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IS MICROCREDIT A STAND-ALONE REMEDY TO THE POVERTY QUESTION IN NORTHWEST NIGERIA? A PROPOSED FRAMEWORK

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ABSTRACT

Microcredit refers to small amount of loan given to the low income earners and poor who are financially excluded by the conventional commercial banks on account of their lack of collateral and or credit history, so that they can enjoy self-employment, income generation and poverty reduction. The number of microcredit beneficiaries in Northwest, Nigeria has significantly increased but poverty level has equally been on the increase thereby casting doubt on the effect of microcredit on poverty alleviation resulting in scholarly debates that end with mixed results. Using literature reviews this paper depicts how microcredit affects poverty alleviation. Although, various studies found significant positive relationship between microcredit and poverty alleviation it is not a stand-alone solution to the poverty problem in the Northwest, Nigeria. A frame work that involves a combination of microcredit with psychological attributes of borrowers is proposed.

1. INTRODUCTION

Nigeria is the 3rd country with the highest number of poor people in the world and has been among the 25 poorest since 2006 (Ehinomen & Adeleke, 2012). The Northwestern region of the country has a 71.17% poverty incidence which makes the government and other stakeholders to embark on series of poverty alleviation programs which include but not limited to several microfinancing schemes aimed at breaking the credit constraint of the poor with a view to reduce their poverty level. Additionally, the number of Microfinance Institutions (MFIs) with their expanded network of branches keeps increasing at a fast speed across the country with a corresponding rise in customer base (CBN, 2010). Ironically, despite this significant increase in the number of micro borrowers the poverty level still remains at alarming level. Thus, the effect of microcredit (positive, negative and a mixture of the two) on poverty alleviation becomes a subject of hot debate among scholars (see, for example Karnani, 2007; Aigbokhan & Asemota,

2011; Appah, Sophia & John, 2012; Kaka & Abidin, 2014). However, despite these varied positions of the literature, studies have shown that microcredit is not a silver bullet in the fight against poverty (Tavanti, 2013; Hadi et al. 2015). There is therefore, the need to have other programs that will unleash microcredit borrowers' potentials combined with the credit obtained (Yunus, 2003). This paper uses literature review to depict how microcredit impact on poverty alleviation and proposes a framework that will provide a shift from concentration of literature on breaking credit constraint only to psychological attributes of the credit beneficiaries.

2. BRIEF REVIEW OF LITERATURE

This portion of the paper directs a band light on relevant previous studies

2.1 Concept of Microcredit

The concept of microcredit or microfinance as the two terms are often used interchangeably even though, they differ in terms of scope (Bhuiyan et al. 2012) is rooted in the belief that poverty can be significantly lessened or alleviated by solving the credit constraint of the poor through credit accessibility and training the beneficiaries (poor borrowers) on financial management of their income generating businesses (Fatukasi, 2005). Addae-Korankye (2012) submits that lack of access to capital by the poor who are viewed as unworthy borrowers by formal financial institutions is the major cause of poverty which is shifting toward Sub-Saharan Africa and South Asia as well as other developing countries. In their bid to as a matter of necessity, address the scourge of poverty those countries use microcredit programs to break the credit constraint. Microfinance is an old arrangement spanning from individual's social financial interaction within immediate environment (family, friends and relatives) to formal institutions like money lenders, credit unions, village banks and state-owned banks, (Bateman and Chang, 2012; Mago, 2013; Tavanti, 2013). The practice of microfinance has been in existence for time immemorial, though could not casually be seen because it was mostly in the shadows (Brau & Woller, 2004). This position is supported by Chowdhury (2009) who asserted that the presence of landlords who were making loans to poor people for various reasons is enough evidence proving the practice of microfinancing.

Modern day microfinance however, got global attention and prominence in the 1970s starting with the work of Professor Muhammad Yunus marking the Jobra Village experiment where $27 was loaned out to 42 Bengalis in 1976 (Sengupta & Aubuchon, 2008). Governments and donors interventions inform of financial services provision before 1970s was evident in highly subsidized rural credit program which proved to be ineffective due to poor outreach, high loses and loan defaults as the programs were more or less viewed as charitable (Ojo et tal. 2012).

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Dobra (2011) and Addae-Korankye (2012) posit that researchers and practitioners do not agree on a common definition of microfinance but all the various divergent definitions given tend to see microfinance as an economic intervention and developmental approach aimed at helping low income and in fact, disadvantaged poor to attain their productive potentials and improve their wellbeing. It is on this basis that Ghalib, Malki and Imai (2014) define microfinance as a mode of finance that emerged as an alternative to formal financial services (which exclude the core poor and low income earners) that are provided through microfinance institutions (MFIs) rather than the traditional channels of moneylenders and cooperatives. Similarly, Brau and Woller (2004) refer to microfinance as arrangements (both formal and informal) through which financial services are made available to the poor who are excluded by formal financial systems. They went on to say that, this financial exclusion may be partial as found in developed economies, or near total or complete exclusion as witnessed in underdeveloped as well as developing nations.

Furthermore, Appah, Sophia and John (2012) reported that microfinance is a strategy by which the poor whether in rural or urban areas especially women are provided with credit and savings facilities for establishing business ventures or expanding existing ones so as to increase households security. Similarly, Tavanti (2013) saw microfinance as array of services that prevent the poor and low-income households from being financially excluded thereby engaging in productive micro businesses for their survival. It is worth noting here that, so many authors lend credence to these definitions (see, for example Aigbokhan & Asemota, 2011; Eriki, 2012; Addae-Korankye, 2012; Kaka & Abidin, 2014; Ghalib, Malki & Imai, 2015).

2.2 Microcredit and Poverty Alleviation

Conducting an impact assessment of microfinance on poverty alleviation Addae-Korankye (2012) in tandem with an extensive body of research, found overwhelming evidence proving a positive relationship between microfinance and income but lesser positive impact on children school attendance, health and nutritional status of borrowers. He therefore, reached the conclusion that microfinance is an effective strategy of fighting poverty especially in developing countries. This conclusion is confirmed by Gilbert, Boateng and Bompoe (2015) who conducted an impact assessment of microfinance in Ghana using income, access to education, housing as well as involvement in religious and social activities as measures of impact. Findings of their study revealed that microfinance has a positive relationship with these measures of impact. Moreover, they recommended that microcredit borrowers should be trained by MFIs in the area of financial management and entrepreneurship development so as to strengthen the identified relationship between microcredit and poverty alleviation.

Furthermore, Taiwo, Ikpefan and Isibor (2014) submitted in their study – Microfinance and Poverty Alleviation in South-west Nigeria: Empirical Evidence; that MFBs in Nigeria are a replica of the Grameen Bank and therefore poor-focused. They concluded that microfinance

banks target the poor in their loans disbursement and therefore, reduce poverty in South-west, Nigeria. In a study which applied financing constraints approach, Abiola (2011) used a cross sectional survey method to appraise the impact of microfinance banks (MFBs) on alleviating the financing constraint of microbusinesses in Lagos and Ekiti States, Nigeria. Results of the study show that MFBs break microenterprises financing constraints. In this regards, Imai and Azam (2012) used household panel data between 1997 and 2004 to examine whether loans from MFIs reduce poverty in Bangladesh. Their findings indicate that provision of microcredit breaks the credit constraint and has a positive effect on income and food consumption growth. Hence, it results in poverty reduction. This position is also supported by the work of Enisan and Akinlo (2012) in Ondo State, Nigeria which concluded that accessibility to microcredit has a positive effect on microentreprenuers' welfare and poverty alleviation.

According to Hossain (2012), poverty is caused not only by absence or low level of income being the major factor, but also health, malnutrition and education. In the study involving 208 sampled customers of Bangladesh Rural Action Committee (BRAC) microfinance, Hossain came to the conclusion that microfinance reduces social poverty as findings of his study revealed a positive impact of microcredit on social sphere as represented by health, education, family planning and food consumption in. In addition, Aigbokhan and Asemota (2011) contributed to the debate on impact of microfinance on poverty reduction and share the same view with Hossain (2012) when they reported that microfinance produces positive impact. Similarly, a study using primary data obtained from a sample of 286 respondents in Bayelsa State, Nigeria by Appah, John and Wisdom (2012) shows that significant positive relationship exists between microcredit and poverty reduction. However, they added that although absence of or presence of dilapidated infrastructures in Nigeria negatively affects the power of microcredit to significantly reduce poverty in the country, it is never a silver bullet and cannot solely be a solution to the scourge of poverty. This position agrees with Yunus (2003) who concluded that when combined with appropriate enhancing factors, microcredit can result in a poverty-free world.

Based on primary data obtained from a sample of one hundred (100) microcredit beneficiaries Durrani et al. (2011) investigated the effect of microfinance on social and economic condition of the beneficiaries. Result of this study shows that access to microcredit leads to income generation and improves the standard of living of the poor borrowers. They concluded therefore, that microfinance is an effective intervention approach in the fight against poverty. In a study conducted in the poorest region in the world – the Sub-Saharan Africa (SSA)– Mondal (2009) mentioned that microfinance is performing well yet the number of people living in extreme poverty in SSA is increasing simply because "the problem is big and the weapon is small". He concluded that microcredit helps in establishing microenterprises which create jobs, lead to savings accumulation and ultimately a reduction in extreme poverty. Corroborating this finding,

Onoyere (2014) viewed MFBs as tools for unemployment and poverty reduction help in increasing the living standard of their poor borrowers. In the same light, Imai, Arun and Annim (2010) and Ghalib, Malki and Imai (2014) proved that regardless of borrowers' location (rural or urban) microcredit positively impacts on participants' household welfare, reduces poverty and results in economic prosperity.

Several other studies prove that microcredit positively affects borrowers' welfare and reduces poverty (see, for example Al-mamun et al. 2012; Ashta, Couchoro, & Musa, 2014; Imai et al. 2012; J. Idolor & Eriki, 2012; Jain & Jain, 2012; Ogwumike & Akinnibosun, 2013; Rokhman, 2013; Shastri, 2009; Shil, 2009; Shirazi & Khan, 2009; Tarar et al. 2014; Wen Cong Lu, 2011).

In contrast, some researchers have argued that microcredit has negative impact on borrowers and poverty level. Proponents of this view include Buckley(1997) who conducted a study to examine whether donor funding of MFIs solves the problems of targeted microentreprenuers or not. His findings revealed that MFIs may solve the problem of credit constraint which according to him cannot reduce non-income poverty but only block the poorest from benefiting from other interventions that can effectively improve their wellbeing. He therefore, concluded that rather than good, the whole idea of microcredit intervention makes the poor worse off.

Critically appraising the debate on the effectiveness of microfinance as a global tool for poverty reduction, Chowdhury (2009) submitted that microfinance does not generate productive employment but instead leads to consumption smoothening. Hence, it is not a tool for poverty reduction. This position agrees with the conclusion of Karnani (2007) who viewed that it is stable jobs that give reasonable wages that can alleviate poverty not microcredit. In line with Karnani's conclusion Jachimowicz (2013) asserted that the idea of microfinance ignores the huge benefits derivable from large scale productions but emphasizes on fragmented production, marketing and distribution resulting into underutilization of resources. His findings show that access to microcredit can only marginally reduce income poverty but not affect other aspects of wellbeing, concluding therefore, that rather than microcredit, it is steady employment opportunities that can alleviate poverty. Sharing this view, Karlan and Zinman(2011) concluded that microcredit reduces wellbeing because it results in establishing so many microbusinesses as against bigger enterprises with higher employments, output and incomes.

The work of Block(2010) criticized microfinance in defense of free market system. Walter opined that microfinance is nothing short of left wing attack on the free enterprise system and it merely results in resource misallocation as the assumed microentreprenuers lack the capacity to make those uneconomically tiny undertakings to grow. He then concluded that the idea of microfinance was fraudulently conceived and only makes the poorest worse off. And according to him all freedom lovers should frown at the idea.

According to Haque and Yamao (2008), the amount of microcredit is too small for establishing income-earning venture to meet daily needs of the borrower and installment payments. The chronically poor seldom get the loan and when they do it is used to meet consumption not production expenditures. They therefore, arrive at the conclusion that microcredit only pushes the hardcore poor into poverty trap. Thus, it should not be used for poverty alleviation as only the wealthy poor can benefit and not the extremely poor.

A study by Raza (2010) proved that microcredit idea is rooted in neoliberalism that works against direct aid intervention but moves for market-based approach to poverty solution. Findings of this study indicate that exorbitant interest rates are charged and the amount borrowed over burdens women and create household conflicts. This led him to conclude that microcredit mainly encourages informal sector operations and pushes micro borrowers into deeper level of exploitation and poverty. Similarly, a research on the impact of microfinance on poor people in SSA by Stewart et al. (2010) found that microcredit does not reach the poorest and some borrowers are only worse off as not all borrowers are potential or real entrepreneurs. He therefore opined that micro savings can be a better model in enhancing the welfare of the poor than 'micro-debt'. Thus, microcredit is not the solution to global poverty rather it shields developmental agencies from focusing on better intervention schemes.

There are other studies that show the negative impact of microcredit on poverty (see, for example, Jahiruddin et al. 2011; Asharaf, 2010b; Morduch, 1998; Hulme, 2000; Marr, 2003; Rashid, Yoon & Bin Kashem, 2011).

Accordingly, there are scholars who opt for the middle cause: they explain that there is a mixed relationship between microcredit and poverty alleviation. Put differently, microcredit has both negative and positive attributes as it relate to poverty reduction. Among the proponents of this view is Tavanti (2013) who submitted that microcredit has potentials for poverty reduction but as it is not a silver bullet (it is not and cannot be seen as stand-alone method) it needs to be combined with other factors such as training for it to be a more effective tool for getting the poor out of poverty for sustainable development. He further argued that financial capital alone is not enough to do the difficult task of poverty alleviation yet microfinance as a business is a realistic approach (though, not always the best solution) to poverty reduction but not as a pro-poor charitable intervention.

Furthermore, the work of Rooyen et al. (2012) captioned the Impact of Microfinance in Sub-Saharan Africa: A Systematic Review of the Evidence proves that microcredit has both good and bad impact on livelihoods of the poor. Similarly, Dobra (2011) submitted that the dominance of economic aspect of microfinance is unfavorable to its political dimension and this makes it an effective tool for reducing economic poverty but failed in women political empowerment. She

posits that to effectively fight poverty both social and power resources need to be provided to the poor through empowerment programs which will cut down gender inequality. This is because breaking the gender inequality will go a long way in reducing poverty as women constitute 70% of the total number of people living below the poverty line.

From the foregoing it becomes apparent that literature relating to impact assessments of microcredit on poverty alleviation produces divergent views. While part of the literature stands with the position that microcredit has a positive relationship with poverty alleviation another part hangs with negative relationship. In between these polar opinions exists the middle cause belonging to scholars who view that there is a mixed relationship between microcredit and poverty alleviation. Consequent upon these various stands of the literature on the relationship between microcredit and poverty alleviation arises the need for further research (Kaka & Abidin, 2014).

The inconsistency in the literature notwithstanding, scholars agree on the need to combine microcredit with other innovative programs that will enhance its productivity (see, for example Yunus, 2003; Appah, John & Wisdom, 2012; Tavanti, 2013).

3. PROPOSED CONCEPTUAL FRAMEWORK

In line with the above, this paper proposes a framework that combines microcredit with microsavings; entrepreneurial skills; and introduces entrepreneurial self-efficacy as a moderator in response to the inconsistencies in findings of several researches on microcredit effect on poverty alleviation. The diagram below depicts the proposed framework:

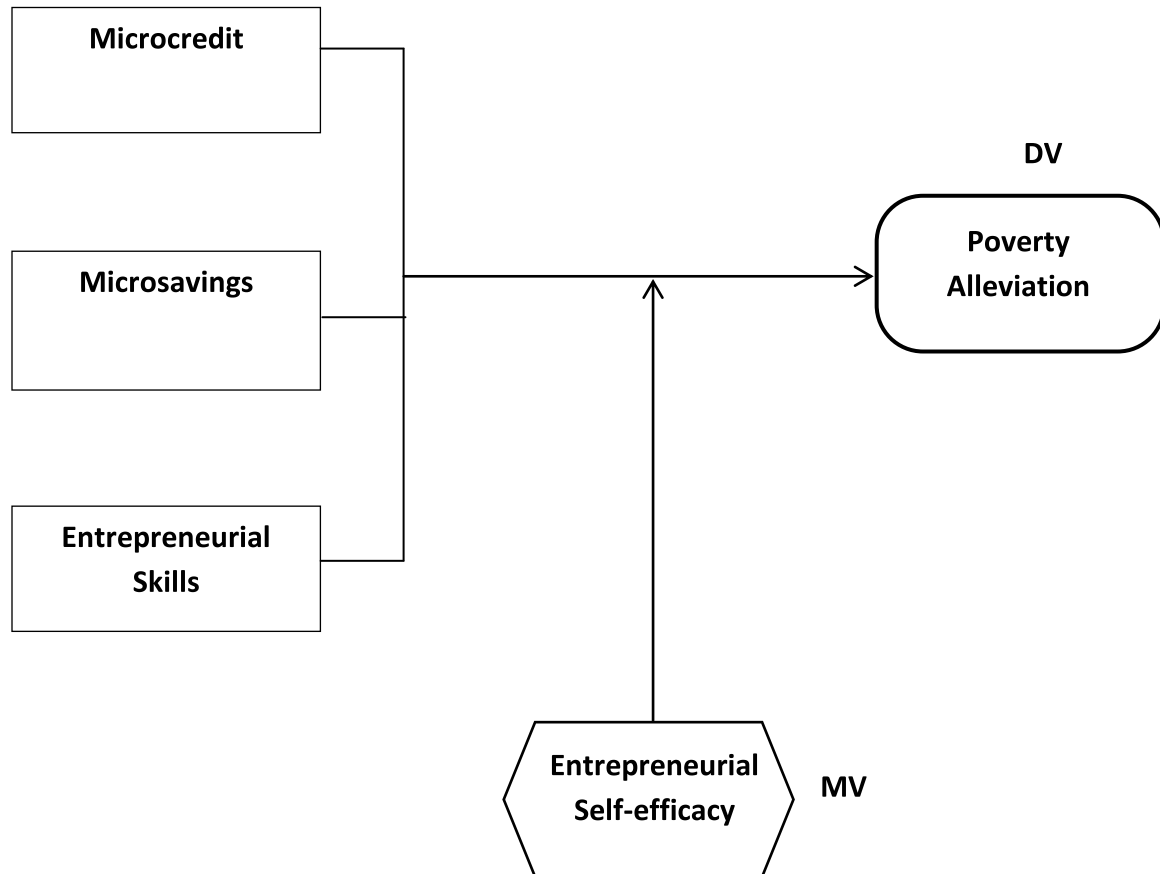

Figure 3.1: Proposed Framework

The framework shows that microcredit and microsavings services are provided by microfinance banks which are then combined with entrepreneurial skills of the borrower who will use them to establish and efficiently manage and income generating venture for poverty alleviation. Entrepreneurial self-efficacy is used to enhance the credit effect on the dependent variable. The framework relates to an on-going research that is hope to make contribution when completed.

4. CONCLUSIONS

Poverty remains one of the core problems that bedeviled Nigeria being the 3rd country with the highest number of poor people in the world with the northwestern region of the country having a very high poverty incidence which makes the government and other stakeholders to embark on series of poverty alleviation programs. Microcredit as a tool for poverty reduction is not a silver

bullet as it cannot solely be a solution to the scourge of poverty: it needs to be combined with other factors for it to be a more effective tool for getting the poor out of poverty for sustainable development. Therefore, the use of conceptual framework that merges entrepreneurial skill and self-efficacy is as a moderator is proposed.

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