Towards Effective Microfinance for Economic Empowerment in Nigeria

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ABSTRACT

Microfinance is an affirmative means for the economic active poor to raise their economic security and accordingly reduce poverty. This paper assesses the impact of micro-financing on the poverty reduction of micro credit customers in Ibadan Oyo State. Data were obtained through questionnaires administered to 353 microcredit customers in Oyo State Nigeria. The study employed the Regression analysis as the analytical tool. The study showed that the three formulated hypotheses were all significant which invariable infer that micro credit provision plays a significant role in poverty alleviation especially in aiding the purchasing power of the populace. Also, micro financing accessibility will promote people economic capacity and bring about sustainable development. In this study, Furthermore, it was concluded that accessibility to micro credit and interest rate have a significant effect on poverty alleviation.The study recommends that government should arrange enabling environment for the microfinance programme by ensuring political stability, a stable macro-economic environment, uniform and low interest rate, and low inflation rates.

Keywords: Microfinance, Economic Empowerment, Access to Credit, Interest Rate, Poverty Alleviation.

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1. BACKGROUND TO THE STUDY

Obviously different financial institutions and programs targeted at poverty alleviation have at one time or the other been established by the governments. The aim has always been the reduction of poverty among the people. These poverty alleviation institutions and programmes are meant to transform human growth from mere production and production patterns to societal empowerment and upliftment of human capital resulting to improvement on the standard of living, rural development and self-reliance (Onwe, 1998). Again there is large unserved market of people in Nigeria that suffer financial exclusion and these are mainly the poor who are socially and economically backwards. A typical conventional institution in Nigeria shy away from servicing the poor mainly in form of loan due to the risk associated with servicing the poor knowing full well, that no country can develop if the poor are totally left out in the financial stream of institutions that will eventually bring about improved economic development and growth. In Nigeria, micro finance institutions have been characterized by weak institutional capacity due to poor performance arising from inept management, weak internal control system, lack of adequate deposited insurance scheme lack of well-defined operations and inadequate regulatory frame work (CBN 2006). It is out of this weakness that the Central Bank came up with the micro finance, regulatory and supervisory frame work of 2005.

1.1 Statement Of Problem

In spite of this institutionalized programmes by the Nigerian government targeted at poverty allocation that level of poverty is still high. This has also affected Nigerian life expectance rate which stood at 51.9 years as stated in the human development Index (H.D.I) report of 2011. In the same 2011 Nigeria was ranked 156 out of 187 countries in HDI global index with HDI put at 2.069 and the last among OPEC countries (Adedoja and Akosile, 2011) as at 2010 the per capital income of Nigeria was $2748 being lower than that of Ghana and Cameroon (Akinbode 2010). The Nigerian economy is also characterized by decay and low infrastructural development. And this with high level of poverty and micro activities, employment rate has remained very low (Onwere 2008).

The efficacy of micro finance as tool for poverty alleviation and rural empowerment has attracted mixed reactions, (Idam 2007). The poor people hardly benefit from the services of conventional banks and this has resulted to high level of poverty among the people. Even the numerous government programmes, institutions and policies meant for poverty alleviation are yet to create the significant impact and this has widened the efficacy of micro finance as a veritable tool for poverty alleviation and this is what this paper tried to address.

Fig 1a: An Example of Economic Empowerment Trading Through Microfinance

1.2 Objective

The broad objective is to determine how significant the effect of micro finance on poverty alleviation in Nigeria is. The specific objectives are;

1. To assess the effect of micro finance, proxied as the degree of accessibility to microfinance on poverty alleviation, proxied as human purchasing power
2. To determine the significant effect of micro finance proxied as interest rate on micro credit and poverty alleviation proxied as human purchasing power.
3. To ascertain the extent micro finance proxied as rate of demand for credit, has significantly affected poverty alleviation proxied, as human purchasing power.

1.3 Research Hypothesis

$H0_1$ There is no significant relationship between the degree of accessibility of micro credit and human purchasing powers.

$H0_2$ There is no significant relationship between interest rate on micro credit and human purchasing power.

$H0_3$ There is no significant relationship between the rates of demand of credit and human purchasing power.

2. LITERATURE REVIEW

2.1 Theoretical Frame Work

This paper considered the following theories

1. The imperfect information paradigm which is of the view that lending may not always be available no matter the level of interest rate. This is of the view that interest rate is not the only factor affecting the availability of loanable funds.
2. The informal credit market. The informal market has always been an alternative source of finance to large number of Nigerians mainly because formal sources are not always available, obtainable or accessible. In this market there is always market distortion due to scarcity of information.

2.2 Concept of Micro Finance

Irobi (2008) defined microfinance as the delivery of financial services such credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income making endeavours or expand/grow the small businesses. Microfinance is sectionally defined as a financial intervention that centres on the low-income group of a given society. The intermediation essentially includes credit services and may also include savings, insurance on credits and savings (Jegede, Kehinde & Akinlabi. 2011). The CBN microfinance policy, regulatory frame work (2005) described microfinance as providing financial services to the poor who are not traditionally served by conventional institutions. Anyanwu (2004), discussed how microfinance bank is providing capital to the poor, as well as in fighting poverty at an individual level. Further to this, it has a role at institutional level by seeking to create institutions that convey financial services to the poor, who are incessantly overlooked by the formal banking sector. Microfinance institutions (MFIs) are considered as the key origin of supporting micro enterprises (Anyanwu, 2004).

Murray (2005) stated that microfinance is promoted as a mechanism for triggering or sustaining social and economic development by supporting entrepreneur activities. She also was of the opinion that microfinance can have multiple spin-off benefits, including the potential to be a component of poverty reduction strategy, thus contributing to the Millennium Development Goals (MDGs). She went further to postulate that clients who use microfinance services differ according to age, income, ethnicity and whether they are able to access microfinance services as individuals or in groups. She noted that typical microfinance clientele in many parts of the world have been poor women that are resourceful entrepreneurs. Microfinance programmes, according to her, contribute to the MDG by giving low-income rural women and men a chance to develop both their farm income generating activities. An increase in women's income has been shown to have positive effects for children's nutrition, education and wellbeing, which also supports other MDGs. Microfinance institutions themselves are quite diverse, ranging from large commercial banks to small NGOs. Microfinance institutions also differ in terms of their methodologies, client base, numbers and range of financial products, average loan size, terms of loans, repayments incentives, savings requirements, interest rate and fees; collateral requirements, reliance on donors or other external funding, governance and management, communication capabilities and the non-financial products and training they offer.

2.3 Concept of Empowerment of the Poor

Empowerment is the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives (Rayan 2002). The term empowerment originates from American community psychology and is associated with the social scientist (Rappaport 1981).

2.4. Empirical Review

Jegede, Kehinde and Babatunde (2011) did a research on the impact of poverty alleviation in Nigeria, using descriptive methodology and regression analysis. The findings reveal that there is a significant effect on micro finance on poverty alleviation and sustainable development. In another study Mustapha and Ishmaila (2008) studied on entrepreneurship and micro finance as a tool for empowerment of the poor and using Akwawat, Pakistan, as a case study. The research design was descriptive and it was reviewed that there is need to carry out more research outside the solidarity lender group. Similarly, in the Nigerian context, Ebimobowei, Sophia, & Wisdom, (2012) investigate the relationship between microfinance and poverty reduction in Bayelsa State of Nigeria. The analysis of the data revealed that there is a significant relationship between microfinance and poverty reduction in Bayelsa State.

Furthermore, in a more recent and similar study by David 2019 which examines the impact of micro credit finance on poverty alleviation in Ogun state where a well-structured questionnaire was used to collect data from one hundred and seventy-six (176) respondents through quota sampling technique. Data were analysed using Pearson product moment correlation coefficient (r). The result showed that there is a significant relationship between micro credit finance and poverty alleviation in Ogun state.

3. METHODOLOGY

3.1 The Research Design

This research adopted the survey design using questionnaire as research instrument. The area of study covers all the micro credit customers of micro finance banks in Oyo State and the population was 4303 credit customers, and 353 of them formed the sample size using Raosoft sample size calculator at 5% margin of error. Regression analysis and Analysis of variance (ANOVA) were computed with the help of statistical package for social sciences (SPSS). The trend, pattern and relationship among the data were identified and interpreted.

4. DATA PRESENTATION

The three hypotheses in this study will be tested using the output of result from regression analysis and decide whether to reject or accept null hypotheses using ANOVA significant value at $\alpha=0.05$.

Hypothesis 1

H_0: There is no significant relationship between the degree of accessibility to micro credit and human purchasing powers.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.906[a]	.821	.685	.788

a. Predictors: (Constant), Accessibility_to_Credit

The model summary table provides information about the degree of relationship between accessibility to micro credit and purchasing power. The value of R=906 shows a very strong positive relationship between respondents access to microcredit and their purchasing power. R-square which is also known as coefficient of determination is 0.821 which implies that about 82% of the total variation in the purchasing power of the participant could be accounted for by accessibility to micro credit.

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	820.043	1	820.043	34.287	.001
	Residual	8394.772	351	23.917		
	Total	9214.815	352			

a. Dependent Variable: Purchasing Power
b. Predictors: (Constant), Access to Credit

In testing hypothesis 1, the ANOVA result shows that F-value = 34.287 and sig-value =0.001.This shows that sig-value is less than 0.05. Therefore the alternative hypothesis was accepted and the null hypothesis rejected. This result indicated that the relationship between access to credit and purchasing power of the respondents was statistically significant.

Hypothesis 2

H_0: There is no significant relationship between interest rate on micro credit and human purchasing power

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.736	.556	.043

a. Predictors: (Constant), Interest Rate

The model summary table provides information about the degree of relationship between interest rate on micro credit and purchasing power of the respondents. The value of R=858 indicate a strong positive relationship between interest rate on microcredit which discourages them from accessing the soft loan and their purchasing power. R-square also known as coefficient of determination is 0.736 which implies that about 74% of the total variation in the purchasing power of the participant could be accounted for by interest rate on micro credit.

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	798.001	1	798.001	55.781	.000
	Residual	5021.546	351	14.306		
	Total	5819.547	352			

a. Dependent Variable: Purchasing_Power

b. Predictors: (Constant), Interest_Rate

For hypothesis 2, the ANOVA result revealed that F-value = 55.781 and sig-value =0.000.This shows that sig-value is less than 0.05. Therefore the alternative hypothesis was accepted and the null hypothesis rejected. This result shows that there is significant relationship between interest rate on micro credit and respondents' purchasing power.

Hypothesis 3

H_0: There is no significant relationship between the rates of demand for credit and human purchasing power

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.322[a]	.104	.018	.318

a. Predictors: (Constant), Demand for Credit

Table 5 contains the model summary and provides information about the degree of relationship between respondents' demand for credit and their purchasing. The value of R=322 indicate a weak positive relationship between credit demand and respondent purchasing power. R-square also known as coefficient of determination is 0.104 which implies that just about 10% of the total variation in the purchasing power of the participant could be explained by demand for credit, the remaining 90% could be explain by other factors which might include the previously discoursed accessibility and interest rate on micro credit.

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	281.803	1	281.803	7.953	.061
	Residual	12437.546	351	35.435		
	Total	12718.349	352			

a. Dependent Variable: Purchasing Power
b. b. Predictors: (Constant), Demand for Credit

In testing hypothesis 3, the ANOVA result revealed that F-value = 7.953 and sig-value =0.061.This shows that sig-value is greater than 0.05. Therefore the alternative hypothesis was rejected and the null hypothesis accepted. This result shows that there is no significant relationship between demand for micro credit and respondents' purchasing power.

5. CONCLUDING REMARKS

In conclusion this study shows that microfinance through micro credit provision plays a significant role in poverty alleviation especially in aiding the purchasing power of the populace. Also, micro financing accessibility will promote people economic capacity and bring about sustainable development. In this study, it was concluded that accessibility to micro credit and interest rate have a significant effect on poverty alleviation. Based on the findings of this study it must be recommended that government should arrange enabling environment for the microfinance programme by ensuring political stability, a stable macro-economic environment, uniform and low interest rate, and low inflation rates. In order to have a sustainable microfinance intervention, the government should also keep infrastructures in place that link more remote areas to market. Finally, erring staff of microfinance banks should be prosecuted in the court of law and penalized.

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