



IMPACT ASSESSMENT OF CONVENTIONAL AND
ISLAMIC MICROFINANCE AND ITS IMPLICATION
ON POVERTY ALLEVIATION IN NORTHERN
NIGERIA

BY

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ABSTRACT

Nigeria is one of the leading economies in Africa with vast oil reserve and abundant human and material resources at disposal. Despite these resources, poverty among the populace is widely spread. The national commission in Nigeria in 2012 reported that more than 75 million are trapped by poverty. Several efforts have been put forward at various points in time by successive governments, private entrepreneurs and other development partners to overcome the menace of poverty among the populace. Recently, microfinance becomes another mechanism through which poverty is being challenged and the last decade had witnessed tremendous contribution of microfinance institutions in various parts of the world. The main purpose of the study is to assess the availability, awareness, acceptance as well as the socioeconomic impacts of microfinance programmes on poverty alleviation in Northern Nigeria. The study used 400 samples drawn from the Islamic and conventional microfinance clients through simple random sampling technique. Self developed questionnaire was used as instrument for data collection. The findings show that both conventional and Islamic instruments are available in the microfinance institutions for clients irrespective of gender, geographical location and types of business engaged by the client. Moreover, Islamic products are accepted among clients engaged in different types of businesses. The findings also revealed that both conventional and Islamic microfinance affect the socio-economic well-being of clients thereby reducing poverty. Implications of the study for microfinance institutions, policy regulators as well as recommendations have been provided in line with the major findings.

خلاصة البحث

تعتبر دولة نيجيريا في الاقتصاد احدى الدول الرائدة في أفريقيا لما لها من النفط الهائلة والموارد البشرية والمادية، وعلى الرغم من وفرة هذه الموارد فإن انتشار الفقر واسع النطاق بين سكانها حيث أفادت اللجنة الوطنية في نيجيريا في عام 2012م بأن أكثر من (75) مليون نسمة محاصرون بالفقر، وعليه؛ فقد وضعت العديد من الجهود في نقاط مختلفة في الوقت المناسب من قبل الحكومات وأصحاب المشاريع الخاصة وغيرها من أصحاب التنمية للتغلب على خطر الفقر بين السكان. وحالياً، فقد أصبح التمويل الأصغر آلية أخرى يُمكن من خلالها القضاء على الفقر كما شهدت القرون الأخيرة مساهمة هائلة من مؤسسات التمويل الأصغر في أجزاء مختلفة من العالم، وعليه؛ فالهدف الرئيسي من هذه الدراسة هو تقييم مدى توافر، الوعي، والقبول فضلاً عن الآثار الاجتماعية والاقتصادية لبرامج التمويل الأصغر للتخفيف من حدة الفقر في شمال نيجيريا، وقد استخدمت الدراسة (400) عينات مستمدة من عملاء التمويل الأصغر الإسلامية والتقليدية من خلال استعمال تقنية بسيطة للعينات العشوائية كما تم استخدام الاستبيان الذاتي المتقدمة كأداة لجمع البيانات فظهرت نتائج الدراسة بعد ذلك بتوفر الأدوات التقليدية والإسلامية في مؤسسات التمويل الأصغر للعملاء بغض النظر عن الجنس والموقع الجغرافي وأنواع تجارية تعمل من قبل العميل، وعلاوة على ذلك؛ فقد تم قبول المنتجات الإسلامية بين العملاء المشاركين في أنواع مختلفة من الأعمال التجارية، كما كشفت نتائج الدراسة أيضاً بأن التمويل الأصغر سواء التقليدي أو الإسلامي يؤثر على المجتمع والرفاه الاقتصادي بين العملاء وبالتالي تخفيف آثار الحد الفقر، وقد قدمت الدراسة الآثار المترتبة لمؤسسات التمويل الأصغر والمنظمين لسياساتها كما قدمت التوصيات بما يتماشى مع النتائج الرئيسية.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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**IMPACT ASSESSMENT OF CONVENTIONAL AND ISLAMIC
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ALLEVIATION IN NORTHERN NIGERIA**

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To my parent and my family

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
BOI	Bank of Industry
CBN	Central Bank of Nigeria
CIA	Central Intelligence Agency
DFI	Development Finance Institutions
DFID	Department for International Development
FADU	Farmers Development Union
FOMWAN	Federation of Muslims Women Association of Nigeria
FSP	Family Support Program
GDP	Gross Domestic Product
GMR	Global Monitoring Report
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
MDGs	Millennium Development Goals
MFB	Microfinance Bank
MFI	Microfinance Institution
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank
NAPEP	National Poverty Eradication Program
NDE	National Directorate of Employment
NGO	Nongovernmental Organization
PAP	Poverty Alleviation Program
PBN	Peoples Bank of Nigeria
RDS	Rural Development Scheme
SAP	Structural Adjustment Program
SEMIES	Small and Medium Size Enterprises Scheme
SHG	Self Help Group
SME	Small Medium Enterprise
UN	United Nations
UNCDF	United Nation Capital Development Fund
USAID	United States Agency for International Development
WOFAN	Women Farmers Association of Nigeria

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The Global Monitoring Report (2009) defined poverty as the proportion of the population that lives on less than US \$1.25 a day (based on purchasing power parity at 2005 constant prices). Poverty is a global phenomena, World Development Report (2001) shows that out of the world's six billion people, two billion eight hundred people (2.8 billion) or almost half of the world population live on less than US \$2 a day, and 1.2 billion survive on less than US \$1 a day. Besides that, the International Fund for Agricultural Development (IFAD, 2011) reports that 35% of the total rural population of developing countries is classified as extremely poor, down from around 54 % in 1988, while the corresponding percentage of US \$2 a day poverty line is just above 60% down from over 80% in 1988. About 1,375 million people in developing countries (25% of the population) were living in extreme poverty (Global Monitoring Report, 2009).

Africa is equally among the regions that are affected by the menace of poverty with the great majority of the poor in the rural areas. According to the IFAD (2009) reports, more than 70 % of the continent's poor population reside in rural areas and largely depend on agriculture for food and daily livelihood. The incidence of poverty in sub Saharan Africa is increasingly faster than the population, where more than 218 million people live on less than US \$1.25 a day. More than 60% of the population in sub Saharan Africa live on less than US \$1.25 a day, and almost 90% of the population live on less than US\$2 a day. This statistic indicates that more than half of

the population in the sub Saharan Africa live in abject poverty due to lack of infrastructure and access to capital for investment in small and micro enterprises.

In Nigeria, the incidence of poverty is increasing even faster than the population. In 1996, the population was about 103 million, and the incidence of poverty accounts to more than 65 percent indicating that more than 60 million people are in poverty trap. The United Nations Human Development Index (1999) placed Nigeria is among the 25 poorest nations in the world. Similarly, World Bank (2000) reported that 70 percent of the Nigeria's total population was living below the poverty line of US\$ 1.25 a day, which is an indication that more than half of the people in the country are living below the poverty line as a result of inadequate social and economic services that would help to reduce the incidence of poverty and improve their living standard. Moreover, Central Intelligence Agency (CIA, 2001) indicators place it among the 20 poorest countries in the world. Moreover, the World Bank (2000) indicates that 70% of Nigeria's population fell below the poverty line of \$1 a day. The World Bank's long-held estimate of the number of people living on the equivalent of \$1 a day has now been changed to \$1.25 a day. The Bank also added that the previous \$1 a day estimate for the international poverty line would have been \$1.25 a day at 2005 prices if only inflation was accounted for. Per capita income today is around the same level as in 1970 (World Bank, 2000).

Various efforts have been put forwards in Nigeria by both past and present governments in order to alleviate poverty via microfinance. Microfinance programmes in different forms have been introduced at the various points in time in order to address the menace of poverty through microfinance both conventional and Islamic. Some of these microfinance institutions comprise of the National Directorate of Employment and Peoples Bank of Nigeria which were established for the purpose of

job creation and youth empowerment. In addition, the private sector and NGOs also complement efforts of government by establishing microfinance scheme in various part of the country.

Despite various microfinance initiatives, poverty remain a problem that keeps attracting the attention of government, private sector and NGOs. Large number of people in Nigeria do not have access to financial services (e.g. Financial loans).

In order to assess the effectiveness of the various microfinance programs on various aspects of recipient livelihood, in 2004, the United Nations Capital Development Fund conducted an impact assessment study on some selected microfinance institutions in Nigeria. The study reported that in terms of poverty alleviation, microfinance institutions have helped in increasing women's access to financial services. Evidence was found of increased household assets, and household welfare, overcoming food insecurity, settlement of medical expenses and addressing emergencies. Higher enrolment rates in secondary education were also found among the client's children.

1.2 PROBLEM STATEMENT

The last decade has seen the evolution of microfinance institutions that have provided sufficient income and employment opportunities for the poor in the developing countries (Bhatt & Yan, 2001) aimed at fighting poverty. Several efforts have been put forward in that direction in various countries (e.g. ACCION's BancoSol in Bolivia, Bank Rakyat Indonesia's Unit Desa program in Indonesia, Amanah Ikhtiar Malaysia in Malaysia and the Grameen Bank in Bangladesh) and the experiences of these microfinance programme initiatives triggered imitation efforts, in one form or another, in many countries throughout the world including Nigeria. The level of

poverty in Nigeria which is among the 20 poorest countries in the world (CIA, 2001) compelled authorities to embrace microfinance as a means of alleviating the menace of poverty among the populace along side other global initiatives e.g. Millennium Development Goals (MDGs) program which has poverty alleviation as one of its objectives as well as numerous programmes at various points in time.

However, private small scale entrepreneurs and NGOs follow suit by establishing microfinance institutions in order to provide their contribution towards tackling the poverty menace among the populace. Microfinance institutions were established in both rural and urban communities for the purpose of providing access capital to the poor and low income group who have limited access to the commercial banks. Most of these microfinance institutions are conventional in nature but integrate Islamic microfinance window for the purpose of poverty alleviation among the poor population.

Inspites of the combined efforts of government through various policies and programmes, private small scale entrepreneurs and NGOs, the gap between the rich and poor in Nigeria is becoming wider. The United Nations Development Program report 2008 to 2009 shows that the level of inequality between the rich and poor in Nigeria is among the highest in the world. The report further reveals that Nigeria is among the most unequal nations in the world and argues that 65% of assets were in the hands of the top 20 % of the country's population, causing abject poverty to persist (Ojuwu, 2009).

Therefore, the present study assessed and analyzed the availability of credit facilities, public awareness and acceptance; outreach as well as propose better impact microfinance services in Kano and Jigawa states.

1.3 OBJECTIVES OF THE STUDY

Poverty has been a long-standing issue in Nigeria. A thorough understanding of poverty in the country requires an analysis of its evolution over the past two or three decades and an assessment of how economic policies and programs have impacted it.

Poverty as a multidimensional issue is related by limited of purchasing power, malnutrition, increase in mortality rate, and limited access to social and economic services and opportunities for income generation and investment (Ugoh, 2009). Although the existence of poverty is more pronounced in rural areas than urban, a substantial number of people remain in a destitute state.

Microfinance, as one of the programs adopted to alleviate poverty, has a significant role to play in that direction especially in a developing country, such as Nigeria. There have been several attempts by the successive and present governments towards the alleviation of poverty including non-governmental organizations, private enterprises and communities.

In light of the above, the specific objectives of this study include the following:

- i. To identify the availability of credit facilities in microfinance institutions for poverty alleviation.
- ii. To analyse public awareness, acceptance, outreach performance and impact of microfinance in Kano and Jigawa states of Nigeria.
- iii. Analyse the socio-economic impact of conventional and Islamic microfinance programmes in Kano and Jigawa states.
- iv. To propose the betterment of microfinance services for higher impact on poverty alleviation.

1.4 RESEARCH QUESTIONS

The role of microfinance as a tool for poverty eradication has been accepted by many countries. In Nigeria, microfinance has been viewed as a way of providing financial services to the poor and low income earners who have limited access to conventional banking or financial institutions. This study aimed at assessing conventional and Islamic microfinance in poverty alleviation activities among microfinance clients been major beneficiaries of microfinance services.

Therefore, in view of these concerns, the questions to be addressed in this study are as follows:

- i. To what extent does the microfinance institutions provide available credit facilities for poverty alleviation?
- ii. What is the level of public perception, acceptance, outreach performance and the impact of microfinance in Kano and Jigawa states of Nigeria
- iii. What are the socio-economic impacts of microfinance programmes in Kano and Jigawa states?
- iv. Does a better microfinance service make an impact on poverty alleviation?

1.5 SIGNIFICANCE OF THE STUDY

Nigeria has been striving to fight poverty through various approaches and institutions from both the government and non-governmental organizations. Poverty, being a global issue of discussion, has attracted much research with a view to determine possible measures that could help to alleviate the problem and improve the purchasing power of the poor people. The importance of this research work could be seen from various angles.

The research also enables the authorities to determine the most needed areas that has been adversely affected by poverty with a view to improving and checking the threats of poverty and their resulting effects. This effort is particularly relevant in Nigeria as the proportion of the poorest of the country's total population is significantly high at 70% (National Planning Commission, 2010). The research outcome would provide the exact degree of impact of the previous and existing poverty alleviation programs. This enables the government and other agencies fighting poverty to re-assess and find out the areas that need to be improved. Moreover, it provides first-hand information from the end users so as to assess the effectiveness of the program and the calibre of end users that benefited from such programs.

The study provides ground for improving as well as strengthen the relationship between microfinance institutions and Small and Medium Enterprises (SMEs) being the potential clients. Thus, the research work will play a significant role in educating the end users regarding the available products that are useful in enhancing income generation. However, the study provides a significant contribution by analysing the level of public awareness and acceptance of both conventional and Islamic microfinance in Nigeria.

Besides that, the research also provide significant contribution to the existing literature as numerous scholarly articles were reviewed in order to keep with the existing trend regarding research on poverty and measures of alleviating it among the populace, as it is one of the issues that attract the attention of agencies, governments, and non-governmental organizations. Therefore, the research can be used as important reference material for academics, policy making and policy implementation with regards to poverty. Consequently, the study could be used to propose a new policy measures on microphones aimed at improving the existing services for a better impact.

In addition, from the research helps to provide the relevant information to the government agencies and non-governmental organizations to maximize the resources being channeled into the poverty alleviation programs, having obtained the magnitude of impact of what have been done so far to make plans to improve on the existing performance.

1.6 SCOPE AND LIMITATION OF THE STUDY

Poverty has become a central issue in Nigeria and this poverty incidence could be eradicated through microfinance program. Today, there are a substantial number of MFIs in Nigeria institutions belonging to governments, non-governmental organizations (NGOs), private individuals and communities. This study assessed awareness, availability, acceptance as well as the socioeconomic impacts of conventional and Islamic microfinance programmes on poverty alleviation in Kano and Jigawa states of the Northern part of Nigeria. These states are selected because they fall under the area that has been identified with the highest poverty level according to the survey conducted by the Central Bank of Nigeria (2010). Moreover, the people in these states are predominantly Muslims.

The microfinance institutions in these states are conventional but they integrate Islamic microfinance windows such as Mudharabah, Musharakah, Ijara and Baisalam etc. The research focuses on small scale entrepreneurs' who engaged in businesses such as trading, services, art and craft and others. Household beneficiaries of both Islamic and conventional microfinance are considered in the survey. Economic and social indicators such as household income, expenditure, education, assets, healthcare and consumption were employed as determinants of poverty.

On the other hand, the limitation includes a limited number of respondents (400) considering the sizes of the population in these states. Moreover, the study is also limited to Kano and Jigawa states only out of the 19 states in northern Nigeria due to logistic and time constraints.

1.7 ORGANIZATION OF THE STUDY

The main objective of the study was to assess availability of credit facilities, public awareness and acceptance; outreach as well as proposed better impact microfinance services. The study is organized into six chapters, beginning with chapter 1 which covers the background of the study, an overview of the study area, problem statement, and objectives of the study and research questions. In addition, the chapter also covers the scope of the study, significant and organization of the study.

Chapter two discusses the relevant literature involving microfinance and some empirical studies related to the outreach performance of microfinance institutions, impact of microfinance on poverty, and the possible challenges being faced by microfinance institutions in poverty alleviation.

On the other hand, chapter 3 deals with poverty and microfinance in Nigeria, which reviews the poverty trends in Nigeria from 1986 to 2010 and the poverty reduction strategies adopted by successive and present governments. Furthermore, the chapter reviews the evolution and development of microfinance in Nigeria which includes an overview of the new microfinance policy and regulatory framework for Nigeria.

Chapter 4, deals with research methodology which consists of research design, population and sample, method of data collection and analysis, and the modelling part of the study explaining the dependent and independent variables used in the study.