EFFECTS OF MICROFINANCE BANK IN ERADICATING POVERTY IN NIGERIA

(A CASE STUDY OF BALOGUN-GAMBARI MICROFINANCE BANK PLC, ILORIN)

By

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Poverty is a crushing weight for most of the world poor as they search in vain for opportunities that continually elude their grasps. The live out their live isolated from resources which the rest of the society enjoys. Over the years nations of the world whether developing of developed tends to fashion out different means to alleviate poverty and attain economic growth. One of the major key to poverty alleviation strategy in Nigeria is the provision of specially tailored finance services known as microfinance. This create Microsoft credit that enable the poor to engage in economic activities such as trading financing, valcanizing and restaurant business (Onochie 2017).

Over time, inadequate supply of credit has been major constraint in many developing country where majority of the population lack access to financial services from formal institutions. Therefore, making credit available, particularly to the rural poor and low income earners is thus considered essential to alleviate poverty and promote economic development (Rulle, Bamie & Turay, 20018). Thus, the creation of microfinance banks to enable the poor engage in various economic activities leads to self – reliance, employment and standard of living.

In Nigeria, the experience of the past, the current and continuing realities of social economic and policy environment, which could constrain effective outreach have elicited some concern about the sustainability of micro finance (MF) development. This is because experience of countries that have achieved meaningful progress at least to the fact that the development of microfinance activities meaningful progress at least to the fact that the development of microfinance activities, in terms of sustainability and proper administration, entails overcoming certain fundamental challenges. The challenges are both general (out across countries) as well as specific (owing the peculiarity of the country environment). Apparently, as Nigeria aspires to achieve global standard in the provision of microfinance services the ultimate goal of the microfinance policy is to serve as a guideline for proving financial assistance to the underprivileged, in order to be engaged in economic activities and be more self-reliant.

Hence, microfinance policies have predominantly been featured as a poverty reduction strategy across the world (Thrikavala, Locke & Reddy, 2013). It is based on this premise that microfinance banks are established to extend affordable and accessible financial services to the low income earners who are often excluded from accessing formal services due to high lending rate and collateral demands associated with large financial institution like commercial banks lacks of bank branches and financial and financial illiteracy in the rural areas, the high tendency of credit default risk among the poor e.t.c (CBN 2020).

Microfinance (Credit) is fund designed to enable the unemployed entrepreneurs, small and medium scale enterprises and rural persons participate in the market economy. It has been identified as a major ingredient for the poor and low income people toward poverty alleviation. The financial support will assist the increase of their income and earning capacity bring investment into the community and create employment. The micro credit involves the receipt of resources (money, make seals etc) by a person or group or business enterprise with the promote to make good use of the resources (value) and return slightly higher value at a future data (Osamwoyi 2012).

Nigeria as a nation have promoted sustainable economic development through diverse financial policies targeted at poverty reduction. One of such financial policies is the microfinance scheme. To effectively eradicate poverty and stimulated overall economic growth and development. Micro finance administration is a complex process including the way and manner in which credit is delivered to the micro entrepreneurs. Microfinance or micro credit administration involves the application of appropriate credits technology by microfinance banks or institutions in delivering credits to their client. The term "credit technology" include a host of activities involved in lending which includes, client selected and screening the application and approval process product design, repayment monitoring and delinquency management. it also includes the institutional structure and human resources policies such as hiring training and compensation staff of financial institutions financial institutions employ two general types of credit technologies to administer credits to their clients. They are group and individual lending technology it is believed that effective and efficient microfinance administration through the application of the credit technologies will bring about poverty alleviation and usher in economic growth in Nigeria.

Furthermore, microfinance institution avails the major services of fund for micro enterprises that are usually owned by low income earners (or the economically active poor) consequently the underlying idea behind the rising of microfinance banks is the fact that low income / poor people are financially empowered to undertaken economically productive ventures that could generate income and punch them above the poverty line (Awojobi 2019; March 2017).

To effectively curb poverty in Nigeria, the central Bank of Nigeria (CBN) mandates the licensed microfinance banks to target economically poor individuals' that is "individual" group with meager means of liquid and whose personal income within a period of one year falls short of the minimum taxable limit stipulated in the tax laws "According to the CBN revised supervisory and regulatory guideline for microfinance for microfinance Bank.

A microfinance bank (MFB), unless otherwise stated, shall be constructed to means any company licensed to carry on the business of providing microfinance service such as saving, loan domestic fund transfer and other financial services that economically active poor, micro enterprises and small and medium enterprises need to in view of empower the economically poor Nigeria, the CBN guidenes stipulates that an MFB customer should have the following features.

1. Must have a monthly income of not more than twice the monthly capital income of Nigeria or minimum wages, which ever is higher.
2. Must have total productivity asset (inclusive of those arising from loan but concluding the cost of loan) of not more than five hundred thousand naira (#500,000.00) only.
3. Is not a regular employee of any organization
4. Age between 18 and 60 years.

Microfinance has rapidly evolved since the md – 1990s amounting to what Harvard university's marguerite Robinson referred to see the "microfinance revolution". Although benefits todays, most of the largest MFBs are commercial firm seeking profit for owner and investors (Thrikawala et al, 2013). It has stressed by Watkins (2018, p 306) that commercialized microfinance banks (profit – seeking MFBs) target more financially stable investors and charge higher interest rate than those of their peers. However, microfinance interest rates have persistently dropped as the industry's regulatory systems have matured in many countries over the past decades, but not in Nigeria. This show why the microfinance bank had been counter productive in Nigeria (Acha 2012).

On the other hand the CBN (2012) has projected that the microfinance finance banks would be contributing approximately 20% to total credit to economic units as against 0.98 in 2005 with the establishment of national microfinance bank (NMFB) in view (Nwobu, 2019).

Microfinance institution are posting exponential profits and increase rapidly in Nigeria while poverty rate are still escalating. This raises question about the role microfinance lending facilities. Hence the current study wishes to find the causalities between microfinance institutions growth and poverty reduction. The poverty level in which the people of Nigeria live, especially the marginalized societies, is increasing despite the abundance of poverty alleviators. Include the increase. In microfinancing that should help to alleviate poverty. The practical significance of microfinance institution, in poverty reduction is still contentious. This contradicting evidence is the main reason for the study to determine the impact of microfinance banks in eradicating poverty in Nigeria.

1.2 STATEMENT OF THE PROBLEM

The problem of poverty is not perculiar to Nigeria, it is a world wide problem hence the eradication of poverty as one of the millennium development goals. Studies of Awolabi (2019) and Mecha (2017) opined that the underlying idea behind the rising of microfinance banks is the fact that low – income or poor people are financially could generate income and push them above the poverty line. Ugbede (2020) described the heighty of poverty in Nigeria by starting that nothing is permanent, except suffering. Job security no safety, clothing nor gadgets. Every workers here would leave if they had a choice and Chepkwei (2020), affirmed that microfinance banks are anti-poverty nature.

The poor are bankable and willing to borrow of which microfinance banking concept is to provide financial service to the poor. This banking concept which has helped in the reduction of poverty in many developed and some developing economic of the world was introduced in Nigeria in 1998 with the establishment of peoples bank. This banking concept has been operated for over ten years in Nigeria, yet poverty persists.

Micro finance banking as a concept was specifically meant for the reduction of poverty. This concept has its challenges Nigeria but its prospects are good if the concepts is properly applied and monitored to ensured compliance. These laudabic objectives of those specialized banks are deemed to be falling due to the poor policy implementation and inadequate finding as their impact on the welfare of the poor in quantitative term is little felt.

In addition Ezeanyeji usifoh, obi and Ejefobihi (2020) investigated the linkages between microfinancing poverty alleviation and economic growth in Nigeria, they observed that the performance of majority of the various intiatives has been less than optimal in terms of outreach to the targets population and substainability. It is the above trend of thought that motivated the researcher on the necessity to conduct the study focusing on the impact of microfinance banks in eradicating poverty in Nigeria.

1.3 RESEARCH QUESTIONS

Based on the issues raised in the background of the study and the problem statement this study seeks to find answers to the following research questions:

1. What are the impact of microfinance banks in eradicating poverty in Nigeria ?
2. To what extent does the growth in deposits liabilities of microfinance banks impact on poverty eradication in Nigeria?
3. In what ways loan and advances of microfinance banks have any significant impact to the poor sections of the society in Nigeria?
4. How does microfinance banking activities helped reduce poverty in Nigeria?

1.4 OBJECTIVE OF THE STUDY

The main objective of this study is to examine the impact of microfinance banks in eradication poverty in Nigeria specification in study intends:

i. To investigate the impact of microfinance banks on poverty alleviation in Nigeria
ii. To explore the impact of microfinance deposit liabilities of microfinance banks on poverty eradication in Nigeria.

iii. To examine how efficient the microfinance have been able to disburse loans and advances to the poorer sections of the society for economic growth in Nigeria.
iv. To determine whether microfinance banking activities reduces poverty in Nigeria.

1.5 RESEARCH. HYPOTHESIS

In achieving the objectives of the study the following hypothesis were formulated and stated in null form;

Ho_2: Asset of microfinance has no significant effect on poverty eradication in Nigeria.

Ho_2: the deposit liabilities of microfinance banks do not have significant effect on poverty eradication in Nigeria.

Ho_3. A substantial and progressive relationship exists between microfinance banking activities reduce poverty in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

As long as poverty and underdevelopment remain stack realities in Nigeria, the role of microfinance banks can not be underestimated. The outcome of this research will immensely contribute in various ways. It will add to existing stock of knowledge on research study of this nature.

In addition it will educate clients of microfinance institutions on how to judiciously utilize microcredit services offered to them and on the need to keep business records to enable them have access to repeat loan services.

It is hoped that the findings of this study will help Nigeria and other developing countries faced with the challenges of poverty reduction in the area of policy choices and programme implementation.

Non – state like non – government organization (NGos); civil society organization (CSOS) and trade union organization can also benefit from the finding of this study to construct their roles as partners in poverty alleviation and as ingredients for issue framing and agenda setting through provision of 'fish hooks' rather than 'fish' to the poor.

Equally, future researchers on the subject matters will find a reservoir of literature banks for further improvement and development of the subject matter from this study.

1.7 SCOPE OF STUDY

This study focuses on the microfinance banks as a finance for poverty reduction in Nigeria. Due to the existence of some limiting factors, the research work delimitate the study with special emphasis on Balogun – Gambari microfinance bank Ilorin, Kwara state as the case study of my sample population.

1.8 DEFINITION OF RELATED TERMS

The major term used in this research are defined below

1. **Microfinance**:- they provide financial services to the poor who are traditionally not serve by conventional banks
2. **Micro Credit**:- the form soft loan provision by micro finance banks, micro credit plus additional services rendered by financial bank together with provision of micro credit which include skill acquisition programme business advices e.t.c
3. **Poverty**:- refers to state or condition in which people or communities lack the financial reseources and essential for a minimum standard of living
4. **Bank**:- an institution that deal in money and it substitute and provide other money related services
5. **Small and medium scale enterprises (SMES**):- an enterprises with a minimum aaset based of #200 million excluding land and working capital and have the minimum number not less than 10 and more than 30 persons
6. **Collateral**:- an asset collected by bank as security.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Poverty remains perpetual challenges for all societies and has regulary been followed by wide spread efforts to provide inclusive financial systems to cater for the poor. Although an income based poverty line is generally used in measuring poverty, one important component of these attempts both at national and international levels is the continuous debate over what poverty mean. A more recent understanding of poverty is the idea that poverty is multidimensional and in nature. This calls for a shift from a one dimensional income based measure to a multidimensional understanding and approach to taking poverty. Although this idea is widely accepted, its application or implementation in estimating poverty is rather implicit, as there are no university specified poverty influence the choice of indicators for measurement the classification of who is regarded as poor and who is not and also the policies adopted for tackling poverty. This chapter presents a conceptual, theoretical and empirical review of poverty and microfinancing as identified in the literature.

The need for the establishment of community banks (non-microfinance banks) was felt as a result of inability of the commercial banks to serve the rural area and the inaccessibility of the poor and low income earners. In other to enhance financial flow to the poor Nigeria who want to start up a small and medium scale business, the government has in the past intimated a service of public financed micro-credit programme which were agriculture credit guarantee scheme (ACGS) people banks of Nigeria and local production.

However, the unwilling or inability of these formal financial institution to provide financial services to the urban and rural poor couple with unsustainable ability of the government sponsor development (financial scheme contribution to the growth of private sector) before the emergence of formal microfinance institution, informal microfinance is provide by tradition group that work together for the mutual benefit of their member , these group provides saving and some other benefit to their members this informal microfinance arrangement will be discussed in detail under the classification on microfinance institution.

In 2006 the Nigeria government through the central bank of Nigeria (C.B.N) gives directive that all community bank and some of the semi-formal micro finance organization should also be incorporated to be a formal microfinance bank. In addition, the CBN prepared and demonstrated a guideline for microfinance institution to regulate the establishment operation and other activities of micro finance institution (MFIS) operation.

Therefore, the inadequate access to financial institution that would enable the poor to save in good and bad loans more that more valuables to economic down turn (World Bank 2002) this led to the establishment of the recent micro finance bank.

Recently what the central bank of Nigeria (CBN) has stated doing to main reams micro finance is a significant move toward a training to eliminate distracting and discriminatory financial policies changes institution adding new general establishing the basic for greater efficiency in both molestation and allocation of scarce financial resources in the rural area and even in the economy.

2.2 Conceptual Framework

One of the factors attributed to the rising poverty rate in developing countries is the lack of financial. Finance plays a significant role in the right against poverty (World Bank 2008), while increasing access to formal financial services through microfinancing has generated positive responses. This has also been questioned with critics averring that high interest rates hold the poor back in poverty (Ayyagari, Beck & Hoseini 2013). However, finance is seen to influence poverty from the (3) major channel, viz, entrepreneurship, interstate and credit channels first the entrepreneurship channel entails that the poverty reducing impact of finance falls majorly on the self-employ in rural areas (Ho&Odhiambo,2011).

Second, it has been averred that inter state migrate of labor towards more financially developed states is a recipe for poverty alleviation (Clark, Xu,&Zhou, 2006). The migration induced by finance is motivated by the job search, suggesting that poorer population segnments in rural area migrated to urban areas. The credit channels entails that higher credit extension has a poverty reduding effect (Ayyagariel al, 2013).

The concept of microfinance is aimed at security the financial needs of the poor through a viable financial system. It is also a viable financial system. It is also awerred a documented by Mayo (2014), that microfinance banks aim at providing a wide range of financial services such as deposit mobilization, the advancement of microloan, money transfer anf other forms of payment services to the low – come earners and poor persons, house hold as well as their micro or small scale enterprises succinctly put the idea is that the poor earn more, accumulate assets, and become less vulnerable to external schocks as they can have financial services they need (Christen sson, 2017; Obayagbona, 2018). This research work infers the effect of microfinance banks on poverty reduction as illustrated in figure 1 below

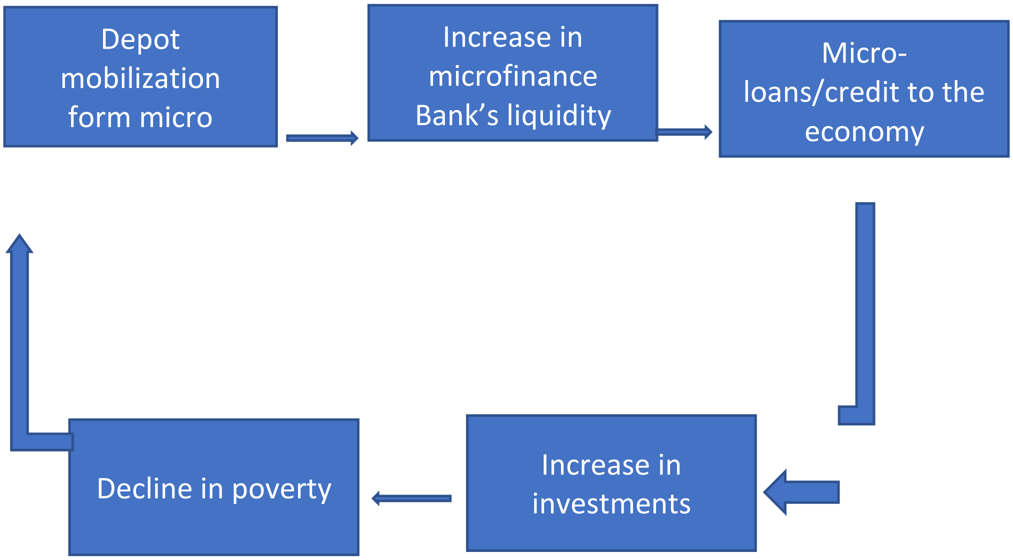

Figure 1. Conceptual Framework **Source**: Kingsley, 2022

Figure 1 above shows that microfinance banks plays an intermediary role just like other financial institution. However microfinance banks are established to mobilize deposits and grant micro loan / credit to empower the economically active poor (such as, unemplyed, small and medium scale enterprises etc) who lack access to formal financial services As such the microfinance have to maintain on adequate level of liquidity to execute its intermidation responsibilities to the poor (CBN,2013). These financial activites are expected to accelerate the income and earning. Capacity of the vulnerable poor, increase investment flow into the rural community and create employment at the grass root. Though, the area of poverty targeting, measurement and alleviation in microfinance is of significant interest to microfinance stakeholders amidst recent critism that the microfinance banks have developed their measurement tools for tacking clients poverty level, while a larger proportion appers to use household income expenditure analysis as well as geographic targeting (Ghalib, 2010).

National Bureau of statistics (NBS) latest report indicates that about 112 million Nigerians (that is 67.1%) og the total population of 167 millions are actually poor. However, for the purpose of the paper, poverty is define as human, state and institutionally induced evil/injustices that incapacities the innocent members of a society such that they are deprived of the basic needs of life (adequate food and shelter, education and health) and are not able to live comfortable life. Poverty can also be defined as that form of mental financial, social and economic injustice that incapacitates people and deprives them from having access to basic human needs that are so vital for their will being.

The concept of poverty is highly contested: there is no single clear cut definition (Alcock, 2006) traditionally, poverty is expressed in terms of distributional issues: the lack of resources of the disposal of individual or households to ensure a suitable standard of subsistence or living (Barnes, 2005/9). Beyond an individuals ability to satisfy minimum living standards of foods, clothing, shelter and fuel, it is also about having what you meet in order to have the opportunities and choices necessary to participate in society (Brashow et al. 2008). Poverty reduction is a major goal for both national government and international development agencies such as the united Nations and the world bank two broad definitions poverty include:

Fundamentally, poverty is a deniel of choice and opportunities, a vidation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school of clinic to go to; not having the land on which to grow one's food or job to earn one's living, not having access to credit. It means insecurity powerlessness and exclusion of individual, household and communities. It means susptibility to violence and it often implies living in marginal or fragile or fragile environment, without access to clean water or sanitation (unital nation, 1998 cited in Gordon 2005).

Poverty is pronourced deprivation in well – being and comprises many dimension, it include low income and the liability to acquire the basic goods ande services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice and insufficient capacity and opportunity to better one’s life (World Bank, 2011).

Long before the advent of modern microfinance banking in Nigeria the issue of credit has been an important aspect of Nigeria economic and social political relations among the various ethnic groups, particularly the low income earners or the poor. Credit has often been used as a tools for helping the poor and stimulating economic growth. Over the years, government and international donor agencies have fried to provide credit at a subsidized rate to small farmers in the developing countries particularly Nigeria, not available at all. According to Anyanwu (2004), the very failure of the reduce loans to get to the poor, led to the convenient access to financial services on a regular basis. Indeed, microfinance has metamorphased through three basic stages or types in the last decades in Nigeria. These include:

i. The formal sources: these were the ealiest and predominatly embraced and practiced form of micro-fanancing among the poor and low income earners in Nigeria. A large truck of rural dwellers and low income earners rely havily on this sector for financial services as they are unable to provide requiste colleteral security as condition for assessing loans from the formal deposit money banks. In Nigeria, the formal sources of microfinance are usually called traditional’ saving and loans institutions’ which popularly referred to as Esusu or Osusu depending on the local dialect and different names across the globe. Below are the various names it assumes in different part of the world, including Nigeria.

Table 2.1 names of informal microfinance institutions differend parts of the world

NAME	COUNTRY
Adashi	Northern Nigeria
Arisan	Indonesia
Akawa or Oku or Etibe	South Nigeria
Bishi or chit fund	India
Esu	North cuba & Southrn florida
Esusu/Ajo	Western Nigeria

Etoto/Akawo	Eastern Nigeria
Gamiayoh	Egypt
Iddir or Ekub	Ethiopla
Nago	-
Stokvel	South African
Suo or Susu	Carriebbean & Senegal
Tonton	Sierra leone
Tortine jojuna, Njaji	Cameraroon & seneggal
Upatu	Tanzania
Yes yes	Southern Togo

ii. The semi-formal sector: this sector comprises the non-governmental organizations (NGOs) and international donor agencies. Their focus was on community development by providing income generating loans/grants to their members to enable them acquire farm implements, carry out development projects like boreholes and provisions of small loans to their members at subsidized rate. These NGOs were commonly called micro credit institutions in the first instance and later called microfinance institutions, mainly supported by donors (CBN, 2013).

iii. The formal institution: the advert of these of these institution in Nigeria actuatly began with the conscious., deliberate and. Decisive step taken by the government at various times in establishing rurals bank, cooperatives, people banks, community banks and now microfinance banks with the purpose of providing all round micro credits to the economic active poor who represent the building block of economic development has been a growing concern to both government and the private sector hence, the huge amount of money has been expecteded over the years, According to him, successive government in Nigeria have taken several steps to ensure adequate financial inclusion and financial literacy for the poor by the establishment of the following agencies:

(a) The Nigeria industrial development Bank (NIDB) in 1964.

(b) Nigeria Agriculture Credit Credit Bank 1973 – 2000

(c) Rural Banking Program 1977 – 2000

(d) Agriculture Credit Guarantee Scheme, Since 1977

(e) People's Bank 1998 – 2001

(f) Community Bank 1990 – 2005

(g) Family economic empowerment Program 1994 – 2001

(h) National poverty Eradication Program since 2001

(i) Small and medium Equity investment Scheme, Since 2001

(j) Micro policy framework, since 2005

(k) Microfinance Banks since 2005 till date (Omeh, 2012)

Thus, on the 15th December 2005, the modern microfinance bank was formally established and licenced by the central bank of nigeria (CBN) in line with the search for finance sustainability of the current financial system approach to microfinance as practiced in other part of the globe.

2.3 Theoretical Review

2.3.1 Theory of market failures

Theory of market failure attributes the emergence of microfinance of the failure markets (No gueira ,2020 Brihaye et al, 2019; Srnec & Suobodovea' 2009) to include the poor in their financial services on the grounds of transaction cost and imperfect information leading to market failure. The reasons why formal banks and financial institutions did not supply credit to the poor are explained by this theory as a market failure in responding to the need for financial resources and other services it resulted from inefficient allocation of goods, and services in the markets associated with non-competition, externdites and public goods.

Xu et al. (2019) and Morduch and Armendariz (2005) descry and market failure. When the banks or lending institution do not have enough information on the applicants riskiness, information asystemtry and so they will charge a higher interest rate to compensate for the high risk that accompanies the transactions. Information astmmetry with poor borrowers involves adverse selector, moral hazards, auditing cost, and enforcement. All the will drive out poor investors out of the formal financial market indicating a market failure.

This theoretical analysis points put that microfinance lending programs have overcome most of the problems associated with market failures caused by information assymmtries by adopting innovative approaches such as group lending. According to Morduch and Arimendriz (2005) microfinance has an innovative mechasism that provides dynamic and ensure high repayment rates. Financial market inability to lend to the poor is associated with such problem as tack of physical collateral, high risk of lending and resultant high – interest rates delay in repayment, and low profitability. The group lending system is the most commonly employed mechanism by microcredit providers to pass on financial resources to the poor (Musar, 2020; Kodogo & Kendi 2013). The concept of joint inability accompanied by a group lending system mitigates problems caused by the above factors.

Markets failure theory points out the shortcoming of the formal financial markets in catering to the needs of the poor in the economic system and suggests that new approach with new dimension, new. Attitudes, and new outlooks be adopted as in the case of microfinance institution that filled the gap by providing capital and other financial requirements the needy people. In addition, these new institutions and providers were able to build ethusiasim and hope among the poor.

2.3.2 Market and welfare Theories

As discussed in the market failure theories, problem associated with developmental financial institution in providing financial resources to the lower income segment of the population, resulting in the emergence of other alternatives to reach the poor and alleviate poverty. The microfinance concept itself was on outcome of such alternative approaches and initiatives, such as the Gromeen Bank on Banglesh. This bank promoted the involvement of donors, governments, NGOs, village groups, and women into a partnership based on microfinance. The success of these operations in numerous countries and place encourages activities and actions programs on microfinance to spread worldwide as the main strategy of poverty alleviation. The approaches and methodologies employed during the initiated period were mainly concerned with providing capital and other resources to the poor with the objectives of poverty alleviation in developing countries. These theories were extensively employed in identifying different approaches to poverty alleviation. The initiated approaches were identified as poverty lending approaches.

However, the emergence of Neo – liberal ideologies as dominant forcing in regulating the international economy brought a new dimension to the microfinance sector. Neo liberal economists focused their attention on the cost. Of subsidized microcredits system and the institutions involved in them and their dependency on donor agencies, governments, philanthropist and NGOs. Their focus was on the sustainability of microfinance strategies for poverty alleviation are centered on theses two theories, specifically the poverty lending approach and financial system approach (papageorgiou et al; 2022; Khan et al 2017 and Alemu 2008).

These is no specific theory of microfinance yet. However, that microfinance emerged from the initial focus or microcredit and that microcredit remain a key component of microfinance interventions the theoretical argument for financial development and financial intermediation theories. These theoretical models demonstrate that financial markets, institutions and instruction may arise to mitigate the impact of information and transaction costs. In emerging to amelio rate market frictions financial arrangement change the incentives and contraints facing economic agents (Demirrgue – Kunl and livine 2008:p1). Despite the emergence of financial institutions. On additional literature on financial exclusion argues that that certain people in the society. Mainly the poor are credit rationed and expluded from the main stream financial system. In the light of this, it is argued that microfinance emerges to mitigate the information enforcement and transaction costs involved in providing financial services to the poor and that in doing this; they lift the constrain facing the poor. The section reviews this theoretical literature and concludes with a discussion on how MFIs tackle these market friction and provide financial services to the poor.

Microfinance is generally perceived as the provision of financial services to the economically active poor who lack access to mainstream financial services (Armendoriz de Aghin and Morduch, 2010; (CGAP, 2013); ledger wood, 2013 1999). It include the provision of microcredit; and more recently has been expanded to include the provision of micro savings, insurance and money transfer services. It has been welcome by many as a golden bullets to poverty reduction, which is market driven, enabling the poor to become micro enterprenuers. Improve their income and eventually escape the vicious cycle of poverty. However, given the recent client over indebtedness that plagued the sector and findings from rigorous impact studies suggesting that microfinance may not be the solution that may had hoped there is a growing concern that these expectations are not being met. Recent debutes have gone beyond this questionable positive impact to a call of studies that listen to client and approach the delivery and evaluation of microfinance from the ‘client’ vintage point. Asking what it is that they are looking for when they utilized financial services? What features of microfinanace are beneficial and which are not (Maes and Reed 2012). This study fall within the more recent client focused approach. Market imperfections, information Asynmentry and implication for the poor

In analyzing the ‘market for lemons; Alkerlet (1970) introduce the idea of the imperfection of markets with regards to information. He noted that for any market transaction, one party has more information about the transaction than the other does. This notion is now know as the theory of asymmetric information. Applying this theory to credit market, the borrower is more informed about the probability of success of his investment or the actual use of the loan than the lender. This raise major concern for lending institutions as it creates problem of adverse selection and moral hazard (Stiglitz and Weiss 1981).

The problem of adverse selection arises because of borrower is relatively more informed prior to the disbursement of the loan. Specifically because the lenders lacks sufficient information to determine the probability of success for each investment it may approve loan to risky(low probability to repay loan) investments and yet reject safe (high probability to repay loan) investment. The problem of moral hazard arises because the lender relatively lacks sufficient information to monitor the actual use of the loan after it has been. Disbursed. The risk here arises because when a lender lends credit to a borrower, the lender’s risk and therefore its expected return is tied to certain unobservable choices made by the borrower. Lender cannot control the choice made by borrowers with regards to how much work to put into project, which particularly project to choose to the decision to repay loan after the realization of project returns. While the formal deals with selection, the latter deal with monitoring the loan to ensure repayment.

2.3 Empirical Review

To identify low-default probability borrowers, lender make use of different screening devices. One argument is that the lender can charges high interest rates sufficient to cover the risk of default. The assumption is that only borrowers with high profits project will be able to afford high rates. However, individual willing to borrow at high interest rates do so because they perceive their probability of default to be high, Hence the average riskiness of borrowers increase with high interest rates. This increase the possibility of defaulting loan repayment and hence lowers bank profits (Stiglitz and wirse 1981). On the other hand since the return on the project depends on the interest rate, the action of the borrower is likely to be affected by changes in the interest rate. For example, high interest rate means borrowers have to pay more for profitable projects. Which decrease their return on successful projects. The borrowers therefore uses the interest rates as a screening devices for which projects is invest in. borrowers are induced to avoid low yield investments in favour of high – risk high – yeld investment in that on the upside return are unlimited where as on the downside losses are limited. Borrowers therefore undertake project with high profitability of default but higher return when successful. This is the moral hazard effect a trade off between charging high interest rates and inducing borrowers to undertake projects with high probability of success (stiglitzad ad weis 1981). Although it is expected that higher interest rates should increase the return to the lender in a non default state, the moral hazard effect may be strong enough to create sufficiently high losses to reduce the overall return to the lender. These advesy selected and moral hazard problems lead to market imperfections a situation where the market is unable to allocate resources efficiently.

Considering these market imperfection the theories of financial development (Merten and Budie, 2004; Dermiguc – Kunt and Levine 2008) argue that financial institutions market and instruments may emerge to instigate the effect of these information enforment monitory and transaction cost for example, the ability of banks to moreover the acquision and enhance the availability of information about management or borrowers and laenders will certainly improve resources allocation likewise the pressure of financial institutions that can monitor investment through various financial contracts and instruments will increase confidence and influence saving allocations. It is important to note that through financial. Intermediaries a mecirate the effects of these costs they do not eliminate the hence they can also faoe the problem ganged by information a symmetry and adopt different screeing devices to tackle them.

2.4 RESEARCH GAP

While there is a sizable body of work on microfinance and poverty reduction on a worldwide scale and federal capital territory F.C.T in Abuja stand out as having a noteworthy vaccum in the literature and a little amount of study has been done to thoroughly evaluate the contribution of microfinance institutions services on financial inclusion and poverty reduction in this part of the country by offering empirical insights on poverty reduction within the particular socio – economic environment of the FCT this study seeks to fill this knows ledge, vaccum.

CHAPTER THREE

3.1 INTRODUCTION

The methodology in a research work of this nature is used in obtaining data. This study shows how the research data collection was conducted and the procedure employed. The methodology includes research design, population size, sample and sampling techniques, method of data collection, instrument of data collection and data analysis methods.

3.2 RESEARCH DESIGN

This study employed descriptive survey to examine the impact of microfinance bank in eradicating poverty in Nigeria. The descriptive survey was considered appropriate for this study because survey help in extracting of attitudes and opinion from a sizable sample of respondents so as to make generalized conclusions (Nhuta & Kapota, 2015). It includes measuring techniques that are used to access various relationships and hypothesis with precisely defined data (Mahotta 2012). Previous researcher that used survey research in their studies, like mohutsiwa (2012), Afolabi (2015). Paloniemi and piispanen (2015). Wright and stigliani (2013), employed survey research in their studies and admonished that survey provide a fast efficient and accurate way of investigating a population.

3.3 POPULATION OF THE STUDY

The target population for this study comprised the owner / founder – chief Executive officer management staff of Balogun Gambari microfinance bank Nigeria limited its customers and residents of the community. Further more , the total study / target population was fifty seven (57) respondents. The sampling unit for the study consists of CEO / marger or other top level management, marketing manager and other staff of the bank. The justification for selection was that these respondents have the authority and the required knowledge to provide information on the main vatiable of the study.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

According to cherry (2016), a sample is a subject of a population that is used to represent the entire group as a whole. When doing research, it is often impractical to survey every member of a porticular population because the sheer number of people is simply too large hence the need to sample. To determine the sample size in this study the research adopted chi-square method to test the hypothesis stated in chapter one.

For this study the researcher used a simple random sampling which allows distribution of the surveys with discretion. The degree of generalizability needed as well as the availability of time and other resources for which the study is conducted all influence the approach and strategy chosen (Malhotra, 2010) simple random selected was used to distributed the questionnaire to the respondents. Any boison the part of the research assistants will be eliminated as a result of this.

In sampling, the main objective is to select a portion of the universe that result may or could be extended to the whole populations. Randon sampling technic was adopted to get the respondents in answering the questionnaire. Because probability sampling involve random selection, it assures that different subsets of the population have an equal chance of being represented in the sample. This makes probability samples more representative and researchers are better able to generalize their result on the group as a whole.

Based on the total population of 57 respondent (staffs, customers and community residents) sample size was determine using was determined using yomani's (1964).

Formula thus;

$\underline{N=} \quad n$

$1+N(c)^2$

Where

n= sample

N= population size

e^2= error limit (0.05)

I = constent

$n = \frac{54}{++57(0.05)^2}$

$n = \frac{57}{1+57\ (0.0025)}$

n = 49.8

n= 50

3.5 METHOD OF DATA COLLECTION

The study's data were gathered using primary sources throughout the research process. The majors source of data was used to improve the results validaty and dependability. The hall mark of research, according to Otokiti (2015) and Williams & Warsam (2020). The primary method of data collection was used to obtain information directly from the respondents.

In addition, questionnaire was broken down into two section. A which had the demographics information of the respondents section B contained the respondents level of understanding of the study, issue and the proposed questions generated from the study questions.

The data of the study will be collected using the primary sources of data this primary source of data was done in a form of a questionnaire were delivered by hand to the participants to complete. The reason for a hand delivered questionnaire was to facilitate the data collection process and to increase the responde data as it help the researchers gain the attention of the respondents and to persuade them particular to the prior of the administering of the questionnaire in introduction letter will be attached to the questionnaire permission from the respondents the purpose for the letter is to clear doubt and suspecions and also to be able to avoide independents answer to the question given to them the question will be very simple to be answer by the respondents.

3.6 INSTRUMENT OF DATA COLLECTION

In addition survey research are increaseinaly been used to contract instruments (Deak in & Ben samina 2018). The data for this study was gatured using a closed rended questionnaire. Because the study used a quantitative approach it was able to build a cocia foundation for analysis resulting in a reliable conclusion and set of recommendations.

Observation

Kothari (2010) stated that observation method allows the researcher to observe how respondents conduct their day to day and how those activities related to job performance in this study the method was used in order to assess employes working environment and the vailability of resources for their job performance within the organization the observation helped to collect nonverbal responses from the respondents this was done through the use of check list.

3.7 METHOD OF DATA ANALYSIS

For the appropriate techniques to be used in any analtivcal study depend on the kind of statistical tools used. Therefore the use of tables frequency and percentage will be of great help the data will be presented and analyses in tables and the view of majority will be taken as the dominant views chi seume statistical method method was adopted to test the hypothesis because the questions, objectives and hypothesis have impact influence and effect on the variables the presentation of the data was through descriptive statistics and inferential statistics.

The formular for chi – squareis :

$$\frac{\Sigma\,(o-e)^2}{E}$$

X^2 = where

O = observed frequency

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRESENTATION

4.1 INTRODUCTION

Data presentation mean the various ways of carry different forms of data obtained through various data collection techniques to enable the researcher perform analysis and extract new meaning from it.

This chapter is concerned with the analysis of the result of data from sample respondent through the use of questionnaires. The items on the questionnaire were treated and analyzed using percentage as show on the table below. Chi- square is used to state the hypothesis formulated in this research work. The total number of questionnaires distributed is 57,20 were returned and 7 were not returnal.

4.2 DATA ANALYSIS AND INTERPRETATION

Responses were received from the total of 50 respondents who were administered with questionnaires. Therefore, the analysis of the questionnaire was based on the return questionnaires.

Question 1: sex distribution of respondents, are you a male or female

Table 4.1: responses to question1

Responses	No of respondents	Percentage
Male	35	70
Female	15	30
Total	50	100

Sources: Field survey, 2024

The above table shows the sex distribution of the respondent of the bank staff. It can be seen that respondent are male while 30% are female

Question 2 Age distribution of respondent; How old are you

Table 4.2: Responses to question 2

Responses	No of respondents	Percentage
0-21 years	8	16
21-30 years	30	60
30-50 years	10	20
50 and above	2	4
Total	50	100

Sources: Field survey, 2024

The above table shows that the age distributions of the respondents that are 16% are within the age of 10-21 years, 60% are within the ages of 21 – 30 years, 20% are within the ages of 30 – 50 years and 4% are 50 and above.

Question 3: what is your highest educational qualification of the respondent

Table 4.3: Responses to question 3

Responses	No of respondents	Percentage
OND	5	10
B.SC / HND	30	60
M.SC	10	20
PROFFESSIONAL QUALIFICATION	5	10
Total	50	100

Sources: Field survey, 2024

The above table show that 10% of the respondents have OND, 20% have M.SC, 60% have B.SC / HND and 10% professional and qualification.

Question 4: How often do people come to repay their loans?

Table 4.4: Response to question 4

Responses	No of respondents	Percentage
Variable	24	48
Always	12	24
Sometimes	14	28
Rarely	14	28
Total	50	100

Sources: Field survey, 2024

The table shows that 48% of the respondents always deposit funds with the microfinance institution s while 24% and 28% are sometimes and rarely respectively

Question 5: at what rate do the rural dwellers come to deposit their money in microfinance banks?

Table 4.5: Response to question 5

Responses	No of respondents	Percentage
To a large extent	35	70
To a little extent	15	30
Not at all	-	-
Total	50	100

Source; Field Survey, 2024

The above table indicates that 70% of the respondents said that the rural dwellers deposit money to a large extent, 30% is to a little extent and none for not at all.

Question 6: does the interest rate affect the rate of borrowing from the microfinance banks?

Table 4.6 response to question 6.

Responses	No of respondents	Percentage
Yes	38	76
No	12	24
Total	50	100

Sources: Field survey, 2024

The table shows that 76% of the respondent are yes to which the rate affects the borrowing from the microfinance while 24% of the respondents are No.

Question 7: Has there been much financial mismanagement of funds in the micro finance banks by staff of micro finance banks.

Table 4.7 Response to question 7.

Responses	No of respondents	Percentage
Yes	38	76
No	12	24
Total	50	100

Sources: Field survey, 2024

The table shows that 20% of the respondents believe that there has been financial mismanagement of funds in the microfinance institution due to lack to uality of staffs while 80% are to the responses of No.

Question 8: do microfinance borrowers react negatively toward loan repayment?

Table 4.8: response to question 8

Responses	No of respondents	Percentage
Yes	25	50
No	25	50
Total	50	100

Sources: Field survey, 2024

The table show that 50% of the respondents are yes and No respectively does react negatively toward loan repayment.

Question 9: has government assisted microfinance banks to meet the need of rural dwellers and communities?

Table 4.9 Response to question 9.

Responses	No of respondents	Percentage
Yes	43	86
No	7	14
Total	50	100

Sources: Field survey, 2024

The table show that 86% of the respondents agreed to yes the positive effort of the government contribution in alleviating of poverty through the establishment of the microfinance books. While 14% are to the response of No to it contributions

Question 10: Do corporate bodies invest their funds in microfinance banks

Table 4.10 Response to question 10.

Responses	No of respondents	Percentage
Yes	31	62
No	19	38
Total	50	100

Sources: Field survey, 2024

The table show that 62% of the respondents a greed to yes to which the corporate bodies invest their fund in microfinance bank while 38% are to the response of No to its investment.

Question 11: Has the communities benefited from your services?

Table 4.11 Response to question 11.

Responses	No of respondents	Percentage
Yes	40	80
No	10	20
Total	50	100

Sources: Field survey, 2024

The table shows the extent to which microfinance banks have assisted the community to boost the production of the natural resources by 80% of the respondents are yes . while 20% are to the response of No.

Question 12: Are you satisfied with the patronage of customer to yur microfinance banks?

Table 4.12 response to question 12.

Responses	No of respondents	Percentage
Yes	36	72
No	14	28
Total	50	100

Sources: Field survey, 2024

The table show that 36 respondents amounting to 72% are yes and satisfied with the patronage of customers. While14 respondents amaintaing to 28% are the response of No it is satisfaction.

Question 13: Are some customers given preferential treatment because of their position?

Table 4.13 Response to question 13.

Responses	No of respondents	Percentage
Yes	30	60
No	20	40
Total	50	100

Sources: Field survey, 2024

The table show that 60% of the respondents agreed to yes to customers who are given preferential treatment because of their position while 40% are to the response of No

Question 14: Does the customers achieve their aims anytime there visit?

Table 4.14 response to question 14.

Responses	No of respondents	Percentage
Yes	42	84
No	8	16
Total	50	100

Sources: Field survey, 2024

The table show that 42 respondents amanting to 84% are yes to the customer achieving aim anytime the visit while respondents emarting to 16% are to the response of No.

4.3 TEST OF HYPOTHESIS

The data collected were analysis by use of tabulation, percentage and chi – square (x^2). In calculating chi-square the level of significance is given as 0.05 or 5% with degree of freedom in the contingency table given by DF = (R-I)(c1)

Where

R=Number of Row

C= Number of column

1= Constant

To get the expected value T, the following formula is used

$$E = \frac{RTxCT}{GT}$$

Where

E = expected Value

RT = row total

CT = column total

GT = grand total

To calculate chi – square (x^2) formula

$$X^2 = \frac{\Sigma (o-e)^2}{E}$$

O = Expected frequency

Σ = Summation

Decision rule

In accepting or rejecting the hypothesis, HO(NULL hypothesis) is accepted when critical value is greater that the calculated value.other wise, the HO is rejected

Hypothesis one

Asset of microfinance has no assignment effect on poverty eradication in nigeria.`

Table 1: Response to hypothesis one.

Responses	No of respondents	Percentage
To a large extent	35	70
To a little extent	15	30
Not at all	-	-
Total	50	100

Sources: Field survey, 2024

The above table indicates that 70% of the respondents believe that assets of microfinance bank has significant effect on poverty eradication in Nigeria 30% of respondent believed assets of microfinance bank has little or to no significant effect on poverty eradication in Nigeria and none for not at all.

Computation of chi – squared Row 1 cell 35 = $\frac{50x35}{50}$ = 35

cell 15 = $\frac{50x15}{50}$ = 15

Cell 0 = $\frac{50x0}{50}$ = 0

Table 1b; computation of chi-square for hypothesis one

Response	O	E	$(O\text{-}e)^2$	$(o\text{-}e)^2/E$
To a large extent	35	35	0	
To a little extent	15	15	0	
Not at all	-	-	-	
Total	50	50	-	

Sources field survey, 2024

Degree of freedom = (R - 1) (c - 1)

=(2 - 1) (3 - 1) = 2

With reference to the chi-square table degree of freedom of 2 under 0.05 is 5.991

Decision Rule: Since the critical value 5.991 is greater than the calculated value O, reject H1 and accept Ho which means asset of microfinance has significant effect on poverty eradication in Nigeria.

Text instrument

$$X^2 = \frac{\Sigma\,(o\text{-}e)^2}{E}$$

X^2 = Chi square

O = observed frequency and the cell number

E= Expected frequency

Σ = Summation

Assumption

Level of significance = 0.05

Degree of freedom (Df) = (R - 1) (c - 1)

Where

R = Number of Row

C = Number of Column

I = Constant

Decision rules

When calculated chi – square value is below the critical value than the Ho should be accepted other wise reject

Table 2: Responses to hypothesis two

Responses	No of respondents	Percentage
Yes	43	86
No	7	14
Total	50	100

Sources: Field survey, 2024

The table shows that 86% of the respondents agreed that deposit liabilities of microfinance banks have significant effect on poverty eradication in Nigeria while 14% are to the response of Noto its contribution

Computation of chi – square

Row cell 43 = cell 35 = $\frac{50x43}{50}$= 43

cell 7 = $\frac{50x7}{50}$ = 7

Table 2b; computation of chi-square for hypothesis two

Response	O	E	$(O-e)^2$	$(o-e)^2/E$
Yes	43	43	0	0
No	7	7	0	0
Total	50	50	-	0

= (2 - 1) (2 - 1)

=1

With reference to the chi-square table degree of freedom of 1 under 0.05 is 3.841

Decision rule:- since the critical value 3.841 is greater than the calculated value O, reject Hi and accept Ho which means deposit liabilities of microfinance banks have significant effect on poverty eradication in Nigeria

Hypothesis three

Ho_3: The loans and advances of microfinance banks do not have significant effect on poverty eradication in Nigeria.

Table 3: Responses to hypothesis three

Responses	No of respondents	Percentage
Yes	25	50
No	25	50
Total	50	100

Sources field survey 2024

The table shows that 50% od the respondents or yes and No respectively react positively towards loans and repayment

Computation of chi – square

$$\text{Row cell 1} = \text{cell } 25 = \frac{50x25}{50} = 25$$

$$\text{cell } 25 = \frac{50x25}{50} = 25$$

Table 3b; computation of chi-square for hypothesis two

Response	O	E	$(O\text{-}e)^2$	$(o\text{-}e)^{2}/E$
Yes	25	25	0	0
No	25	25	0	0
Total	50	50	-	0

Sources field survey 2024

Degree of freedom = (R - 1) (c - 1)

=(2 - 1) (2 - 1)

= 1

With reference to the chi-square table degree of freedom of 1 under 0.05 is 3.841

Decision rule: since the critical value 3.841 is greater than the calculated value O reject Hi and accept Ho which means the the microfince borrowers react positively towards loands and repayment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

In the chapter, the researcher has studied in details what people say concerning Balogun – Gambari microfinance bank's operation in eradicating poverty in Nigeria. This section of the project summarizes the important findings of this research and found out their exist huge untapped potentials for financial intermediation at the micro and rural level of the Nigeria economy.

Attempt by the government in the to fill this gap through supply driven creation of financial institution and instrument have failed due to the poor capitalization of such scheme and restrictive regulatory and supervisory procedures among other factors.

The study however summaries thus; the micro finance bank financial resources have been considered and proven as a tools for economic development in Nigeria through the provision of affordable loans to citizens in the country in other to enhance their standard of living with minimum interest rates.

The attribute beneficiaries towards repayment has made it difficult for microfinance banks in carry out their roles effectively in the development of the nation.

Finally, the establishment of microfinance banks is primarily to meet the unsatisfied demand created by the inability or unwillingness of the more formal institution to offer to small enterprises and poor house hold adequate access of their deposit and credit facilities as well as other financial products and services.

5.2 Conclusion

Based on the findings of this study the attempt to explain the role of microfinance banks in poverty alleviation in Nigeria may lack adequate knowledge of various financial transaction available and how to access them. Apparently, as long as poverty and under development remain global realities the importance of microfinance banks cannot be over emphased. Its inherent potentials and ability to spur economic growth coupled with poverty alleviation tendencies, positions it as an area to be further explored for the betterment of economic agents in a society. Undoubtedly it is a policy instrument that can be manipulated and incalculated in the short, medium and long term development programmes of a nation, especially the developing climes of the world. Indeed, microfinance banks as a panacea for poverty alleviation and economic growth in Nigeria with it numerous benefits as regards enhanced general welfare of economic agents cannot be underestimated.

5.3 Recommendation

Microfinance bank should be careful in management style since it comprises hard earned investor's fund as it was observed that most of the microfinance bank's traditional roles involves receiving of deposit and giving out of loans to credible customers. The following recommendation were made:

1. The high reserve ratio by the central bank of Nigeria should be made low in order to encourage micro finance in Nigeria.
2. The microfinance banks should make sure that inexperienced management is not applied on their funds for projects because they may mismanage funds instead of putting them into a better project.
3. There should be adequate supervision and regulation by the central bank of Nigeria so as to ensure the survival of microfinance banks.
4. Finally the attitude of directors towards investors fund should be monitored by the governing bodies as the will encourage the public on the operation of micro finance banks.

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