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The Impact of Access to Microfinance Bank on Poverty Status of Households in Kaduna State, Nigeria

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Abstract

The study assesses the effect of access of microfinance bank loan on poor households in Kaduna state. The objective of this paper is to determine how accessible is microfinance bank loan and its effects on the lives of its beneficiaries. It is believed that poverty can be reduced when the poor become economically active supported through microfinance. However, poverty rate in Kaduna state remain high despite the existence of microfinance banks. A total of 398 samples were selected using multi-stage sampling method, while 393 responses were eligible for the analysis. Data was collected by administering questionnaire, descriptive statistics and averages were employed to analysed the data. The findings revealed that 23.4 percent have access while 76.6 percent have no access to microfinance bank loan facility. Likewise out of the total beneficiaries of microfinance loans 191 household's equivalent to 48.6 percent are better-off, 25 households (6.4) percent their lives status remain unchanged and only 3 households became worse-off. It is therefore recommended that increase in number of microfinance banks should be encouraged by less stringent requirements when establishing new microfinance entities. Cost of capital should be reduced to a moderate level this will allow wider outreach of the target group.

Keywords: *Microfinance, Access, Poverty Reduction, Outreach, Living Standard and Economic Growth*

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Background to the Study

Poverty is a global phenomenon that affects both developed, developing and under developed nations. However, the magnitude of poverty differs between countries depending on their development status. Researches indicate that poverty incidence is very high in South Asia and sub-Saharan Africa, but more severe in sub-Saharan Africa (Todaro & Smith, 2011).

Poverty is therefore defined as an undesirable State where individuals or groups cannot afford the basic necessity of life. As a consequence to this, the poor is subjected to a total deprivation from opportunities, empowerment and security. Thus, poverty has a multi-dimensional effect on the life of an individual or group. As poverty can lead to deprivation, which makes it difficult for the poor to afford to participate in many socially important activities, for instance, the poor lack the opportunities to work, due to their low income as an obstacle to acquire skills through education which is necessary for a better employment opportunity that will guide against low income makes the poor to suffer from health hazards with the inability to afford medical services for even common diseases. Thus, poor health may prevent people from taking advantage of opportunity to work, to learn and to participate in society. Likewise, the poor is mostly found living in slumps and disadvantaged neighborhood where in most cases high crime, poor services and poor health are the life experiences in such settlements. This poor condition tends to have negative impact on the socio-economic life of the inhabitants.

To improve on the life of the poor, it is necessary to improve his means of livelihood. The low level or no income status of the poor can be better off with access to external financing through borrowing. However due to the undesirable state of the poor, undermines his ability to access financial intermediation from the formal financial institutions. The limiting factors to these are: lack of required collateral, unemployment, no history of credit records etc.

Microfinance banks are therefore established to provide financial assistance to the economically active poor to invest in the future and generate sustainable income. Microfinance financial support is designed in such a way that easies the stringent collateral and other requirement necessary for loan taken. This facilitates easy access to loan by the poor. It is believed that such financial assistance can help the poor to come out of poverty. Therefore, for microfinance banks to be able to effectively alleviate poverty the desired target group must be reached.

As part of the Government's effort to arrest the above problems, a microfinance policy was enacted in 2005 which facilitate the establishment of microfinance banks with a prime objective of providing financial assistance to the poor who are traditionally not served by the conventional financial institutions. The role of micro-finance on the economic growth and development of any economy cannot be overemphasized. According to Anyanwu (2004), micro-finance is not just providing capital to the poor, but it is also targeted at combating poverty at individual and institutional levels of societal wellbeing. A number of reasons have been identified in the literature for the establishment of micro-finance banks. According to CBN (2011), some of these reasons include: weak institutional capacity, weak capital base , the existence of a huge un-served market, employment generation and poverty reduction, need for increased savings opportunity, Interest of Local and International Communities in Micro financing, the need to ensure Utilization of Small and Medium Enterprises, Equity Investment Scheme Fund (SMEEIS).

Objective of the Study

The main objective of this study is to assess the effect of access to microfinance on poverty status of households in Kaduna state. While the specific objective is to:

i. Determine the extent to which households in Kaduna state have access to microfinance banks' loans.
ii. Determine the impact of microfinance on the wellbeing of the beneficiaries

Statement of the Problem

Nigeria being the most populated country in Africa with about 168 million people (FGN, Nigerian Economic fact sheet, 2011), and with abundant natural resources, also rated as the seventh world largest exporter of oil, yet ranks 158 out of the 188 countries of the world in terms of quality of life and experience persistence incidence of poverty (UNDP 2007 in Yahaya, Osemene and Abdulraheem, 2011). The human Development program indicates that 70.8 percent and 92.4 percent of Nigerian population live below US$ 1 and US$2 a day respectively (UNDP, 2007). Latest record shows that 112 million Nigerians (67.1 percent of the country's total population of 167 million) live below poverty line - that is living below US$1:00 to $1:25 a day (Kale 2013).

However, the share of poverty across the country is lopsided. It is estimated that on the average poverty rate of the states in the North West geopolitical zone remain the highest at 71.4 percent followed by North-East, with 69.1 percent and North-Central, 60.7 percent. However, the prevalent of poverty is least in the South-West, averaged 49.8 percent, followed by South-South with 55.6 percent and South East, 59.5 percent (NBS, 2013).

While the incidence of poverty in Kaduna state as revealed by NBS (2012), is having poverty at deflated rate of 71.4 percent and non-deflated rate of 70.9 percent as at 2009. The state also records absolute poverty trends by head count of 54.2 and 64 percent in 2003-04 and 2009-10 respectively. On the other hand, the spread of microfinance institutions in the country (both formal and informal), and their activities is much higher and concentrated in large number in the Southern part of the country where poverty is low compared with the Northern part. In general lack of sufficient capital is suffered by these institutions particularly those operating in the North, possibly due to low patronage and inaccessibility of cheap commercial capital. This therefore, lowered their ability to extend their services to target group.

Research Questions

a. How accessible is microfinance bank's loan is to the poor in Kaduna state?
b. What is the impact of accessing microfinance on the life of the poor in Kaduna state?

Conceptual and Theoretical Framework

Concept of Poverty

Poverty can be seen or measured in absolute or relative terms. While absolute poverty is defined as a condition characterized by severe deprivation of basic human needs, including food, shelter, safe drinking water, health education, sanitation facilities and information. It depends not only on income but also on access to services (United Nation, 1995). On the other hand, when individuals, families and groups lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are regarded as minimum standard relative to the living standard of the society are known to live in a form of relative poverty.

Thus in general, poverty can be defined as a denial of choices and opportunities, a violation of human dignity, and simply mean lack of basic capacity to participate effectively in the society. It means not having enough to feed and clothe a family, not having a school or health care to go, not having the land to grow ones food or a job to earn a living and not having access to credit (United Nation, 1998).

Olowoni (1996) describes poverty as a poor economic condition characterized by low calorie in-take, poor housing, inadequate health facilities, low income, unemployment and underemployment. Akintola and Yusuf (2001), see poverty as a social condition characterized by inadequate access to basic human needs and the sustenance of socially acceptable minimum standard of living in a given society some of these basic determinants of well being included adequate food, shelter, portable water, health care, education and employment opportunities. In the same vein, United Nations Development Programme (UNDP), states that poverty is hunger, lack of shelter, being sick and not being able to see a doctor, not having access to school and not knowing how to read. Poverty is not having a job; rather it is the fear of the future, living one day at a time. Losing a child to illness brought about by water borne disease or preventable diseases. Poverty is powerlessness, lack of representation and freedom (World Bank, 1994, poverty net 2004 in Duru,). Hence poverty manifest itself through the inability of people to make themselves heard or influence or control what happens to them. Powerlessness results from multiple interlocking disadvantages which make it extremely difficult for poor people to escape poverty.

While according to Encarta (2004), regard man as poor when without access to education or health services even if he have adequate food. Similarly poverty is also seen as a state of deprivation in the views of Federal Ministry of Economics Cooperative and Development (1992) as 'not having enough to eat, a high rate of infant mortality, a low life expectation, low educational opportunities, poor water, inadequate health care, unfit housing and a lack of active participation in the decision making process'. Also Aluko (2008), holds that poverty is absence or lack of basic necessities of life or lack of command over basic consumption needs such as food, clothes and shelter.

Conceptual Framework on Micro-finance Banks

Irobi (2008) defined micro-finance as the provision of financial services such as credits, savings, micro-leasing, micro insurance and payment transfer to economically active poor and low income household to enable them engage in income generating activities or expand/grow small businesses. Irobi added that microfinance is a financial intervention that focuses on the low income earners for the supply of loans, savings and other basic financial services to the poor. Microfinance evolved as an economic development approach intended to benefit the low income part of a given society irrespective of gender. In the view of World Bank (2007) micro-finance banks are responsible for the supply of loans, savings and other basic financial services to the poor. Financial services needed by the poor include working capital loans, consumer credit, savings pension insurance and money transfer services.

Kurmanalieva, Montgomery and Weiss (2003) submission on microfinance and poverty reduction is very interesting. They argue that if access to microfinance can be improved, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on.

Jamil (2008) asserted that, micro-finance is the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low-income population on a sustainable basis. It recognizes poor and micro entrepreneurs who are excluded or deprived access to financial services because of their inability to provide tangible assets as collateral for credits facilities. Microfinance banks can be seen as suppliers of loans, savings and other financial services to the poor. Microfinance, as a poverty alleviation intervention, enables banks to lend small credits to the poor and helpless people, to provide them the opportunity to participate in economic activities for which they had been denied (Edward & Olsen, 2006). From the views of scholars above, it can be deduced that, micro-finance banks are to provide financial services, which are peculiar in nature to the active poor without limitation to gender with the aim of improving their standard of living.

Conceptual Framework on the role of Micro-finance Banks in Nigeria

Previous studies have identified a number of roles microfinance banks play in reducing poverty. While some of these roles are direct, many of these roles can also be considered as indirect. Jegede, Kehinde and Akinlabi (2011) showed that there was a significant effect of microfinance banks in alleviating poverty by increasing income and changing economic status of those who patronize them. The opinion of various scholars above revealed that microfinance banks play an important role of reducing poverty on the active poor (their clients) through credit delivery which leads to creation of employment opportunities and increase in the level of their income. The microfinance clients used such fund for acquiring assets for further income generation and ploughing back part of their increased income for the expansion of their business; Akinlo & Oni (2012) indicated that microfinance banks have been able to alleviate poverty among clients of microfinance banks as credit granted were expanded by the beneficiary to acquire durable goods rather than consumption goods alone, which further enhance their growth and move them out of poverty line.

Thus, microfinance banks services have helped in improving standard of living of their clients; in the work of Akinlo and Oni (2012) reveal that above 70% of the beneficiaries of the microcredit were able to have access to good things of life which is an indication of poverty alleviation. Other studies from abroad equally show that microfinance has been successful in many situations. According to Little, Murduch and Hashemi (2003), "various studies on microfinance and poverty reduction have recorded increases in income and assets, and decreases in vulnerability of microfinance clients". They refer to projects in India, Indonesia, Zimbabwe, Bangladesh, Ethiopia and Uganda which all shows very positive impacts of microfinance in reducing poverty. Mayoux (2001) states that while microfinance has much potential, the main effects on poverty have been:

i. Credit making has a significant contribution to increasing incomes of the better-off poor, including women,
ii. Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Khandker (2003) states that it is clear that what microfinance can do for the poor depends on the poor's ability to utilize what microfinance offers them. He further said that microfinance provides a window of opportunity for the poor to access a borrowing and saving facility. In other countries, these facilities also provide organizational help, training, safety nets, empowerment, and financial and other help during crises. Microfinance organizations can alleviate liquidity constraints, stabilize consumption, and enhance both income and consumption for the poor, thereby augmenting the poor's welfare.

From the foregoing, it can be deduced that the micro-finance bank credit facilities to the active poor help them expand their existing business as well as start new ones which will increase their source of livelihood and thereby reduce poverty among them.

Conceptual Framework for the Study

The conceptualization of this study would be in terms of income/consumption poverty that reflects the cost of achieving basic human needs and the capacity to have command over economic resources. Since poverty could be regard as a lack of well being, and World Back recognized absolute poverty measure to be defined by $1-a-day poverty line, monetary measure remain the most widely recognized poverty estimate in use today. The concept will also focus on non economic resources that affect well-being, such as the availability and accessibility of public goods like education, health etc.

The reason for this choice is to enable the study to determine whether the microfinance banks actually achieve their ultimate objective of improving welfare for the target population.

Theoretical framework

Theories of Poverty

A number of theories have been propounded by scholars to explain how and when poverty is encountered. Prominent among such theories are Individualistic, dependency, cultural, situational and power theory. The theoretical framework for the study rests on the situational theory, this school of thought hold that poverty is seen as a reaction to situational constraints rather than a behavior response to established and internalized cultural patterns. The focus of this theory is that the poor people are constrained by the facts of their situation - low income, unemployment and so on, to act the way they do, rather than being directed by culture of poverty. The theory therefore, suggests that the poor would readily change their behavior in response to a new set of circumstances once the constraints of poverty were removed (Haralambos & Holborn, 2008).

Empirical Framework

In addition to our conceptual review, there is a copious empirical research on the role of microfinance banks in alleviating poverty. A study from Asia and the pacific Remeyi, and Quinoues, (2000), discovered that household income of families with access to credit is significantly higher than for comparable households without access to credits. In Indonesia a 12.9 percent annual average rise in income was recorded from borrowers, while only 3 percent rise was reported from non-borrowers. A 29.3 percent annual average rise in income was recorded in Bangladesh and 22 percent rise was for non-borrowers. In Siri-Lanka records 15.6 percent increase in income from borrowers and 9 percent from non-borrowers. Also India has 46 percent rise from borrowers and 24 percent from non-borrowers. While a higher effect of microfinance was seen on people lying just below the poverty line than the poorest poor.

Likewise Oluyele (2012) finds that there is significant difference between mean income of the beneficiaries before and after microcredit, which lead to poverty reduction. Another study equally identified a significant relationship between microfinance and poverty reduction in Bayelsa state of Nigeria, which also saw significant difference between microfinance and traditional savings rotating system and loan repayment by clients, uplift the status of women thereby reduce poverty (Appah, Sophia and wisdom, 2012).

Jegede et al. (2011), examined the impact of microfinance on poverty alleviation in Nigeria and found that there was a significant difference among entrepreneurs who use microfinance institutions. Jegede et al further asserts that 69% of the variations in poverty alleviation among members were accounted for, by the microfinance institutions.

Furthermore, Yahaya et al (2011) conducted a research on the effectiveness of microfinance banks in alleviating poverty in Kwara State and their findings showed that the issues of gender and working experience have significant impact on microfinance as a strategy for poverty reduction in Kwara State. The findings specifically revealed that the female populace patronized the services of microfinance banks than their male counterpart.

Akinlo & Oni (2012) investigated the impact of micro-finance on poverty alleviation in Ondo State, Nigeria and found out that, microfinance banks played a significant role in poverty alleviation by improving the standard of living of beneficiaries, helping the beneficiaries in planning and expanding their business activities through the provision of microcredit loans.

Also Rajendran and Raya (2010) saw microfinance and self Help Group (SHG) are effective in reducing poverty, empower women, creating awareness and ensure sustainability of environment leading to sustainable development of the nation. In the same vain Idolor and

Imhanlahimi (2011) whose research study was conducted in Edo state Nigeria concludes that there is minimal impact seen on microfinance banks on enterprise and economic active rural poor.

On the contrary, other researches indicate a non-performance of microfinance on its target group. Studies like the OECD (1996) reveal that no micro-credit program has yet to achieve sustainability, due to high dependence to subsidy, therefore, in the absence of it, interest rate rises to cover all operating cost thereby skyrockets the cost of lending. Also argued that whilst there are several channels by which micro-credit services can reduce vulnerability there are few ways by which it can single-handedly reduce poverty. Sheraton (2004) concludes that microfinance is not sufficient to have significant impact on poverty reduction, however, it exhibit impacts on consumption smoothing and emergency financing. Further studies argued that the small enterprise supported by micro-credit program have limited potential to grow and so have no sustained impact on the poor. Bouman and Hospes, 1994 in Yahaya, Omotola and Abdulrrahman (2011), believe that these microcredit programs rather make the poor economically dependent on the program itself. Also Hulme and Mosley, (1996) believe that most contemporary schemes are less effective than they might be and that microfinance is not a panacea to poverty reduction rather it makes the poor worse-off. Akande and Olusola (2012) in their study reveals that there is little access to microfinance and its performance does not improve significantly on microfinance beneficiaries due to high interest rate and short term repayment period. While Gumel (2012), who examines availability of microcredit in northern Nigeria, saw no significant difference among gender, geographical location and microfinance institutions in terms of micro-credit provision in Nigeria.

Methodology

The study area for the research is Kaduna state, and four (4) local governments were selected for the conduct of the research which includes: Zaria, Kaduna north, Kaduna south and Chikun local government. Three hundred and ninety eight (398) households were selected using a multi stage sampling technique, and structured questionnaires were administered. Three hundred and ninety three (393) questionnaires were retrieved and analysed. The analytical tool for the study was descriptive statistics, and it is used to explain the data collected through tables, percentages and averages.

Result Presentation

Table 3.1 Distribution of Microfinance Banks in the Study Area

Area	**No. of Microfinance Banks**	**Percentage.**
Zaria	2	14.29
Kaduna North	8	57.14
Kaduna south	3	21.43
Chikun	1	7.14
Total	**14**	**100.00**

Source: Field Survey (2014)

The table above shows the number of microfinance banks locations in each local government in the study area. The data indicates that two (2) microfinance banks are in operation in Zaria local government, while 8, 3 and 1 are based in Kaduna north, Kaduna south and Chikun local government areas of Kaduna state. From this, it is clear to say that microfinance banks are not efficiently provided when compared with the population of households in each area of 51025, 50298, 50299 and 46031 respectively.

Table 3.2 Benefitted from Microfinance Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	295	75.1	76.6	76.6
	Yes	90	22.9	23.4	100.0
	Total	385	98.0	100.0	
Missing	System	8	2.0		
Total		393	100.0		

Source: field survey (2014)

Table 3.2 analyses the level of patronage of microfinance services by households in the area under survey. The data shows that 90 households have accessed microfinance banks' loans, and 295 have not accessed to such loans while the remaining 8 households had not indicated whether or not have access to microfinance banks' loan. This shows that microfinance banks are yet to have extended services to their target group. This could be attributed to the limited number of such banks existing in the area under study as indicated in table 3.1.

Table 3.3: Effect of Loan acquired on life of Beneficiaries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never changed	7	1.8	7.8	7.8
	Better off	83	21.1	92.2	100.0
	Total	90	22.9	100.0	
Missing	System	303	77.1		
Total		393	100.0		

Source: field survey (2014)

To determine the effect of access to microfinance loans on the life of the beneficiaries, table 3.3 indicates that 92.2 percent of the beneficiaries have their lives better-off as they access loans from microfinance bank, while 1.8 percent of the beneficiaries have their lives unchanged even though they had accessed microfinance bank loans. This therefore justifies what the literature posits that microfinance have positive impact on the life of the poor as found in the works of Akinlo and Oni, (2012); Jegede et al (2011); Khandker (2003); Mayoux (2001); Murduch and Hashemi (2003) among others .

Findings and Conclusion

From the foregoing analysis, the findings for the research are as follows:

a. Insignificant number of people has access to microfinance bank facility in Kaduna state.
b. The number of microfinance banks existing in the state is inadequate.
c. The spread of microfinance banks in Kaduna state is lopsided where most of them are located in the urban centers.
d. People are not patronizing microfinance banks for loans due to expected high interest rate, and to others due to ignorance.
e. Therefore people prefer other sources of micro financing than patronizing microfinance banks all these have attributed to low access to microfinance bank loans.
f. Access to microfinance loan facility improves the life of the poor.

In conclusion, it has become apparent to say that access to microfinance loan facility affects positively on the life of the poor, where the facility help the poor to smoothened its consumption, make investment to improve income, thereby increase wealth and improve the wellbeing of the beneficiary.

Recommendations

i. To increase the number of microfinance banks in Kaduna State, the government should motivate prospective and existing micro financial providers to establish new and expand the existing ones through reducing bureaucratic bottle necks that restrain the ease to establish such institution.
ii. Existing microfinance banks operators should be encouraged extending their services to the rural areas where this services is much needed. This can be achieved by providing the necessary infrastructures such as electricity, water supply, and telecommunication services by the government.
iii. There should be more publicity to create awareness on the benefits awaits the beneficiaries of microfinance banks' loans facilities. Since this institution can offer loans of large amount adequate to start up or expand businesses.
iv. To encourage active poor to patronize microfinance banks' facilities the rate of interest charged must be moderate and the terms of loan repayment periods should span to at least two (2) years.
v. To make microfinance banks stronger, the government should assist on the means for the banks to acquire commercial funds at a lesser cost.

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