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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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IMPACT OF MICROFINANCE BANKS ON POVERTY ALLEVIATION: THE CASE OF AHMADU BELLO UNIVERSITY, MICROFINANCE BANK

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ABSTRACT

Poverty is one of the major problems of mankind and its alleviation one of her major agendas. In recent years' microfinance has emerged as an important instrument to relieve poverty in the developing countries. The objective of this study is to examine the impact of microfinance banks on poverty alleviation using the Ahmadu Bello University Microfinance Bank as case study. Primary data was obtained through questionnaire administration and the data was analysed with the aid of simple percentages and Chi-square statistics. The results showed that microfinance banks enhanced urban development; there were improved savings mobilization which improved credit facilities which in turn improved output from micro-enterprises. The study recommends that the ABU Microfinance bank should reduce its effective lending rate to a single digit by intensifying efforts to access chief funding source from the CBN window and other micro credit finance sources.

KEYWORDS

microfinance, micro credit, finance, poverty alleviation, savings mobilization.

INTRODUCTION

In recent years microfinance has emerged as an important instrument for poverty alleviation in developing as well as developed countries. Today there are more than 7000 micro lending institutions providing loans to more than 25 million poor individuals across the world, their vast majority being the women (Zubair, 2008). However, these institutions face some serious challenges, especially in Less Developed Countries (LDCs) where the proportion of people in poverty is high. The existing microfinance in Nigeria serves less than 1 million people out of 40 million being the potential number that need the service (Zubair, 2008). Also, the aggregate micro credit facilities in Nigeria, account for about 0.2 percent of the GDP and is less than one percent of total credit in the economy. This has further aggravated the existing inequalities in the distribution of wealth and income in Nigeria.

Formal financial system provides services to about 35 percent of the economically active population while, the remaining 65 percent of the economically active population (working or able-bodied individuals) are excluded from access to financial services (loan). This 65 percent are often served by the informal financial sector through money lenders or credit unions that often charged them comparatively high interest rates. The non-regulation of the activities of these informal actors has serious implications for CBN ability to promote monetary stability and sound financial system (CBN 2005).

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions (commercial banks and other institutions). Microfinance is created in response to the missing credit market for the poor. The problem here is that government has in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural banking Programme (1977-1990), sectoral allocation of credits, concessionary interest rates and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of Nigeria Agricultural and co-operative Bank (NACB) Ltd. Now Bank of Agriculture (BOA), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN,1987-1990), the Community Banks (CB,1990-2005), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. Despite all these efforts, a higher percentage of Nigerian is still poor. Despite all the programmes established by the Federal Government of Nigeria to provide resources for development of small scale enterprises in Nigeria, they still suffer from scarcity of funds, either to start up new businesses or expand existing ones. This study therefore, investigates the role played by A.B.U. Micro-finance Bank in alleviating poverty to its micro customers; its condition on borrowing and repayment and its interest charges and the challenges facing the bank in discharge of its functions.

LITERATURE REVIEW

The term microfinance is often used interchangeably with microcredit and connotes a financial venture with interest in rendering services to the poor although with profit-making in view. (Elahi and Danopoulos, 2004) Schreiner and Colombel (2001: 339) and McGuire and Conroy (2000: 90) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by the banks." Microcredit, on the other hand is viewed as a development tool, essentially the dispersion of small collateral-free loans to groups of jointly liable borrowers in order to foster income generations and poverty reduction through enhancing self-employment and health (Ahmed, 2009; Chowdhury, 2005). Proponents of microfinance agree that it has the tendency to break poverty's vicious cycle; it is a win-win programme (Chemin, 2008). On the other hand, the critics such as Dale Adams of Ohio State University, who described the microfinance industry as 'microdebt industry' and Gonzalez-Vega, who questioned the rationale behind the goals and expectations put in place by the Microcredit Summit (McGuire and Conroy, 2000: 94-95). The stakeholders of microfinance include donors, government, Non-governmental Organisations (NGOs), microfinance banks, government banks, commercial banks, non-bank financial institutions, thrift societies (credit and loan cooperatives), credit unions, micro entrepreneurs, and other individual beneficiaries.

Most studies on poverty alleviation and microfinance concentrated on women (Elahi and Danopoulos, 2004: 62). The rationale being that they are prone to rural poverty than their male counterpart (Anyanwu, 2005). That women are given primary consideration in microfinance programmes does not suggest that the male gender is discriminated upon. This, however, raises moral questions bordering on who handles finance profitably and who has the capacity to repay credits received and responds to policy changes better than the other sex (Johnson, 2000). McCarther (2006) posits that women are the reason behind the success of microfinance as they are better clients and key drivers of development. Bangladesh, being the traditional home of microfinance development, has witnessed increased studies. One such study concentrated on both objective and subjective poverty with emphasis on the number of times participants have had access to microcredit. The results of the study show that microcredit is linked with poverty and its impact is only strong for about 6 years with subsequent decline (Chowdhury *et al*, 2005).

Another Bangladeshi study conducted by Haque and Yamao (2008) focused on determining how capably microcredit can alleviate poverty in Bangladesh. The study posits that 40% of Bangladeshi citizens live below the poverty line. Women members of reputable Non-governmental Organisations and Microfinance Institutions including Grameen Bank, Bangladesh Rural Advancement Committee, Association for Social Advancement, Thengamara Mohila Sabuj Sangha among others who had been borrowing from institutions for more than 6 years were sampled. The outcome of the study showed that credit disbursed was not sufficient for profitable economic activities let alone paying back the weekly installments. The credit defaulters had to borrow from other sources to repay the loans, and in consequence fell into further, prolonged indebtedness. However, without indebtedness, the study showed that proper utilization of microcredit can improve the livelihood of Bangladeshis (Haque and Yamao, 2008).

In the case of Vietnam, a similar research was conducted in the Mekong Delta by Rajula *et al* (2008). The objective of the study was to examine "if microfinance contributes to the reduction of poverty in the Mekong Delta region of Vietnam." Second and third objectives were to investigate "if it leads to the accumulation of assets" and "how poor women are enabled to adopt livelihood strategies that lead to poverty reduction." The finding of the research "suggests that the process of the accumulation of assets, leads to the creation of livelihoods that result in increased household income and poverty reduction." (Rajula *et al,* 2008: 191).

Still in Africa, a study was conducted in Uganda by Agha *et al* (2004) and centred on client perception of the quality of care provided by midwives. The study verified the impact of a microfinance scheme that provided relevant business skills and revolving loans on client loyalty. Result shows that midwives were very interested in microfinance. It further shows that microfinance have the capacity of strengthening private sector health services.

From the Nigerian perspective, Ewhrujakpor (2008) emphasized that poverty in Nigeria is the direct consequence of decreased investments, output, income purchasing power and savings. His review of the Poverty Alleviation programme, National Economic Empowerment and Development Strategy (NEEDS) shows that reducing poverty in Nigeria is the most difficult challenge and obstacle in her pursuit of sustainable economic growth. The implementation of government policies is left in the hands of people who betray the confidence of the masses. According to Shola (2008: 496), "the pervasiveness and persistence of poverty in Nigeria is a massive betrayal of her rich resource base. The failure of antipoverty initiatives, with its attendant negative implications may not be unconnected with the pervasiveness of perverse incentive structures that engender and nourish opportunism at the expense of a fairly even distribution of income and wealth."

Irobi, (2008), in her study titled "*Microfinance and Poverty Alleviation, A Case Study of Obazu Progressive Women Association, Mbieri, Imo State, Nigeria"* focused on women, the beneficiaries of microfinance, and how it affects the welfare of different groups of individuals and households. Mbieri, in Imo State, was chosen because "it is one of the villages that rural women, which engage in microfinance activities, live." Empirical data were collated using informant interview and questionnaire methods. The researcher's objective was to determine the rural women's (the beneficiaries) experiences in business (such as farming, dress making, trading etc.) with the assistance from the credits received from the association. The findings of the study showed that "the microfinance intervention has a positive impact on the alleviation of poverty among women of this association. Interestingly, this study found that most women in this association experienced increased income and therefore improved their economic status, political and social conditions after receiving the loans" (Irobi, 2008: vii).

Fasoranti, (2008), in his study titled "*Economic Implication of Poverty Alleviation Programs on Rural Women in Ondo State, A Case Study of Country Women Association of Nigeria" (COWAN)* examined the economic implication of COWAN poverty alleviation programme on rural women. Multistage sampling technique was used to select 100 respondents from Ikare and Ugbe from Akoko North-East and Oka and Okungba from Akoko South-West. The researcher focused on loans (by COWAN) granted to "poor women who don't have two dollars of their own to start any meaningful business" and who do menial jobs. "Result showed that loan facilities from COWAN has positive influence on the level of income; the result of the return to scale analysis showed efficient utilisation of the loans" (Fasoranti, 2008: 352).

THE ORIGIN OF MICROFINANCE AND MICROFINANCE POLICY IN NIGERIA

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes has contributed to the growth of private sector-led microfinance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members.

The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, et al, 2003). They also operate in the urban centres. However, the size of activities covered under the scheme is difficult to determine. The non-traditional, formalized microfinance institutions (MFIs) are operating side by side with the informal services.

In 2000, a National Conference on Microfinance organized by the Federal Government of Nigeria and the World Bank recommended that the Central Bank of Nigeria should take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation of MFIs. The workshop recognized that the development of appropriate Microfinance Policy (MFP) was critical to the development of sound microfinance practice, sustainable MFIs and by implication viable micro enterprises in Nigeria. In responding to this recommendation, the Central Bank of Nigeria conducted a baseline study of MFIs in 2001. Consequent on the findings of the study, a policy paper regarding microfinance activities was adopted in the year 2005.

As at 2009, there are 898 registered microfinance banks (Jibril, 2011). Out of which about 64% of them transformed to microfinance banks from Community Banks. This implied that 34% of the microfinance banks in Nigeria were a direct result of the 2005 Microfinance Policy. Since then microfinance banks in Nigeria has been increasing in number among which are Ahmadu Bello University Microfinance Bank in Samaru, Nakowa Microfinance Bank in Tudun Wada, And Zazzau Microfinance Bank in Zaria-city; and recently Microcredit Microfinance Bank all of Zaria in Kaduna State of Nigeria.

METHODOLOGY

Primary data were utilized for the study. Since the study is based on primary source of data, the instrument of data collection was basically the questionnaire. Series of questions relating to the topic were asked and each of these was valid and reliable, for the purpose of the investigation. Considering the nature of the research on the poor and low income earners with limited or no access to financial instruments (credit loan) in Zaria Local Government, the sampling technique that was adopted for this study was the simple stratified random sampling in which two hundred and fifty respondents were given the questionnaire; mostly junior staff of the community. The choice of this technique is justified on the ground that, every client of the bank stands a chance of being benefited, from the microcredit scheme. Simple percentages and frequency tables were used "to examine the conditions for the loan" and 'to evaluate the interest rate charged by the bank". This is justifiable because frequency often distributes data into classes and determines the number of observations falling into each class for easy conclusion.

RESULTS AND DISCUSSIONS

TABLE 1: PERCEPTION OF INTEREST, LENDING CONDITION AND STRICTNESS ON LOAN REPAYMENT

Perception of interest rate/%		Lending condition/%		Strictness on loan repayment/%	
Too high	15(6)	Very good	10(4)	Very strict	100(40)
High	75(30)	Good	125(50)	Strict	50(20)
Average	10(4)	Average	100(40)	Normal	100(40)
No response	150(60)	Bad	15(6)	-	-

Source: Field survey, 2010.

Note: Percentages in brackets.

Table 1 shows that respondents largely agree that interest rate are high but the lending condition is good. The high percentage (60%) of none response is as a result of those people not aware of the lending conditions and interest rate on loans because they have not applied for any loans from the bank. On strictness of the bank on loan repayments, 40% of the respondents said that the bank is very strict while 40% said it is normal.

TABLE 2: AMOUNT RECEIVED AS LOAN, REPAYMENT PERIOD AND CONDITION FOR REPAYMENT

Amount of loan/%		Repayment period/%		Condition for repayment/%	
N5000-N10000	25(10)	0-6mths	50(20)	Installments	125(50)
N10000-N15000	25(10)	6-12mths	100(40)	At agreed time	100(40)
N15000-N20000	50(20)	12- 18mths	75(30)	At your convenience	00(00)
Above N20000	25(10)	Above 18mths	25(10)	No response	25(10)

Source: Field survey, 2010

Note: Percentages in brackets.

Table 2 shows the amount received as loan, repayment period and the condition for repayment. The amount disburses as microfinance loan is small; as such it agrees with the principle of microfinance loan.

TABLE 3: LOAN GRANTED, FOR HOW LONG, AND PROBLEM OF PAYING ON SCHEDULE

Loan granted? /%		Problem paying back/%		Duration of loan/%	
Yes	150(60)	Yes	25(10)	0-1ys	65(26)
No	75(30)	No	100(40)	1-2yrs	75(30)
No response	25(10)	Sometimes	25(10)	Above 2yrs	10(04)

Source: Field survey, 2010.

Note: Percentages in brackets.

Table 3 shows that 60% of the respondents were granted the loan and 40% had no problem paying back. The duration for the loan indicates that it is short term although some 4% are granted loan that extend beyond two years.

Deduction from these results is that the impact of microfinance loan on poverty will be very minimal because growth and development are long term variables. When asked about how they resolve problem of paying back; some of them reply they are able to repay despite the high interest.

To further examine the impact of loan granted by the bank on the income of the poor and low income earners among its customers, Chi-square a non- parametric test was run and the results are presented on table 4 below.

H_o: $\alpha = 0$ Loan granted by the bank do not have impact on the income of the beneficiaries.

H_i: $\alpha \neq 0$ Loan granted by the bank does have impact on the income of the beneficiaries.

Decision rule:

Accept H_o if $X_c^{\ 2} < X_t^{\ 2}$

Reject H_o if $X_c^{\ 2} > X_t^{\ 2}$

From the table below, the pearson Chi-square Asymp sig (2-sided) = 0.000 is (46.875) while the critical X_t^2 at (0.05) is 3.33. Thus the chi-square value is greater than the critical value; therefore, we reject H_o and conclude that loan granted by the bank have positive impact on the income of the beneficiary clients, even though the bank charged higher lending rate.

TABLE 4: CHI-SQUARE TESTS RESULTS

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	46.875[a]	9	.000
Likelihood Ratio	56.596	9	.000
Linear-by-Linear Association	16.155	1	.000
N of Valid Cases	50		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is 40.

DISCUSSION

Based on the opinion of respondents as depicted on table 1, we can conclude that 90% of them assessed the lending condition to be good while only 6% assessed it to be bad. This generalization helps us to draw conclusion that the lending condition under A.B.U MFB is good but that repayment terms were harsh because majority of them believe that the bank is strict on repayment. This strictness by the bank is good for risk management and for the benefit of other potential borrowers even though it may be harsh to the customers.

Lending rates of between 18- 20% is considered high by more than 70% of the respondent's/loan beneficiaries of ABU MF Bank. This is consistent with the underlying principles of microfinance banking which, seek to provide cheap funding source to the very poor of the society. Microfinance Banking Policy of the Federal Government envisaged a single digit interest rate of below 10% on loans/Advances by the microfinance banks. It is therefore safe to conclude that ABUMF charges commercial rates to its customers and it negates the purpose of the policy.

CONCLUSION AND RECOMMENDATIONS

With the coming up of the Microfinance Policy and Regulatory Framework, microfinance banks are now deliberately linked with the country's developmental policy objectives. Microfinance banks are important instruments designed to provide poor economic agents with access to credit. This community banking scheme has enabled the very poor of ABU community and surrounding communities to have greater access to formal credit. The bank has been drawing excess funds in the community and lending same to the members of the community. The performance of the bank based on the results of the study has been satisfactory. However, there were many borrowers who were yet to be covered especially women.

Microfinance banks are promoted and supported by government for them to act as catalyst for poverty alleviation and enhanced the common people's standard of living. It is therefore pertinent that they tailored their lending operations towards assisting the government to achieve its stated objectives. We are therefore recommending that ABU microfinance Bank and indeed all other microfinance banks should intensify efforts towards accessing cheap and or interest free sources funding for on-lending to clients at a very low interest rate. They should work with identified Non-Governmental Organizations to provide finances to the very poor of their clients and also assist in monitoring the loans for efficient utilization and repayment on schedule so as to enable others to benefit.

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