Micro Finance Banks and Poverty Reduction in Nigeria

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Abstract

Poverty is a condition in which people lack the basic necessities of life, especially good food, drinking water, clothing, electricity, shelter, basic education, and healthcare. Thus, poverty reduction remains core in the agenda of many developing countries (Nigeria inclusive), as they grapple with the problems of income and gender inequality among the people. Researchers are, therefore, paying greater attention to the importance of micro finance banks in providing access to financial services to the poor. This is shown by the extent to which these banks are helping to resolve the problem of liquidity constraints confronting the poor and micro entrepreneurs. All the results of the regressions shows that TLA was statistical significant. The direction of the causality is from GDP to TLA. Focusing on these concerns, this study addresses the global challenge of poverty as well as the structural and functional profiles of micro finance banks. It is recommended that micro finance banks in Nigeria should be more aggressive in providing the needed Loans and Advances to the poor and micro entrepreneurs. By so doing, they should grant access to more financial services would promote employment generation, wealth creation, and income distribution in the economy.

Key Words: Active poor, Micro finance bank, Poverty reduction

1.0 Introduction

Micro finance banking is geared towards advancing the course of financial inclusion which involves deliberate delivery of financial services to low-income earners and the active poor segment of the active populace at a reasonable cost. The failure of conventional banks to provide financial services to the poor at an affordable cost gave rise to the emergence of microfinance banks. The latter now prevail worldwide as grassroots banks with high capacity to address these issues. The grassroots banking concept has been with us in Nigeria before it gained worldwide acceptance in early 1970s. Its development is traced to the contributions of a renowned economist, Professor Yunus, who in the early 1970s fought hard in Bangladesh to make banking services available to the poor and low-income earners. He established a bank that spear-headed the provision banking services to the poor in the areas of credit facility, savings mobilization, money transfers, payments and insurance (Yunus, 1998). Following his success, many countries adopted the system to help fight poverty and propel economic growth. Over the years, micro finance banks have evolved to become economic agents which are helping to alleviate the hardship faced by the poor and low-income earners in the society. The target group comprises mainly self-employed and active productive men and women in the communities; while the main objective is to grant them more access to credit in order to better their lives and acquire wealth. Due to the inability of the poor and low-income earners to provide acceptable collateral, conventional banks hardly assist them with loans.

Consequently, the attention of the world was again drawn to the role of micro finance banks in poverty alleviation as the Nobel Committee, while honouring Muhammad Yunus with Nobel Peace Prize, reiterated that microfinance bank could be used as a tool to reduce the scourge of poverty confronting the developing countries. This study, therefore, seeks to investigate the causality relationship between Micro Finance Bank Deposit Liabilities, Loans and Advances and Assets on economic growth in Nigeria from 1992 to 2016. In furtherance to the objectives, the hypothesis elicited is;

$H_{0:}$ There is no significant relationship between TLA, TDL, TAS and GDP.
$H_{1:}$ There is significant relationship between TLA, TDL, TAS and GDP

2.0 Global Challenge of Poverty

Poverty reduction remains core in the socio-economic agenda of many countries. In Nigeria, for instance, many development agencies have been established by successive governments to address the scourge poverty. Relatively, little achievement has been recorded in terms of poverty reduction in the last few years; but with the advent of microfinance banks, the affected governmental institutions are expected to do more to tackle the problem of mass poverty in the land. Hulma and Mosley (1997), while admitting that microfinance banks have crucial role to play in helping the poor and reducing poverty, regret that such initiatives have not been the panacea for poverty alleviation because some poor people who patronized them were made poorer.

The United Nations (UN) in 2002 revealed that about 1.3 billion people in the world, which represent one fifth of the world population, were living below the poverty line, as they earn less than one dollar per day. This shows that there is extreme poverty in the land. Currently, debates are on and more in favour of microfinance banks being identified and recognized as important instrument in the fight against extreme poverty in developing countries. Hence in 2005, the United Nations (UN) declared and marked the *International Year of Micro Credit* to project the importance of microfinance banks in fighting extreme poverty across the world. The UN Millennium Summit held earlier (in September 2000)afforded world leaders opportunity to examine these issues, which made them to declare 2015 as the target year for realizing the millennium development goals(MDGs), when extreme poverty was expected to be eliminated from countries of the world (Adjei, 2010; Akram & Hussan, 2011; Nwakapu, 2002). This declaration notwithstanding the high poverty level in many developing countries of the world particularly the African countries remain unabated.

The initial aim of establishing microfinance banks was to assist market women (as major customers) in the financial inclusion scheme of providing micro credit. Majority of practitioners and key players in the industry have, therefore, come to terms that empowering women is vital to improving economic growth and enhancing people's social status (Chen & Ravallion, 2008). It has also been observed that loans granted to women have lower default risks when compared to their male counterparts. Chaudhuri & Bhadra (2015) stressed that the default rate for loans advanced to women is very low, which makes it a win-win situation for both the micro finance institutions and borrowers. This is in contrast with the high loan default rate associated with men. Women borrowers repay their loans promptly, thus making microfinance banks more willing to widen their outreach to other potential beneficiaries.

Many experts equally agree that with increasing support for microfinance banks, greater results could be achieved in the fight against poverty in developing countries. In this regard, the focus of micro finance banks is on the poor segment of the society and their contributions to achieving key socio-economic targets had earned them the tag *poor people's banks (PPBs)*. Ledgerwood (2000) and Hulma & Mosley (1997) stress that, in most developing countries, most poor people do not still have access to financial services, including those who are economically active. They do not have the required collateral to qualify them for financial assistance from the conventional banks. In 2005, the Nigerian government gave a nod to the establishing of microfinance banks by individuals and organizations, given their economic potentials and importance in poverty reduction. This culminated in putting in place the enabling law governing the operations of the microfinance banks in Nigeria.

The Nigerian government through the Central Bank of Nigeria (CBN), in April 2011, revised the law to make micro finance banking more meaningful and attractive to investors. Highlights of the revised law emphasize:

i. Economic empowerment of the poor segment of the populace (particularly women, to reduce gender inequality);
ii. Employment generation; and
iii. Poverty reduction.

With the update, existing policies are redefined to make financial services more accessible to the active productive population in the Nigerian economy. The early history of microfinance banking reveals that the services rendered were limited to providing micro-credits to women farmers, households, micro enterprises, and poorest of the poor. On transformation from non-governmental organization (NGO) – micro finance institutions to regulated micro finance banks, the services offered to customers have been upgraded. This transformation has also affected the basic features micro finance banks in favour of:

i. Granting small loans to customers: Microfinance banks unlike conventional banks have small capital base which compel them to grant micro credits to customers. By their nature, they are required to reach out to customers who operate within the rural communities, particularly the women who are more vulnerable to gender inequality by providing them financial facilities.

ii. Lending to customers without collateral: The absence of collaterals in lending mainly distinguishes microfinance banks from the conventional banks which do not lend without collaterals to back up the grants. Consequently, collaterals such as property, land, stocks and other acceptable capital assets are often not required for obtaining loans from microfinance banks.
iii. Simplifying operations for the convenience of customers: Customers seeking credit facilities are not required to go through rigorous bureaucratic processes before accessing the loans. Accordingly, loan documentations do not involve much paper work unlike the situation in the conventional banks where customers are made to process so many forms before approved loans are disbursed.
iv. Improving existing relationship with customers: There is closer link and inter-personal relations between customers and staff of micro finance banks, which help the monitoring of business performance.
v. Attracting more investors to the sub-sector: The small capital base required of microfinance banks is an advantage to individuals, organizations and government agencies who are interested in establishing and running the outfits in various communities.

2.1 Structural & Functional Profiles of Micro Finance Banks

Although, not in the same magnitude as the conventional banks, micro finance banks are required to be adequately capitalized, technically sound, and systematically oriented towards lending within the limits of cash flow and character of clients. Structurally, therefore, the three main categories of microfinance banks approved in Nigeria are:

a) *Unit micro finance bank*: This first category is authorized to operate in one location. It is required to have a minimum paid up capital of twenty million naira and prohibited from having branches/cash centres.

b) *State micro finance bank*: This second category is authorized to operate in one state or the Federal Capital Territory (FCT). It is required to have a minimum paid up capital of one hundred million naira and allowed to open branches within the same state or the FCT, subject to prior written approval by the CBN for each new branch.

c) *National micro finance bank*: This third category is authorized to operate in more than one state including the FCT. It is required to have a minimum paid up capital of two billion naira and allowed to open branches in all states of the federation and the FCT, although, subject to prior written approval by the CBN.

Be it unit, state or national categorization, no microfinance bank is allowed to operate outside 2005 guideline for operators and practitioners, which was revised by the CBN in 2011. Basically, their loan portfolio is expected to be composed mainly of microloans meant for the poorest of the poor, women famers, households, low-income earners and micro-enterprises. The challenge of inadequate capital is still very much critical that most micro finance banks can hardly provide the needed financial assistance to their numerous customers. Besides the dearth of capital, micro finance banks also have to contend with the problem of shortage of human resources. Nonetheless, the introduction of micro savings by microfinance banks is helping meaningfully in poverty reduction among customers. As people are encouraged to save, the balance in their savings accounts may serve as collateral for the accessing of loans from the micro finance banks. Hence analysts have come to recognize that savings if well encouraged and properly channelled in favour of the rural poor will be a very potent instrument in tackling poverty.

In a study on the role of micro finance banks in poverty reduction, researchers in Tanzania found that majority of the poor do not have access to bank loans because they lacked guarantors, assets, salaried employment, businesses, savings account in banks and ability to make mandatory pre-loan weekly deposits which were to serve as collateral. They, therefore, recommended that the banks should help the poor to access funds by revisiting the collateral conditions and reducing interest rates charged on loans. They more specifically observed that the contribution of micro finance banks in poverty reduction among poor in the society was still very minimal, and this was occasioned by the hard conditions in accessing and servicing loans. To this end, the microfinance banks were expected to improve on accessibility of their services by relaxing loan conditions to enable the poor benefit meaningfully. Government was equally urged to consider establishing independent funds to cater for the interest of the poor and provide other incentives to encourage micro business.

Agbaeze and Onwuka (2014), in their investigation, examined the impact of micro credit on poverty alleviation in Nigeria (with focus on Enugu East Local Government Area); and discovered that poverty level is still very high among rural dwellers. However, those who have access to micro credit are fairer than those who have no access to such credit facilities. They found generally that access to micro credit has positive effect on the poor but no significant impact on poverty alleviation among the rural dwellers. In this regard, they recommended that government should intensify effort in driving the financial inclusion strategy for the rural populace to have greater access to micro credit at affordable interest rate. Other analysts also contend that enhancing access to credit using innovative savings products has high potency in combating poverty both in urban and rural areas.

They are equally concerned that in many countries, poverty has deepened to such a level that it has become a structural phenomenon of human deprivation in terms of hunger, malnutrition, diseases, illiteracy, and low level and quality of consumption. However, they attribute high profile poverty in some countries to complex structural processes embedded in their political economy. They, thus, argue that except people's orientation is changed towards embracing the right economic spirit, poverty may escalate in these countries. They further opine that in order to tackle poverty these countries, it is necessary to identify the fundamental causes as a critical precondition for formulating more meaningful anti-poverty strategies. Also, the fight against poverty should not be left for individual countries to wage, but globally undertaken to afford the needed winning synergy. Nonetheless, financial experts opine that provision of credit and financial services to the poorest of the poor, household, low-income groups and micro enterprises particularly those in the rural areas will go a long way in effectively reducing poverty among these vulnerable groups in the society.

3.0 Econometric Methodology

3.1 Model Specification

The econometric model of this study is given as follows;

GDP=f(TLA,TDL)-- (1)

$LogGDP= \beta_0+ \beta_1 LogTLA + \beta_2 LogTDL+Ut$---------- (2)

Where:
β_0 = Constant Term
β_1 and β_2 are parameters to be estimated
GDP=Gross Domestic Product (proxy by economic growth) at current Basic Price in year t
TLA=Total Loans and Advances
TDL=Total Deposit Liability
Ut= Error Term

The variables to be tested in this study are Total Loans and Advances (TLA) Total Deposit Liability (TDL) and Gross Domestic Product (GDP). The selection of these variables was based on their contributions on poverty reduction.

3.2 Model Justification

Most studies conducted by Researchers on micro finance bank that the researcher came across failed to use the Total Deposit Liability and Total Loans and Advances as independent variables combined in carrying out their investigations on micro finance bank and poverty alleviation. However, the researcher is quite aware that the variables under investigation have the potency in contributing to poverty reduction if properly put in use. In line with existing economic theories the expecting signs for all the coefficients of the variables are $\beta_1>0$, and $\beta_2<0$.

3.3. Data Issues

Gross Domestic Product is the total goods and services produced in an economy in one particular year. The microfinance bank loan is measured by the total annual loans and advances granted to its borrowing customers in a financial year .The microfinance bank total deposits liabilities are the sum of savings deposits, current account deposits and time deposits collected on behalf of its customers. These funds can be withdrawn with or without notice. They attract the payment of interest to the depositors.

3.4. Data Analysis Techniques

There are different methods employed by researchers in data analysis. The method employed in this research were aimed at relating TDL and TLA variables to economic growth from 1992 to 2016.The research data were subjected to Econometric package via E-View Version 9. In carrying out the data analyses, the following analytical methods were used; Summary Statistics, Ordinary Least Square, Pairwise Granger Causality Test and Correlation Matrix. The data for the study covers from 1992 to 2016, obtained from Central Bank of Nigeria (CBN) Statistical Bulletin; they are all time series and secondary data.

Table 1 shows the variables under investigation. The data was generated from Central Bank of Nigeria (CBN) Statistical Bulletin. The raw data shows that Total Loans and Advances (TLA) within 1992 to 2007 had a fluctuating and sluggish movement. However from 2008 and above there was a steady and improved. Closer review of the GDP figures had a tremendous increase. This indeed underscores the importance of Loans and Advances in the life of an economy. An unsteady economic situation has contributed negatively to fallen deposit liabilities in microfinance banks in the country. Further, review of Table one shows that the TDL from 1992 to 2016 has continuously on nose-diving. This however, could be the results of unfavourable monetary policies. The policymakers must put in place policies that will encourage more deposits through increase in interest rate on deposits to attract and encourage deposits mobilisation.

4.0: Data Presentation

Table 1: Research Variables

Year	GDP	TAS	TDL	TLA
1992	909.80	0.9672	0.639600	0.1358
1993	1259.07	3.1986	2.188200	0.6545
1994	1762.81	4.6932	3.216700	1.2206
1995	2895.20	4.1065	2.834600	1.1298
1996	3779.13	4.4325	2.876300	1.1002
1997	4111.64	4.7064	3.181900	1.6188
1998	4588.97	6.4772	4.454200	2.5268
1999	5307.36	8.9035	4.414030	2.9583
2000	6897.48	2.0147	7.689400	3.6666
2001	8134.14	4.8844	3.294000	1.3140
2002	11332.25	15.4635	9.699200	4.3109
2003	13301.56	28.6892	180750.0	9.9548
2004	17321.30	34.1623	21.40790	11.3538
2005	22269.98	82.8669	47.52370	28.5048
2006	28662.47	55.1458	34.01770	16.4502
2007	32995.38	75.5498	41.21770	2.2852
2008	39157.88	122.7538	61.56810	42.7521
2009	44285.56	151.6100	76.66200	58.2157
2010	54612.26	170.3389	75.73960	52.8675
2011	62980.40	117.8721	59.37590	50.9283
2012	71713.94	189.2934	98.78910	90.4222
2013	80092.56	237.8376	121.7876	94.0556
2014	89043.62	221.6523	110.6884	112.1101
2015	94144.96	343.8831	159.4535	187.2473
2016	101489.49	326.2231	149.7984	196.1950

Source; Author’s Computation E-View 9

4.1 Empirical Results

Table 2: Descriptive Statistics

	GDP	TDL	TLA
Mean	32121.97	7274.101	38.95916
Median	17321.30	34.01770	9.954800
Maximum	101489.5	180750.0	196.1950
Minimum	909.8000	0.639600	0.135800
Std. Dev.	33240.00	36140.85	56.70748
Skewness	0.839217	4.694841	1.675451
Kurtosis	2.285460	23.04158	4.886054
Jarque-Bera	3.466364	510.2407	15.40181
Probability	0.176721	0.000000	0.000452
Sum	803049.2	181852.5	973.9789
Sum Sq. Dev.	2.65E+10	3.13E+10	77177.71
Observations	25	25	25

Source; Author's Computation E-View 9

Table 2, is the results of Summary Statistics for each of the variables used in the study. The summary statistics summarize and provide information about the data used. It tells something about the values in the data set. The standard deviation defined as the numerical index that describes how far away from the mean of the variables. It further inform that the higher the SD the wider to the score around the mean. While a low value of the SD point to a narrow distribution around the mean. The results of the SD on the variables under investigation are TDL 36140.85 and TLA 56.70748, while the mean are TDL 23.04158 and TLA 32.95916, this show a wider spread to the mean. This therefore, indicates a dissimilar spread of the variables on the scale. The results of the Kurtosis show that TDL 23.04158 and TLA 4.886054, which indicates that the variables investigated upon exceeded the normal traditional 3-point levels.

Table 3: Correlation Matrix of the Variable

	GDP	TDL	TLA
GDP	1.000000	-0.116628	0.933739
TDL	-0.116628	1.000000	-0.105251
TLA	0.933739	-0.105251	1.000000

Source; Author's Computation E-View 9

Table 3 shows the results of Correlation Matrix for the variables under investigation. The analysis measures the relationship between the variables under investigation (GDP, TDL and TLA). However, the relationship can be Positive + or Negative -. The results could also be interpreted as strong or weak depending on the variables under examination. The analysis revealed that TLA exceed the 8-point levels. It could be inferred that there is no linear relationship, which conclude that there is no multicollinearity among the variables. The overall regression result indicates that GDP and TLA are correlated at 93%.The reason for the significant result could be adduced that Loans and Advances are important microeconomic variable that cause economic growth that would lead to poverty reduction. Micro Finance Bank increase in loans and Advances to Entrepreneurs contributes to increase employment generations which to a large extent bring about poverty reduction. It is important for the Central Bank of Nigeria to ensure regular review of its policies on interest rate on Loans and Advances charged by Micro Finance Bank to its customers are not on the high side. Interest rate on lending must be low to make loans and advances attractive for borrowers

Table 4: Ordinary Least Squares (OLS)

Dependent Variable: LOG(GDP)				
Method: Least Squares				
Date: 01/28/18 Time: 17:05				
Sample: 1992 2016				
Included observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.074022	0.165974	48.64635	0.0000
LOG(TDL)	0.025434	0.052937	0.480461	0.6356
LOG(TLA)	0.656533	0.064233	10.22108	0.0000
R-squared	0.896493	Mean dependent var		9.606271
Adjusted R-squared	0.887084	S.D. dependent var		1.456375
S.E. of regression	0.489386	Akaike info criterion		1.520837
Sum squared resid	5.268972	Schwarz criterion		1.667102
Log likelihood	-16.01046	Hannan-Quinn criter.		1.561404
F-statistic	95.27344	Durbin-Watson stat		1.614949
Prob(F-statistic)	0.000000			

Source: Author's Computation E-View 9

The result of Table 4 on the variables show the relationship between the dependent variable (GDP) and the independents variables (TDL and TLA) from 1992 to 2016.The empirical exercise indicates that the coefficients of the regression result, which are the coefficient that describes the estimated coefficient is significant. The variables Standard Error is TDL=0.052937 and TLE=0.064233 respectively. The variables appeared good. The R-Square=0.896493 which indicates a high regression with an explanatory effectiveness of 89.65% or 90% by approximation. This therefore, explained that the regression is robust. Thus, the overall regression results show that TLA is statistically significant at 5% level of significance. Finally, the entire regression result is statistically significant.

Table 5: Pairwise Granger Causality Tests

Date;01/28/18 Sample.1992-2016 Lag;2					
TDL does not Granger cause GDP	23	0.54346	0.5900	NO	YES
GDP does not Granger cause TDL		0.34402	0.7137	NO	YES
TLA does not Granger cause GDP	23	0.12610	0.8823	NO	YES
GDP does not Granger cause TLA		0.45536	0.0016	YES	NO
Null Hypothesis	Obs	F-Statistic	Prob	Causality	Decision
TDL does not Granger cause TLA	23	0.26152	0.7728	NO	YES
TLA does not Granger cause TDL		0.23123	0.7959	NO	YES

Source: Author's Computation E-View 9

Table 5 is the result of the Granger Causality tests run on the variables. Granger Causality is a statistical tool developed to analyse the flow of information between time series data. Granger Causality is one of the most popular techniques in uncovering the temporal dependencies among time series. These methods have become more widely applied by researchers in finance and social sciences. The test on the question, whether lagged information on a variable Y, provide any statistical significant information about a variable in the presence of lagged values of X. If this is the case, then Y is said to Granger cause X. The directions of Causality between dependent variable and independent variable may have three possible relationships, namely

1. From dependent variable to independent variable.
2. From independent variable to dependent variable, and
3. Bidirectional.

The result of Granger Causality tests run on the model with an optimal lag of 2.This study focus to establish the direction of the causality and decision on the Null and Alternative hypothesis of the variables. The result of the regression shows that the direction of causality flows from GDP to TLA. This is to say that increase in the economic activities in the economy will influence Loans and Advances granted by micro finance bank ti customers, namely the micro-entrepreneurs for the expansion of production and help in poverty reduction through employment generation. The government should compel the Central Bank of Nigeria to reduce the rate of interest charge by micro finance bank on its customers to encourage their customers to avail the opportunity of low interest rate. This is because micro finance bank is the bank closer to the poor, micro-entrepreneurs, low income groups, peasant farmers and the vulnerable in the society the women, these categories are the unbanked segments of the society. The result further shows that TDL is not significant to economic growth.

4.2 Discussion

Poverty is a multi-dimensional, complex condition which has captured global attention of many financial analysts and scholars and governments at all levels. The study is primarily focus on micro finance bank and poverty reduction. The results of all the regressions show that TLA is significant. This underscores the importance of the variable on economic growth. The data for the regression shows that TLA from 2008 to 2016 has continued on the upward increase, while TDL movement has remained fluctuating in the same period under investigation. The direction of causality is from GDP to TLA (Total Loans and Advances).This is to say that a small change in economy whether positive or negative will influence the Total Loans and Advances that the micro finance bank will grant to its borrowing customers. The significance of the variable shows that a positive change in the economy will increase the amount of Loans and Advances granted by microfinance bank. The result further indicates that TLA and GDP correlated by 93%. It could be concluded that the relationship between the two variables is strong. The variable contributes to employment generation, poverty reduction, increase in productivity etcetera. Whereas, the result of Total Deposits Liability (TDL) in all the regressions were not significant. The introduction of alternative channels of withdrawals and deposits was to a large extent affected bank deposits as many individuals and institutions use the channels in their daily banking transactions. There is no Granger causal relationship between GDP and TDL this could be because most individuals and institutions now do most of their cash transactions without recourse to the bank. But engage in internet banking transfers to their business partners.

There is growing advocacy for the establishment of more microfinance banks in Nigeria to cater for the empowerment needs of the poor, low-income earners, micro entrepreneurs and households. This is in clear recognition of their effectiveness as tool for improving the socio-economic fortunes of the active poor. Essentially, microfinance banks feature as effective economic agents for poverty reduction, as they continue to empower the poor to acquire assets and contribute to meaningfully economic growth. The empirical evidence of this study indicates that micro finance bank's Loans and Advances is an important instrument for poverty reduction, if properly channelled.

5.0 Conclusion

Governments at all levels should not under rate the devastating effects of poverty in a nation's societal space. Poverty as has been recognized as a complex, multi-dimensional condition that has captured the attention of many scholars, experts and governments globally. It is the state in which a person lacks socially acceptable amount of money or material possessions. Poor people often face the problems of unavailability of basic material resources for survival such as good drinking water, lack of clothing and shelter, food, good healthcare and basic education. In this context, people are classified as poor when they are unable to meet societal expectation and do not have assets since they lack the means of generating income. Ahmad (2010) stresses that as a result of differences in income and consumption level of the people, poverty is measured based on inability of persons to provide such basic requirements as food, water, electricity, education for children, healthcare, and other means of livelihood. In order to address the high profile poverty, many developing countries embraced the concept of micro finance banking.

The results of the regressions revealed that TLA granted by micro finance bank has remained significant to economic growth of the country. This was further confirmed through the result of the Granger Causality Tests which shows that the direction of the Causality s from GDP to TLA. The correlation between GDP and TLA is 93 percent, which indicates a strong relationship. Unfortunately, despite recent expansion efforts, micro finance banks, which are designed to help tackle poverty among the people, still face two critical challenges, such as limited access to affordable finance and inadequate human resources (Chen &Ravallion, 2008; Khandker, 1998).

There is growing advocacy for the establishment of more microfinance banks in Nigeria to cater for the empowerment needs of the poor, low-income earners, micro entrepreneurs and households. This is in clear recognition of their effectiveness as tool for improving the socio-economic fortunes of the active poor. The failure of conventional banks to provide financial services to the poor because of their inability to provide acceptable collateral still leaves much to be desired, but for the functional intervention of microfinance banks whose financial services are made more readily available to the poor.

Accordingly, the provision of financial services to the vulnerable helps in generating employment and creating wealth for the improvement of standard of living. The establishment of microfinance banks in developing countries, particularly Nigeria, thus contributes in redistributing wealth among the active poor, thereby helping to alleviate liquidity constraints among the low-income groups, poor farmers and micro entrepreneurs in the land. As economic agents, micro finance banks have come to be recognized as significantly propelling the growth of the economy through the channeling of funds to persons who are excluded by the conventional banks.

Yunus (2003) contends that access to microcredit will empower and help the poor to break the vicious cycle of poverty, improve employment generation and increase the level of income generation. Essentially, micro finance banks feature as effective economic agents for poverty reduction, as they continue to empower the poor to acquire assets and contribute to meaningfully economic growth. In that capacity, they play significant role in addressing the liquidity problem confronting the poor, low-income earners, households and micro entrepreneurs and also stabilizes the consumption pattern of the poor. According to Khandker (2003), microfinance banks have the capacity to resolve the liquidity problem faced by the rural poor, enhancing the income generation and stabilizing consumption. Analysts also argue that microfinance banks serve as avenue by which the active poor can contribute towards economic growth, given the provision of fund as well as other productive assets. This goes a long way to further enhance their capacity for entrepreneurship and encourage them engage in more economic activities, leading to more generation of employment opportunities, creation of wealth, and distribution of income.

It is also note-worthy that no organization can survive if corrupt and fraudulent practices prevail within the system. Unfortunately, the phenomenal effect of corruption and fraudulent practices among staff of some microfinance banks in Nigeria is a course for concern. These cancer worms have caused the liquidation of many microfinance banks in Nigeria in recent years. They manifest in different ways, including over invoicing, forgery, amount alteration, theft, fictitious lending, loan default, and other insider sharp practices. In some cases, some board members take advantage of their positions to unduly grant loans to themselves and unethically influence recruitment in favour of relatives. In the light of the fore-going insights, the following recommendations are expected to help improve the operational efficiency of microfinance banks to more aggressively advance the course of poverty reduction in Nigeria:

5.1. Recommendations

i. The CBN should enhance the micro finance regulatory framework for more efficient service delivery;
ii. Micro finance banks operating in rural areas should be given more incentives by the relevant authorities to encourage rural banking;
iii. NGOs should collaborate with microfinance banks to promote greater women participation in economic activity in the country;
iv. Government in all tiers should accept the proposal to set aside 1% of their annual budgets for the support of microfinance banks to achieve greater financial inclusion; and
v. Electronic banking and other modern modes should be embraced by micro finance banks to promote corporate innovativeness and ensure greater customer patronage.

As grassroots non-conventional financial institutions, micro finance banks in Nigeria should endeavour to encourage group borrowing among customers to make credit reach the poorest of the poor in the various communities. They should deemphasize lending to middle and upper class of the poor and actually focus on the poorest of the poor and destitute. In so doing, they will aggressively take the fight against poverty to the next level.

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