

Microfinance Bank and Poverty Reduction in Uyo Local Government Area, Akwa Ibom State, Nigeria

Mfon Effiong Asuquo

Department of Sociology and Anthropology, Faculty of Social Sciences
Akwa Ibom State University, Obio Akpa Campus, Nigeria
mfonasuquo@aksu.edu.ng

Henshaw Okon Thompson

Department of Sociology and Anthropology, Faculty of Social Sciences, University of
Uyo, Uyo, Nigeria
henshawthompson19@gmail.com
<https://orcid.org/0009-0002-4194-2507>

Michael Aniekan Akpan

Department of Sociology and Anthropology, Faculty of Social Sciences
University of Uyo, Uyo, Nigeria
michaelaniekan224@gmail.com

ABSTRACT

This study examined the role of microfinance banks in poverty reduction efforts in Uyo Local Government Area of Akwa Ibom State, Nigeria. Three (3) research questions were raised to guide the study. The research design adopted for the study was the survey design. Data were collected through questionnaires while respondents were selected through convenience sampling technique. A total of three hundred and twenty-three (323) respondents were selected as the sample, through the use of Topman Formula at 5% level of tolerable error. Out of the three hundred and twenty-three (323) copies of the questionnaire that were printed and distributed, two hundred and forty-five (245) were properly filled and returned and final analysis was based on this figure. Analysis was carried out using frequency counts and percentages. Based on the analysis made, it was observed that, microfinance banks in Uyo LGA are relatively effective in enabling the poor to access credit facilities, despite some concerns about collateral requirements. It was also observed that microfinance banks significantly contribute to business growth by providing credit, training, and financial literacy programs. These services enable entrepreneurs to start or expand their businesses and increase their income. Lastly, the findings suggested that microfinance banks contribute to reduction of unemployment by supporting self-employment. However, the community-wide impacts of these businesses were discovered to be limited. In light of these findings, the study suggested that microfinance banks broaden their financial inclusion, boost loan amounts and flexibility, improve non-financial support services, and create focused unemployment reduction initiatives, among other things.

Keywords: *Microfinance bank, Poverty reduction, Credit facility, Business growth, Unemployment*

1. Introduction

There has been a lot of interest in microfinance and poverty alleviation in the fields of social policy, economics, and development. In Nigeria, traditional informal financial systems that have been in place for many generations are the foundation of microfinance. Members of these systems, which are referred to locally as "esusu" or "ajo," pool resources to support one another financially through

rotating savings and credit associations (ROSCAs) (Idolor and Imhanlahimi, 2011). In Nigeria, however, the establishment of community banks in the 1980s marked the beginning of the formal microfinance industry. These organizations were founded to offer financial services to the impoverished in both rural and urban areas who were normally shut out of the official banking system (Central Bank of Nigeria, 2005).

According to the Central Bank of Nigeria (2020), microfinance banks are financial institutions that offer a variety of financial services to the economically active poor and micro, small, and medium-sized businesses (MSMEs) that do not have access to traditional banks. These institutions usually provide microcredit, microsavings, microinsurance, and payment services as their primary offerings. The idea that having access to financial services can enable low-income people and households to invest in revenue-generating ventures, control risks, and accumulate assets over time forms the theoretical foundation of microfinance as a tool for poverty reduction (Yunus, 2007).

There is conflicting empirical data regarding microfinance's ability to eradicate poverty; while some studies have found a positive impact, others have found little to no impact. According to a systematic review by Duvendack, Palmer-Jones, Copeskake, Hooper, Loke, and Rao (2011), there is insufficient and conflicting evidence to support the idea that microfinance can significantly reduce poverty, even though it has the potential to improve the lives of the impoverished. The necessity for this study, which aimed to investigate the role of microfinance banks in poverty reduction initiatives in Uyo Local Government Area of Akwa Ibom State, was brought about by the significance of context-specific research in understanding the efficacy of microfinance interventions in various settings. Mboho and Udoh (2013) posited that, usually, the local government areas in Nigeria are created at the behest of the national government to serve as fertile grounds for the propagation of national objectives, including a uniform socio-economic and political development of the entire country.

2. Objectives of the Study

The main aim of this study was to examine the role of microfinance banks in poverty reduction efforts in Uyo Local Government Area of Akwa Ibom State, Nigeria. Specifically, the study sought to achieve the following:

- i. Examine how microfinance banks in Uyo LGA provide the poor access to credit facilities.
- ii. Examine the extent to which microfinance banks contribute to business growth in Uyo LGA.
- iii. Ascertain whether microfinance banks have helped to reduce unemployment in Uyo LGA.

3. Research Questions

Based on the research objectives, the following questions were raised:

- i. To what extent does microfinance banks allow the poor access to credit facilities?
- ii. How does microfinance banks contribute to business growth?
- iii. To what extent does microfinance banks reduce unemployment?

4. Conceptual and Theoretical Discourse

4.1. Concept of Poverty and Poverty Reduction

Poverty is a multifaceted, intricate social phenomenon with social, psychological, and economic components. According to Mboho and Udoh (2018), poverty is a dreaded condition of absence of capacity to maintain, at least, basic level of decent living. It is a hydra-headed condition which tends

to restrict people from socio-economic opportunities. It extends to social inequality, insecurity, illiteracy, poor health, as well as restricted or total lack of opportunities for personal growth and self-realization. The most widely used definition of poverty is the inability to afford basic necessities like clothing, food, shelter, and medical care. The World Bank (2019) states that if a person makes less than \$1.90 per day, they are deemed to be in extreme poverty. Despite being widely accepted, this economic definition falls short in describing the extent to which poverty impacts both individual lives and social structures. According to Okon and Thompson (2019), the term "poverty reduction" encompasses all programs, policies, and initiatives that are intended to lower the prevalence and rate of poverty in a given family, community, state, or nation. Poverty can instigate the youths to engage in criminal activities, but poverty reduction will reduce the threat of some level of frivolities among young people. Udoh and Udousoro (2014) observed that, in every society, the youths represent a dream, a hope, a future, they also represent fear and uncertainty.

4.2. Conceptualizing Microfinance Institutions

Microfinance institutions (MFIs) are businesses that provide financial services to people or groups without access to traditional banking services, including savings accounts, insurance, money transfer services, and small loans (microcredit). MFIs usually serve low-income people, especially those living in rural areas, women, and small business owners. MFIs frequently use group lending models or social collateral, where borrowers assist one another in repaying loans, in contrast to traditional banks that demand collateral (Armendáriz and Morduch, 2010).

The establishment of Grameen Bank in Bangladesh in 1976 by Muhammad Yunus is credited with bringing modern microfinance to life. The difficulties that impoverished people faced in obtaining loans from official financial institutions were something that Yunus aimed to address. The basis for modern microfinance organizations, which have since grown internationally, was established by his model of giving small, unsecured loans to the underprivileged (Yunus, 1999).

4.3. Microfinance and Poverty Alleviation

One of the most widely accepted methods for reducing poverty is microfinance. Microfinance institutions (MFIs) help the impoverished by offering financial services that allow them to invest in sources of income, accumulate assets, and raise their standard of living. Nonetheless, microfinance's influence on reducing poverty goes beyond economic empowerment; it also tackles the social aspects of poverty by encouraging self-reliance, inclusion, and dignity (Kabeer, 2001). One of the main objectives of microfinance organizations is to reduce poverty. Microfinance organizations enable the impoverished to invest in revenue-generating ventures by lowering the transaction costs related to obtaining credit. By creating assets and encouraging financial independence, these initiatives not only help people and households immediately but also reduce poverty over the long run (Cull, Demirgüç-Kunt, and Morduch, 2009). In order to further lessen the effects of poverty and give the impoverished a safety net, microfinance institutions also provide insurance and savings plans.

To alleviate poverty, Udoh and Mboho (2022) suggest that, rural areas should be provided with all the facilities and infrastructures like pipe borne water, electricity, hospital, telephone, school, banks, industries, food, clothing and shelter for the people. In the absence of these infrastructures living conditions of the rural people becomes sordid and unattractive. Poverty affects both the young and the old. To Udoh (2021), failure to have access to pension and gratuity by retirees from federal, State and local governments have aggravated their socio-economic and psychological conditions and retirees are often left to suffer unnecessarily or die in the course of waiting for their benefits.

4.4. Theoretical Framework

4.4.1 Financial Intermediation Theory

The Theory of Financial Intermediation served as the theoretical foundation for this investigation. In 1984, Douglas W. Diamond developed the Theory of Financial Intermediation. It offers a fundamental framework for comprehending the function of banks and microfinance organizations, among other financial institutions, in the larger economy. According to the theory, banks and microfinance organizations are important economic actors because they lower transaction costs and lessen the information asymmetry that exists between lenders and borrowers. The theory states that financial intermediaries effectively distribute resources by combining savings and guiding them toward profitable ventures, something that individual lenders or savers might not be able to accomplish on their own. The financial system is stabilized by financial intermediaries, who also guarantee liquidity and diversify risk. By doing this, they promote economic expansion and give people who are shut out of traditional banking systems access to financial services.

A number of fundamental presumptions underpin the Theory of Financial Intermediation, which explains how financial intermediaries like banks and microfinance organizations support resource allocation and economic growth. The idea that financial intermediaries reduce the transaction costs associated with lending and borrowing is one of the theory's central tenets. Finding a lender or borrower directly can be extremely expensive in an economy without middlemen. In order to lower the costs involved in individual transactions, microfinance institutions act as middlemen by pooling savers' money and making it accessible to borrowers (Diamond, 1984). The theory also makes the assumption that financial intermediaries are essential to the effective distribution of resources. Because of their experience and access to data, they are better equipped than individual lenders to evaluate borrowers' creditworthiness. Because money is allocated to the most productive uses, capital is allocated more efficiently, which promotes economic growth (Diamond and Dybvig, 1983).

Financial intermediaries also aid in resolving information asymmetry, which occurs when one party to a transaction—usually the borrower—knows more about the risks involved than the lender. The overall efficiency of the financial system is raised by microfinance institutions' ability to reduce these risks and guarantee loan repayment through screening, monitoring, and enforcement of repayment (Diamond, 1984). By combining the money of numerous investors and making loans to a wide range of borrowers, financial intermediaries are also thought to offer risk diversification, according to Diamond's (1984) theory. This helps to stabilize the financial system and lowers the risk that individual savers must deal with.

The study of the function of microfinance banks in reducing poverty and promoting economic growth, especially in Uyo LGA, is ideally suited to the Theory of Financial Intermediation. As financial intermediaries, microfinance institutions (MFIs) serve as a link between the formal financial system and the underprivileged groups that are generally shut out of traditional banking services. A sizable section of the populace in Uyo LGA does not have access to official financial services. Their capacity to invest in profitable ventures that could raise their income and general standard of living is restricted by this exclusion. Microfinance banks give these people access to credit, allowing them to launch or grow small enterprises. According to Diamond's theory, microfinance organizations assist in lowering the transaction costs related to credit access as well as the obstacles faced by those who are financially excluded (Diamond, 1984).

In impoverished areas, microfinance banks are also essential for promoting the expansion of small businesses by effectively distributing funds to creditworthy borrowers. These banks guarantee that money is allocated to profitable businesses by evaluating risk and reducing information asymmetry. According to the theory's presumptions, these small enterprises support economic growth and generate job opportunities as they expand (Diamond and Rajan, 2001). People who have access to credit through microfinance institutions can start their own businesses, which could lower unemployment in places like Uyo LGA. The expansion of microenterprises, which can employ people, especially the unemployed and impoverished, is facilitated by microfinance banks.

5. Methodology

This study adopted the survey research design while the instrument used for data collection in the study was the questionnaire. The population of the study consisted of all customers of Microfinance Banks in Uyo Local Government Area of Akwa Ibom State. Hence, the Population of the study was infinite. A total of three hundred and twenty-three (323) respondents were selected as the sample, through the use of Topman Formula at 5% level of tolerable error. Convenience sampling technique was however adopted to pick the required sample for the study. This technique allowed the researcher to include respondents who were available and willing to participate, thus, enhancing the authenticity and validity of the study. Data analysis was carried out using frequency counts and percentages. Out of the three hundred and twenty-three (323) questionnaires administered to the respondents, 245 (76%) were useable. Therefore, the analysis was based on the usable sample size of 245 retrieved from the respondents.

6. Results and Discussion

Table 1: Respondents Demographic Characteristics of Respondents (n = 245)

Characteristics	Frequency	Percentage
Sex:		
Male	142	58
Female	103	42
Age:		
18 □ 27 years	33	13.5
28 □ 37 years	86	35.1
38 □ 47 years	109	44.5
48 years and above 35 years	17	6.9
Educational Qualification:		
No formal education	79	32
Primary	61	25
Secondary	90	37
Tertiary	15	6

Source: Field Survey (2025)

The data in Table 1 shows that 58% were males while 42% of the respondents were females. The Table also shows that 13.5% of the respondents were between the ages of 18-27, 35.1% of the respondents were between the ages of 28-37, 44.5% were between the ages of 38-47, while 6.9% of the respondents were between ages of 48 and above. Furthermore, the shows that 32% of the respondents had no formal education, 25% of the respondents had primary education, 37% of the respondents had secondary education, while 6% of the respondents had tertiary education.

Table 2: Microfinance Banks and Access to Credit Facilities (n = 245)

Statements	Yes	No
Microfinance banks make it easy for low-income individuals to access credit.	157 (64.1)	88 (35.9)
I have accessed credit from a microfinance bank due to their favourable terms compared to commercial banks.	172 (70.2)	73 (29.8)
Microfinance banks provide credit without requiring collateral, which benefits the poor.	57 (23.3)	188 (76.7)
The credit facilities offered by microfinance banks have improved my financial situation.	169 (69)	76 (31)

Source: Field Survey, 2025

The analysis in Table 2 shows that a significant proportion of the respondents (64.1%) agreed that microfinance banks make it easy for low-income individuals to access credit. Furthermore, 70.2% of respondents agreed that they had accessed credit from microfinance institutions due to favourable terms compared to commercial banks. This aligns with existing literature, which suggests that microfinance banks are designed to bridge the financial inclusion gap by offering accessible financial services to low-income individuals who lack access to traditional financial institutions (Acha, 2012). However, there was a divergence in opinion regarding collateral requirements, as 76.7% of the respondents disagreed that microfinance banks provide credit without collateral, which could suggest that some microfinance institutions still implement collateral requirements that may restrict the poorest households from accessing credit. Despite this, 69% of respondents agreed that microfinance banks have improved their financial situation. This indicates that, while there are barriers, the overall impact of microfinance banks in enhancing access to credit is positive, and their role in poverty alleviation is significant.

Table 3: Microfinance Banks and Business Growth (n = 245)

Statements	Yes	No
Microfinance loans have helped me start or expand my business.	157 (64.1)	88 (35.9)
The support from microfinance banks has increased my business income.	176 (71.8)	69 (28.2)
The training and financial literacy programs provided by microfinance banks have contributed to my business success.	181 (73.9)	64 (26.1)
Microfinance banks offer sufficient loan amounts to support business growth.	114 (46.5)	131 (53.5)

Source: Field Survey, 2025

As shown in Table 3, 64.1% of respondents agreed that microfinance loans have helped them start or expand their businesses, while 71.8% of respondents agreed that the support from microfinance banks has increased their business income. Additionally, 73.9% agreed that the training and financial literacy programs provided by microfinance banks contributed to their business success. This supports the view that microfinance institutions do more than just offer financial services as they also provide valuable non-financial services that empower entrepreneurs and contribute to the overall success of their businesses (Morduch, 1999). However, 53.5% of respondents disagreed that microfinance banks offer sufficient loan amounts to support business growth. This indicates that while microfinance institutions have a positive impact on business development, there is a need to

increase the loan amounts or develop more flexible repayment structures to better meet the needs of entrepreneurs.

Table 4: Microfinance Banks and Unemployment (n = 245)

Statements	Yes	No
Microfinance loans have provided employment opportunities by enabling me to start a business.	157 (64)	88 (36)
Microfinance banks support self-employment by providing easy access to credit for small business owners.	159 (65)	86 (35)
The employment created by businesses funded through microfinance loans has a positive impact on the community.	71 (29)	174 (71)

Source: Field Survey, 2025

As has been indicated in Table 4, 64% of respondents agreed that microfinance loans have provided employment opportunities by enabling them to start businesses, and 65% agreed that microfinance banks support self-employment by providing easy access to credit for small business owners. This aligns with the idea that microfinance institutions play a vital role in creating self-employment opportunities and, consequently, reducing unemployment (Littlefield, Morduch, and Hashemi, 2003). However, a significant proportion (71%) of respondents disagreed that businesses funded through microfinance loans have positive impacts on the community, suggesting that while individual entrepreneurs may benefit from microfinance services, the broader community might not feel the full impact. This may be due to the small scale of many of these businesses or the challenges these entrepreneurs face in expanding their operations beyond a certain level.

7. Conclusion

Despite some reservations regarding collateral requirements, the study's findings show that microfinance banks in Uyo LGA are comparatively successful in providing credit facilities to the underprivileged. The results also show that microfinance banks, through lending, training, and financial literacy initiatives, play a major role in the expansion of businesses. With the help of these services, business owners can launch or grow their companies and boost revenue. Finally, the results imply that by encouraging self-employment, microfinance banks help lower unemployment. However, these businesses might not have a significant impact on the community as a whole. Based on these results, the study comes to the conclusion that microfinance banks contribute significantly to the reduction of poverty in the Uyo Local Government Area by providing easily accessible financial services that help those who are economically marginalized.

8. Recommendations

Based on the findings of the study, the following recommendations are made to enhance the role of microfinance banks in poverty alleviation and economic development:

- i. **Increase Financial Inclusion:** Microfinance organizations should keep concentrating on reaching underprivileged groups, especially in rural areas where financial services are still hard to come by. Barriers like collateral requirements, which might prevent the poorest households from obtaining credit, should be addressed more thoroughly.
- ii. **Expand Loan Amounts and Flexibility:** Microfinance institutions ought to think about providing bigger loan amounts and more accommodating repayment schedules in order to better assist business expansion. Small business owners would be able to grow their

operations and possibly add more jobs as a result, which would be advantageous to both individual business owners and the community at large.

- iii. Enhance Non-Financial Support Services: Microfinance organizations should keep up their training and financial literacy initiatives in addition to lending out credit. These services are crucial for making sure business owners make wise financial choices and get the most out of their loans. The success rate of companies backed by microfinance would be further increased by expanding such initiatives.
- iv. Create Targeted Programs for Unemployment Reduction: Since microfinance encourages self-employment, targeted programs should be created to assist jobless people in launching their own companies. Vocational training and startup funding could be the main goals of such programs, especially for women and young people in underprivileged areas.
- v. Cooperate with Other Financial Institutions: Microfinance banks should forge closer ties with other financial institutions, including development finance organizations and commercial banks, in order to boost the impact of their services. These collaborations might offer more resources and knowledge, enhancing microfinance banks' overall capacity to support economic growth.
- vi. Improve Monitoring and Evaluation Mechanisms: In order to track the effects of their services on reducing poverty and fostering community development, microfinance institutions should fortify their monitoring and evaluation frameworks. This would guarantee that microfinance services are in line with the more general objectives of social and economic development and assist in identifying areas that require improvement.

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