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The Impact of Micro-Credit on Poverty Alleviation and Human Capital Development: Evidence from Nigeria

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Abstract

One of the main policy objectives for the establishment of microfinance banks in Nigeria was to assist small and medium scale enterprises in Nigeria in raising their productive capacity and level of employment generation, thus alleviating poverty and enhancing human capital development. It is against this background that this study empirically examines the impact of microcredit granted by microfinance banks on poverty alleviation and enhancement of human capital development in Nigeria from 1999-2008. The study adopted the OLS regression technique to test the hypotheses formulated. Microfinance Banks financial intermediation activities are proxied by loans to deposits ratio as the independent variable while poverty index (PI) and Human Development Index (HDI) are the dependent variables. The results generally indicate that financial intermediation activities of Microfinance banks in Nigeria had negative non-significant impact on poverty index and a positive impact on human capital development within the period under study. It accordingly recommended that government should create an enabling environment for microfinance banks to increase the rate of financial intermediation activity as to reverse the trend observed on the impact of microcredit on poverty alleviation as well as continual improvement in human capital development of Nigerian citizens.

Keywords: Microcredit, Poverty Alleviation, Human Capital Development

1. Introduction

According to Haque and Yamao (2009), poverty alleviation through microcredit is now well recognized all over the world as microcredit evangelists, governments, donors, development agencies and others have an increasing interest in using the microcredit medium to advance the course of poverty reduction as well as enhance human capital development. In a bid to utilize the benefits of microcredit in alleviating poverty and enhancing human capital development in Nigeria, the Central

Bank of Nigeria (CBN) formulated the micro finance policy and framework in 2005. The December 2005 policy statement establishing Micro finance banks in Nigeria was laudable and well-intentioned as the microfinance industry was fast becoming the next "frontier" for the financial service industry to provide and promote the grant of microcredit.

According to the CBN policy and regulatory framework for microfinance banks in Nigeria, released in December 2005, and from the appraisal of existing microfinance oriented institutions in Nigeria, a major reason for establishing micro finance banks anchored on the facts produced by the baseline economic survey of small and medium scale enterprises in Nigeria conducted in 2004 which indicated that the 6,498 industries covered employed a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the employment objective/role of the SMEs is far from being realized. Based on the National Economic Empowerment and Development Strategy (NEEDS) objectives of empowerment of the poor and the private sector, the provision of needed financial services became imperative to enable them engage or expand their present scope of economic activities and generate employment. Delivery services as contained in the strategy would be remarkably enhanced through additional channels which the microfinance banking framework would provide as it would assist small and medium scale enterprises in Nigeria in raising their productive capacity and level of employment generation (CBN, 2005).

Therefore, the specific objectives of the Nigerian government microfinance policy were to:- make finance service accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services; promote synergy and maintaining a streaming of the informal sub-sector into the national financial services; contribute to rural transformation and promote linkage programmes between universal/development banks, specialized institutions and micro finance banks (CBN, 2005).

The impact of microfinance on poverty reduction and enhanced human capital development has been measured in terms of several dimensions, such as improved income, employment and household expenditure, and reduced vulnerability to economic and social crises. These measurements have tended to focus on a specific geographic area, an institution or a small client group and are difficult to generalize or draw conclusions that reach across borders, income levels, gender or socio-economic status (Honohan, 2004). Hulme (2000) argues that knowledge about the achievements of such microcredit initiatives remains only partial and is contested. From these views, it could be noted that proper and scientifically robust impact assessment and statistical evaluations have been limited due to the view that evaluations are a waste of time and money and a diversion from running the programmes themselves. Besides this, detailed evaluations pose difficult statistical issues such as selection bias, non-random programme placement, lack of instrument variables and paucity of properly collected data hence these works have not looked at the impact of microfinance on poverty alleviation and its twin goal of enhanced human capital development using macro statistical data (Hulme, 2000). This is the lacuna which this paper seeks to address. It is against this background that, this paper seeks to empirically examine the impact of microcredit granted by microfinance banks in Nigeria on poverty alleviation and human capital development from the period of sustained democratic governance in 1999 to 2008. This paper is organized into five sections. Section one is the introduction. Section two presents related literature. Section three contains the methodology. Section four shows the empirical analysis of the impact of micro finance banks financial intermediation activity on poverty alleviation and human capital. Finally, section five is the conclusion/policy implication and recommendations.

2. Review of Related Literature

Microfinance is increasingly becoming a consistent force to reckon with. It provides small-scale financial services for those who are excluded from the formal financial system (Sida, 2004). There is no complete or reliable information on the number or scale of microfinance service providers worldwide but in order to get some idea, we rely on a few interesting sources. According to the report

on "A Worldwide Inventory of Microfinance Institutions: Sustainable Banking with the Poor", 101 microfinance programmes were surveyed in 101 developing countries. These microfinance programmes had more than 1000 microfinance institutions – made up of commercial banks, savings banks, credit unions, and non-governmental organizations (NGOs) – providing microcredit to women and the poor (World bank, 1996). This report further suggests that microfinance activity is much more widespread in Asia compared to other regions in the world. Almost 76 per cent of the total loans are disbursed in Asia, 21 per cent in Latin America and 3 per cent in Africa. Furthermore, a large part of the total funding is provided by external donors. Almost 55 per cent in Latin America, 47 per cent in Asia and 39 per cent in Africa is provided by foreign donors (World Bank, 1996), hence it shows that microfinance and microcredit is a living idea. As the awareness grows, Nigeria in its bid to tap this idea of using microcredit to enhance human capital development as well alleviate poverty in the country adopted the microfinance framework will continue to evolve. On 15th December 2005, the Central Bank of Nigeria launched the micro finance policy and framework and posits that robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of micro finance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income and create wealth (CBN, 2005).

The practices of micro finance have always existed in Nigeria at a traditional level. The traditional Micro finance institutions provide access to credit for the rural and urban low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs). Other providers of Micro finance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds (Adewusi, 2005).

Micro finance services, particularly, those sponsored by government have adopted the traditional supply-led subsidized credit approach mainly directed to the agricultural sector and non-farming activities, such as trading, factoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in production and other activities, the effects were short-lived, due to the unsustainable nature of the programmes.

Several literatures exist locally and internationally on the impact of microcredit on poverty alleviation and human capital development. The results of these works have been conflicting as well as exciting as it has triggered several researches in this area of finance. Khandker (1998) found that there had been an increase in household incomes which were a direct result of microfinance programmes. However, in another study using Khandker's own data, Morduch (1998) found that the income effect was due to mis-targeting of the microfinance programme and that the perceived increase in incomes was due solely to those already above the poverty line who had managed to access the programme. Accordingly Mordurch states that Khandker had made the mistake of assuming that the target groups were all below the poverty line when, in fact, this was not the case. Other conflicting evidence as to the income effects as it relates to poverty alleviation and enhanced human capital development of microcredit has resulted in uncertainty as to whether microcredit has any effect on poverty measured in monetary terms. What is agreed, however, from most studies is more prosaic, and that microfinance reduces variability of income over time within households (Zaman 1999).

Hashemi, *et al* (1996) found that on eight indicators ranging from increased mobility, making independent purchases, through to political and legal awareness, access to credit from microfinance institutions had a positive impact on empowerment. Haque and Yamao (2009) studied the impact of microcredit on poverty alleviation in rural areas in Bangladesh. The study was conducted specifically to find out whether microcredit has the power to alleviate the poverty in Bangladesh, a country with more than 40% of her population living below the poverty line. The study was based on randomly collected primary level data from thirty-five villages of Bangladesh and consisted of 300 microcredit

women members of famous Non-government Organizations (NGOs) and Microfinance Institutions (MFIs) including Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), Thengamara Mohila Sabuj Sangha (TMSS) and others, who had been borrowing from these financial institutions for more than six years. Findings showed that, the amount of credit was insufficient to run income generating activities that can generate such earnings by which one can repay the weekly installments after mitigating the least requirements to survive. Heavy pressure by field workers of NGO-MFIs compelled them to borrow from other sources with an exorbitant interest rate to pay the weekly installments and savings. Having no alternative means to repay the entire loan, they fell into the problem of additional indebtness, from which a borrower never came out of the vicious circle of poverty and remained the same as they were before. From the survey, it was also found that, the poor with certain level of income and without indebtness can improve their livelihoods after proper utilization of microcredit. It was also found that, NGO-MFIs disburse loan only to wealthier poor and no longer interested in the chronic or hardcore poor to reduce their severe poverty in Bangladesh, the pioneer of microcredit.

Also, Lensink and Pham (2008), based on a sample of rural households retrieved from the Vietnam Household Living Standard Surveys 2004 and 2006, examined the impact of microcredit on household self employment profits in Vietnam. Using several estimation techniques, the empirical analysis reveals that neither access to microcredit nor participation in microcredit programs significantly affect household self employment profits. In contrast, both credits from commercial banks and access to commercial bank credit have positive effects on household self employment profits, hence microcredit from microfinance institutions does not assist in poverty alleviation.

Yahaya Osemene and Abdulraheem (2011) posit that microfinance banks supply micro loans, savings and other financial services to the poor and low income population on a sustainable basis and help in the alleviation of poverty and examined the effectiveness of microfinance banks in alleviation of poverty in Kwara State of Nigeria. The data collected were analyzed through the use of t-test and Analysis of Variance (ANOVA). From the research findings, results revealed that microfinance has significant role to play in the economy, as it helps reduce poverty by providing financial services to the active poor, help in generating employment and also provide small loans to grow small businesses. It was recommended that regulatory and other statutory bodies should monitor the interest rate on loans and advances to make it accessible to micro-clients. Government should make available necessary infrastructural facilities that will help increase the output of micro entrepreneurs.

Given the sharp differences from studies on the impact of microcredit on poverty alleviation, this work will examine the role of microfinance banks' intermediation activity in alleviating poverty in Nigeria as well as in enhancing human capital development in line with the objectives for their establishment in Nigeria which include to make finance service accessible to a large segment of the potentially productive Nigerian population that have little or no access to financial services, and in this way, contribute to poverty alleviation and improved human development especially in rural areas.

3. Methodology

The *ex-post facto* research design was adopted in this work. The study relies on historic data obtained from the Central Bank of Nigeria, United Nations Development Programme publications and the National Bureau of Statistics for the period, 1999 to 2008. Our model equation is analysed by employing the two variable regression techniques using Statistical Packages for Social Sciences (SPSS). The signs and significance of the regression coefficients were relied upon in explaining the nature and influence of the independent and dependent variables as to determine both magnitude and direction of impact (Onwumere, 2009). Analyses are done through the formulation of two hypotheses, first on the impact of microcredit financial intermediation function on poverty alleviation; and second, on its impact on enhancing human capital development in Nigeria.

In specifying our model, the following symbols were used to denote their respective variables:

LDR = Loans/ Deposit ratio of MFBs
PI = Poverty Index
HDI = Human Development Index
a = Regression equation intercept
b = Coefficient of the parameter (variable)
μ = error term

Our first model equation is derived from the hypothesis that, Micro-finance Banks Loans/deposit ratio does not have positive significant impact on poverty reduction in Nigeria and is represented as;

$$PI = a + b\,LDR + \mu \quad (1)$$

The second model equation emanates from the hypothesis that, Micro-finance Banks Loans/deposit ratio does not have positive significant impact on human development in Nigeria and is represented as;

$$HDI = a + b\,LDR + \mu \quad (2)$$

Explanatory Variables

Microfinance Intermediation (Loan to deposit ratio): The financial sector plays significant role in the growth of an economy via the process of directing funds from surplus sector to areas of need. This is the fundamental role of financial institutions hence microfinance banks in their role of channeling surplus funds from surplus earners to deficit earners are involved in financial intermediation. The loan to deposit ratio is adopted in the paper to proxy microfinance banks intermediation activities. This ratio measures the percentage of loans granted to deficit earners as a percentage of the total deposits of microfinance banks. The higher the ratio, the higher the financial intermediation activities of microfinance banks, while a low ratio indicates low financial intermediation of microfinance banks.

Poverty Index: Poverty is a global issue. Despite changes in development paradigms in the last half of the 20th century, the promise to bring wellbeing to all human beings remained unfulfilled. Poverty is a problem for all the countries irrespective of their levels of development. It can be observed in many forms. It has both income and non income dimensions. It may be a lack of income or resources, a lack of or inadequacy of coping capacity, a lack or inadequacy of basic human capabilities, a lack of or inadequacy of institutional defenses or in extreme cases a lack or inadequacy of all of these. In a wider sense, it may be a combination of economic, social and political deprivations and in this paper, we proxy poverty by the poverty index in Nigeria.

Human Development Index: The Human Development Index (HDI) is a composite statistic used to rank countries by level of human development and separate. It is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. It is a standard means of measuring well-being, especially child welfare. It is used to distinguish whether a country is a developed, a developing or an under-developed, and also to measure the impact of economic policies on quality of life. The Human Development Index has been criticized on a number of grounds, including failure to include any ecological considerations, focusing exclusively on national performance and ranking. It is adopted in this paper to measure rate of human development in Nigeria as result of microfinance banks intermediation activity. Table 3.1 shows the model proxies (in percentages)

Table 3.1: Presentation of Model proxies

Year	Micro Financial Intermediation (Loans to Deposit Ratio) %	HDI (%)	PVI (%)
1999	74.25	35.8	72.0
2000	49.85	31.5	74.0
2001	41.98	31.9	83.1
2002	46.67	32.3	88.0
2003	56.99	32.6	71.2

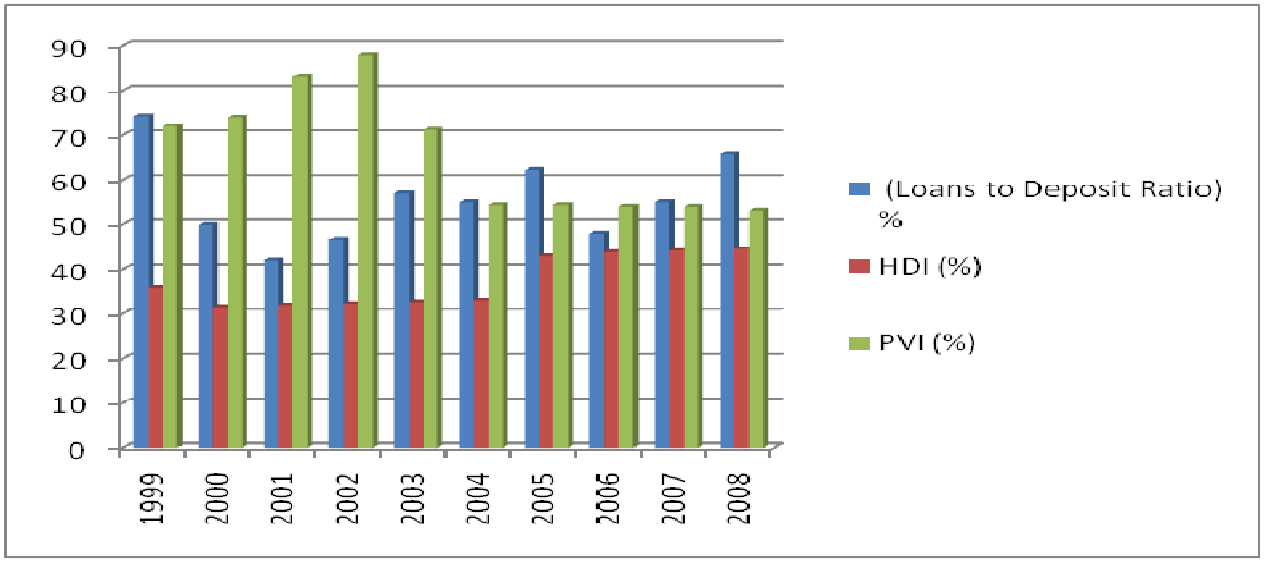
Table 3.1: Presentation of Model proxies - continued

2004	55.02	33.0	54.4
2005	62.23	42.9	54.4
2006	47.96	43.8	54.0
2007	55.05	44.1	54.0
2008	65.90	44.6	53.2

Source: CBN Statistical Bulletin 5oth Anniversary Edition, UNDP Human Development Report 2011, National Bureau of Statistics.

The microfinance intermediation activities as represented by loans to deposit ratio was 74.25%, 49.85%, 41.98%, 46.67%, 56.99%, 55.02%, 62.23%, 47.96%, 55.05% and 65.90% from 1999-2008 respectively. The highest intermediation activity of micro finance banks was observed in 1999 while 2001 recorded the least intermediation activity. The HDI Index as revealed from the table indicates that on the average, there was an increase in human development index in Nigeria. A gradual increase was observed from 1999 to 2008. The prevalence of poverty as indicated from the table above showed a high poverty index for Nigeria from 1999-2003, while the figure decreased from 2004 to 2008 to around 54%. The graphical illustration of table 3.1 is shown in figure 3.1.

Figure 3.1: Graphical Presentations of Model Proxies



Source: CBN Statistical Bulletin 5oth Anniversary Edition, UNDP Human Development Report 2011, National Bureau of Statistics

4. Results/Analysis

Table 4.1 shows a summary of the regression results

Table 4.1: SPSS Regression Result

Model	R	R Square	Std Error of Estimate	F-Change	Durbin Watson	T-Value	Beta
PI/LRD	0.380a	0.152	13.2807	1.434	0.557	-1.197	-0.390
HDI/LDR	0.350a	0.122	5.77271	1.115	0.372	1.056	0.350

Source: Appendix

Model Equation

PI = 95.633 - 0.537LDR +μ

HDI = 25.677 + 0.208LDR + μ

From the results/analysis (see, Table 4.1), microcredit granted by institutional microfinance banks in Nigeria had a negative non-significant impact on poverty alleviation in Nigeria (t = -1.197, coefficient of LDR = -0.537). The implication is that Microcredit granted by microfinance banks for the period under study has not really assisted in alleviating poverty. The coefficient of determination (R^2) which explains the percentage in variation of the dependent variable as a result of changes on the independent variable was 15.2%. This is quite small indicating that, the changes observed from the model must have been caused by other factors aside the financial intermediation role of microfinance banks in Nigeria. The correlation between poverty index and microfinance banks financial intermediation activities was also observed to be negative. This was indicated by the beta coefficient (-0.390) of the independent variable. However the impact of microcredit granted by microfinance banks in enhancing human capital development in Nigeria was found to be positive, however, the result indicates it was non-significant (t= 1.056, LDR Coefficient = 0.208). Therefore, it indicates that microcredit granted by microfinance have enhanced human capital development in Nigeria, though the impact was not significant. The coefficient of determination (R2) was 12.2%. The result also indicates that there was a positive correlation between microfinance banks financial intermediation and human capital development for the period under study. The implication is that an increase in Microfinance banks intermediation activities will enhance human capital development in Nigeria.

5. Conclusion/Policy Implications

The enunciation of the Nigerian government microfinance policy in 2005 was basically aimed at providing finance services to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services. The achievement of this objective is expected to ultimately assist in poverty alleviation and enhance human capital development in Nigeria. This study adopted a holistic view of the Nigerian economy and empirically examined the impact of microcredit granted by microfinance banks in Nigeria on poverty alleviation as well as enhancing human capital development from the period of sustained democratic governance in 1999 to 2008. The findings from the hypotheses tested revealed that microcredit granted by Microfinance banks through their financial intermediation role in the Nigerian Economy did not really assist in poverty alleviation but enhanced human capital development within the period under study. The Human Development Index (HDI) which was used in this study to proxy human capital development is a composite statistic used to rank countries by level of human development. It is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide and a standard means of measuring well-being. Hence, Microfinance banks through their intermediation function have actually enhanced human capital development though not significantly (as revealed from the findings). It is recommended therefore that for a more robust approach in micro financing policies and frameworks in Nigeria adopted. This would involve creating an enabling environment for microfinance banks to attract more deposits from depositors; increase share capital of microfinance banks; better policy directives on microcredit in Nigeria and enthronement of a regime of corporate governance. As shown from research findings, increased financial intermediation activities of micro financing activities of micro finance banks will not only enhance human capital development but may ultimately assist in poverty alleviation in Nigeria. The experience of Nigeria, which is a developing country, will be relevant to other developing countries.

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