poor by 0.034. That is, the higher the period of repayment, the more likely it is for the level of each of the poverty status to worsen because the monthly installment calculated based on the interest rate is too high.

DISCUSSION

The results of the socio-economic analysis indicate that male respondents are older than the female respondents;

Table 5. Estimation of parameters.

Poverty status		Coefficient	Std. error
Moderately poor	Intercept	-18.009	3026.775
	Expected date for loan repayment	0.013**	0.008
	Educational status (0-3 years)	33.903	4049.786
	Educational status (4-6 years)	16.377	3026.775
	Educational status (7-9 years)	18.262	3026.775
	Educational status (10-12 years)	17.873	3026.775
	Marital status (single)	-2.507**	1.469
	Marital status (married)	0.595	1.128
	Marital status (divorced)	1.060	0.000
	Marital status (widowed)	21.430	3671.607
Core poor	Intercept	-34.092	4842.313
	Expected date for loan repayment	0.018**	0.009
	Educational status (0-3 years)	34.766	4334.212
	Educational status (4-6 years)	18.967	3397.940
	Educational status (7-9 years)	17.544	3397.940
	Educational status (10-12 years)	15.813	3397.940
	Marital status (single)	13.520	3449.927
	Marital status (married)	16.219	3449.927
	Marital status (divorced)	33.806	9739.365
	Marital status (widowed)	37.200	5038.124

**Significant at 5%.

and that most of these people are within the active working age. It also implies that about the same percentage of married women and men access credit from the microfinance banks; meaning that more married people patronize microfinance banks compared with singles. This could imply that the financial services are tacitly exclusive or that the relevance to young single micro-entrepreneurs is not understood. The years of education completed reveals that majority of the people who patronize microfinance banks have secondary education so are literate and are not intimidated by the process. Also, customers who access credit from microfinance banks have income sources; they are either self-employed or employed elsewhere as such the credit is either used to smoothen consumption pattern or build assets. Concisely, those being serviced are not exactly the core or ultra poor. The African Development Bank (2007) carried out an impact evaluation study of microfinance institutions in the Philippines, Uzbekistan and Bangladesh and found a similar trend as obtained in the study. In its study, it was discovered that only 10% of microfinance beneficiaries in the study areas fall into the poverty threshold of the nation. The loan process usually creates delays such that loan may not be received at the time required. The delay experienced could be a barrier for a re-application and may lead to unfavorable circumstance in the business environment. Lindsay (2010) noted that microfinance banks are not necessarily fulfilling their mandate by simply disbursing cash (loans) and ensuring that those loans are paid back without paying attention to personal economic development. One of the factors which can have a negative impact on personal economic development is the delay in loan disbursement because it hinders the economic decision process.

Other personal economic development factors tacitly referred to by Lindsay (2010) include giving sufficient loans, giving business management information to customers and reduction of interest rates. These and other factors were found to be constraints in this study. Also, Asikhia (2009) concluded in his study that microfinance banks should offer business management skills as part of their services in order to be effective. The microfinance banks have differentiated effects on different income groups among the sample based on its operations and some socio-economic factors. In the moderately poor group, expected date of loan repayment and the singles (never married) are more positively affected. Marital status (single) has a coefficient with a negative relation-ship with the moderately poor status. This implies that single respondents were not likely to be moderately poor and this premised on the fact that the coefficient is a negative relationship with the value of 2.507. That is, if single respondents increase by 1, the moderately poor status is likely to decrease by 0.088. The Pseudo r-square showed that at least 40% of the variations could be explained by the model.

CONCLUSION AND RECOMMENDATIONS

The socio-economic characteristics indicate that those who patronize the banks are not necessarily the poorest which is in line with the findings of Lindsay (2010), Akanji (2002) and Olomola (2002). However, the moderately poor or core poor relative to the group average are the men which was not really expected. The loan process creates delays which could lead to a loss in value of the cash if it is not available as at when needed; this coupled with the limitations such as high interest rates make the banks unattractive to would be users (Hermes et al., 2011). The interaction of socio-economic characteristics and banking operations such as expected date of loan repayment, and marital status could limit the effectiveness of the bank in alleviating poverty among the poor. This study indicated that poverty exists among the customers of microfinance banks, therefore, the effectiveness of microfinance banks is not sufficient alone to help to alleviate poverty in the study areas. Beyond an efficient microfinance banks operation, targeted finance packages is a pre-condition for effective fulfillment of the businesses of their customers thereby enabling them carry on various small and medium enterprises which will in turn empower the core and moderately poor to be self-employed thereby reducing the poverty level in the economy (Olaitan, 2001; Okpubara, 2009). According to Imai et al. (2010), productive loans form microfinance institutions have a significant effect on poverty reduction in rural areas while in urban centers, simple access to such an institution has average poverty reduction effects. It can be suggested that microfinance banks' roles should lean more towards the provision of diversified, affordable and dependable financial services to the poor with minimum interest rate in a timely and competitive manner. These financial services would enable the poor to undertake and develop long time sustainable entrepreneurial activities, mobilizing savings for financial intermediation, create employment opportunities and also to increase their productivity so that they are not worse off than they were before using microfinance banks.

Therefore, government should not rely on microfinance banks alone as a means of alleviating poverty in the study areas in Nigeria, though this is contrary to Burgess et al. (2005a, b). Though to be efficient microfinance banks should take the following factors into considerat-ion:

i) The time of repayment of loan should be extended so that microfinance banks' customers can have additional time for their businesses which could help to increase their income and also the monthly installment should be reduced so that the customers can have something to fall back on with the additional time given to them. This is because the result from the findings shows that the core and moderately poor were being adversely affected by the expected date for loan repayment.

ii) Regulatory and other statutory bodies should monitor the interest rate on loans and advances to make it accessible to customers and loans should be given in sufficient amount to enable the customers to use it for the right thing. This is because majority of the respondents' sampled ranked interest rate and insufficiency in loan given as the most important constraints faced in loan acquisition.

iii) Beneficiaries of credit should be chosen based on their management ability and repayment capacity and not amount of collateral in evaluating their past record and character. This is because the core poor and moderately poor may not be able to provide the collateral that is required from them and they are the ones that mostly need credit to help them grow their small businesses. Also, credits should be given with technical advice which in turn will increase the income of the customers.

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