International Journal of Finance, Accounting and Economics Studies, 3(4), 2022, 13-20.
Print ISSN: 2251-645X Online ISSN: 2383-2517

Islamic Azad University
Science and Research Branch
Faculty of Management and Economics

International Journal of Finance, Accounting and Economics Studies
Journal homepage: https://ijfaes.srbiau.ac.ir

The Role of Microfinance in poverty Reduction in the Bauchi State of Nigeria

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Article History
Submission Date: 04 September 2022
Revised Date: 14 October 2022
Accepted Date: 26 November 2022
Available Online: December 2022

JEL Classification:

Keyword:
Demographic Factors
MicroFinance
Nigeria
Poverty Reduction
Tobit Regression

Abstract
The study aimed at examining the role of microfinance in poverty alleviation in the Bauchi state of Nigeria. Data were collected from the respondent using a questionnaire. The samples of the study are made up of 50 DEC microfinance clients and non-clients. The sample respondents included 30 clients and 20 non-clients of DEC microfinance in Bauchi state of Nigeria. The Tobit regression model was used in the data analysis. This study discovered micro-credit and the nature of the business to be negative but significantly related to poverty reduction. Duration of membership and qualification was discovered to be significant and positively related to poverty reduction. The study concluded that microfinance institutions should establish a system that can be used to properly monitor the activities of the field staff during the distribution and collection of micro-credit. This mechanism or system if properly put in place, would ensure that the field workers do not take undue advantage of the microfinance beneficiaries.

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1. Introduction

In Nigeria, poverty has existed for decades and is everywhere, such that it has become the way or part of life, just like blood flowing in the human body. Poverty is a circumstance in which individual households or communities are unable to meet their basic needs like food, shelter, education, clothing and health (Aziz, 2012). People who are poor suffer from lack of good drinking water, healthcare, education, food and nutrition. They are vulnerable to diseases, do not have the ability to develop their skills and capabilities to give their children a better life and end up dying early or young as a result of diseases that are preventable (Alston & Shepherd, 2009; Johnson, 2013). Therefore, poverty has become a great concern to all nationals of the world.

Studies have shown that, the few richest people consume about 86% of services and commodities. While, one child in every five children does not live to witness his/her fifth birthday due to lack of access to services and other basic needs (Barr, 2005). This is because the majority of the population that is poor (1.2 billion) survives below USD1 per day and half of the people are managing to leave below USD 2 per day (Desta, 2010; Johnson, 2013). Moreover, statistics have also shown that the difference in the ratio or rate of income between 5% of the poorest and 5% of the richest people in 1960 is 1 to 30 which rose to 1 to 74 in 2006. This shows that the gap between the rich and poor kept increasing as the rich get richer and the poor get poorer. This also accounts for the high rate of poverty in the under-developed countries, most especially Nigeria.

Thus, provision of microfinance is very vital and needed to set the poor people free from the confined of poverty. Therefore, in order to accord importance to poverty alleviation, the Nigerian governments have initiated programs aimed at providing financial services to support the poor households, through microfinance. The financial services provided will reduced their problems of liquidity, create jobs and increase their income generating capacity to remove them out of poverty (Sharma, 2003). microfinance can be refers to as the provision of credit, savings and other financial services to the poor who do not have security to obtain such services in the traditional banks (Olasupo & Hamed, 2013) Thus, microfinance is provided to the poor households to engage in businesses to generate income, in order to get them out of poverty.

Evidence shows that microfinance has contributed in changing livelihoods of poor women and made poverty reduction possible in Nigeria and other part of the world (Abiola & Oyeleye, 2012; Boateng, Boateng & Bampoe, 2015; Bunyaminu & Issah, 2012; Ghalid, Malik & Imai, 2012; Omoro, 2013; Tammili, Mohammed & Terano 2018). On the contrary, some studies argued that microfinance do not lead to poverty reduction but rather contribute in the increasing level of poverty of its members (Almamum, Hassan & Rana, 2013; Bernajee & Jackson, 2016; Clement & Terande, 2012). Other studies indicated mixed impact of microfinance on poverty reduction (Coleman, 1999; Jain & Munoz, 2017; Karlan & Valdivia 2011; Rooyen, Stewart & Devet, 2012). The conflicting findings of the previous studies create avenue for more studies.

Furthermore, much has been written about microfinance and poverty alleviation in Asia, Latin America. In contrast, there are relatively limited or small studies known to have been carried out in Sub Saharan Africa (SSA) and Nigeria in particular, thereby giving them very small coverage (Siringi, 2011). In addition, the methodological rigor of the different studies carried out on the impact of microfinance on poverty alleviation in Sub Saharan Africa differs in many ways. Westover (2008) disclosed that there are inadequate and rigorous studies on the impact of microfinance. This is because most of the studies on impact are being carried out by the microfinance institutions that are case and local specific and uses qualitative approach. This signifies that more studies are needed in Sub Saharan Africa and most importantly Nigeria and the Northeast in particular, where the poverty level is very high using quantitative approach. Hence, this study used quantitative approach in data analyses.

Thus, the main aim of this study is to investigate the extent of the role of microfinance in poverty reduction in Nigeria. This study will add to the literature since not much has been done to study the role of microfinance in poverty reduction in the area of the study. Lastly, this study is classified in five sections namely; introduction, literature review, methodology, results and discussion and conclusion.

2. Literature review

Microfinance came into being for the benefit of those who are (poor) and cannot be able to go to commercial banks for loan to improve their standard of living. Asian Development Bank (2000) opined that microfinance is the provision of services like credit or loan, money transfer, insurance and savings to the poor households. Thus, Rahman (2010) opined that beneficiary's socioeconomic factors like age, family size, size of land, ethics and moral behavior had a significant relationship with poverty reduction and so has a great influence in the income of the households. Frit and Lang (2012) also stated that microfinance increases earnings, even though, the earnings of the male clients are more than the female clients due to different levels of human capital. In addition, Li et al. (2011) and Hassan et al. (2015), in their study opined that microfinance has positive effect on the well-being of the poor households through increased in income, assets, consumption, and improving their children's education. Households that got credit from revolving fund and Bank of Agriculture and Cooperatives have more increase in income than the others (Imai, Arun & Annim, 2010).

Tammili, Mohammed and Terano (2018) study aimed at investigating the effectiveness of the microcredit program on poverty reduction of AIM microcredit recipients in Selangor. The study used systematic random sampling to sample 326 respondents from February to April 2016. Descriptive analysis and multiple regression was adopted to analyse the data. The findings of the study show that most of the respondents were married (95.7 percent) and have obtained secondary education (72.7 percent). In terms of income distribution, majority of the respondents earn below RM1,500.00. Nonetheless, all respondents reveals a positive income changes after collecting various microcredit program schemes from AIM. Multiple regression analysis disclosed that the hired workers and family workers to be positive and significantly influenced the income-investment ratio of the respondents after joining the microcredit program. This study affirmed the effectiveness of the AIM program in poverty reduction among the poor in Selangor. AIM also plays an important role in meeting the financial needs of respondents which contribute to the enhancement of their microenterprises.

Other results have shown that there is no improvement on the level of income poverty reduction by the beneficiaries due to microfinance (Yusuf, Shirazi & Ghani, 2013). Microfinance contributes to the widening inequality in income distribution in the economy because the rich benefit more than the poor (Hossain, 2012; Fritz & Lang 2012). While, Rahman (1999) opined that microfinance leads to increase in domestic violence to about 70% of some women beneficiaries. Moreover, the study of Bernajee and Jackson (2016) also discovered microcredit to lead to increasing levels of indebtedness among already impoverished members of the communities which expose them to economic, social and environmental vulnerabilities.

Similarly, microfinance programs were discovered to have a positive benefit to the richer households, but in the contrary, there is no reasonable benefit on the core poor households (Coleman, 2006). While, Yusuf, (2013) found microfinance to have a positive impact on the rural poor and no impact in the case for urban poor. In addition, Khandker and Samad (2013) found Consumption expenditure of both the participants and non participants of microfinance to increased, but that of the non participants consumption expenditure increase is more than the participants. Ghalib, Malik and Imai (2012) concluded that non borrowers have more advantage in advance fuel for cooking and water disposal system and concluded that, microfinance is still expected to do more to show the real difference in the wellbeing of the poor. Other RCTs studies in India and Mongolia shows positive results of microfinance on increased in consumption of foods and decrease in consumption of alcohol, tobacco, Indian Herm (Attanasio, Augsburg, De Hass, Fitzsimons & Harmgart, 2011).

Jain and Munoz (2017) discovery is in accordance with the accepted belief or notion that microcredit is to be preferentially provided to disadvantaged people in the rural areas as they are poorer than those living in urban centers. The results show that rural borrowers weakness more poverty reduction over time than the ones in the urban centers, resulting to the narrowing of the gap in the rural-urban poverty. However, despite the shrinking of the gap in the rural–urban poverty, the differences in poverty remained persistent over time.

3. Methodology

The study adopted a survey research design. A structured questionnaire is designed to investigate the effect of microfinance in poverty reduction. The samples of the study are made up of the microfinance clients and non-clients. A sample of 50 respondents views where collected. The sample respondents included 30 clients and 20 non-clients of DEC microfinance in Bauchi state of Nigeria. Data were analyzed using Tobit regression model. The selection of this method is based on the fact that Tobit regression model has a strong consistency and symptomic normality of maximum likelihood estimator.

4. Results and discussion

Model specification; the main hypothesis for the study is that microfinance significantly affects poverty reduction. In order to evaluate the impact of microfinance on poverty reduction, the Tobit regression model was adopted. This is accordance with Olasupo and Hamed (2013). In this model specification, micro-credit, age, household membership, qualification; nature of business, duration of membership and village type are considered as independent or explanatory variables. While, poverty reduction is considered as the dependent or predictive variable.

Table 1 showed the empirical results of microfinance and poverty reduction through the Tobit regression method of analysis. For this study to evaluate the influence of microfinance on the poverty reduction, Tobit regression model was regressed on the poverty reduction, on the key variables in this study. These include micro-credit, age, household size,

Table 1: ***Results of Tobit regression on assessment of effect of micro-credit on poverty eradication***

Explanatory variables	Coefficient	t-value	p-value
Micro-credit	-0.0000	-22.23	0.01
Age	0.0001	0.01	0.99
Household membership	-0.0004	-0.12	0.93
Qualification	0.0149	2.36	0.02
Nature of business	-0.0065	-1.93	0.06
Duration of membership	1.1473	27.72	0.01
Village type	0.0125	0.74	0.46

Note: ^{xxx} = significant at 1% level; ^{xx} = significant at 5% level; ^{x} = significant at 10% level.
Pseudo R2 = 1.809
Log likelihood = 74.192
Chi2 331.68
Degree of freedom 7
Pro>chi2 = 0.000

qualification, nature of business, duration of membership and village type. In this model, poverty reduction is a dummy and is considered as the dependent variable, while micro-credit, age, household size, qualification, business type, duration of membership and village type as independent or explanatory variables.

Generally, four out of the seven explanatory or independent variables were found to be statistically significant, while the remaining three were not statistically significant. Therefore, the study found that the explanatory power of Tobit model can competently be used to predict the likelihood of evaluating the influence of microfinance in poverty reduction in the area of the study. The model made up of all the explanatory variables (predictors) was statistically significant at 0.000 with a chi^2 of 331.68 with 7 degree of freedom.

It is important to know that the model with poverty reduction as a dependent variable has the main aim of projecting or predicting the explanatory variables that influence poverty reduction in the study area. In this study, microfinance is the main variable of interest, meanwhile, some demographic characteristics of the respondents were included as explanatory variables. These are age, household size, qualification, nature of business, duration of membership and village type. The use of demographic factors or characteristics is in consonance with (for example, Hassan et al., 2015; Kasali et al., 2015), to explain the dependent variable in this study.

Consequently, four out of the seven independent variables (micro-credit, nature of business, qualification and duration of membership) are statistically significant and can forecast the level of poverty reduction. The rest of the three (age, household size, village type) do not contribute significantly to the model. Thus, micro-credit significantly predicts poverty reduction at 1%, but the direction of the relationship or impact is negative. This result is similar to (Olasupoa and Hamed, 2013). Who discovered micro-credit to be significant bur negatively associate with poverty reduction. This shows that even though credits is significant and have the capability of reducing poverty, the credit or loan is not used for the purpose to which it is given, households might be spending their loans for their most basic necessities, or borrowing households takes long time to generate profit because they invest their credit on production activities that does not yield immediate benefits.

In addition, it might be as a result of delay in the provision of the loan to the beneficiaries due to terror attack current going on the study area. Duration of membership significantly and positively affects poverty reduction at 1%. This shows that the longer the beneficiary stays in microfinance the more the chances of getting out of poverty. in a similar vein, qualification is positive and significant at 5%. This signifies an additional increase in qualification of a member or beneficiary will lead to improvement in the level of poverty reduction. This study is in line with Hasan et al. (2015). But, contrary to the result of Kasali et al. (2015) where the study found no significant contribution of qualification to poverty alleviation of the households.

Consequently, nature of business is significant at 10%, but the direction of the relationship is negative, indicating that any addition of nature of business leads to decrease of poverty level. This is true because logically, increase in the figure of nature of business does not lead to poverty reduction. Meanwhile, age is insignificant in affecting poverty. This is an indication that age is not a factor that leads to poverty alleviation. Therefore, poverty is not a respecter of age. This result aligned with Kasali et al. (2015) who also found age not to be significant in predicting poverty. Similarly, household size was not statistically significant. This shows that the larger the size of the household, the harder the changes of poverty to be reduced.

5. Conclusion and recommendations

This study evaluates the role of poverty reduction in the poor households in Adamawa state of Nigeria. Tobit regression model was adopted to analyze the data. Seven explanatory variables (e.g. micro-credit, age, qualification, duration of membership, household size, nature of business and village type) were utilized to predict poverty reduction. Four explanatory variables out of the seven (micro-credit, duration of membership, qualification and nature of business) were discovered to be statistically significant in evaluating poverty reduction of the beneficiaries of micro-credit in Nigeria. However, the rest were discovered to be insignificant in evaluating poverty reduction.

Lastly, in order to make microfinance institutions function effectively to achieve their aim of reducing poverty, microfinance institutions should establish a system that can be used to properly monitor the activities of the field staff. This mechanism or system, if properly put in place, would ensure that the field workers do not take undue advantage of the microfinance beneficiaries. The government and the microfinance institutions should find a way of making the microfinance product and activities known to the villagers and the core poor to enable them benefit from micro-credit program.

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HOW TO CITE THIS ARTICLE:
Emmanuel John Kaka. (2022). The role of microfinance in poverty reduction in Bauchi State of Nigeria, 3(4): 13-20.

DOI:
Url: https://ijfaes.srbiau.ac.ir/article_16607.html
Journal homepage: https://ijfaes.srbiau.ac.ir