

Microfinance Institutions in Ekiti State: A Tool to Poverty Alleviation

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Abstract

This study is to examine the impact of microfinance institution to poverty alleviation in Ekiti State considering the case of LAPO- (Lift Above Poverty) in Ekiti State. To manage the data to achieve the main objective of this Study, this study takes LAPO Microfinance institution to alleviate poverty in Ekiti State in order to: Carry out an Historical analysis of LAPO microfinance; To also investigate the introduction of LAPO microfinance bank in Ekiti; To investigate the structure and organisation of LAPO microfinance bank; Finally, to determine the effect of LAPO microfinance bank on poverty alleviation in Ekiti state. The paper obtained it's data from both primary and secondary sources which are made up of oral interview, books, journal articles, newspaper reports and government publications relevant to the topic.

Keywords

LAPO; microfinance;
poverty; alleviation
institution



I. Introduction

Microfinance programs have been embraced around the world as an important strategy for poverty alleviation. Studies have demonstrated that the poverty alleviation impacts of microfinance services include reaching the poor, lifting their economic well-being as well as empowering them, especially women¹. Over the last decade the microfinance field has expanded substantially both in terms of number of institutions and the size of institutions (Fisher and Sriram, 2002).

Poverty reduction has been receiving increasing global focus and the challenges are becoming more daunting. It is, however, encouraging to note that research findings and empirical evidence have shown that significant poverty reductions are possible and have, indeed, occurred in many developing countries (Aderibigbe, 2002). The objective of the first United Nations Decade for the Eradication of poverty (1997 — 2000), proclaimed by the General Assembly in its resolution 50/170 of 20 December 1995, is to achieve the goal of eradicating poverty through national action and international cooperation. In its resolution 52/194 of 18 December 1997, it is noted that in many countries microcredit programmes have proved to be an effective tool in freeing people from poverty and have helped to increase their participation in the economic and political processes of the society (Aderibigbe, 2002).

Microcredit arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-rounds", "esusus" etc.). They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations, and they encourage a cooperative and community sense of belonging. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress (Aderibigbe, 2002).

Several factors have led to increased interest in microcredit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit facilities. In addition, the value of the role of non-governmental organizations in development is receiving more attention (Anyawu, 2004).

It is in that context that microcredit has assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant and create employment opportunities (Anyawu, 2004). In 2003, there are estimated to be about 3,000 microfinance institutions in developing countries (Anyawu, 2004). These institutions also help to create deeper and more widespread financial markets in those countries. It is important to underline the fact that easy access to credit is more beneficial to this category of borrowers than interest rate subsidy. Targeted public sector rural credit programmes, especially if they are subsidized, benefit the non-poor far more than the poor. The poor want credit that is available on acceptable terms and when they need it. However, there is a general consensus in the literature that access to credit by the poor is necessary but not sufficient to guarantee the success of micro-credit schemes. Participation of the poor in the whole process of identifying and managing community based projects that respond to the priority needs of the poor is considered essential. This is critical to ensuring local commitments and sustainability.

In fact, participation of the poor in the whole process is an integral part of the UNDP micro-credit strategy, which recognizes the social, cultural and financial considerations that are necessary for any successful scheme. Recent experiments with community-based credit programmes in which the poor actively participate in the making of lending decisions and, which are subject to peer accountability, have been successful in reaching the target group at reasonable cost (Anyawu, 2004).

II. Review of Literature

Olaogun and Fatoki, 2005, studied the role of micro finance in poverty alleviation in Ekiti state: a case study of justice, development and peace commission of the catholic diocese of Ekiti. Poverty reduction has been receiving increasing global focus and the challenges are becoming more daunting. The use of micro-finance programmes have been employed and embraced around the world as an important strategy for poverty alleviation. Studies have demonstrated that the poverty alleviation impacts of micro-finance services include reaching the poor, lifting their economic wellbeing as well as empowering them. Research findings and empirical evidence in this field have shown that significant poverty reduction are possible and have indeed, occurred in many developing countries through micro-finance programmes. This study applied the outreach criteria. to assess the relevance of microcredit scheme in poverty alleviation in Ekiti State using the Justice Peace and Development Commission of the Catholic Diocese Ekiti as case study. It is observed that the scheme has been able to contribute significantly to reducing the level of poverty in the state based on which suggestions were made on the need for sustainability.

In another study, Onyele and Onyekachi-Onyele, 2020, on the effect of microfinance banks on poverty reduction in Nigeria, it was established the nexus between microfinance banking and poverty reduction is well documented in banking and finance literature. As a poverty reduction strategy, the microfinance initiative is expected to create room for

financial accessibility to the economically active poor people. Consequently, this study estimated the effect of microfinance banks' (MFBs) on poverty reduction in Nigeria from 1992 to 2018 using the Autoregressive Distributed Lag (ARDL) approach to regression analysis. With a VAR lag order selection of two, the ARDL bounds test revealed that the poverty rate and MFBs activities were bound by a long-run relationship. The long-run estimates suggested that the MFBs loans-to-deposit ratio and liquidity ratio caused poverty reduction in the long-run. On the other hand, the short-run estimates indicated that the MFBs were unable to ensure poverty reduction within a short period, though all the variables exhibited significant coefficients within one year. These findings imply that the ability of MFBs to reduce poverty takes a long period.

Recently, Ezeanyej, Usifoh, Obi, and Ejefobihi, (2020), investigated the linkages between micro financing, poverty alleviation, and economic growth in Nigeria from 1992 to 2018. The data analysis was based on the Autoregressive Distributed Lag (ARDL) model. The research findings showed that microfinance banks' loans contributed significantly negative to poverty in the long-run, but failed to make any significant contribution to economic growth.

In Bangladesh, Akhter and Cheng, (2020), analyzed the effectiveness of microcredit as an instrument to enhance financial accessibility among poor women in rural areas. The study used poor rural women to investigate the empowerment performance of microcredit beneficiaries compared to non-beneficiaries in the same socio-economic environment. A regression analysis was employed to accomplish these objectives. The outcome of the empirical analysis showed that there was a significant effect of microcredit on sustainable women empowerment.

Similarly, Sohn and Ume, (2019), investigated the impact of microfinance on poverty alleviation using cross-country data of ninety-six (96) countries. It was found that such bank establishments had a significant effect on poverty alleviation and were effective for long-term economic and financial development. The results also showed that a good number of female recipients of micro-loans and active borrowers were likely to step out of poverty based on the random-effect and fixed-effect models applied for the data analysis.

Again, Hossen, Miah, and Ruhi (2019), examined the impact of micro-credit on poverty alleviation in Bangladesh. The paper argued that microfinance is an important tool for effective poverty reduction, especially in rural areas. The study was developed using descriptive analysis and secondary data. The results revealed that microcredit effectively reduced poverty.

In a similar study, Ihugba, Bnakong, and Ebomuche (2013), appraised the effectiveness of microfinance banks in poverty eradication in Imo State, Nigeria. The area of study was sixteen (16) sample units from the local government areas in Imo state. The study purposefully selected twelve (12) microfinance banks, four (4) from each of the three (3) Senatorial Zones (Owerri, Okigwe and Orlu) with Three Hundred and Eighty-Two questionnaires (382) randomly distributed to clients of these selected microfinance Banks; eighty-two from Owerri, one hundred from Okigwe and two hundred from Orlu. From the results, it was revealed that high-income earners have more capacity to accumulate savings than the poor.

Also, Tafamel (2019), investigated the linkages between microfinance institutions and poverty in Nigeria. Specifically, the study analyzed the impact of micro financing on sampled two-hundred (200) SMEs operating in IkpobaOkha Local Government Area of Edo State, Nigeria. Using Pearson correlation and multiple regression analysis, a positive and significant linkage between microfinance banks and poverty alleviation was found. Similarly, Mustapha, Yusuf, and Abdullahi (2019) examined the impact of Rima

Microfinance Bank on income and poverty in the Goronyo Local Government Area of Sokoto State, Nigeria. A multistage sampling technique was applied for the sampling and a structured questionnaire was used for data collection. The result showed that the income increased as beneficiaries used the Rima Microfinance Bank credit facility, while poverty declined by 6%.

In a similar study, Nwibo, Okonkwo, Eze, Mbam, and Odoh (2019) analyzed the effectiveness of microfinancing on poverty reduction among rural farmers in Nigeria. The study applied multi-stage random and purposive sampling in selecting two-hundred (200) farmers. Data were collated primarily through a structured questionnaire and analyzed with descriptive as well as inferential statistics. The results reaffirmed that microcredit is a prominent source of finance for rural farm households in Nigeria.

In a study, Usifoh and Ezeanyej (2017) explored the effectiveness of microfinance banks as a means for poverty alleviation and economic growth in Nigeria from 1992 to 2016. The study used the regression technique for data analysis. The research findings showed that microfinance assets had a significant effect on poverty alleviation and economic growth; deposit liabilities of microfinance banks had a positive but insignificant effect on poverty alleviation and economic growth; loans and advances had a negative significant effect on poverty alleviation and economic growth.

In a similar study, Oluseye (2017) appraised the role of microfinance banks in alleviating poverty in Ekiti State, Nigeria. The study employed structured questionnaires that were administered to 150 staff randomly selected from ten microfinance institutions in Ekiti state and some beneficiaries of the bank. Multiple regression was adopted for the analysis showed that the effectiveness of microfinance institutions and other independent variables positively and significantly influenced poverty alleviation in Ekiti State.

Again, Banerjee and Jackson, (2017), analyzed the role of microfinance institutions in the reduction of poverty by conducting three (3) villages in Bangladesh. Findings from the study showed that microfinancing resulted in higher levels of indebtedness among already impoverished communities leading to increasing vulnerabilities to economic, social, and environmental activities.

Also, Puskar (2016) focused on the District of Uttar Pradesh using data collected via questionnaire, descriptive research, and interviews from Microfinance Banks and some of their customers, resident in rural areas. Findings from the research showed that microfinance was a major strategy that aided quick recovery from an economic downturn, and enhanced the living standard of the rural people.

In Nigeria, Taiwo et al (2016), examined the effectiveness of microfinance schemes in dispersing credit amongst the economically active poor people with data collected from field surveys from Lagos and Ogun State, Nigeria, and estimated using the Ordinary Least Squares (OLS) econometric technique. The study discovered that the majority of the sampled microfinance banks were modeled after the Grameen Bank which supports microfinance banking as a major tool for poverty alleviation.

Similarly, Okafor (2016), examined the impact of microfinance banks on the standard of living in Nigeria within the period 1993 and 2012. Multiple regression model was used for the analysis of data. The result indicated that microfinance banks' activities had no significant positive impact on the standard of living in Nigeria, which was contrary to the objectives of the CBN's microfinance policy.

Origin of Microfinance Banking in Nigeria

Micro credit is a financial innovation designed to lend very small loans to petty traders. These individuals lack verifiable credit history, collateral, steady employment and access to traditional credit facilities (CBN; 2004). However, micro credit is not new. Various forms of informal, small lendings have been in place almost since the beginning of recorded time. The origin of micro credit in its current modern perspective can be linked to several organizations founded by different Governments in Nigeria. The first attempt dated back to 1930 when the then native administration of the defunct Northern Region granted small credits to farmers to procure farm inputs and was later extended to horticulture and fisheries by Ministry of Agriculture and Natural Resources (FAO; 1974). This was followed by the establishment of nation-wide credit institution by the Nigeria Local Development Board (NLDB) in 1946 but because it lacked the resources to discharge its duties efficiently, it was abolished in 1949 (Adeyemo, 1982).

However, after the abolishment of the NLDB, other schemes and institutions such as Co-operative Bank of Western Nigeria limited (CBWN) in 1961, Funds for Agriculture and Industrial Development (FAID) in 1963, in the same 1963, Mid-western Nigeria Cooperative Federation Limited (MNCF) was established and in 1965, the Northern Region Development Company (NRDC) took over the administration of credit to farmers. The details of these institutions and schemes are well documented (CBN; 2004).

According to Chambers and Conway (1999), after these several attempts by different governments, micro credit quickly became a popular tool for economic development with hundreds of institutions emerging throughout the third world. It is also on record that most these organizations and agencies were formally non-profit corporate bodies dependent upon government subsidies, but presently, some of them have become profit making micro credit institutions. CBN31 reported that apart from these MCIs, other financial institutions have taken up the services of providing micro credits to the rural and urban poor. Such financial institutions include Universal Banks, Community Banks and Non-Governmental organization –Micro Finance Institutions NGO-MFIs). Due to these peculiar characteristics in the historical trend of credit in Nigeria, CBN has created a Credit Reference Bureau which provides information on micro credit clients and aid decision making, (Chambers and Conway, 1999).

III. Results and Discussion

3.1 Objectives of Microfinance Banking in Nigeria

According to CBN (CBN; 2005), micro credit is an aspect of microfinance, which is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish micro credit from other formal financial products. These include:

1. Smallness of loans, ii. Absence of asset-based collateral, and iii. Simplicity of operations. The central monitoring body, CBN further argues that the microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet financial requirements of the micro, small and medium Enterprises (MSMEs), (CBN; 2005).
2. These individual clients in the rural areas lack collateral, steady employment and verifiable credit history and therefore cannot meet even the minimal qualification to gain access to formal credit. According to Wikipedia- the free encyclopedia, micro credit is a part of microfinance, which is the provision of wider range of financial

services to the rural poor to enhance their livelihood strategies, (CBN; 2005). In Agricultural finance, the terms 'credit' and 'loan' have been often used interchangeably and are used to refer to the process of obtaining control over the use of money, goods or services in the present in exchange for a promise to repay at future time, (Peters, 2002). Finness, (n.d) defined credit as the means by which entrepreneurs were able to obtain or acquire commodities against a promise to repay back later. Finness also noted that both macro and micro credits are predicted upon confidence in the sense that the request for loan is usually met on the basis of a promise of repayment by the borrowers at a stated time and given conditions.

3.2 Philosophy of Microfinance Banking in Nigeria

In Nigeria, micro credit facilities are available for agricultural and agro-allied productions as well as petty-trading. Ab-initio, Government at federal and sub-regions made both direct and indirect efforts to finance agriculture in the rural areas through moral situation and other monetary policies, (Ugwuanyi and Ugwuanyi, 1999).

In 1930, the defunct Northern Region granted micro credit to farmers and was later followed by Federal Ministry of Agriculture and Natural Resource. Consequently, Governments at all levels have seen the need to improve the livelihoods of the rural farmers and artisans through provision of micro credit facilities.

Secondly, Commercial and Merchant banks also give out micro credit packages to rural people most of which are sponsored by the Government. Micro-Finance Banks (MFBs) have also recorded a great deal of help in alleviating poverty in the rural areas through small loans. In 2011, Microfinance Africa reported that Umuchinemere Pro- credit Micro Finance Bank (UPMFB) Enugu, disbursed micro credit facilities to about three hundred active poor in Nkanu East and Nkanu West LGAs in Enugu State. Non-Governmental Organizations (NGOs) and International NGOs have been funding micro-credit schemes in Nigeria. Some of these schemes were in direct contacts with rural farmers and artisans while most of their funding have been through formal corporations like banks, NGOs, Community Based Organizations (CBOs), Cooperative Societies, Research and Tertiary Institutions, (Ugwuanyi and Ugwuanyi, 1999).

Bateman and Milford (2010) argued that micro credit is based on a separate set of principles, which are distinguished from general financing or credit. These set of principles includes:

Lending to Women: Lending to women has become an important principle in micro credit with the banks and NGOs such as Micro Finance Banks, Country Women Association of Nigeria (COWAN), Small Project Funds, Women for Change Initiative among others. This economic principle of exclusive lending to women began in the 1980s, when Grameen Bank found that women have higher repayment rates, and tends to accept smaller loans than men. Subsequently, many credit institutions have used the goal of empowering women to justify their disproportionate loans to women.

Group Lending: Though group lending has long been a key part of micro credit, micro credit initially began with the principle of lending to individual (Drake and Deborah, 2002). Despite the use of solidarity circles in 1970s, Banks and other early micro credit institutions initially focused on individual lending but the use of group lending was motivated by economics of scale as the costs associated with servicing and monitoring small loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Credit organizations were created to serve in the place of 'LOCA' (loan-sharks) known to take advantage of clients. Many micro credit organizations began as non- profit organization, running of government or private

subsidies. They also noted that most micro credit organizations now function as independent banks, leading to high interest rates and a greater emphasis on savings programmes. The application of neoliberal economics to micro credit has generated much debate among scholars and development practitioners, with some claiming that micro credit bank directors are employing the practices of loan shark for their own personal enrichment (Drake and Deborah, 2002). They further noted that group lending is an advantage to both the service providers and the clients. As the clients enjoy economics of scale, the providers enjoy lower costs of monitoring loans and enforcing repayment (Drake and Deborah, 2002).

3.3 Emergence of Micro-Finance Banking in Nigeria

The setting up of micro finance bank is a major effort by the federal government of Nigeria to develop the SMEs and the rural communities (Okpara, 2012).

The Federal government of Nigeria in the time past took so many actions to curtail the poor accessibility to financial services in their quest to give room for more financial inclusion to those in the unbanked areas (Okpara, 2012). According to Okoye and Okpala (Okoye and Okpala, 2001), the central bank of Nigeria granted license to community banks in 1990s, community banks are financially self-sustained and has no dependent on any financial player for mobilization of funds, the institution is owned and managed by the community, hence the sourcing of funding for small-scale business is even made less cumbersome and much cheaper (Okoye and Okpala, 2001). The former national board for community banks was responsible for receiving and processing applications for the establishment of community bank, they also provide non sophisticated loans to the community (Okoye and Okpala, 2001). Community banks that qualify and meet the requirements and conditions of the apex bank were granted license to be automatically converted to micro finance bank (CBN, 2005). Olashoro (2008), observed that the informal setting is an obsolete procedure which has no regulation, supervision and unofficial financial process but it remains the major source of fund for small businesses and the poor. Aruwa (2004), observed that one of the major features of the informal arrangements are the rotating savings and credit associations (ROSCA), thrift associations, money lenders etc.

The formal setting of the LAPO micro finance bank is well regulated and supervised, also, the financial assistance rendered to customers can meet the expectations of borrowers. LAPO microfinance provides access to credit for the rural and urban income earners. They are mainly of the informal self-help groups (SHG'S) or rotating saving and credit association (ROSCSA). Other provision of microfinance services includes saving collector and cooperative societies.

Some microfinance banks are opposed to lending to new businesses making it difficult for young entrepreneurs with business ideas and innovation to get started.

3.4 Origin of Microfinance Bank In Ekiti State

There has been no specific date or time to the origin of microfinance banks in Ekiti state, Nigeria. Microfinance as an industry started in the 1970s, initially as an initiative to provide small loans to poor individuals, mostly women, in developing countries, to enable them to start or expand small businesses and improve their standard of living. Over time, it has evolved to include a range of financial services such as savings, insurance, and money transfers, with the goal of providing access to financial services for people who are excluded from the formal financial sector.

In Nigeria, the Central Bank of Nigeria (CBN) has played a major role in promoting microfinance by creating a regulatory framework and providing funding to microfinance

banks (CBN, 2005). The CBN has also been promoting the development of microfinance institutions in Ekiti state and other states in Nigeria in order to increase financial inclusion and economic development. It is possible that microfinance banks in Ekiti state have been established as part of this broader initiative to promote microfinance and financial inclusion in Nigeria, but I could not find any specific information about the origin of these banks in Ekiti.

3.5 Impact of Microfinance Bank In Ekiti

Microfinance banks can have a positive impact on small and medium-sized enterprises (SMEs) in Ekiti by providing access to financial services such as loans, savings accounts, and insurance. This can help SMEs to start or expand their businesses, create jobs, and contribute to economic growth in the region. Microfinance banks can also provide financial education and training to help SMEs manage their finances more effectively. However, it's worth noting that the impact of microfinance banks on SMEs in Ekiti will depend on various factors such as the availability of other financial services, the strength of the local economy, and the effectiveness of the microfinance bank in reaching and serving its target clients.

Microfinance banks are effective in the use of its credit to improve the living standard of entrepreneurs in Ekiti State. More profits were realized by the various entrepreneurs from their businesses due to credit obtained from microfinance banks. Also, they have more purchasing power to meet their needs and that the quality of life they live had improved. Similarly, microfinance banks has contributed to wealth creation in Ekiti state. The outcome of this study is in line with one of the cardinal objectives of establishing microfinance banks as indicated by CBN (2005) that microfinance banks should create employment opportunities and increase household income of the active poor in the country, thereby enhancing their living standard. Also, the study corroborates Yahaya, et al. (2011) who reported that microfinance banks had been effective in alleviating poverty. The study also reveals that microfinance banks have increased the income of entrepreneurs as a result of their business activities. Furthermore, the finding of the study agrees with Opue, et al. (2011) who stated that credit policy of the microfinance banks operations resulted to socio-economic growth of the rural communities. Similarly, Awojobi (2019); discovered that microcredit from microfinance bank is a strategy for poverty reduction in Nigeria. Again, as it was discovered that microfinance banks improved the living standard of people in Ekiti State. Similar result was obtained in a study conducted by Madume et al. (2016) on assessment of the impact of microfinance bank on the development of entrepreneurs in Rivers State. Researchers discovered that a positive relationship existed between microfinance credit facilities, income and profit of the entrepreneurs. This suggests that microfinance bank contributed to reduction of poverty among people in Rivers State. Thus, despite numerous contributions of microfinance banks to the living standard of entrepreneurs, it must be noted that respondents indicated that microfinance banks are not effective in meeting all entrepreneurial aspirations of entrepreneurs.

Microfinance banks also provides business training and other services to help SMEs improve their operations and increase their competitiveness. Additionally, microfinance banks has been able to help in improving financial inclusion by providing access to financial services for people who may not have been able to access them through traditional banks.

Microfinance institutions also had a positive effect on the economy and society in Ekiti by providing access to financial services and credit for individuals and small and

medium-sized enterprises (SMEs) that may not have been able to access them through traditional banks. This can help to spur economic growth, create jobs, and improve the standard of living for individuals and communities.

This also help to empower individuals and communities by providing them with the tools they need to manage their finances and improve their economic situation.

Microfinance institutions also provide business training and other services to help SMEs improve their operations and increase their competitiveness, this in turn helps to improve the economy of the state by providing more jobs and opportunities for the citizens of Ekiti.

However, it's important to note that microfinance institutions also have some limitations as well. For example, they may not be able to provide the same level of services or resources as traditional banks, and they may also be subject to higher interest rates and fees.

3.6 Challenges of Microfinance Banks In Ekiti State

Microfinance banks are not effective in the use of its credit to increase the number of small and medium scale businesses in Ekiti State. The reason is attributed to the fact the microfinance banks are only interest in providing capital for entrepreneurs to start their businesses, they are not effective at providing technical assistance to support entrepreneurs in the course of their business. Again, microfinance banks were not effective neither at assisting entrepreneurs to identify business opportunities nor enture the credit obtained from it was use for entrepreneur purposes. Microfinance banks in Ekiti as at 2018 stood at 17. This number was grossly adequate considering the population of the state that stood at 2.3 million and 85 percent of the population were categorized as poor within the same period according to NBS (2019). Also, microfinance banks have not been effective in meeting the need of economically poor people. This implies that certain category of people who need services of microfinance banks have not been benefited from services they rendered to increase the number of small scale business in EKiti.

Microfinance banks in Ekiti state, Nigeria, may face a number of challenges, some of which include:

1. Limited access to funding: Microfinance banks may have difficulty obtaining funding from traditional sources, such as commercial banks, which can limit their ability to provide loans and other services to their customers.
2. High operational costs: Microfinance banks may have high operational costs due to the need to serve a large number of small clients, which can make it difficult for them to be profitable.
3. Limited access to technology: Microfinance banks in Ekiti state may not have access to the latest technology and digital platforms, which can limit their ability to serve their customers effectively and efficiently.
4. Regulatory challenges: Microfinance banks may face challenges related to regulation and compliance, as the regulatory environment in Nigeria is still evolving.
5. High-interest rates: Due to the high cost of funds, microfinance banks might charge high-interest rates which could be a challenge for the customers.
6. Lack of awareness: A lack of awareness of the services provided by microfinance banks, and the benefits that they can offer, may make it difficult for them to attract customers.
7. High default rate: Microfinance banks may also face challenges with high default rates, as many of their customers may not have the financial resources or credit history to repay their loans.

8. Limited capacity: Microfinance banks may have limited capacity to provide the range of financial services that their customers need, which can make it difficult for them to compete with traditional banks.

It is worth noting that some of these challenges are faced by microfinance institutions in other countries and not just in Ekiti state. However, the specific challenges faced by microfinance banks in Ekiti state might vary depending on the context and the local economy.

IV. Conclusion

In conclusion, the role cooperative society plays in the economic development of traders in Ekiti cannot be overemphasized most especially in the area of disbursement of soft loans to petty traders. It has already made a significant contribution to the economic prosperity of the people of Ekiti State at large. Micro finance banks contributes passively to poverty alleviation in Ekiti State by providing banking services in rural areas and meeting financial needs of beneficiaries in those areas. The study concludes that there exist a positive relationship between LAPO and Micro Finance Bank and poverty reduction in Ekiti State, based on the findings, micro finance bank provide domestic fund transfer to petty traders which enables the growth and expansion of their business. The study also concludes that beneficiaries of micro finance loans utilize the fund prudently and it has led to productivity of their business.

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