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The Impact of Microfinancing on Poverty Alleviation in Northwestern Nigeria.

BY

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Abstract

This research concentrated on the impact of microfinancing on poverty alleviation in Northwestern Nigeria. Four (4) research questions were raised to guide the study. The research design adopted for the study was the survey design. Data were collected through questionnaires while respondents were selected through convenience sampling technique. A total of three hundred (300) respondents were selected as the sample, through the use of Topman Formula at 5% level of tolerable error. Out of the three hundred (300) copies of the questionnaire that were printed and distributed, two hundred and seventy-Five (275) were properly filled and returned and final analysis was based on this figure. Analysis was carried out using frequency counts and percentages. Based on the analysis made, it was observed that, microfinance banks in Rano, Kibiya, Bunkure, Garko, Kura and Nasarawa LGA in Kano state are relatively effective in enabling the poor to access credit facilities, despite some concerns about collateral requirements. It was also observed that microfinance banks significantly contribute to business growth by providing credit, training, and financial literacy programs. These services enable entrepreneurs to start or expand their businesses and increase their income. Lastly, the findings suggested that microfinance banks contribute to reduction of unemployment by supporting self-employment. However, the community-wide impacts of these businesses were discovered to be limited. In light of these findings, the study suggested that microfinance banks broaden their financial inclusion, boost loan amounts and flexibility, improve non-financial support services, and create focused unemployment reduction initiatives, among other things.

Key words: Poverty reduction, microfinance, Credit facility, Business growth, Unemployment

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1. Introduction

Occurrence of poverty as a phenomenon is not strange but it is the high incidence that is worrisome. Poverty has been a strong development indicator given attention globally, with intent of reducing it to the barest minimum. In economic terms, poverty is a situation of low income or low consumption. This view is analytically useful for construction of poverty lines (Chambers, 1995). The value of income or consumption necessary to purchase the minimum standard of nutrition and other necessities, does not tell the complete story. Poverty in real term has both income and non-income dimensions and they are usually interwoven. In this regard, poverty refers to lack of physical necessities, assets and income. It includes more than being income-poor.

One of the definitions of poverty drawn from World Bank report (1990) defines poverty as "inability to achieve a minimum standard of living". The World Bank devoted its world development report to the topic of poverty as early as 1990 World Bank (1990).

The United Nation Organization (1999) used Human Development Index (HDI) as a general measure of a country's standard of living and thus as an indicator of the poverty situation there. The HDI include in addition to average per capital income, three social indicators as well, average life expectancy; the literacy rate, and the proportion of children attending school. Afonja and Ogwumike (2003) explained the insufficiency of growth rate as a sufficient measure of assessing development.

In establishing political environment and enabling macro economy, the provision of micro finance is an important component of any effort to improve the livelihood of the poor in any society. Over the years, microfinance banks' activities have emerged as an effective strategy for enhancing economic growth across developing countries.

This justifies the reason why microfinance banks were established to ensure that the cycle of poverty is reduced by extending credit facilities to the poorest poor. Yunus pioneer the idea of micro-financing method with Grameen Bank (Tafamel, 2019). However, heated arguments have been raised that, the poverty level in Nigeria continually increased since the introduction of the Structural Adjustment Programmes (SAP) in 1986. Ochonogor (2020) stated that, a run through of the poverty level in Nigeria noted that, urban poverty rate increased from 3% to 25.6% from 1980 to 1996. Meanwhile, rural poverty increased from 6.5% to 31.6% from 1980 to 1996. As reported by the United Nations Development Programmes, 68% of Nigerians are living below $ 1.25 per day (UNDP, 2021). The reason is that, majority of Nigerians were not able to access microfinance banks' services (Peachey & Roe, 2004). As such, for more Nigerians' income level to be increased, the poorest amongst the poor must access credit facilities. In recent years there has been renewed interest in micro finance by both policy makers and practitioners. This interest is based on its valued contribution to effort aimed at improving the livelihoods of the rural population through policies and program geared toward addressing inequalities arising from various countries `socio-political record. In Nigeria the practice of micro finance is culturally rooted and dated back to several centuries. The traditional micro finance institution provides access to credit for rural and urban low-income earners. The unwillingness or inability of the formal financial institution to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sectors led micro finance in Nigeria. Before the emergence of formal micro institution, informal micro finance activities flourishing all over the country.

These informal micro finance firms were the forms of Traditional groups that work

together for the mutual benefits of their members. The informal micro finance arrangement operates under different names `Esusu`among the Yoruba`s of western Nigeria. `Etoto`for Igbo`s in the east and `Adashi`in the North for the Hausas central bank of Nigeria (CBN) (2000).

In order to enhance the flow of financial services to the poor Nigerian government has in the past initiated a series of publicly financed micro/rural credit programme and policies targeted at the poor notably among such programme were the rural banking programme, sectoral allocation of credits, a concessionary interest rate and agricultural credit scheme. Other institutional arrangement was the establishment of the Nigeria Agricultural and Co-operative Bank limited (NACB) in 1973 with the sole purpose of providing specialized credit facility for agriculture and rural development, it is in the light of this study intend to evaluated the impact of microfinancing on poverty alleviation in Northwestern Nigeria.

2. Objectives of the Study

The general objective is to determine the impact of microfinancing on poverty alleviation in Northwestern Nigeria, the specific objectives are however to;

i. To examine the impact of microfinancing on poverty alleviation in Northwestern Nigeria.

ii. To identify the constraints of microfinance bank in poverty alleviation in Northwestern Nigeria.

iii. To analyze the role of microfinance institutions improving poverty alleviation in Northwestern Nigeria.

iv. To proffer solution to the problems experienced by microfinance institutions in Nigeria

3. Research Questions

i. What is the impact of microfinance bank services on income level among clients?

ii. Does microfinance bank participating lead to increase employment opportunities and entrepreneurship?

iii. How do microfinance bank services affect education and health outcomes among clients?

iv. To what extent have Microfinance banks' activities access to Credit facilitated the alleviation of poverty in Northwestern Nigeria?

4. Conceptual and Theoretical Discourse

4.1 Conceptual Review

Concept of Poverty and Poverty Reduction

Poverty is a multifaceted, intricate social phenomenon with social, psychological, and economic components. According to Mboho and Udoh (2018), poverty is a dreaded condition of absence of capacity to maintain, at least, basic level of decent living. It is a hydra-headed condition which tends to restrict people from socio-economic opportunities. It extends to social inequality, insecurity, illiteracy, poor health, as well as restricted or total lack of opportunities for personal growth and self realization. The most widely used definition of poverty is the inability to afford basic necessities like clothing, food, shelter, and medical care. The World Bank (2019) states that if a person makes less than $1.90 per day, they are deemed to be in extreme poverty. Despite being widely accepted, this economic definition

falls short in describing the extent to which poverty impacts both individual lives and social structures. According to Okon and Thompson (2019), the term "poverty reduction" encompasses all programs, policies, and initiatives that are intended to lower the prevalence and rate of poverty in a given family, community, state, or nation. Poverty can instigate the youths to engage in criminal activities, but poverty reduction will reduce the threat of some level of frivolities among young people. Udoh and Udousoro (2014) observed that, in every society, the youths represent a dream, a hope, a future, they also represent fear and uncertainty.

Conceptualizing Microfinance Institutions

Microfinance institutions (MFIs) are businesses that provide financial services to people or groups without access to traditional banking services, including savings accounts, insurance, money transfer services, and small loans (microcredit). MFIs usually serve low-income people, especially those living in rural areas, women, and small business owners. MFIs frequently use group lending models or social collateral, where borrowers assist one another in repaying loans, in contrast to traditional banks that demand collateral (Armendáriz and Morduch, 2010). The establishment of Grameen Bank in Bangladesh in 1976 by Muhammad Yunus is credited with bringing modern microfinance to life. The difficulties that impoverished people faced in obtaining loans from official financial institutions were something that Yunus aimed to address. The basis for modern microfinance organizations, which have since grown internationally, was established by his model of giving small, unsecured loans to the underprivileged (Yunus, 1999).

Microfinance and Poverty Alleviation

One of the most widely accepted methods for reducing poverty is microfinance. Microfinance institutions (MFIs) help the impoverished by offering financial services that allow them to invest in sources of income, accumulate assets, and raise their standard of living. Nonetheless, microfinance's influence on reducing poverty goes beyond economic empowerment; it also tackles the social aspects of poverty by encouraging self-reliance, inclusion, and dignity (Kabeer, 2001). One of the main objectives of microfinance organizations is to reduce poverty. Microfinance organizations enable the impoverished to invest in revenue-generating ventures by lowering the transaction costs related to obtaining credit.

By creating assets and encouraging financial independence, these initiatives not only help people and households immediately but also reduce poverty over the long run (Cull, Demirgüç-Kunt, and Morduch, 2009). In order to further lessen the effects of poverty and give the impoverished a safety net, microfinance institutions also provide insurance and savings plans. To alleviate poverty, Udoh and Mboho (2022) suggest that, rural areas should be provided with all the facilities and infrastructures like pipe borne water, electricity, hospital, telephone, school, banks, industries, food, clothing and shelter for the people. In the absence of these infrastructures living conditions of the rural people becomes sordid and unattractive. Poverty affects both the young and the old. To Udoh (2021), failure to have access to pension and gratuity by retirees from federal, State and local governments have aggravated their socio-economic and psychological conditions and retirees are often left to suffer unnecessarily or die in the course of waiting for their benefits.

Microfinance

Osamwonyi & Obayagbona, 2012 says that Microfinance entails creating a system of finance that will empower the masses particularly, the rural dwellers and the poor in order for them to

meet their needs. It is geared towards poverty alleviation and economic empowerment. Stanley & Ezeanyeji, 2017 says that extending microcredit to the populace creates employment, self reliance, generation of earnings which in turn will improve the standard of living of the people hence improvement in economic growth and development. The idea of microfinance is to ensure the alleviation of poverty and improve the economic power of the poor people in Nigeria. It is meant to reach as many people as possible. Similarly, it is an instrument of financial inclusion. It is meant to encourage the mopping of funds that are outside the financial system. Microfinance in its entirety should contribute to the overall well being of Nigerians and the economy. Prior to the advent of the modern Microfinance Banks, there have been attempts to establish such banks to take care of microcredit and its like. This has been both formal and informal.

Poverty Alleviation Programmes in Nigeria

In 1972, the Government of General Yakubu Gowon established such programme as the National Accelerated Food Production Programme (NAFPP) and later Nigerian Agricultural and cooperative Bank (NACB) which never achieved its objective. During the first republic, Alhaji Shehu Shagari in 1979 brought the Green Revolution whose aim was to introduce mechanized farming. The project gulped about N2billion without any success. General Ibrahim Babangida launched the Directorate of Food and Rural Infrastructure (DFRRI) to provide feeder roads, toilet facilities, electricity, and portable water for rural dwellers. This programme was followed by Better Life for Rural women programme which was the baby of the first lady at that time, yet nothing came out of it. Other such programmes include Nigerian Agricultural Land Development Authority (NALDA), National Directorate of Employment (NDE). Among all these programmes it is only NDE that will judge as relatively successful. During the regime of General Sanni Abacha, the Family Economic Advancement Programme (FEAP) was enunciated which required a borrower of the fund to deposit 10% of the amount needed to the participating bank. This programme got a total sum of N3billion out of the N7billion approved but was marred by loan defaults. In 1999 General Obasanjo came up with the National Poverty Eradication Programme (NAPEP) which was meant to wipe poverty from Nigeria by the year 2019. Social Services Welfare Scheme (SSOWES) designed to provide standard special and primary education, which will empower farmers, and primary health care etc.

Rural Banking Programmes

Toby & Akani (2014) stated that prior to 1977 when Central Bank of Nigeria ordered banks in Nigeria to open rural banks in Nigeria. The objective of this was to foster financial inclusion and solve the challenges of microcredit which was prevalent in the various programmes of government before this time. In this Rural Banking Programme, the Central Bank of Nigeria allocated a minimum number of rural branches to be established by each bank in various communities of the country. Apart from extending banking services, the rural branches were expected to achieve the following:

- Efficient allocation of resources in various arears and regions
- Savings deposit mobilization
- To be back-up for new government programmes
- To be a connection between money markets and capital markets in the rural areas
- Distribution of credit to productive ventures.

The above objectives were not achieved as a result of the challenges listed below:

- Lack of basic infrastructure which made those areas to be inaccessible
- Staff recruited were in urban areas and not willing to relocate to the rural branches
- There were low business activities in the rural areas and banks are doing business to make profit
- There was no suitable accommodation for banking business in those areas
- There were security problems as some of the branches were vulnerable to robbery.

It is believed that the above challenges coupled with bank distress led to the failure of rural banking in Nigeria which now culminated into the establishment of the Peoples Bank of Nigeria in 1989 and subsequently Community banks and now Microfinance Banks.

4.2 **Theoretical Review**

Financial Intermediation Theory

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

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

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

offer risk diversification, according to Diamond's (1984) theory. This helps to stabilize the financial system and lowers the risk that individual savers must deal with.

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

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

5.0 Methodology

This study adopted the survey research design while the instrument used for data collection in the study was the questionnaire. The population of the study consisted of all customers of Microfinance Banks in Rano, Kibiya, Bunkure, Garko, Kura, and Nasarawa Local Government Area of Kano State. Hence, the Population of the study was infinite. A total of three hundred (300) respondents were selected as the sample, through the use of Topman Formula at 5% level of tolerable error. Convenience sampling technique was however adopted to pick the required sample for the study. This technique allowed the researcher to include respondents who were available and willing to participate, thus, enhancing the authenticity and validity of the study. Data analysis was carried out using frequency counts and percentages. Out of the three hundred (300) questionnaires administered to the respondents, 275 (91.7%) were useable. Therefore, the analysis was based on the usable sample size of 275 retrieved from the respondents.

6. Results and Discussion

Table 1: Respondents Demographic Characteristics of Respondents (n = 275)

Characteristics	Frequency	Percentage
Sex:		
Male	214	77.8
Female	61	22.2
Age:		
18- 28 years	36	13.1
29- 39 years	117	42.5
40- 49 years	90	32.7
50 years and above	32	11.7
Educational Qualification:		
No formal education	11	4
Primary	35	12.2
Secondary	65	23.6
Tertiary	173	62.9

Source: Field Survey (2025)

The data in Table 1 shows that 77.8% were males while 22.2% of the respondents were females. The Table also shows that 13.1% of the respondents were between the ages of 18-28, 42.5% of the respondents were between the ages of 29-39, 32.7% were between the ages of 40-49, while 11.7% of the respondents were between ages of 50 and above. Furthermore, the table shows that 4% of the respondents had no formal education, 12.2% of the respondents had primary education, 23.6% of the respondents had secondary education, while 62.9% of the respondents had tertiary education.

Table 2: What is the impact of microfinance bank services on income level among clients (n = 275)

Statement	Yes	No
Microfinance banks loan increased the level of your income.	240(87.3)	35(12.7)
Have accessed credit from a microfinance bank due to their favourable terms compared to commercial bank increased the level of your positive expectation.	214 (77.8)	61 (22.2)
Microfinance banks provide credit without requiring collateral, which benefits the poor.	170(62.5)	105(37.5)

Source: Field Survey, 2025

The analysis in Table 2 shows that a significant proportion of the respondents (87.3%) agreed that Microfinance banks loan increased the level of their incomes. While 77.8% of respondents agreed that they had accessed credit from microfinance institutions due to favourable terms compared to commercial banks. Furthermore, 62.5% of respondents agreed that Microfinance banks provide credit without requiring collateral, which benefits the poor. This aligns with existing literature, which suggests that microfinance banks are designed to bridge the financial inclusion gap by offering accessible financial services to low-income individuals who lack access to traditional financial institutions (Acha, 2012).

Table 3: Does microfinance bank participating lead to increase employment opportunities and entrepreneurship? (n = 275)

Statement	Yes	No
Microfinance loans have provided employment opportunities by enabling me to start a business.	223(81.1)	52(18.9)
Microfinance banks support self-employment by providing easy access to credit for small business owners	255(92.7)	20(7.3)
The employment created by businesses funded through microfinance loans has a positive impact in the community.	234(85.1)	41(14.9)

Source: Field Survey, 2025

As shown in Table 3, 81.1% of respondents agreed that Microfinance loans have provided employment opportunities by enabling me to start a business, while 92.7% of respondents agreed that Microfinance banks support self-employment by providing easy access to credit for small business owners. Additionally, 85.1% agreed that the employment created by businesses funded through microfinance loans has a positive impact in the community. This supports the view that microfinance institutions do more than just offer financial services as they also provide valuable non-financial services that empower entrepreneurs and contribute to the overall success of their businesses (Morduch, 1999).

Table 4: How do microfinance bank services affect education and health outcomes among clients? (n = 275)

Statement	Yes	No
Microfinance loans has helped me access to healthcare	243(88.4)	32(11.6)
The support from microfinance banks has increased my food security.	216(78.4)	59(21.6)
The training and financial literacy programs provided by microfinance banks have contributed to my education	215(78.2)	60(21.8)

Source: Field Survey, 2025

As shown in Table 4, 88.4% of respondents agreed that Microfinance loans has helped me access to healthcare**.**While78.4% of respondents agreed that the support from microfinance banks has increased my food security. Additionally, 78.2% agreed that the training and financial literacy programs provided by microfinance banks have contributed to my education. This supports the view that microfinance institutions do more than just offer financial services as they also provide valuable non-financial services that empower entrepreneurs and contribute to the overall success of their businesses (Morduch, 1999). This indicates that while microfinance institutions have a positive impact on business development, there is a need to increase the loan amounts or develop more flexible repayment structures to better meet the needs of entrepreneurs.

Table 5: To what extent have Microfinance banks' activities access to Credit facilitated the alleviation of poverty in Northwestern Nigeria? (n = 275)

Statement	Yes	No
Microfinance banks make it easy for low-income individuals to access credit.	194(70.5)	81(29.5)
Microfinance bank activities facilitated in alleviation of poverty in your community.	224(81.5)	51(18.5)
The credit facilities offered by microfinance banks had improved my financial situation.	208(75.6)	67(24.4)

Source: Field Survey, 2025

As has been indicated in Table 5, 70.5% of respondents agreed that Microfinance banks make it easy for low-income individuals to access credit.And81.5% agreed thatMicrofinance bank activities facilitated in alleviation of poverty in your community. This aligns with the idea that microfinance institutions play a vital role in creating self-employment opportunities and, consequently, reducing unemployment (Littlefield, Morduch, and Hashemi, 2003). However, a significant proportion of respondents agreed that the credit facilities offered by microfinance banks had improved my financial situation businesses funded through microfinance loans have positive impacts on the community, suggesting that while individual entrepreneurs may benefit from microfinance services, the broader community might not feel the full impact. This may be due to the small scale of many of these businesses or the challenges these entrepreneurs face in expanding their operations beyond a certain level.

7. Conclusion

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

8. Recommendations

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

i. Increase Financial Inclusion: Microfinance organizations should keep concentrating on reaching underprivileged groups, especially in rural areas where financial services are still hard to come by. Barriers like collateral requirements, which might prevent the poorest households from obtaining credit, should be addressed more thoroughly. Expand Loan Amounts and Flexibility:

ii. Expand Loan Amounts and Flexibility: Microfinance institutions ought to think about providing bigger loan amounts and more accommodating repayment schedules in order to better assist business expansion. Small business owners would be able to grow their operations and possibly add more jobs as a result, which would be advantageous to both individual business owners and the community at large.

iii. Enhance Non-Financial Support Services: Microfinance organizations should keep up their training and financial literacy initiatives in addition to lending out credit. These services are crucial for making sure business owners make wise financial choices and get the most out of their loans. The success rate of companies backed by microfinance would be further increased by expanding such initiatives.

iv. Create Targeted Programs for Unemployment Reduction: Since microfinance encourages self-employment, targeted programs should be created to assist jobless people in launching their own companies. Vocational training and startup funding could be the main goals of such programs, especially for women and young people in underprivileged areas.

v. Cooperate with Other Financial Institutions: Microfinance banks should forge closer ties with other financial institutions, including development finance organizations and commercial banks, in order to boost the impact of their services. These collaborations might offer more resources and knowledge, enhancing microfinance banks' overall capacity to support economic growth.

vi. Improve Monitoring and Evaluation Mechanisms: In order to track the effects of their services on reducing poverty and fostering community development, microfinance institutions should fortify their monitoring and evaluation frameworks.

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