Journal of Financial Risk Management, 2022, 11, 648-657
https://www.scirp.org/journal/jfrm
ISSN Online: 2167-9541
ISSN Print: 2167-9533

Analysis of the Impact of Microfinancing on Poverty Alleviation in Nigeria

Ayodeji Michael Obadire

School of Finance and Professional Studies, Botswana Accountancy College, Gaborone, Botswana
Email: ayodejio@bac.ac.bw

How to cite this paper: Obadire, A. M. (2022). Analysis of the Impact of Microfinancing on Poverty Alleviation in Nigeria. *Journal of Financial Risk Management, 11,* 648-657.
https://doi.org/10.4236/jfrm.2022.113031

Received: July 1, 2022
Accepted: September 18, 2022
Published: September 21, 2022

Abstract

A survey was carried out in Ogbomoso Metropolis, Oyo-State of Nigeria to critically evaluate the impact of microfinance banks as a strategy for poverty alleviation in Nigeria. The Standard of living of the respondents was examined and the extent to which microloans are available to develop small and medium enterprises were also evaluated. Evaluation of the strategies was carried out through direct administration of questionnaires on the microfinance banks' customers. Primary data were analysed using Chi-square Test, Pearson correlation and Analysis of Variance (ANOVA) test. The results revealed that the relationship between the standard of living of the respondents and the impact of microfinance banks on their household was positive and significant with $p < 0.05$ and $r = 0.212$, the result also revealed that the poor have good access to credit facilities from microfinance bank for the development of micro-enterprises as the t-statistic test showed a value of 16.383 with $p < 0.05$. Given the result of the evaluation of the impact, a conclusion was drawn that microfinance banks have the potential to alleviate poverty especially by improving the standard of living of the poor and making available microloans for micro-enterprise. Hence, a persistent increase in microfinance credit led to a drastic reduction in poverty in Nigeria.

Keywords

Alleviation, Credit, Microfinance Bank, Poverty, Living Standard, Nigeria

1. Introduction

The issue of poverty has been a major concern to many nations of the world, most especially, developing countries. Poverty has been defined as a state where an individual is not able to cater adequately to his/her basic needs of food, clothing and shelter; meet social and economic obligations; lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructures (Chepkwei, 2020; Englama & Bamidele, 1997).

Throughout the world, poor people are excluded from the formal financial systems as they are seen as not capable to meet the basic requirement of the formal financial system. The poor then developed a wide variety of informal financial systems like Ajo, Esusu, and other cooperative arrangements to meet their financial needs. Microfinance is created to fill the gap between the poor and the rich accessibility to loan and credit facilities (Li, 2019; Irobi, 2008).

The word "micro" literally means small whist finance means monetary support; therefore, microfinance can be defined as small monetary support (Chepkwei, 2020). Ewubare and Okpani (2018) alluded that microfinance is the provision of financial service to the economically active poor who are un-served by the formal financial service provider. This indicated that people live in poverty when they are denied an income sufficient for their material needs and when these circumstances exclude them from taking part in activities that are accepted as part of daily life in that society.

Whilst the commercial banks focus on the provision of credit facilities to resource-based customers, businesses and governments, to keep the flow and cycle of economic and financial resources balanced (Obadire, Moyo, & Munzhelele, 2022), the microfinance banks solely focus on the poorest of the poor who are unable to access the financial services of the commercial banks. This particularly help in alleviating poverty and led the Federal Government of Nigeria to adopt it as the main source of poverty reduction in Nigeria, mandating the Central Bank of Nigeria (CBN) to develop appropriate policy and framework for the operations of the microfinance banks in the country. The microfinance policy regulatory and supervisory framework was launched in December 2005 and the framework provides a roadmap for the participation of stakeholders in microfinance provision, this framework encouraged and produced a total of 969 MFB at the end of August 31, 2010 (CBN, 2010).

The previous empirical studies on microfinance and poverty alleviation have investigated the link between microfinance and poverty. Simanowitz (2003) and Bamisile (2006) reported that despite the apparent success of microfinance banks and the efforts of supply-led policies and financial liberation, there are still important gaps to be filled by these institutions in Nigeria. Anyanwu (2004) observed that microfinance banks have not been able to adequately address the gap in terms of credits, savings and other financial services required by the poor. Therefore, owing to these problems, this study seeks to investigate the role and impact of microfinance banks on poverty alleviation in Nigeria

Objectives of the Study

The specific objectives of this study are to:

1) access the effect of microfinance banks on the improved standard of living of the poor in Nigeria; and

2) establish the extent to which the poor have access to microloans for the development of micro-enterprises in Nigeria.

2. Literature Review

The study of poverty and its alleviation is not new in Africa and beyond. Many African counties have implemented community-oriented policies and programmes for their economic development, nation-building, economic stability and industrial competitiveness over the years, these policies and provisions are inadequate as the poor of the poor are still left out and poverty is on the increasing and alarming rate. The most popular way to measure poverty is based on income or consumption line (Chepkwei, 2020). A person is considered poor if his or her consumption level falls below 1 USD per day, a level necessary to meet basic needs (clothing, food, water, shelter and employment). This minimum level is called the poverty line (The World Bank, 2002). Also, Irobi (2008) systematically defined poverty in the expression that says when they said that "don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty".

Adamu (2007) viewed the Microfinance programme as a unique programme for the reduction of vulnerability, and hence the achievement of the Millennium Developmental Goals, which allows poor people to diversify and increase their income sources, this serves as a major way out of hunger. According to Otero (2000) microfinance is the provision of financial services to low-income poor and very poor self-employed people. According to CBN (2012), microfinance refers to the provision of financial services (including saving and credit) to the poor. Microfinance banks, therefore, are institutions that are established to provide financial services to the poor. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Ewubare and Okpani (2018) describe microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by formal banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural areas who are unable to obtain such services from the formal financial sector. The terms micro-credit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. According to Irobi (2008) micro-credit refers to small loans, whereas microfinance is appropriate where Microfinance Institutions supplement the loans with other financial services (savings, insurance, etc). Therefore, microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

The results of empirical evidence indicate that microfinance has a very important role to play in the development of an economy, according to the supporter of microfinance. Simanowitz (2003) states that studies have shown that microfinance plays three key roles in development. Firstly, it helps very poor households meet basic needs and protects against risks. Secondly, it is associated with improvements in household economic welfare and lastly, it helps to empower women by supporting women's economic participation and so promotes gender equity and reduces gender disparity.

Littlefield, Murduch and Hashemi (2003) stated that the poor are generally excluded from the financial services sector of the economy so microfinance banks have emerged to address this market failure. Authors like Littlefield et al. (2003) and the UNDP (2004) have commented on the critical role of microfinance in achieving the Millennium Development Goals (MDGs). Littlefield et al. (2003) state that microfinance is a key strategy in reaching the Millennium Development Goals and in building global financial systems that meet the needs of the poorest people, referring to various case studies, they showed how microfinance has played a role in ameliorating poverty, promoting education, improving health and empowering women. The Simanowitz (2003) grouped microfinance impact into three areas which are: financial services (loans, deposits and leasing); non-financial services (classes on literacy, numeracy, nutrition, health); and business development".

Ehigiamusoe (2008) observes that small loans are effective weapons for addressing mass poverty since most poor cannot afford any amount to expand or even initiate a small-scale business which greatly influences the economy of Bangladesh. Adeyemi (2008) observes that across the globe, governments of various developing countries have sought to provide finance to the poor through the creation of agricultural development banks, special lending schemes, and the support of the growth of cooperatives and other self-help groups (SHGs). The provision of credit to the less privileged has been a wonderful instrument for the reduction of poverty in the world.

On the other hand, some authors have challenged the positive effects of microfinance on poverty alleviation. For instance, Odoko (2008) argues that finance provided by these microfinance institutions is not enough in itself and other complementary strategies must be adopted if the goal of poverty reduction in Nigeria is to be achieved. Also, Adamu (2007) observed that microfinance banks in Nigeria have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging microenterprises. But, the number of beneficiaries of microfinance institutions is an insignificant proportion of the people in need of microfinance services. Dahiru and Zubair (2008) estimated that formal microfinance institutions only service less than one million clients, in a country where over 70% of the country's population live below the poverty line of 1 USD per day.

The Theoretical Frameworks

This study was underpinned by the financial intermediation and psychological theories. The financial intermediation theory on the one hand argued that most banks including the microfinance bank according to Diamond (1984) serve the purpose of financial intermediation as they are considered to be collators of depositors and hence, provide households with insurance against idiosyncratic shocks that adversely affect their liquidity position. Another approach is based on Leland and Pyle (1977). They interpret financial intermediation as information-sharing coalitions. Diamond (1984) shows that these intermediary coalitions can achieve economies of scale. Diamond (1984) is also of the view that financial intermediaries act as delegated monitors on behalf of ultimate savers. Monitoring will involve increasing returns to scale, which implies that specialising may be attractive. Individuals or households will delegate the monitoring activity to such a specialist, i.e., to the financial intermediary. The psychological theory, on the other hand, argued that a species of profit-making private venture that cares about the welfare of its customers can be conceived (Mohammed, 1998). It is noted that though the main aim of all private firms is to maximise profit alongside other self-interest objectives, the psychological theory is proving that a firm that is also concerned about the interest and wellbeing of its customers will win its customers' loyalty and not only it's pocket. In other words, Mohammed (1998) indicated that it is possible to develop capitalist enterprises that maximise private profits that are subject to the fair interests of their customers.

Based on the empirical and theoretical pieces of evidence aforementioned, the study hypothesised two null hypotheses. Firstly, the study postulates that there is no significant relationship between microfinance banks and the standard of living of the poor in Nigeria and secondly, the poor do not have access to micro-loans for the development of micro-enterprises in Nigeria.

3. Methodology

According to Mouton (2012), research methodology encompasses the entire strategy of the study from the identification and assessment of the problem to the final phase of data analysis, interpretation, conclusion and recommendations. He further argued that research methodologies are the principles underpinning the researcher's choice of a broad approach to conduct research.

Neuman (2011) argued that a research design is an overall plan for obtaining answers to questions being studied and handling difficulties encountered during the research. There are numerous conceivable research designs that can be utilised as a part of the research. Hofstee (2006) recommends that the most well-known design utilised by researchers are extended literature review, relative analysis, content investigation, survey-based research, evaluative research (appraisals), contextual analyses, activity research and hypothesis development. This study utilised a survey-based research design. In a survey-based research plan, data is gathered from people who are presumed to have the data that is required and are willing to convey this data to the researcher, while being considered as representing a larger group. A well-structured questionnaire was used to ensure the relevancy and validity of the data-gathering process.

The population of the study are the microfinance banks in Oyo State, Nigeria. The study purposively selected two popular and long-existing microfinance banks in Ogbomoso, Oyo state, the South-Western part of Nigeria. These microfinance banks (MFB) include the Ajewole MFB and Ologbon MFB. Ajewole and Ologbon were purposively selected based on their years of existence and their numerous customer base as compared to other microfinance banks in the geographical area. Both primary and secondary data were used in this study. Primary data were collected from the customers of these MFBs to determine the relationship between poverty (dependent variable) and microfinance (independent variable).

According to Neuman (2011), sampling means taking a portion of an entire population to make relevant and reliable inferences about such a selected population. For effective coverage, a simple random sampling technique was used to select a sample of 80 participants from the two microfinance banks under study. To collect the primary data, structured questionnaires and interview guides were used on the users and consumers of these MFB services. The secondary data for the study were extracted from various reports and journals where relevant information that dealt explicitly with microfinance and poverty alleviation was gathered. The secondary source was used in addition to allowing for flexibility and divergence of opinion. Out of the 80 copies of the questionnaire administered, 65 were returned and used for analysis.

In compliance with research ethical guidelines, the identity of the participants was not recorded and their information was kept confidential throughout the process. Also, their consent was sorted and participation in filling the questionnaires was made voluntary. The data collected from the survey questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques such as frequency and distribution tables using SPSS 17 (Statistical Package for Social Sciences). Chi-square test was used to measure the difference exiting between the observed and expected frequency and to prove the level of significance and inferential statistical test such as the Correlation Analysis and Analysis of Variance (ANOVA) was performed to provide answers to the study hypotheses. These tests were considered appropriate because the data used in the study were non-parametric in nature.

4. Analysis and Discussion of Findings

This section presents the analyses of the data collected under the two hypotheses formulated in the study.

Research Hypotheses

Two hypotheses raised for the study are tested at 0.05 significant levels.

Hypothesis 1: There is no significant relationship between microfinance banks and the standard of living of the poor in Nigeria.

Table 1 shows the results of the Chi-square analysis. Chi-square allows testing the statistical significance of differences in a classification system or the relationship between two classification systems, that is one-way or two-way classification, to perform this chi-square test, one must already have the data classified in a frequency table and not the raw data. A frequency table shows the number of cases that belong simultaneously to two or more distinct categories as presented under the "N" column. In this study, the participants revealed that there is a significant difference between the users of microfinance banks improving their standard of living and those that do not with a Chi-Square value of 46.938 at $p < 0.05$ significance level as presented in Table 1. These imply that most of the participants, that is; 60 (92.3%) of them enjoy MFB and its service as it improves their standard of living and 5 (7.7%) of the participants' standard of living are not improved by MFB and its services. Hence the null hypothesis is rejected. This finding is similar to the results of Ewubare and Okpani (2018) and Ehigiamusoe (2008) who observes that microloans are effective weapons for addressing mass poverty since most poor cannot afford any amount to expand or even initiate a small-scale business.

Table 2 shows the results of the correlation analysis. The correlation test shows the magnitude and kind of relationship that exist between variables. The study revealed that there is a positive relationship between the two variables tested which are the impact of MFB on households and the standard of living of MFB users with a Pearson correlation coefficient of 0.212 which is significant at ($p < 0.05$) as presented in Table 2. Since Pearson coefficient ranges from −1

Table 1. Chi-square test results.

Variables	N	df	Chi-square Value	P-Value
1. MFB improves the standard of living.	60	3	46.938	0.000
2. MFB does not improve the standard of living.	5			
Total respondent	**65**			

Source: Authors Compilation.

Table 2. Correlation analysis test results.

		Impact of MFB on household	Standard of Living of MFB users
Impact of MFB on household	Pearson Correlation	1	0.212*
	Sig. (1-tailed)	65	0.045
	N		65
Standard of Living of MFB users	Pearson Correlation	0.212*	
	Sig. (1-tailed)	0.045	1
	N	65	65

*Correlation is significant at the 0.05 level (1-tailed). Source: Authors Compilation.

(perfect negative relationship) to +1 (perfect positive relationship). This implies that there is a significant positive relationship between the impact of MFB and the standard of living of the poor. Hence the null hypothesis is rejected.

Hypothesis 2: The poor do not have access to microloans for the development of micro-enterprises in Nigeria.

Table 3 shows the results of the two tailed analysis of variance result. The study revealed that the majority of the respondents, that is 44 (67.7%) participants have access to microfinance credit for the development of their microenterprise and 3 (4.6%) participants have no access to the credit facility which could be because they are not creditworthy, or their businesses have grown beyond microenterprise whilst 18 (27.7%) participants have nothing to do with the microloan as they do not have any business to finance. It was inferentially tested as the study revealed that the poor have access to microloans for the development of their micro-enterprises in Nigeria with a t-test statistic value of 16.383 and F-value of 37.219 which are both significant at 0.000; $p < 0.05$ as presented in Table 3. Hence the null hypothesis is rejected, showing that the poor have access to microloans from microfinance banks for the development of their micro-enterprises. This result is similar to the findings of Chepkwei (2020) and Adeyemi (2008) who observe that across the globe, governments of various developing countries have sought to provide finance to the poor through the creation of agricultural development banks, special lending schemes, and the support of the growth of cooperatives and other self-help groups (SHGs). Hence, the provision of credit to the less privileged has been a wonderful instrument for the reduction of poverty in the world.

Table 3. Analysis of variance test results.

Variables	N	Df	T-test Value	F-Value	P-Value
1. Access to Credit facility from MFB for Microenterprise development.	44	64	16.383	37.219	0.000
2. No access to Credit facility from MFB for Microenterprise development.	3				
3. Not applicable.	18				
Total Respondent	**65**				

Source: Authors Compilation.

In sum, the study findings show that microfinance banks significantly help with improving the standard of living of the poor in the study area. The study also reveals that the poor of the poor have access to the micro-credit supplied by the microfinance banks to start or improve their micro businesses.

5. Conclusion and Recommendations

Poverty is a global phenomenon, affecting over half of the world's population, particularly the developing countries. Poverty is caused by low or no profits in the business of the petty traders or microenterprises of the poor, lack of capital to take off or expand micro business(s), high cost of commodities with low-income earnings, and hard economic times.

The result of the study affirmed that microfinance banks have the potential to alleviate poverty especially by improving the standard of living of the poor and making available microloans for microenterprises. Hence, a persistent increase in microfinance credit has led to a drastic reduction in poverty in Nigeria.

Based on the findings of this study the following recommendations are made possible. Microfinance policy should be further publicised so that members of the low-income group will be aware of what micro-finance banks have to offer them and how they can obtain financial services to improve their performance, repayment period of weekly payment plan that is commonly found amongst the microfinance banks should be improved; allowing more grace period for the debtors, also, the financial regulatory body should provide training and modern technology to enable microfinance institutions to keep an adequate record to ensure adequate sustainability. Additionally, the government should provide infrastructural facilities to link up more remote areas to the market and should ensure that there is political stability so that establishment of microfinance banks can be encouraged.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

References

Adamu, G. (2007). *Role of Microfinance Institutions in Actualization of MDGs*. The Induction Ceremony of the Institute of Chartered Economists of Nigeria (ICEN).

Adeyemi, K. S. (2008). Institutional Reforms for Efficient Microfinance Operations in Nigeria. *Central Bank of Nigeria Bullion, 32,* 26-34.

Anyanwu C. M (2004). Microfinance Institutions in Nigeria: Policy, Practice and Potential. In *G24 Workshop on Constriction to Growth in Sub Sahara, Africa* (pp. 1-31). Central Bank of Nigeria.

Bamisile, A. S. (2006). Developing a Long-Term Sustainable Microfinance Sector in Nigeria: The Way Forward. In *Small Enterprises Education and Promotion Network (SEEPN) Annual General Meeting* (pp. 23-43). SEEP.

CBN (2010). Revised Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria. https://www.cbn.gov.ng/

CBN (2012). Revised Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria. https://www.cbn.gov.ng/

Chepkwei, A. K. (2020). Growth of Microfinance Industry: A Critical Global Review. *International Journal of Research Publication, 51,* 1.

Dahiru, M.A. & Zubair, H. (2008). *Microfinance in Nigeria and the Prospects of Introducing Its Islamic Version There in the Light of the Selected Muslim Countries Experience* (Paper No. 8287). Munich Personal REPEC Archive.

Diamond, D. W. (1984). Financial Intermediation and Delegated Monitoring. *The Review* *of Economic Studies, 51,* 393-414.

Ehigiamusoe, G. (2008). The Role of Microfinance Institutions in the Economic Development of Nigeria. *Central Bank of Nigeria Bullion, 32,* 17-24.

Englama, A. & Bamidele, A. (1997). Measurement Issues in Poverty. *Economic and Financial Review, 35,* 3.

Ewubare, D. B., & Okpani, A. O. (2018). Poverty and Income Inequality in Nigeria (1980-2017). *International Journal of Advanced Studies in Ecology, Development and Sustainability, 5,* 138-151.

Hofstee, E. (2006). *Constructing a Good Dissertation: A Practical Guide to Finishing a Master's, MBA or PhD on Schedule*. EPE.

Irobi, N. C. (2008). *Microfinance and Poverty Alleviation: A Case Study of Obazu Progressive Women Association Mbieri, Imo State-Nigeria*. Department of Economics.

Ledgerwood, J. (1999). *Microfinance Handbook: An Institutional and Financial Perspective, Sustainable Banking with the Poor*. World Bank. https://doi.org/10.1596/978-0-8213-4306-7

Leland, H. E., & Pyle, D. H. (1977). Informational Asymmetries, Financial Structure, and Financial Intermediation. *The Journal of Finance*, *32*, 371-387.

Li, Y. (2019). Research on the Rationality of Precision Poverty Alleviation. *Open Journal of Social Sciences, 7,* 347-354. https://doi.org/10.4236/jss.2019.74027

Littlefield, E., Murduch, J., & Hashemi, S. (2003). *Is Microfinance an Effective Strategy to Reach the Millenium Development Goals?* CGAP Focus Note No. 24, Consultative Group to Assist the Poor.

Mohammed, Y. (1998). Poverty Alleviation: Is Economic Any Help? Lessons from the Grameen Bank Experience. *Journal of International Affairs, 52,* 47-65.

Mouton, J. (2012). *How to Succeed in Your Masters and Doctoral Studies. A South African Guide and Resource Book*. Van Schaik.

Neuman, W. L. (2011). *Basics of Social Research: Qualitative and Quantitative Approaches* (2nd ed.). Pearson Education.

Obadire, A. M., Moyo, V., & Munzhelele, N. F. (2022). Basel III Capital Regulations and Bank Efficiency: Evidence from Selected African Countries. *International Journal of Financial Studies, 10,* Article No. 57. https://doi.org/10.3390/ijfs10030057

Odoko, F. O. (2008). Beyond Finance: Strategies for Poverty Reduction in Nigeria. *Central Bank of Nigeria Bullion, 31,* 35-36.

Otero, M. (2000). *Bringing Development Back into Microfinance*. Accion International.

Simanowitz, A. (2003). Client Exit Surveys: A Tool for Understanding Client Drop-Out. *Journal of Microfinance, 2,* 112-137.

UNDP [United Nations Development Programme] (2004). *Human Development Indices*. Oxford University Press.

World Bank (2002). *Globalization, Growth and Poverty: Building an Inclusive World Economy*. World Bank Policy Research Report, Oxford University Press.