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A Conceptual Relationship between Microfinance and Poverty Reduction in Nigeria

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Abstract: *Despite the attainment of the famous Millennium Development Goals (MDGs) of reducing the number of poor people across the globe a significant number still live below the poverty line. The problem of poverty is more endemic in developing countries like Nigeria. Several intervention efforts have been in place to address the poverty question which persists partly due to serious financial exclusion and unethical activities of informal finance providers. This calls for the strengthening of microfinance programs to break the credit constraint of the poor. Using content reviews this paper aims to investigate the influence of microfinance on poverty reduction in Nigeria. Thus, the nature of the relationship between microfinance and poverty reduction will be explored. Subsequent portions of the paper contains a brief review on relevant literature centering on concepts of microfinance and poverty; and how they interrelate with poverty reduction. The paper concludes that microfinance, though not a stand-alone answer, is a veritable tool for poverty reduction in Nigeria. Recommendations on innovative poverty reduction program combination for higher impact were also given.*

Key words: Microcredit, poverty reduction.

I. Introduction

The ambitious Millennium Development Goal (MDG)[1] of halving the population of world poor by 2015 (Benedict, 2011), had been attained as the 2.5 billion people who lived in poverty (Magbagbeola et al. 2010) is now reduced to slightly above 700 million (The World Bank, 2015). However, with over half a billion people wallowing in abject deprivations, the unfinished business of 21st century is still addressing global poverty. Most of the global poor are housed in South Asia and Sub-Saharan Africa[2] (SSA) which is perhaps the most marginally hit (Mondal, 2009). The level of poverty in Africa may not be divorced from its level of financial exclusion as more than 80 per cent of African households are excluded from financial services; they do not have bank accounts (Magbagbeola et al., 2010).

The poor are therefore, at the mercy of the few available informal financial service providers such as the periodic saving collectors and money lenders who charge exorbitant interest rates (Belwal, Tamiru & Singh, 2012; Haque & Yamao, 2008). Although, when the poor accessed micro credit, they can spend the amount borrowed in an income generating expenditure that can help them to break away from the vicious cycle of poverty (Gupta & Manjunatha, 2013). This calls for the need to break the credit constraint faced by the poor through various microfinance schemes.

The aim of this paper is to investigate the influence of microfinance or microcredit as it is otherwise referred to, on poverty alleviation in Nigeria. Thus, the nature of the relationship between microcredit and poverty reduction will be explored. Subsequent portions of the paper contain a brief review of related literature centering on concepts of microfinance and poverty; and how they interrelate with poverty reduction.

II. Brief Review of Literature

This section directs a band light on poverty, microcredit and poverty reduction.

[1] In September 2000, the United Nations Headquarters hosted 147 world leaders who adopted a resolution in form of 8 MDGs to address the most challenging problems of humanity. The first of these goals is reducing by half, the proportion of hungry and poor people across the globe by the year 2015.

[2] Part of African continent comprising of 48 countries located south of sahara including Nigeria.

2.1 Concept of Poverty

The term poverty enjoys no universally accepted definition as different people view it from different perspectives, conditions and environments (Casimir, Nwaoga, & Ogbozor, 2014). Poverty is a global phenomenon that dates back centuries of human existence and connotes a state of deprivation where individuals or families cannot afford basic necessities of life such as food, decent shelter and clothing, education and healthcare (Appah, Sophia &John, 2012). From whichever angle one views poverty the fact remains that chronically poor people live in a world that is not only conscious of their predicaments but highly resource-endowed to alleviate their suffering (Chronic Poverty Report, 2008-2009). In the case of Nigerian, the poverty situation is disturbing as many Nigerians described as poor live in absolute poverty (IFAD, 2007). This notwithstanding, the country is one of the largest world oil producers (Ewhrudjakpor, 2008; Babalola et al. 2009) with a population of over 150 million (National Population Commission, 2006) two-third of which are poor, Nigeria is the third country with the highest number of poor people in the world. Segregating the country at regional levels northwest is the second poorest of the six geo-political zones with 71.17% of actual poverty incident (Justine, Ighodalo, & Okpo, 2012). Thus, various microcredit schemes were undertaken so as to curb the menace of poverty.

2.2 Concept of Microfinance

Microfinance and microcredit are often used interchangeably. The term refers to small amount of money lent to unbanked poor who are viewed as risky borrowers and therefore, excluded by the conventional commercial banks due to their absence of collateral and credit history (Abiola, 2011; Ahmed & Siwar, 2014; Fasoranti, 2010). Microcredit differs from microfinance in terms of scope but the two terms are sometimes used to replace each other (Bhuiyan, Siwar, Ismail, & Aminul Islam, 2012; Hossain, 2013). The concept of microfinance is rooted in the belief that poverty can be significantly lessened or alleviated by solving the credit constraint of the poor through credit accessibility and training the beneficiaries (poor borrowers) on financial management of their income generating businesses (Fatukasi, 2005). (Addae-korankye, 2012) submits that lack of access to capital by the poor who are viewed as unworthy borrowers by formal financial institutions is the major cause of poverty which is shifting toward Sub-Saharan Africa and South Asia as well as other developing countries. In their bid to as a matter of necessity, address the scourge of poverty those countries use microfinance programs to break the credit constraint. Microcredit is an old arrangement spanning from individual's social financial interaction within immediate environment (family, friends and relatives) to formal institutions like money lenders, credit unions, village banks and state-owned banks, (Bateman and Chang, 2012; Mago, 2013; Tavanti, 2013). Again, they reported that the rise of industrial capitalism between 18^{th} and 19^{th} century called for financial institutions that would positively impact on the lives of both the poor and the emerging industrial working classes. Thus, the existence of these microfinance institutions has been to actually have the poor empowered while challenging the exploitative ruling elite-controlled economic systems that are based on capitalist model. The practice of micro financing has been in existence for time immemorial, though could not casually be seen because it was mostly in the shadows (Brau & Woller, 2004). This position is supported by Chowdhury (2009) who asserted that the presence of landlords who were making loans to poor people for various reasons is enough evidence proving the practice of micro financing.

Modern day microfinance however, got global attention and prominence in the 1970s starting with the work of Professor Muhammad Yunus (Sengupta & Aubuchon, 2008). Governments and donors interventions inform of financial services provision before 1970s was evident in highly subsidized rural credit program which proved to be ineffective due to poor outreach, high loses and loan defaults as the programs were more or less viewed as charitable (Ojo et tal. 2012). According to Kaka and Abidin (2014), the Bangladesh civil war in 1971 that was followed by the devastating draught of 1974 which jointly inflicted hardship on Bangladesh people could be the motivating factor behind Professor Yunu's idea of micro lending (see also, Rahman & Nie, 2011). Professor Mohammad Yunus - the Bangladesh born and American-educated economist started the Grameen Bank with an experiment in Jobra village in the year 1976 with a loan of $27 that was distributed to 42 people (Remenyi & Quinones, 2000). By late 1980s Grameen Bank had established itself as not only small loans provider, but also savings services on large and profitable basis. During 1990s there was an up-surge in the number of microfinance institutions (MFIs) with a much wider outreach target resulting in the befitting description of 1990s as "the microfinance decade" (Asuquo, 2010).

2.3 Microfinance and Poverty Alleviation

There has been an increased number of empirically tested evidences on the impact of microcredit and microfinance on poverty reduction (see, for example Srnec, Divisová, & Svobodivá, 2008; Westover, 2008; Schink, 2010). These various studies show conflicting outcomes pertaining to the impact of microfinance on poverty reduction: some of them indicate positive impact while others report either negative or mixed result (see, for example Karnani, 2007; Aigbokhan & Asemota, 2011; Appah, Sophia & John, 2012; Kaka & Abidin, 2014).

Conducting an impact assessment of microfinance on poverty alleviation Addae-Korankye (2012) in tandem with an extensive body of research, found overwhelming evidence proving a positive relationship between microfinance and income but lesser positive impact on children school attendance, health and nutritional status of borrowers. He therefore, reached the conclusion that microfinance is an effective strategy of fighting poverty especially in developing countries. This conclusion is confirmed by Gilbert, Boateng and Bompoe (2015) who conducted an impact assessment of microfinance in Ghana using income, access to education, housing as well as involvement in religious and social activities as measures of impact. Findings of their study revealed that microfinance has a positive relationship with these measures of impact. Moreover, they recommended that microcredit borrowers should be trained by MFIs in the area of financial management and entrepreneurship development so as to strengthen the identified relationship between microcredit and poverty alleviation. It is pertinent to observe here that the conclusion reached would have been more persuasive if higher samples were used.[3]

Interesting result was obtained by Hamdan, Othman and Hussin (2012) in their study of four microfinance programs that are spread across different districts of Selangor, Malaysia. They found that borrowers' income level before joining microcredit program has bearing on the program's effectiveness; proving that microfinance programs are not that effective in addressing the predicaments of the extremely poor. Lonborg and Rasmussen (2014) shared this view. Using a panel data on a Northern Malawian community-based microfinance they discovered a regressing targeting of beneficiaries. That is to say, microcredit is of benefit to borrowers but rather than the core poor or the poorest of the poor, it is people who fall above the poverty line that microfinance reaches. Again, a research conducted by Navajas et al. (1998) revealed that MFIs do not reach the poorest. Thus, donors need to have a second thought before committing the much needed funds for developmental intervention in the name of access to loans for the poorest. However, contrary to these findings, Taiwo, Ikpefan and Isibor (2014) submitted in their study – Microfinance and Poverty Alleviation in South-west Nigeria: Empirical Evidence; that MFBs in Nigeria are a replica of the Grameen Bank and therefore poor-focused. They concluded that microfinance banks target the poor in their loans disbursement and therefore, reduce poverty in South-west, Nigeria. These findings would have been more interesting with a wider scope for those studies. For instance, Selangor district may not be sufficient enough as a representative of Malaysia; and a sample of 885 households used by Lonborge and Rasmussen appeared adequate but covering few communities by the 'Villages Savings and Loans Associations (VSLAs)' in northern Malawi has limited the scope of their study. In addition, the formation of the VSLAs essentially for the purpose of the study might have solicited for a wrong notion from the participants on the very essence of the project.

In a study which applied financing constraints approach, Abiola (2011) used a cross sectional survey method to appraise the impact of microfinance banks (MFBs) on alleviating the financing constraint of microbusinesses in Lagos and Ekiti States, Nigeria. Results of the study show that MFBs break microenterprises financing constraints. In this regards, Imai and Azam (2012) used household panel data between 1997 and 2004 to examine whether loans from MFIs reduce poverty in Bangladesh. Their findings indicate that provision of microcredit breaks the credit constraint and has a positive effect on income and food consumption growth. Hence, it results in poverty reduction. This position is also supported by the work of Enisan and Akinlo (2012) in Ondo State, Nigeria which concluded that accessibility to microcredit has a positive effect on microentreprenuers' welfare and poverty alleviation. The work of Abiola and that of Enisan and Akinlo were conducted in three southwestern states of Nigeria. This gave their studies a regional rather than national outlook.

Furthermore, according to Hossain (2012), poverty is caused not only by absence or low level of income being the major factor, but also health, malnutrition and education. In the study involving 208 sampled customers of Bangladesh Rural Action Committee (BRAC) microfinance, Hossain came to the conclusion that microfinance reduces social poverty as findings of his study revealed a positive impact of microcredit on social sphere as

[3] The study used only two MFBs, drew a sample of only 60 customers from the banks and generalized the findings on the country (Ghana) as a whole.

represented by health, education, family planning and food consumption. In addition, Aigbokhan and Asemota (2011) contributed to the debate on impact of microfinance on poverty reduction and share the same view with Hossain (2012) when they reported that microfinance produces positive impact. Similarly, a study using primary data obtained from a sample of 286 respondents in Bayelsa State, Nigeria by Appah, John and Wisdom (2012) shows that significant positive relationship exists between microcredit and poverty reduction. However, they added that although absence of or presence of dilapidated infrastructures in Nigeria negatively affects the power of microcredit to significantly reduce poverty in the country, it is never a silver bullet and cannot solely be a solution to the scourge of poverty. It is important to state here that BRAC (just like the Grameen Bank) is only one out of many MFIs in Bangladesh. Furthermore, Bayelsa is one of the smallest and least populated[4] states in Nigeria; hence results of that study may not readily be generalized on the country. Thus, larger sample size and wider scope of such studies would have made the findings more appealing.

Several other studies prove that microfinance positively affects borrowers' welfare and reduces poverty (see, for example Al-mamun et al. 2012; Ashta, Couchoro, & Musa, 2014; Imai et al. 2012; Idolor & Eriki, 2012; Jain & Jain, 2012; Ogwumike & Akinnibosun, 2013; Rokhman, 2013).

In contrast, some researchers have argued that microfinance has negative impact on borrowers and poverty level. Proponents of this view include Chowdhury (2009) who submitted that microfinance does not generate productive employment but instead leads to consumption smoothening. Hence, it is not a tool for poverty reduction. This position agrees with the conclusion of Karnani (2007) who viewed that it is stable jobs that give reasonable wages that can alleviate poverty not microcredit. In line with Karnani's conclusion Jachimowicz (2013) asserted that the idea of microfinance ignores the huge benefits derivable from large scale productions but emphasizes on fragmented production, marketing and distribution resulting into underutilization of resources. His findings show that access to microcredit or microfinance can only marginally reduce income poverty but not affect other aspects of wellbeing, concluding therefore, that rather than microcredit, it is steady employment opportunities that can alleviate poverty. Sharing this view, Karlan and Zinman (2011) concluded that microcredit reduces wellbeing because it results in establishing so many microbusinesses as against bigger enterprises with higher employments, output and incomes. These view points however, failed to take into account the time period it takes to put in place large business undertakings that will enjoy economic of scale and provide living-wage employment. Even from those arguments it can be deduced that microenterprises are easily formed and if properly managed can reduce poverty.

The work of Block (2010) criticized microfinance in defense of free market system. He opined that microfinance is nothing short of left wing attack on the free enterprise system and it merely results in resource misallocation as the assumed microentreprenuers lack the capacity to make those uneconomically tiny undertakings to grow. He then concluded that the idea of microfinance was fraudulently conceived and only makes the poorest worse off. And according to him all freedom lovers should frown at the idea. Being a stunt believer in free enterprise, Block failed to accept the position that women are globally more poverty stricken[5] and vulnerable as well thereby describing microfinance activities as "cult like" and further labeling microfinance subsidizing agencies in form of charitable organizations as well as the IMF and the World Bank as co-attackers of free enterprise.

According to Haque and Yamao (2008), the amount of microcredit (finance) is too small for establishing income-earning venture to meet daily needs of the borrower and installment payments. The chronically poor seldom get the loan and when they do it is used to meet consumption not production expenditures. They therefore, arrive at the conclusion that microcredit only pushes the hardcore poor into poverty trap. Thus, it should not be used for poverty alleviation as only the wealthy poor can benefit and not the extremely poor.

Accordingly, there are scholars who opt for the middle cause: they explain that there is a mixed relationship between microfinance and poverty reduction. Put differently, microcredit has both negative and positive attributes as it relate to poverty reduction. Among the proponents of this view is Tavanti (2013) who submitted that microcredit has potentials for poverty reduction but as it is not a silver bullet (it is not and cannot be seen as stand-alone method) it needs to be combined with other factors such as training for it to be a more effective tool for getting the poor out of poverty for sustainable development. He further argued that financial capital alone is

[4] Bayelsa state contributed only 1.02% of the total Nigeria's population (NPC, 2006).

[5] Women made up 70% of the world's poor (Dobra, 2011); this being the basis of MFIs' women targeting.

not enough to do the difficult task of poverty alleviation yet microfinance as a business is a realistic approach (though, not always the best solution) to poverty reduction but not as a pro-poor charitable intervention.

Furthermore, the work of Rooyen et al. (2012) captioned the Impact of Microfinance in Sub-Saharan Africa: A Systematic Review of the Evidence proves that microcredit has both good and bad impact on livelihoods of the poor. Similarly, Dobra (2011) submitted that the dominance of economic aspect of microfinance is unfavorable to its political dimension and this makes it an effective tool for reducing economic poverty but failed in women political empowerment. She posits that to effectively fight poverty both social and power resources need to be provided to the poor through empowerment programs which will cut down gender inequality. This is because breaking the gender inequality will go a long way in reducing poverty as women constitute a greater percentage of the total number of people living on less than $1.9 a day. Similarly, a study by Flavius and Aziz (2011) revealed that access to microcredit and development of microenterprise in one hand and direct relationship between microenterprises and improvements in owners' welfare is partially supported. In addition, they found no direct link between the community-based microfinance and financial viability of microenterprises. However, Flavius and Aziz employed a single-case study research design taking only 65 clients of HOPE Microfinance Program in north-eastern Trinidad using convenience sampling method[6]; and generalizing their result on a country with a population of over 1.3 million. Interestingly, the researchers themselves admitted the "smallness" of their sample size.

III. Conclusion

From the foregoing it becomes apparent that literature relating to impact assessments of microfinance on poverty alleviation produces divergent views. While part of the literature stands with the position that microfinance has a positive relationship with poverty alleviation another part hangs with negative relationship. In between these polar opinions exists the middle cause belonging to scholars who view that there is a mixed relationship between microcredit and poverty reduction. These conflicting literatures motivated Duvendack et al. (2011) to rigorously re-assess previous impact evaluations. They found out that most impact evaluations have short coming of weak methodologies which greatly reduces the reliability of their outcomes. They concluded that less reliable impact estimates can mislead stake holders and stop them from searching for more appropriate interventions that will lead to poverty reduction. Consequent upon these various stands of the literature on the relationship between microfinance and poverty reduction suggests the need for further research and the use of a moderator on the relationship.

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[6] The use of single case study design limits the scope of the study while convenience sampling technique employed in the study is the least reliable of all sampling designs when it comes to generalization of findings (Sekaran,2006).

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