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RESEARCH ARTICLE

MICROFINANCE AS A STRATEGY FOR POVERTY REDUCTION IN NIGERIA: EMPIRICAL INVESTIGATION

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ABSTRACT

The introduction of Microfinance Institutions (MFIs) in some Asian countries and the subsequent impact of the scheme on poverty reduction prompted the Nigerian government in 2005 to replicate microfinance scheme in Nigeria as a strategy for poverty reduction. This paper investigates the impact of MFIs in Nigeria. A total of 40 respondents comprising 30 females and 10 males were interviewed through questionnaires. From the investigations, the paper found that microcredit from MFIs impacted positively on clients in the areas of income, employment and household well-being. However, this study was on a smaller magnitude. As a result of this, the study cannot be generalized in the logical term which prompted the paper to call for holistic appraisal of MFIs as a strategy for poverty reduction.

INTRODUCTION

The introduction of microfinance was meant to bring credit facility to the poor in order for them to break the cycle of poverty. Microfinance has been used as a tool for reducing poverty in some developing countries. However, there is the argument of some scholars that microfinance do not reduce poverty, but allow some of the clients of microfinance institutions to be indebted to the banks. Nigeria is the 7th largest exporter of crude oil in the world with over 70 million of her population living below the poverty line. Giving the huge revenue Nigeria has earned from crude oil export for over 40 years when crude oil was first discovered in commercial quantity in Olobiri in Bayelsa state, Nigeria has no reason for being a poor nation. Nigeria is a country that is blessed with arable land, oil and gas, human and material resources, a country that takes all to be a global powerhouse in the world, but the reverse is the case (Achimugu *et al.*, 2012). If Nigeria had used her endowed natural resources very well, poverty will have been a thing of the past in the country. The introduction of the Structural Adjustment Programmes (SAP) in the late 1980s in Nigeria compounded the poverty situation in the country; this was the period a lot of people from the formal economy migrated to the informal economy because of the retrenchment exercises that were carried out in most of the federal government establishments. The Structural Adjustment Programmes berth in Nigeria in 1986 with the expectation of improving the economy but failed woefully and helped to increase poverty in the country. Oyeranti and Olayiwola (2005) note that from the findings from the World Bank the rural areas are always associated with poverty, giving a breakdown of rural poverty in Nigeria from their statistics, urban poverty rate increased upward from 3 percent in 1980 to 25.2 percent in 1996, rural poverty increased from 6.5 percent in 1980 to 31.6 percent in 1996. The recent Human Development Index report by United Nations Development Programmes (UNDP) in Nigeria indicates that 68 percent of Nigerians are living below $ 1.25 per day (UNDP, 2013). The vision 2010 committee report of the federal government of Nigeria defined poverty as a state of deprivation or denial of the basic choices and opportunity needed to enjoy a decent standard of living, poverty, according to the committee report could also be a condition in which a person is unable to meet minimum requirements of the basic needs of food, health, housing, education and clothing. Poverty, according to the World Bank and Department for International Development (DFID) is individuals not having the opportunity to resources which put them in a condition of despair, hopelessness, precarious situation, exposing them to economic shocks vis a vis political, economical and cultural marginalization (Acha, 2012). Since poverty is a worldwide phenomenon which is not peculiar to Nigeria alone, various international organizations, governments and NGOs have been trying out how to combat the global surge of poverty. The United Nations in 2000 came up with eight millennium development goals in its millennium development summit and one of the goals was eradicating extreme poverty and hunger from the world. Others world organizations like ILO, UNDP, FAO, and ADB have come with strategies in dealing with poverty yet poverty continues unabated. The recently released of the poverty

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profile in Nigeria by the National Bureau of Statistics is alarming, according the bureau, 112.519 million Nigerians are living in relative poverty condition (National Bureau of Statistics 2012). Since the independence of Nigeria in 1960, various governments have come up with their poverty eradication strategies and some of these strategies are:

- Peoples' Bank
- Nigerian Bank of Commerce and Industry (NBCI)
- Nigerian Agricultural and Cooperative Bank (NACB)
- Nigerian Directorate of Employment (NDE)
- Family Economic Advancement Program (FEAP)
- Poverty Alleviation Program (PAP)
- Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)
- Directorate of Food, Road and Rural Infrastructure
- Subsidy Reinvestment and Empowerment Program (SURE-P

None of these programmes have been able to achieve the motives of setting them up, one could attribute systemic failure to be the reason why these laudable programmes of the various governments have failed in addressing poverty eradication. The success of the microfinance banks in some developing countries such as Bangladesh and Indonesia prompted the Nigerian government in 2005 to come out with a blueprint on the introduction of microfinance banks in the country to replicate the Grameen Bank in Bangladesh, which initiated by professor Muhammad Yunus who later won a noble peace prize in 2006 for his effort to create economic and social development from below. Although, some traditional methods of unregulated microfinance existed in Nigeria before the introduction of microfinance such as "Esusu", "Ayo" and group saving method which normally take place in the informal sector. The aim of this paper is to evaluate microfinance as a strategy for eradicating poverty in Nigeria.

LITERATURE REVIEW

Development, History and Definition of Microfinance

Microfinance has become a model of making credit facility accessible to the poor and it has become a policy framework for governments, Non-Governmental Organizations (NGOs) and International Organisations for development policy. Although, the poor have been using traditional methods in accessing financial services on their own through such means as group savings method, "ajo" and "esusu" in Nigeria. According Yahaya *et al*. (2011) in accessing the effectiveness of microfinance banks in alleviating poverty, they note that financial services for the poor was developed by Friedrich Wihlm Raiffeisen in the eighteen century to check the exploitation of money lenders to the poor and the model quickly spread to other parts of the world. In analysing the origin of microfinance in Nigeria, Seibel (2003) recalls how revolutions in rural and microfinance have occurred, according to him, microfinance, rural and urban banking started in Germany in 150 years ago as a form of self-helped in an informal setting, with the first credit society created in Hamburg in 1778, first community bank in 1801 and the first urban and rural cooperative societies in 1850 and 1864 respectively. The reformation of microfinance as a development policy in alleviating poverty started in the 1970s. Yunus pioneer the idea of micro-financing method with Grameen Bank (Ayuub 2013). The Grameen bank has claimed that in every year, five percent of its clients live above the poverty line, however lot of financial experts have condemned the high interest rate of the bank, what this signified is that the bank is for profit motive which run contrary to the set objective of given credit to the poor on low interest rate. Seibel (2003) kicks against the idea of microfinance as a temporary measure for reducing poverty in developing countries, noting that every country has its own origin of microfinance and that the notion that microfinance started in Bangladesh two-decade ago is a misconception, according to Seibel, acknowledging the fact that the "origin of microfinance to recent initiatives missed not only the historical depth and scale of microfinance but also centuries of experience, which means: learning from trial and error, failure and success".

In Nigeria the ajo, and esusu were the methods used by rural communities for savings and accessing of financial services which were later transformed into cooperative credit unions society. Ledgerwood (1998) defines microfinance as the "provision of financial services such as savings, deposit, and credit services to the entrepreneurial poor. Microfinance activities usually involve:

- Small loans, typically for working capital.
- Informal appraisal of borrowers and investments.
- Substitutes for collateral such as group guarantees or compulsory savings.
- Access to successive and larger loans based on repayment performance.
- Streamlined loan disbursement and monitoring.
- Secure voluntary savings products

This definition encompasses all aspects of microcredit to the poor. Most microfinance instructions allow borrowers to open a saving account with them before they can access loans from the banks and most of the loans are small working capital. Microfinance is a policy that allows the poor to have access to financial services, according to the Central Bank of Nigeria (CBN) microfinance is defined "as a development tool used to create access for the economically active poor to financial services at a sustainable affordable price" (CBN Briefs, 2004). However, most of the anti-poverty policies of the Nigerian government have failed in this directive; the population of unbaked Nigeria is still high since the introduction of microfinance in Nigeria. The International Labour Organization (ILO) has been promoting microfinance along with other stakeholders with the aim of allowing workers in the informal sector have access to credit facilities and improve their well being. The social finance director of ILO defines "microfinance is not just promises; there is evidence of positive impact on poverty via institutions that are fully financially self -sufficient… Poverty outreach and financial sustainability are thus the twin goals that make up the essence of microfinance" Bernd Balkenhol– (ILO, 2002).

Poverty Concept, Measurement and Cause

Obadan (1996) classified poor people as those who think the amount of money they spend per day is below the United Nations $1.25 purchasing power parity (PPP). United Nation in 2005 adjusted the international poverty line from $1 to $1.25. In the study of poverty perspective in Nigeria, Olatomide (2012) articulates experts' concept of poverty as human beings who are unable to meet their daily needs. The most important needs of human beings are food, shelter, medical care and if human beings are deprived of these needs then it calls for concern. The International Labour Organization (ILO) conceptualizes poverty as people who live below $2 per day. At the International Labour Conference in Geneva in 2003, the ILO provides policies and advises on how poverty can be reduced in the World (ILO, 2003). Most of the poverty in the global south has its roots in the policy of the Breton Wood Institutions (BWIs). The policy of SAP that were introduced in the late 1980s which was accommodated by leaders of developing countries increased the rate of poverty in the global south. Most of the workers who were sacked from government firms relocated to the informal sectors.The United Nations High Commission for Refugee (UNHCR) sees poverty as the situation of human beings lacking require resources, capabilities, choice, power and security which are necessary for good living (UNHCR, 2004).

Poverty should not be limited to income alone, just as the Copenhagen Declaration of 1995 x-ray absolute poverty as "a condition characterized by severe deprivation of basic human needs including food; safe drinking water; sanitation facilities; health; shelter; education and information." For the World Bank report in 2001, the report classified people with less than $1 per day as living in 'extreme poverty' and while for those that live in less than $2 per day live in 'poverty.' In the Nigerian context, recent literature has been trying to address the issue of poverty, the recent report from the National Bureau of Statistics (NBS) indicates 111.519 million Nigerians live in relative poverty situation which represent 69 percent of the Nigeria's population (NBS, 2013). Garcia *et al.* (2006) attribute oil, lower government revenue and inflation to the high rate of poverty in Nigeria. Nigeria is the 7th largest exporter of crude oil yet the population live in abject poverty. Ford (2007) in analyzing the oil crisis in Nigeria, postulates that the Niger Delta region where the oil wealth comes from, the citizens of the region live in poverty which has caused social unrest in the region. Since 2007 the Niger Delta region has been a violent region because youth in the region decided to wage an oil war against the government because of the extreme poverty in the region despite the region producing 90 percent of the country wealth. Nnadi (2008) examines the Nigerian economy and concludes globalization has increased income inequality, unemployment and poverty.

At various times, the Nigerian government has come out with different anti-poverty policy, but all efforts for these policies to work have not been forthcoming. Olatomide (2012) investigates the cause of poverty and made an assumption that poverty is not caused by just one factor, but by multiple factors such as low economic growth, low productivity, lack of employment and low wages in the informal sector. A number of indicators have been used to measure poverty. Maxwell (1999) why examining poverty indices, named Physical Quality Life Index as what was developed and used in the 1970s for information on life expectancy, infant mortality rate and literacy and the UNDP has incorporated it in its measurement of poverty. Income is usually used to measure poverty in most countries, the United Nations uses the $1 per day poverty line to measure poverty, this measurement according Ravallion, the $1 per day measurement is outdated, and the World Bank uses it 'to measure global poverty by the standards of what poverty means in poor countries' (Ravallion 2002). Although, in developing countries the poor used lack of having food to consume to measure their poverty line. While a lot of authors are debating and giving different approaches to poverty measurement. Schwartzman (1997) analyzing the research done by a group of experts to study the statistical consequence of the World Summits of the United Nations on Population and Development. Cairo, (1994) measured on Social Development. Copenhagen conference 1995 measured poverty level in terms of household or dwelling. Ajakaiye and Adeyeye (1999) note that poverty measurement is undertaken to measure the standard of living among the poor. Microfinance institutions have been one of the policies being put in place to alleviate poverty. In subsequent chapters of the study, the impact of microfinance will be known if it has been able to reduce poverty and empower people especially the poor.

THEORETICAL FRAMEWORK

Financial experts have stressed that when credit facility is made available then the poor can have access to it and break the cycle of poverty. The bottom line of this hypothesis is that the poor can use loans they obtain from MFIs to better their lives. For instance, when a female client of MFI obtains a loan she then used the loan to support her business. As a result of this, the income from the expansion of her business can be used to support her household. However, some critics have bemoaned the loans to MFIs clients because credit facility makes them to be indebted to the MFIs. The core aim of MFIs is to make the poor have access to credit facility, thereby increasing their economic power (Kiiru and Kenia, 2007). Taha (2012) postulates that microcredit to MFIs clients impacts them in three ways, these are material, social welfare and women empowerment. (Mustafa *et al.*, 1996; Chowdhury *et al.*, 1991; Kamal, 1996; Hashemi and Morshed, 1997; Hossain, 1988) agree that microcredit allows clients to have higher income and enhance their capacity to increase their assets and have job security. Mawa (2008) posits that from empirical evidence, microcredit reduces poverty and it is a strategy assist the poor to develop their skills and allow them to earn money through their business.

Theories of poverty

Different authors have classified the theories of poverty into five multiple ways. Bradshaw stresses that the theories of poverty may derive from five sources which are: individual deficiencies; cultural belief systems that support subculture in poverty; economic, political and social distortions; geographical disparities and poverty caused by cumulative and cyclical interdependencies (Bradshaw, 2006). There are two poverty and two financial theories that are relevant to this study. These are economic, political and social distortion poverty theory and cyclical interdependency poverty theory, demand-following and supply-leading hypothesis and which will be discussed in the next paragraph.

i) Economic, Political and Social Distortion Poverty Theory

This theory does not look at the individual as the causes of poverty but to the economic and political system that allow people to have fewer resources to achieve meaningful lives. Capitalism has been blamed in this regard by Karl Marx for creating 'reserve army of the unemployed' as a way of reducing wages. Relevant literature has stressed that the economic system is structured in a way that poor people that have the skills and knowledge to work are not carried along with the economic system. The difficulty of the working poor in getting better job has been attributed to a wage problem linked to structural impediment preventing the poor in getting better jobs, complicated by lack of job opportunities and lack of economic growth (Tobin, 1994).

ii) Cyclical Interdependency Poverty Theory

This theory was developed by (Myrdal, 1957), the theory states that the interrelation of the individual and the community can lead to the underdevelopment of the community if people are unemployed in the community, tax, consumption, savings and income are reduced. The lack of resources by individuals to participate in the economy brings a negative consequence to the community since fewer people now pay taxes. The interdependence of factors creating poverty starts developing once there is a decline in the cycle.

iii) Demand-Following and Supply-Lending Hypothesis

The demand following financial theory is a type of financial development that stimulates the economy positively while the supply lending theory deals with the situation where financial institutions are located in some area before the demand for their services are considered (Taiwo, 2012). The provision of credit facility for the acquisition of capital goods is important for effective economic development. Taiwo argued that the demand-following and supply-lending financial theories are relevant for development because of the efficiency in which the financial system provides financial institutions. Both theories followed the pattern of the establishment of the microfinance in Nigeria. One of the objectives of MFIs in Nigeria is to make financial services available to the poor and this was a direct response to the supply-lending financial theory, the idea was to make credit accessible to rural dwellers through the creation of MFIs in rural communities. But to the contrary, most of the microfinance banks in Nigeria are located in the urban centers where there are already financial institutions and this is the position of the demand-following financial theory.

iv) Financial Liberalization or Repression Hypothesis

Governments of developing countries in 1980s decided to liberalize their financial system; this was one of the conditions of the International Monetary Fund (IMF) to developing countries during the Structural Adjustment Programs (SAP). The motive was for the government to move away from state control to free market economy. The main idea behind financial liberalization is to follow the agenda of the Washington Consensus, which are: privatization of government banks; removal of credit control; liberalization of restriction on the entry of the private sector into domestic financial markets and capital account liberalization. According Shaw, financial liberalization allows funds to be available in the financial markets, which pave a way for the development of the economy, while financial repression has a negative consequence for the economy (Shaw, 1971). The liberalization of the financial sector in Nigeria in the 1980s and 2000s led to the proliferation of financial institutions and unethical practices by operators. In 2004, the CBN liquidated 60 commercial banks and 224 MFIs in 2010 respectively. However, this study is rooted in the supply-lending financial hypothesis and the cyclical interdependence of poverty. This is because establishing microfinance banks in the rural areas will make financial services accessible to poor rural dwellers and this is the only way MFIs can function effectively in breaking the poverty circle.

Microfinance and decent Work

How can MFIs improve working conditions and create employment? The ILO has been focusing on microfinance policy to promote decent work. Decent work according to ILO is the promoting of "employment central to people's well-being and in addition to providing income which can pave way for broader social and economic advancement" Taha (2012) mentions three levels of the impact of microcredit to the poor which are material welfare, social welfare and women's empowerment. It is on this theory the ILO is promoting opportunities for men and women to obtain decent work through microcredit. Microcredit contributes to decent work in the following ways according to the ILO

- Employment creation: Beneficiaries of microcredit use their loans to start a business or expand their business thereby create employment;
- Women's empowerment: Women are the most beneficiaries of loans from the MFIs which give them more roles in the society;
- Reducing vulnerability: Microcredit provides a safety net for the poor who constitute the informal sector

Microfinance and cooperatives

One of the major challenges facing the poor in getting loans from MFIs is collateral and this is because some of the MFIs usually demand collateral before loans can be given out. Cooperative associations have played a vital role in assisting workers in the informal sector in having access to loans from financial institutions. Shylendra (2011) reveals that cooperative associations formed by informal workers have been helpful in allowing the poor to have access to credit from MFIs by overcoming the basic problem of collateral faced by the poor. It is easier for MFIs give out loans to cooperative societies than individuals because of the structure and organization of the society. Workers in the informal economy find it difficult in joining trade unions this is because labour laws in most developing countries recognized the informal economy as unregulated. When workers in the informal economy find it difficult in joining trade unions or establishing their own organization the best option for them is to form a cooperative (ILO, 2002). Trade unions have been criticized for not doing enough on organizing the informal sector; lack of funding has blame by organized labour for not organizing the informal workers. Trade unions have recognized the importance of the informal sector since they are losing their membership and they have joined efforts with the ILO to see how to organize and represent the interest of the informal workers more effectively (ILO, 2002).

Hypotheses

The following hypotheses will be tested in the investigation to know how microfinance reduces poverty.
H1: Access to microcredit leads to increase in income
H2: Microfinance loans promote employment
H3: The household well-being of clients who participated in MFIs activities is improved

MATERIALS AND METHODS

The study used primary and secondary data for the collection of information. The primary data were gathered through questionnaires. Secondary data were used in the study to understand theories, concepts, definitions of microfinance as it correlate with the issue of poverty reduction. A total of 40 questionnaires was used to gather information from clients of MFIs, there were 10 males and 30 females. All the respondents were selected randomly.

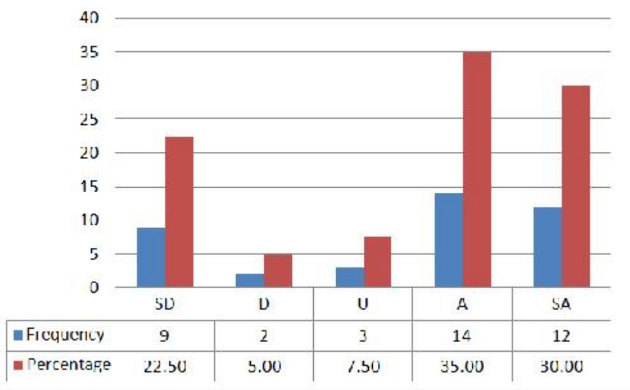
RESULTS AND DISCUSSION

This section of the study illustrates the empirical investigation

a. Increase in income

The study was eager to know if access to credit facility (microcredit) increases clients' income.

The responses as illustrated in Figure 1 indicates that 9 of the respondents consisting of 22.5% strongly disagreed with the notion that access to microcredit increases their income. This was supported by 2 of the respondents composing 5% who simply disagreed that access to loans from the MFIs increases their personal income. 3 of the respondents representing 7.5% remain aloof on the question. On the contrary, 14 of the respondents constituting 35% agreed that access to microcredit increases their income. This was subscribed by 12 of the respondents who positively attested that access to loans from microfinance increased their income. In all, a total of 26 of the respondents of the total 40 respondents that composed of 65% positively affirmed that the access to micro-loans increased their income through the investment of these loans in their business.

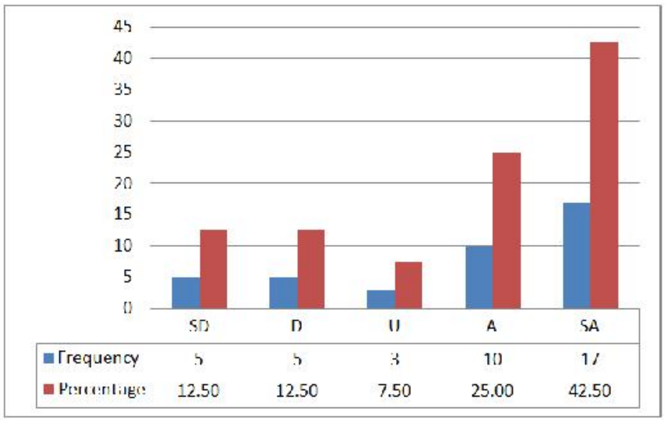


Source: Field Survey

Figure 1. Increase in income

b. Promote employment

Does microfinance loan create employment?



Source: Field Survey

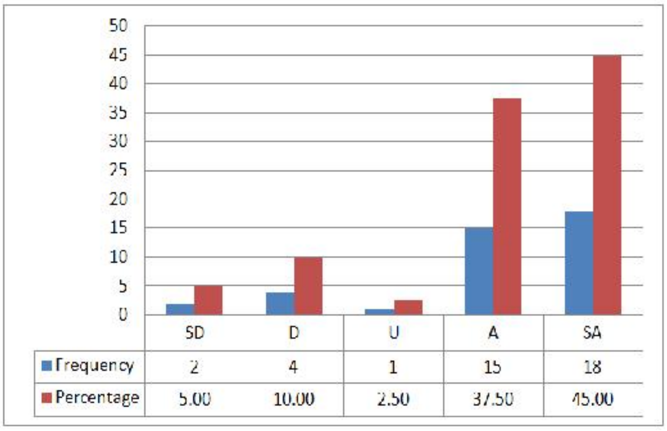
Figure 2. Promote employment

The question was asked because of the notion that microcredit facilitates the generating of employment. As demonstrated in Figure 2, out the 40 respondents, 5 objected to the idea that microfinance institutions promote employment.

c.Improve household well-beings

The study investigated if loans taken by clients of microfinance can increase their household well-being.

This represents 12.5% of the respondents. Given credence to this, 5 of the respondents that corresponded to 12.5% added a voice to the claim that said microfinance do not promote employment. 3 of the respondents embody of 7.5% remain undecided to the question. On the other hand, 10 of the respondents characterized by 25% asserted that loans from MFIs promote employment. This was strongly supported by 17 of the respondents epitomizing 42.5% emphatically acknowledged that microfinance loans lead to the promoting of employment. On the weighted, 27 of the total respondents composing 67.5% upheld the claim that access to micro-loans generate employment. The data and corresponding analysis as illustrated in figure 3 show that 2 of the respondents that made up 5% vehemently opposed to the view that loans from microfinance improved the well-being of clients' household. 4 of the respondents forming 10% buttressed this claim. 1 of the respondent that amount to 2.5% took an indifferent position on this. However, 15 of the respondents that total 37.5% agreed that the MFIs credit facility improved the household well-being of clients. This was corroborated by 18 of the respondents that equal 45% strongly accepted that microcredit improved the household well-being of clients. In total 33 of the respondents representing 82.5%, conceded that loans from MFIs improved the well-being of clients' household.



Source: Field Survey

Figure 3. Inprove household wellbeing

Testing Hypotheses

Three hypotheses were constructed and tested for the purpose of the study.

(i) H1: Access to microcredit leads to increase in income

Section 6.1 gave an answer to this hypothesis. 26 of the respondents constituting 65% claimed that access to micro loans increased their income. The scenario is that when a client takes a loan from the MFIs he or she used the loan to expand the business, within a period of time, the expansion of the business will start yielding income to the loan beneficiary. This situation subscribed to the empirical deductions of (Mustafa *et al.,* 1996; Chowdhury *et al.,* 1991; Kamal, 1996; Hashemi and Morshed, 1997; Hossain, 1988) who admit from their empirical findings that access to microcredit can eventually increase the income of MFIs clients who invested their loan facilities.

(ii) H2: Microfinance loans promote employment

As shown in Figure 2, the second hypothesis upheld the assumption that loans from microfinance institutions promote employment. 27 of the respondents forming 67.5% assented to this. This is a situation when loan beneficiaries engaged themselves with the business they have invested their loans on. This subscribes to the assumption that microcredit facilitates employment generation. For details on this see (Chowdhury *et al.,* 1991, Kamal, 1996; Mawa, 2008).

(iii) H3: The household well-being of clients who participated in MFIs activities is improved

The third hypothesis as exemplified in figure 3 wholeheartedly admitted that the participation in microfinance activities by taking loans for investment increase the household well-being of loan beneficiaries. For instance, a female client who invested her loan on her business, when the business is started yielding profit, such income from the business is used for the welfare of her family. As a result of this, the children of the female client will attend good schools, have good medical care and good balance diet. In a nutshell, the standard of living of the client's family will increase. 33 of the respondents consisting of 82.5% of the respondents attested to this hypothesis and this validate the empirical findings of (Chowdhury and Bhuiya, 2004; Hashemi, 2003; Hashemi *et al.,* 1996; Marconi and Mosley, 2004; Morduch and Hashemi, 2003; Noponen, 2005; Robinson, 2001; Rai and Ravi, 2011; Wright, 2000).

Findings

The study was carried out to know how microfinance is used as a strategy to combat poverty. In the course of the study, the following findings were revealed.

- The questionnaires were distributed randomly and in the cause of this, respondents were asked if they have taken loan from MFIs. Most of those that admitted that they have patronized the MFIs are women. This indicates that women are the most clients of MFIs.
- Access to microfinance loan is as an avenue to the increase of income of MFIs clients.
- Those who used their microcredit for business confirmed that their business acts as an employment to them.
- There is the increase in the household well-being of loan beneficiary of microcredit.

Conclusion

This study was carried out to know how microfinance institutions have contributed to the reduction of poverty in Nigeria. In the real sense, the outcome of the study cannot be generalized this is because only 40 respondents were interviewed with questionnaires. As a result of this, there is the tendency for a large scale research to be conducted to know how MFIs reduce poverty. Furthermore, areas that need further research includes:

- Microfinance and cooperative society
- Microfinance and decent work
- Products of MFIs

The study evaluates how microfinance contributed to poverty reduction in Nigeria. A total of 40 resource persons were interviewed through questionnaires. The findings of the study supported all the hypotheses that were tested. However, some scholars are still pessimistic about the notion that MFIs can aid poverty reduction. Finally, the study call for a comprehensive research to evaluate how microfinance reduces poverty since this study was done on a smaller scale.

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