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Development Finance through Micro-Credit Scheme for Poverty Reduction and Economic Development in Nigeria

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ABSTRACT

This research study examined the development of finance through microcredit scheme for poverty reduction and economic development in Nigeria. Based on empirical study, it has been observed that poverty is multifaceted in this society and its persistence is due to non availability of credit facilities. And it was revealed that the major constraint to improving the standard of living of the poor is lack of access to capital (finance). This has restricted their participation in economic activities which could have been more extensive in order to improve their living standard. For this study, our theoretical apriori expectation is that provision of microfinance services such as savings and microcredits have impact on GDP. A casual relationship was established and evaluated with the 't-test' statistics while the relevance of the independent variables in explaining the subject was justified based on the F-statistic test and R2 coefficient of multi-determination. Also, using a lin-log regression model, economic development was regressed on poverty level in Nigeria. This created an assertion that Nigeria needs a systematic reinforcement of the microfinance mechanism to propagate a soothing trend for poverty reduction and economic growth and development.

Keywords: Development Finance, Micro-credit Scheme, Poverty Reduction and Economic Development.

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1. INTRODUCTION

Microfinance is a phenomenon that implies the provision of both credit and savings services to low income earners. This provision of funds in form of credits and micro-loans empowers the poor to engage in production and other economic activities which can help boost their income level and thus alleviate poverty in the economy. In recent times, the growing awareness of the potentials of microfinance in poverty reduction and economic development coupled with the increasing number of microfinance institutions has effectively put the issue of microfinance as a top agenda in developing countries. The monetary authority (Central Bank of Nigeria) being the regulatory and supervisory body in finance sub-sector has introduced a number of development finance schemes. The financing of the industrialization process which is one of the major goals of Nigerian economic policy makers cannot be overemphasized.

For any program on poverty alleviation to be successful, the economy needs a viable industrial sector that can cushion the economic and production process in the country (Roodman and Morduch 2010).

It has been acknowledged that microfinance captures elements of widespread perception, broadening up the interconnection to poverty reduction and economic development. Schreiner (2011) describes microfinance as an attempt to improve access to small deposits and loans for poor households who cannot meet the requirements for accessing conventional credit facilities from banks. According to Olaitan (2011) and Akanji (2011), the tools of microfinance include increased provision of credit, increased provision of savings, repositories and other financial services to low income earners. Thus simple defined, microfinance as a development process through the provision of micro-credit and savings services to small-scale entrepreneurs. Schreiner (2011) also proposed a definition of microfinance as "uncollateralized loans to the poor and small-scale entrepreneurs". This implies that microfinance institutions provide financial facilities/strength to the low income earners so as to enable them carry on economic activities that can earn them improved living standard.

UNDP (2011) identified microfinance as a major tool for poverty reduction. It empowers the financially disadvantaged ones. According to Morduch, Hashemi and Littlefield (2013) and Alegiemo and Attah (2009), microfinance is the financial empowerment of economically active poor through the provision of micro-credit as well as other productive assets; it enhances the latent capacity of the poor for entrepreneurship, enabling them engage in economic activities; be self-reliant and also enhancing the household income as well as creating wealth.

Economic development has been described as a sustained growth in superstructures and national income aggregates. According to Keynes in "The General Theory of Employment, Interest and Money" he hypothesizes that national income depends on the level of employment, that is, the volume of resources, channeled to production. In this regard, poverty can said to occur as a result of idle productive resources. Keynes also explained that full employment is attained when the economic resources are fully utilized. At this point, the economy is said to be at an optional position. Therefore, the exigency of this study is to validate the microfinance proposition as an effective mechanism for strengthening the economically active poor.

For the purpose of this paper, poverty is defined as a situation where income is not sufficient to meet minimum standard of living. Olowoni (2016) defined poverty as a poor economic condition characterized by law calorie intake, poor housing, inadequate health facilities, low income, unemployment and underdevelopment. For sustained economic growth, a higher savings and capital accumulation level is required. For developing economies like Nigeria, a large division of the population is engaged in the traditional/informal sector. This sector forms the major component in a national savings and for high savings ratio to be achieved, a vibrant microfinance industry is a key necessity (Khandker, 2008).

1.1 Statement of the Problem

Nigeria like most developing nations in the world is faced with myriad of problems and recession in over the years which include poverty, unemployment, conflicts and outbreak of diseases. These situations pose great threat to the very existence of individuals thereby calling for development of microfinance institutions that must be incorporated into the policy arrangements for the purpose and the process of poverty alleviation and economic development of Nigeria. Udoye and Mba (2018), argued that though all conditions for exploiting entrepreneurial opportunities such as education, experience and energy may exist but the environmental factors such as lack of credit facilities as well as socio-political instability often pose a major constraint to economic growth and development. It is against this backdrop that this paper is set to look into Development Finance through Micro-Credit Scheme for Poverty Reduction and Economic Development.

1.2 Objectives of the Study

This study seeks to ascertain among other things, the following:

1. The impact of savings and credit scheme on poverty reduction and economic growth and development in Nigeria.
2. Impact of poverty and unemployment rate on economic growth and development in Nigeria.

1.3 Research Questions

The following research questions guided the study:

1. How does savings and credit scheme reduce poverty and contribute to economic growth and development in Nigeria?
2. To what extent does unemployment rate affect poverty reduction and economic development in Nigeria?

2. METHODS

This paper made use of multiple regression technique of econometrics to examine the impact of development finance through micro-credit scheme for poverty reduction and economic development. Poverty index is checked with changes in unemployment rate and GDP growth rate in Nigeria spanning from 1998-2017 (19). These relationships were established using mathematical notation for empirical testing. In order to avoid a misspecification of our model, Gross Domestic Product is expressed as a function of credit and savings as it appears in equation (1) while poverty is specified as a lin-log function of growth and unemployment rate. Therefore, GDP=F(MFC,MFS), and POV=F(logGDP, logUNEMP).

The theoretical aprior expectation is that savings and micro-credit loans have direct impact on GDP. Hence, the classical regression model is specified as;

Model1: $GDP = \beta_o+\beta_1 MFC+\beta_2 MFS+U_1$.

In a like manner, a linear-log model is presented to test the casual relationship that exists between economic development, Unemployment and poverty level. Thus,

Model 2 : $POv = \alpha_o + \alpha_1 \log (GDP) + \alpha_2 \log (UNEMP) + U_{u}$.

From our result, based on the F-statistic, Model 1 is statistically significant at 1 percent level of significance, while model 2 is statistically significant at 10 percent. However, the R^2 is used in determining the explanatory power of our independent variables as relative variation in the regressed and for model 1, R^2 is 0.93.

This shows that about 93 percent variation in GDP is explained by changes in micro-credit and savings. Model 2 has R^2equal to 0.79. This also reflects the changes in poverty due to unemployment.

3. DISCUSSION OF THE FINDINGS

Model1 result of regression has shown that GDP is positively related to micro-credits and savings. This implies that increasing micro finance activities will impact positively on GDP significantly. The t-test probability for the parameter estimating for MFC as seen in the results shows that the estimate is statistically significant at 5 percent, with parameter estimating for MFS having significance at 1 percent. Furthermore, the Durbin Watson result for autocorrelation shows there is no first order autocorrelation in the model. The autocorrelation result suggests that error terms are not correlated and series could be adjudged stationary. Model 1 output seems to be in good state because the estimates and other components conform to our prior expectations. It reveals the existence of positive relationship between growth and micro-credits and savings. The global test of the significance of the model has also strengthened the reliability of the model.

However, result for model 2 is a bit different. It shows good coefficient of multi-determination but one of the parameter estimates is insignificant despite the high positive R^2 . Considering the t-test statistics for the parameter estimates, we can see that our growth model reveals that economic growth (logGDP) is negatively related to poverty (POV). This is in line with theoretical expectations of the possible direction of casual impact of economic growth on poverty level of Nigeria. The second parameter that estimates the elasticity of unemployment has shown a positive sign. This means that poverty in Nigeria responds positively to unemployment rate. When unemployment increase, poverty increases also. The importance of unemployment in this model is to incorporate the productivity level of the economy into the model. For instance, a high GDP may not necessarily imply that economy is in full employment.

As we have seen the t-test has been tested to be insignificant at 1 percent, 5 percent, and even 10 percent levels of significance. Although the estimates for unemployment conforms to the theoretical expectation, the statistical insignificance of the parameter as shown by the t-test, means that output is not significantly responsive to human resource usage in Nigeria. Evidence has shown that economic policies are badly implemented in Nigeria, with minimal impact on macro economy; in this case, employment generation is insufficient to drive government policies to eradicate poverty. It is very important for government to attach remuneration of labour to level of productivity (adequate/commensurate compensation). However, the F-statistics shows that the overall model is statistically significant at 10 percent level of significance.

4. CONCLUSION

Empirical evidence indicates that microfinance is a an imperative strategy in reducing poverty. Microfinance takes the joint effort of government, Central Bank, private sector, Non-Government Organization and the general public. Though it has been established that microfinance is relevant in poverty reduction, the Nigerian performance of micro financing is still not at its best because poverty level has remained unabated.

5. RECOMMENDATIONS

What follows is a set of recommendations rising from the findings of this research

1. The development of appropriate policy and strategy for poverty reduction and economic development requires a good understanding of the nature and dimensions of poverty.
2. Since poverty reduction exercise in Nigeria has been constrained by lack of capital, microfinance development could be a constructive strategy to alleviate poverty in the country.
3. Provision of microcredit and saving facilities to empower the poor creating an enabling environment to them to participate in economic activities which is expected to improve their well being and help them acquires assets and create more wealth.
4. Government is expected to promote microfinance process through requisite policies, provisions of inducements and institutional framework that foster linkages.
5. Government should improve on supervisory methods over the microfinance institutions to forestall incidences of fund diversion and bring the cases of nonperforming loans to the barest minimum.

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