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Microfinance Bank Influence on Incidences of Poverty Reduction among Rural Community in Oyo State, Nigeria

Oladipo, OluwaseyiTemilade[1]

[1]*Department of Management and Accounting,*
Faculty of Management Sciences,
Ladoke Akintola University of Technology, Ogbomosho.
P. M. B. 4000, Ogbomoso, Oyo State Nigeria

Abstract *- The role played by microfinance banks in reducing poverty amidst communities cannot be overemphasized especially in developing countries like Nigeria and this prompted this study to examine microfinance banks' influence on the incidence of poverty reduction among rural communities in Oyo State. This study was carried out in Oyo State. The population of the study included the beneficiaries of microfinance banks from each of the Local Government areas of three Senatorial Districts of Oyo State which are villagers, artisans, petty traders, low-income groups, and those that had benefited or would benefit from the activities of the chosen microfinance banks. A total number of 250 respondents were selected randomly from the study area. Data were sourced from both descriptive and inferential statistics. The study was analyzed using regression analysis. The result of the study showed that: There is a relationship between microfinance banks and the incidence of poverty in the study area. With correlation value r = -0.500 and p-value of 0.006 which is less than 0.05 confidence value. It is observed that there is a negative significant relationship. Moreso, there is a variation in the incidence of poverty across the senatorial districts of the study area with the highest incidence of poverty in Oyo North senatorial districts (53.3%) and least in Oyo South senatorial districts (20.7%). Conclusions were made that: there were some constraints militating against microfinance banks in reduction of poverty in the study area these were illiteracy among the rural communities, inadequate bank personnel, default in repayment of loans, high operating cost, and inadequate monitoring by banks officers in the study area. It was recommended that massive information/ educational drive on the importance of microfinance in fighting widespread poverty should be launched in the study area, for as the saying goes "knowledge is power". If the poor are to ever come out of their poverty in the study area, they need to be adequately informed and given the chance to determine their risk-taking and create wealth for themselves. This study will be an insight for making effective decisions among government and non-governmental parastatals.*

Keywords *- Poverty, Poverty reduction, Poverty incidence, a Microfinance bank, Loan, Rural*

I. INTRODUCTION

The literature revealed different definitions of poverty, however, poverty means not having enough to eat, a high rate of infant mortality, a low life expectancy, low educational opportunities, poor drinking water, inadequate health care, inadequate housing, and a lack of active participation in decision-making processes [1]. An early definition of poverty is given by Aboyade[2] that, it is a condition of life so degrading as to insult human dignity. In the same way, Abumere[4] opined poverty as a state of households' command over resources at a level that is insufficient to obtain a basket of goods and facilities judged to be minimum necessaries in the contemporary circumstances of the society. The Ninth Report of the Development Policy of the Federal German Government stated that people affected by poverty were unable to live a decent life [2].

Poverty is so crucial to the extent that over 2.8 billion of the world's populations are living below the poverty line, out of which 1.1 billion live on less than the US $1.00 per day[4]. In Nigeria, over 70 percent of Nigerians live below the poverty level and over 90 percent earn below the US $1.00 per day [4]. This has prompted the international community to declare the Millennium Development Goals (MDGs) aimed at reducing the incidence of poverty globally by half of 2015 [4]. Poverty is not only on the increase but also widespread in many developing countries [5]. The dimension of hunger and malnutrition, which are extreme cases of poverty is alarming and cannot leave anyone indifferent [5]. Poverty is more pronounced in rural areas because of the lack of job opportunities in the areas. Rural areas are less developed with the least infrastructure; low literacy rate, poor health, and educational facilities, unavailability of sufficient food, safe drinking water, improper sanitation system, and the most hazardous unemployment; therefore poverty is more dangerous in rural areas [6].

Similarly, informal lenders charge high interest and keep their adult labor as collateral. The exploitation of informal lenders, high-interest rate, and use of adults/children as collateral starve off most of the poor people from such formal and informal financial services [6]. In such crucial circumstances and the unflinching commitment of the Central Bank of Nigeria to the reduction of poverty and other associated socio-economic malaise in Nigeria, informed the decision of the Central Bank of Nigeria to formulate and implement a functional microfinance policy framework aimed at stimulating sustainable growth and development. In view of this, the microfinance sector and Small Medium Enterprises (SMEs) came in front to help the poor get rid of the enslavement of the vicious circle of poverty [6]. This has become more imperative in view of the limited capacity of the formal banking sector in providing financial services to the vast majority (about 65%) of the Nigerian population considered poor but economically active [7].

Microfinance institutions play a pivotal role in meeting the financial needs of both households and micro-enterprises. The traditional or formal banking sector has failed to provide adequate credit services to the poor, and microfinance institutions are being developed to fill this gap [8]. Hence, microfinance is a financial activity to provide small, collateral-free loans or financial services to people who have low incomes, minimal assets, and who are unable to acquire loans from commercial banks because of the demand for high collateral and tight conditions of security. Furthermore, Microfinance bank credit is collateral-free and available in easy installments. Thus, after proper utilization of the credit, the incomes of the borrowers increase which ultimately helps them to come out of the poverty trap. Consequently, microfinance is playing an extensive role in the eradication of income-based poverty [7]. It is against this background that this study explores the role of microfinance banks in poverty alleviation among rural communities in Oyo State.

Mou, [9] has established that poverty is a global phenomenon affecting almost half of the world population. About two-thirds of Nigeria's population (about 100 million) is poor and the West Human Development Programme indicated that about 70.8 percent and 92.4 percent of Nigeria's population live below one and two United States of America Dollars respectively that is ₦160 and ₦320 a day [10]. Bamisile[11] reported that despite the apparent success of microfinance banks and the efforts of supply-led policies and financial liberation, there are still important gaps to be filled by this institution in Nigeria. Anyanwu[12] observed that Microfinance banks have not been able to adequately address the gap in terms of credits, savings, and other financial services required by the poor. The poor and micro-enterprises face a lot of problems regarding microcredit due to their lack of awareness of the benefits of credit facilities emanating from their limited education [12]. In order to achieve the objectives of this study, research questions and hypotheses were formulated, the questions are: how does a microfinance bank influence the incidences of poverty in the study area, and what are the constraints militating against microfinance banks in the reduction of poverty? While the hypotheses were:

1. There is no relationship between microfinance banks and incidences of poverty in the study area.
2. Microfinance banks have no difference in reducing the incidence of poverty in the study area.

A.Scope of The Study

This research was carried out in Oyo State and was carried out in 2014 and targets the customers of microfinance banks between the ages of 18 and 60 years who are gainfully employed and can repay loans.

II. LITERATURE REVIEW

According to Ajakaiye and Adeyeye [13], they conceptualized poverty is a function of education, health, child mortality, and other demographic variables. Poverty to them is the availability or otherwise of the above parameters, in nutshell poverty can be seen as a situation in which an individual is unable because of economic, social, political, and psychological incapacitation to provide himself and his family the barest basic necessities of life.[14], [15],[16], [17],[18] have provided different definitions, measurements, and analyses of poverty.

Anyanwu[12] maintained that there are three dominant views in the literature on the meaning of poverty. The first view considered poverty in terms of deprivation in some materials of well- being which can usually be assessed in terms of money. World Bank [19] defined it as the lack of what is necessary for material well-being. The second view considered poverty as being multidimensional in nature entailing lack of adequate livelihood, assets, and failure to achieve basic capabilities in nutrition, health, economic and social life. The third view considered poverty as a phenomenon that is difficult to objectively determine. According to Adebayo [20], it is subjective in nature and has both physical and psychological dimensions that predispose its sufferers to hunger, violence, crime, insecurity, discrimination, victimization, and political repression. According to Brock and McGee [21], the dynamics of poverty are complex and mostly not easy to explain only by using economic models such as price equilibrium, perfect competition, surplus extraction, and so on.

A. Objectives of Microfinance Banks

The specific objectives of microfinance policy are as follows:

(i) Making financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.

(ii) Promoting synergy and mainstreaming of the informal sub-sector into the national financial system.

(iii) Enhancing service delivery by microfinance institutions to micro, small and medium entrepreneurs.

(iv) Promoting linkage programs between universal development banks, specialized institutions, and microfinance banks [22].

B. The target of Microfinance Banks

Based on the objectives listed above, the targets of the policy are as follows:

(i) To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.

(ii) To increase the share of microcredit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020, and the share of microcredit as a percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.

(iii) To promote the participation of at least two-thirds of state and local governments in micro-credit financing by 2015.

(iv) To eliminate gender disparity by improving women's access to financial services by 5% annually; and

(v) To increase the number of linkages among universal banks, development banks, specialized financial institutions, and microfinance banks by 10% annually [22].

C. The Goals of Microfinance Banks

The establishment of microfinance banks has become imperative to serve the following purposes;

(i) Provide diversified, affordable, and dependable financial services to the active poor, in a timely and competitive manner that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing they are by individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic, and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro-credit program of government and high net worth individuals on a non –recourse cash basis. In particular, this policy ensures that State Government shall dedicate an amount of not less than 1% of their annual budgets for the lending activities of microfinance banks in favor of their residents; and

(vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government [22].

III. REVIEW OF MICROFINANCE MODELS

***Grameen Bank model*:** This model emerged from the work of Muhammad Yunus in Bangladesh in 1976. It focused on the poor and low-income households. The bank operated as a unit set up with a field manager and bank workers covering a designated area of about 16 to 22 villages. Managers and workers visit villages in other to familiarize themselves with the environment, identify clientele and explain purpose, functions, and mode of operation. Groups of five prospective borrowers are formed from which only two receive a loan in the first instances while others take their turns later. The group is then observed for a month to see if members are conforming to the rules of the bank. If the two beneficiaries of a loan facility repay the principal plus interest over a period of 52 weeks, others become eligible. As it is, there is substantial group pressure to make individual conforms to the rules and regulations governing the operations of the bank, particularly with respect to repayment of loans. In the Grameen Bank model, group formation is also used for other purposes such as educating the members, awareness building, and collective bargaining.

It is also possible to borrow as an individual: This is a direct credit facility to the borrower without the formation of a group or generating peer pressure in other to ensure repayment. However, it is always emphasized that the lender should know his customers well enough before loans are granted.

There is also village banking: This is a community-based credit and savings arrangement that consists of 25-50 low-income individuals that seek to improve their standard of living through self-employment activities. Initial loan capital may be externally sourced but members run the bank themselves by choosing members, electing officers and establishing their own by-laws, distributing loans to individuals, collect repayment and savings through the officers. Loans are backed by moral collateral and the promise that the group stands beliefs each loan by way of guarantee.

Akeredolu [23] presented a very clear-cut model of microfinance. This is a model of the credit lending position of a "90- between" organization: between lenders and borrowers. Intermediary plays a critical role in generating credit awareness and education among the borrowers including starting savings. In this model, activities are geared towards raising the "creditworthiness of the borrowers to a level that is sufficient to attract borrowers" Links developed by the intermediaries could cover funding, program links, training, education, and research. These activities can take place at the individual, local, regional, national, and international levels.

A target community can form an association through which various microfinance activities are initiated. The association can be composed of youth only or women only. The association may be a savings group, religious group, political, cultural, or professional. The important thing is that the group should have something similar in common in other to foster a smooth interrelationship. Credits are usually arranged in such a manner that some members of the association or group take loan facilities in turn such that while some members enjoy loan facilities the other members of the group provide security for the loan by standing as guarantors.

Another method of operation is through bank guarantees. A Bank guarantee is used to obtain a loan from a bank and maybe arranged externally through donors, government agency or internally that is within members of a savings group. Using guarantee as a credit collateral, a loan obtained may be given directly to an individual beneficiary or to a self-formed group. Several international and united nation organizations have created international guaranteed funds which banks and NGOs can subscribe to for onward lending or commence microcredit programs.

The community banking methodology treated the whole community as one unit. It established semi-formal or formal institutions through which microfinance is dispensed. It is formed with the help of NGOs and other organizations that train community members in various financial activities of the community banks. Often community banks are also part of larger community development programs that use finance as an inducement for action. However, community banking has been phased out in Nigeria giving way to microfinance banks. Quite a significant number of microfinance banks in Nigeria today are transmitted from community banking.

Cooperative associations: These constitute another model of microfinance operation. They are autonomous associations of persons that are voluntarily united with the desire to meet their common economic, social, and cultural needs as well as their aspirations. The model is a jointly owned and democratically controlled enterprise that treats the whole community as one unit. In some cases, financing and savings activities are included in their mandate. Cooperatives are very common in Nigeria.

Finally, there is the credit union: This is a unique member-driven, self-help financial institution usually organized by and comprised of members of a particular group or organization who agree to save their money together and make loans to members from the savings at reasonable rates of interest. Usually, members have common bonds either by virtue of a common workplace, labor union, or living in the same community. Membership of credit unions is open to all who belong to the group, regardless of race, religion, color, or creed. It may be a nonprofit financial cooperative.

IV. THEORIES OF POVERTY

There are many theories on poverty and inequality. In this work, those which provide us with better insight for the understanding of the problem of poverty and poverty alleviation were considered. Some of these theories include:

The individual attribute theory of poverty: This theory stated that poor individuals are responsible for their own plight since an individual location in the society's hierarchy of income and wealth is presumed above all by his abilities, motivations, and aptitudes [20]. Agris[18] opined that it is different to deny the fact that individual attributes cannot determine one's position in society but he observed that we can also realize that one's position is in the structure of possibilities and within a structure of possibilities and power system in every society. He identified such forces to include corruption, political instability, market imperfection, tribalism, poor government policies, ethnic conflicts, etc, he, therefore, concluded that an individual in Nigeria who is self-motivated, full of strength, stamina, vigor, vitality, and above all equally having high aptitudes might still remain poor due to above-mentioned forces. Thus the greatest shortcoming or limitation of the individual attributes theory.

The power theory of poverty: This stated that the political power structure in any society determines the extent and distribution of poverty among the population. The theory further explains that poverty is regarded as a necessary feature of any situation in which the few possess some political power that can help them to organize the economic system in their own selfish interest. Akeredolu, [23] concluded that the policy implication of the power theory of poverty is that power will remain prevalent as long as there is no effective pressure from the majority poor to restructure the distribution of political power in the society in favor of all. Thus, the powerlessness of the power theory to deal with poverty alleviation in the short run and peacefully constitutes the greatest shortcoming of the theory.

The natural circumstantial theory of poverty: Sheruffdom, [24] expounded by identified geographical location, inadequate natural endowments of some areas in which people live, unemployment, old age, physical and mental disabilities, etc as explanatory variables of poverty. This theory, therefore, suggested that for poverty to be eradicated there should be sectional and regional development policies and welfare measures that should be directed to the unemployed, the aged, and disabled. [10]pointed out that although the policy suggestion of this theory is very useful on a poverty alleviation measure. Many developing countries are still not making effective use of this suggestion as it has instead encouraged laziness, corruption, and mismanagement of state funds. According to Fanwi [10], statistical results have revealed that gifts or aids directed to those victimized by transitory poverty such as drought, floods, pests, eruption, landslides, and other forms of natural disasters are not usually directed to the victim in good faith, hence the limitation of the natural circumstantial theory.

The divine theory of poverty: According to Erone, [25], there is a tendency among divine theories to explain ways poverty arises from a divine design. Thus the theory, which is closely related to the natural circumstantial theory of poverty, explained that the inequality in natural endowments is a sufficient reason for the existence of poverty in our world. For example, some animals are strong, others are weak, and some trees are either taller, others are short; a man is stronger than a woman, etc. Arising from this understanding, Erone[25] explained the divine theorist's thinking that is logically consistent that there are bound to be inequalities in terms of our material acquirements. He opined that poverty is rationalized as a natural order of phenomenon ordained by God and the poor are expected to accept their conditions with humility and hope for better days ahead in God's kingdom where they may appear much richer and happier. To him, the wealthy are entitled to their wealth and may choose to help the poor by giving alms and other acts of generosity.

The income and income distribution theory of poverty: This theory focused on the attention of the labor market and the determinants of labor's income based on demand and supply factors, which also depend on the educational levels, motivation, regional location, and age among others. The classical economists (Adam Smith, Thomas Malthus, and David Richardo) supported the income distribution theory by saying that income inequality means a higher income for the working classes, a rise in their consumption and population, a fall in savings investment and economic growth. To classical economists, equality is preferred to income inequality. According to Eyong[36], the income distribution theory further explained that since the majority of families or households rely on the labor market for most of their income, any rise in unemployment may result in a large income decline particularly among those whose income is low. Thus, the theory according to Eyong, [26] predicted a positive relationship between unemployment and poverty rate.

The capitalist entrepreneurial theory opined that the crude exploitation of the poor by means of low wages and poor conditions of services allows for a possible rise in savings among the entrepreneurial class. The resultant inequality income could result in the preponderance of poverty among the peasant majority.

However, the theoretical background of this study is rooted
+
on-demand- following hypothesis and the vicious cycle of poverty. This is because most microfinance banks are sited in urban areas or semi-urban areas where there already exists the demand for financial services. Thus, for the MFIs to function efficiently and effectively to break the poverty cycle, they are demand-driven and not supply lending.

The demand–following and supply–leading hypotheses: The demand-following financial theory refers to a kind of financial development that reacts positively to economic activities. Supply–leading finance on the other hand refers to the establishment of a financial institution in some areas before the demand for their service is considered. Demand-following and supply-leading theories are rooted in the fact that the financial system may be simultaneously growth-inducing and growth-induced. They both emphasized that the most relevant issue for development is the efficiency with which the financial system provides financial institutions. They linked the supply of initiatives, enterprise, and finance by the financial institution to be creation, transformation, and expansion of industries and other development-oriented ventures. The demand-following finance theory is a situation where financial institutions are established in urban centers where the demand for their service is already intact or exists. In the supply–leading finance theory, the challenges are to identify nascent firms, promote and support the same to maturity in order to boost grassroots entrepreneurship.

The vicious cycle of poverty states that the poor man is poor because he is poor or a country is underdeveloped. The vicious cycle of poverty is a kind of curse which is feared by individuals and countries because it is said that an individual or country is poor because it is poor. The theory states that there are circular relationships knowns as the "vicious cycle of poverty" that tends to perpetuate the low level of development in less developed countries (LDCs). The trajectory is that poverty is caused by low income; low income engenders low savings and this, in turn, leads to low investment. The latter provokes low productivity and the cycle continues. According to Jhingan, [13] the basic vicious cycle stems from the fact that in LDCs total productivity is low due to deficiency of capital, market perfections, economic backwardness, and underdevelopment. He stressed that the vicious cycle operates both on the demand side and supply side. On the demand side of the vicious cycle, the low level of real income leads to a low level of demand which in turn leads to a low rate of investment and hence back to deficiency of capital, low productivity, and low income. On the supply side, low productivity is reflected in low real income. The low level of savings leads to low investment and to deficiency of capital. The deficiency of capital, in turn, leads to a low level of productivity and back to a low income. Accordingly, this theory views poverty as being self-perpetuating.

V. METHODOLOGY

The population under study refers to the beneficiaries of six microfinance banks from each of the Local Government areas of three Senatorial Districts of Oyo State. These were villagers, artisans, petty traders, low-income groups, and those that had benefited or would benefit from the activities of the chosen microfinance banks. The staff of these institutions is also included in the population. The study employed multi-stage, purposive, and random sampling methods to choose respondents from the beneficiaries of microfinance banks in the chosen Local Government areas. Six microfinance banks were chosen. First, two rural Local Governments areas were selected randomly from three Senatorial Districts of the study area (Oyo North, Oyo South, and Oyo Central). Secondly, two rural communities were randomly selected from each of the chosen Local Governments of the Senatorial Districts of the study area, making twelve (12) rural communities/villages. Thirdly twenty (20) households were purposely selected from those chosen rural communities in the study area making a total sample size of 240 households, these households were mainly farmers, traders, teachers, artisans among others. Purposive because all the six Local Government areas are rural because poverty is more pronounced in the rural areas than in urban centers UNDP (2003).

Table 1: Selected local government areas in the study area

Local Government	Frequency	Percentage %
Surulere	40	16.7
OgoOluwa	40	16.7
Price	40	16.7
Orelope	40	16.7
Iddo	40	16.7
Ibarapa Central	40	16.7
Total	**240**	**100**

Source: Field Survey (2014)

Table 2: Selected rural communities in the study area

Settlement	Frequency	Percentage %
Arnold	20	8.3
Alagbede	20	8.3
Iwo-Ate	20	8.3
Portela	20	8.3
Tenure	20	8.3
Tipo	20	8.3
Igbo	20	8.3
Cleopatra	20	8.3
Apata	20	8.3
Omi-Adio	20	8.3
Idofin	20	8.3
Igbo-Ile	20	8.3
Total	**240**	**100**

Source: Field Survey (2014)

Data were sourced from both secondary and primary data were used for this study. A total of two hundred and forty (240) questionnaire was administered. Other secondary data on the list of microfinance banks, poverty line adopted and US dollar to Naira in Nigeria were obtained from the relevant government publications; other research publications, and publications of the central bank of Nigeria. To determine the relationships between microfinance banks and the incidence of poverty in the study area, this was done through the administered questionnaire on households income and expenditure before the collection of loans and after the collection of loans while to assess the level of participation in microfinance programs in reduction of poverty, this was carried out through the households participating in microfinance banks and non-participation in microfinance banks in other to know that those who participate in microfinance banks were able to combat the incidence of poverty than those who did not participate in microfinance banks.

Regression model for the study is specified as;

$P_1=a_0+a_1x_1+a_2x_2+a_3x_3+a_4x_4+a_5x_5+e$

$P_2=a_0+a_1x_1+a_2x_2+a_3x_3+a_4x_4+a_5x_5+e$

Where P_1 = Poverty index before loan = dependent

P_2 = Poverty index after loan = dependent

X_1 = Education

X_2 = Size of loan

X_3 = Household size

X_4 = Occupation

X_5 = Sex

The multiple regression equation is given by;

$y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$

Where y = income,

a = constant,

b = regression coefficient,

x = microfinance banks variables.

VI. RESULTS AND DISCUSSION

A. Participation in Microfinance Programs in Reduction of Poverty

To analyze objective four which is to access the level of participation in microfinance programs in reduction of poverty, the sex of the respondents as well as the total number of male and female customers that had enjoyed microfinance banks loans/credit for the period of three (3) years as given by the management of microfinance banks was used. Frequency tables, percentages were used to determine those who participate in microfinance banks and those who were not.

Table 3 shows the sex distribution of the respondents; the majority (65%) of the respondents were male while only 35% were female. Table 4 shows the number of clients that have obtained loans from microfinance banks as gotten from the selected microfinance banks for three senatorial districts of Oyo State. It also reflects that those who participated in microfinance banks were 75% while only 25% were non-participants in microfinance banks in the study area.

Table 3: Sex Distribution of Participation on Microfinance Programs

Sex	Frequency	Percentage %
Male	155	65.0
Female	85	35.0
Total	**240**	**100**

Source: Field Survey (2014)

Table 4: Participation in Microfinance Programs in the Study Area

Microfinance Programs	Frequency	Percentage %
Participants	180	75.0
Non-participant	60	25.0
Total	**240**	**100**

Source: Field Survey (2014)

This result shows that the majority of the respondents participate in microfinance banks programs. This is a good remarkable result and is in consonance with the target policy of the microfinance banks iii (to promote the participation of at least two-thirds of state and local governments in micro-credit financing by 2015). All the respondents both participants in microfinance programs were engaged in farming activities. This shows the typical rural setting of the study area where the majority of the households are expected to be relying on farming as their main occupations while others were artisans, petty traders, and in civil service.

All the six selected microfinance banks in the study area (one at least on each of the selected local government areas for the study) were officially given loans to those participants that engaged in farming activities as against other micro-entrepreneurship related activities (artisans, petty traders, etc.).

The borrowers were expected to either boost existing business activities or to start one with the microfinance banks loans.

B. Test of Hypothesis

Hypothesis I

This states that there is no relationship between microfinance banks and the incidence of poverty in the study area. This was used to test for objective three of the study, which is to determine the relationship between microfinance banks and the incidence of poverty in the study area as shown in Table 45.

There is a relationship between microfinance banks and the incidence of poverty in the study area. With a correlation of -0.500, there is a negative correlation between microfinance banks and the incidence of poverty in the study area. Also, with a p-value of 0.006 which is less than 0.05 confidence levels, it is observed that there is a significant relationship between microfinance banks and incidence of poverty, so therefore the null hypothesis is rejected. The implication of this is that if more microfinance banks are established in each of the selected local government areas of the study and people patronized them, use the loans collected purposively, the incidence of poverty will be drastically reduced. This will lead to alleviating the poverty in the study area.

Table 5. Relationship between Microfinance Banks and Incidence of Poverty in the Study Area. Correlations

Control Variables		Microfinance Bank	Incidence of Poverty
Local Government	Microfinance bank	1.000 .	-.500 .006
	Incidence of Poverty	- .500 .600	1.000 .

Source: Field survey (2014)

Hypothesis II

This states that microfinance banks have no significant difference in reducing the incidence of poverty in the study area. This was used to test for objective four which is to assess variation in the level of participation in microfinance programs in the reduction of poverty. This is shown in the analysis of variance (ANOVA) below;

Table 6. Result of Analysis of Variance (ANOVA) on Microfinance Banks in Reduction of Production.

ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups Within Groups Total	39.200 74.200 113.400	11 228 239	3.564 .325	10.950	.003

Source: Author's computation (2014)

Table 6 shows the Analysis of Variance (ANOVA) of difference in the incidence of poverty among the rural communities of the study area. According to the table, with an F-value of 10.950 and the corresponding P-value of 0.003 ($P<0.05$), it is observed that there is a statistical difference in the incidence of poverty across the rural community in the study area. Variations in the existence of microfinance banks in the study area may be responsible for the differences. Having more microfinance banks in one senatorial district as against the others may be a good example of the significant differences, so therefore the null hypothesis is rejected.

As explained in Table 7 above that 75% of the respondents participated in the microfinance banks while only 25% were non-participant. As long as the people are ready to participate in the microfinance banks loans, use the loans collected for the purpose for which the loans are given, their income will increase which will eventually reduce their level of poverty. Those people who are not a participant in the microfinance programs will remain poor as they were. Their reasons for not participating could be explained as the location of the microfinance banks are too far away or they do not possess the collateral to use as surety to collect the loans. Since the numbers of the participant outweigh the number of a non-participant, their arguments were baseless. They just need more orientation about the benefits derived from participation in microfinance banks.

Constraints Militating Against Microfinance Banks in Reduction of Poverty

Table 7 shows some of the constraints militating against microfinance banks in the reduction of poverty in the study area.

A. Problems of Illiteracy*:* The majority of customers (49.2%) of the microfinance banks in the study area had no formal education background. Some of them had problems keeping records and interpreting the terms and conditions of the loans they want to collect. These always caused a lot of problems for the bank officers in explaining to them. The implication of this is that it slowed the process of bank loans to be given to the customers as well as hindered them to perform effectively as they are expected. Illiteracy also affected the decision-making ability of borrowers and consequently affected their relationship with the banks.

B. Inadequate Bank Personnel**:** Microfinancing is more than dispensing loans. To be viable, microfinance banks require experienced and skilled personnel. In the study area, there was inadequate bank personnel (16.7%) to cater to the numerous customers applying for the bank's loans. Moreover, there is a need for more personnel to educate the customers on the usefulness of microfinance banks loan and how to make use of the loan collected for the same purpose.

C. Default in Repayment of Loans: Loan default is a major threat to microfinance banks' sustainability. It is the deadly 'virus' that afflicts the operation of the banks. It demoralizes staff and deprives beneficiaries of further valuable services. This assertion is applicable in the study area as some management staff of the microfinance bank testifies that there were banks defaulters (67%) among their customers and that is why collateral security was stressed than any other thing before loans were given out to the customers.

D. High Operating Cost**:** There was at least one microfinance bank in each of the selected local governments in the study area and high operating costs (56%) pose a challenge to them as they are not many. Apart from the high operating cost, there were several loan applications to be processed, numerous accounts to be managed and monitored. There was also repayment of collected loans to be made from several locations especially in rural communities of the study area, limiting the effectiveness and operation of the microfinance banks in reduction of the poverty level.

E. Inadequate or non-monitoring of micro and small enterprises by banks leading to defaults**:** Due to shortage of personnel (64.7%) in most of the selected microfinance banks in the study area, they find it difficult to effectively monitor the loans collected by the customers of the microfinance banks. This also led to some of the customers using the loans collected for other things apart from the purpose it was granted by the banks. The implication of this is that it leads to the inability of the customers to repay the loans as when due and this can lead to liquidation of the banks.

Table 8: Constraints militating against microfinance banks

Constraints	Frequency	Percentage
Problems of illiteracy	118	49.2
Inadequate bank personnel	40	16.7
Default in repayment of loans	161	67.1
High operating cost	135	56.3
Inadequate or non – monitoring of micro and small enterprises by banks leading to defaults	135	56.3

Source: Field survey (2014)

VII. DISCUSSION OF FINDINGS

There is a relationship between microfinance banks and the incidence of poverty in the study area. With correlation value r = -0.500 and p-value of 0.006 which is less than 0.05 confidence value. It is observed that there is a negative significant relationship. This result shows that more microfinance banks are needed in the rural communities of the study area for poverty to be totally alleviated in the areas.

The result from the Analysis of Variance (ANOVA) shows that there were differences in the incidence of poverty among the rural communities in the study area. With F- value of 10.950 and the corresponding p-value of 0.000 ($P < 0.05$).

This result shows that there is a variation in the incidence of poverty across the senatorial districts of the study area with the highest incidence of poverty in Oyo North senatorial districts (53.3%) and least in Oyo South senatorial districts (20.7%). The results also revealed that microfinance banks were not evenly distributed in the study area. The implication of this is that it has a negative impact on the level of participation in microfinance banks by the people in the study area. For effective participation in microfinance banks, more and evenly distributed microfinance banks are needed and this will eventually lead to a reduction in poverty level among the rural communities in the study area.

VIII. CONCLUSION

This study examined the influence of microfinance banks on the incidence of poverty reduction among the rural community in Oyo State. The results of this research revealed a relationship between microfinance banks and incidence of poverty in the study area; with correlation value r = 0.05 and a P-value of 0.006 which is less than 0.05 confidence value, it is observed that there is a significant relationship. This shows that more microfinance banks are needed for poverty to be alleviated among the rural communities of the study area.

The result also shows that there is a difference in the incidence of poverty among the rural communities in the study area, with an F-value of 10.950 and the corresponding P-value of 0.000 ($P < 0.05$), this shows that microfinance is not evenly distributed in the study area. It is now concluded that more microfinance banks are needed in the study area and must be evenly distributed so as to reduce the variation in the incidence of poverty among the rural communities in the study area. The study also established a positive relationship between the size of the loan, income after loan, and asset acquisition, with a size of loan having a higher effect on income. It also affects the expenditure and gives room for more asset acquisition in the study area.

The results also revealed that there were some constraints militating against microfinance banks in reduction of poverty in the study area these were illiteracy among the rural communities (49%), inadequate bank personnel (16.7%), default in repayment of loans (67%), high operating cost (56%) and inadequate monitoring (64.7%) by banks officers in the study area.

RECOMMENDATIONS

Based on the findings made in the course of this study the following measured are suggested for improvements. This first one is that a massive information/ educational drive on the importance of microfinance in fighting widespread poverty should be launched in the study area, for as the saying goes "knowledge is power". If the poor are to ever come out of their poverty in the study area, they need to be adequately informed and given the chance to determine their risk-taking and create wealth for themselves. Finally, people in the study area should be involved in the decision-making and be adequately informed about the programs the government wants to execute so as to enhance full participation and thereby alleviate their poverty.

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