



GLOCALIZATION OF MICROFINANCE AS A
STRATEGY TO ALLEVIATE
INTERGENERATIONAL TRANSMISSION OF
POVERTY IN NIGERIA

BY

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requirements for the degree of Doctor of Philosophy in
Business Administration (Finance)

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ABSTRACT

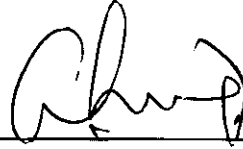
The incontrovertibility of Nigeria being a rich nation in both human and material resources makes its national status as a poverty-stricken country ironical. This study, therefore, was based on the concern for appraising the appropriateness of microfinance as the latest poverty alleviation strategy. This is in terms of global practices and local realities peculiar to Nigeria. It is quite likely that poverty in Nigeria may be linked to the financial exclusion of the poor. This frustrates their entrepreneurial activities in the sense of being able to acquire the sustainable livelihood assets they need to exit from the poverty trap they are immersed in. The main objective of this study, therefore, is to investigate the relationships that exist between financial exclusion or lack of access to microfinance services and possibility of intergenerational transmission of poverty in Nigeria as mediated by microenterprise underdevelopment and inadequate livelihood assets. The variables used in the study as well as both the conceptual and theoretical frameworks were influenced by a combination of various theories of inequality, especially the theory of imperfect credit and the sustainable livelihood model. A mixed methods approach via the quantitative and qualitative research designs and based on the pragmatism philosophical view was used at all stages of data collection, analysis and results. Relevant information was collected from some poor households in the Ilorin metropolis of Kwara State, Nigeria using both the survey questionnaire and interview methods. Data so obtained were subjected to mixed data analysis. The Structural Equation Modeling (SEM) as the quantitative tool was given prominence and was complemented with a qualitative data analysis. The results indicated that both involuntary and voluntary financial exclusion barriers exist. They significantly account for the financial exclusion of the households under sample. Such financial exclusion was found to impede both the development of microenterprises and the acquisition of 'sustainable livelihood assets' by the poor. However, no structural invariance was found in the baseline structural model based on demographic divides. Recommendations contingent on research findings and best global practices were offered.

ملخص البحث

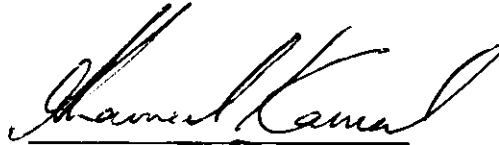
إن كون نيجيريا دولة غنية من حيث الموارد الإنسانية والطبيعية - بلا منازع - مدعاة للتهكم، نظراً لحالة الفقر التي اشتهرت بها كدولة. وعليه، انبنى هذا البحث على ضرورة دراسة مناسبة نظام التمويل المجهري (Microfinance) كخطة حديثة للحد من الفقر، بناء على الممارسات العالمية لها والحقائق الخاصة بنيجيريا. ومن الممكن أن يكون الفقر في نيجيريا نتيجة للاستبعاد المالي ضد الفقراء، الأمر الذي خيب آمالهم نحو القيام و النهوض بالنشاطات الإنتاجية التي من شأنها تمكينهم لاحراز ضروريات المعيشة فيخرجوا بذلك من دائرة الفقر. إذن، والغرض من هذه الأطروحة هو البحث عن العلاقة بين الاستبعاد المالي أو عدم الحصول على خدمات نظام التمويل المجهري (Microfinance) وإمكانية توارث الفقر كإرثاً عن كابر في نيجيريا، باعتبار المؤسسة التجارية المجهرية اللاتطورية (Microenterprise underdevelopment) و عدم كفاءة وتوفر ضروريات المعيشة. ولقد تأثرت المتغيرات (Variables) والأطر النظرية والمفاهيمية المستخدمة لهذه الدراسة بأنواع من نظريات التفاوت وخاصة نظرية الرصيد الناقص (Theory of imperfect credit) ونموذج المعيشة القابل للتقوية. كما أن الدراسة اعتمدت المنهج المزدوج - الكيفي والكمي - في مراحل حشد المعلومات والتحليل والنتائج تبعاً لنظرية البرجماتية الفلسفية (Pragmatism Philosophical view). ولقد تم الحصول على المعلومات من الديار الفقيرة في عاصمة إورن ولاية كوارا، نيجيريا، بطريق الإستبانة والمقابلة. كما تم تحليل تلك المعلومات بالمنهج التحليلي المزدوج. وحظي النموذج التوازني البنائي (SEM) كآلة الكمية بالأولوية بينما جاء منهج تحليل المعلومات الكيفي معزلاً له. ونتائج الدراسة تكشف لنا وجود الإستبعاد المالي على الصعيدين الإكراهي والإختياري. و ينطبق هذا على الديار التي شكلت نماذج هذه الدراسة. كما أثبتت النتائج أن ذلك الإستبعاد المالي أسهم في إعاقه تطور المؤسسات التجارية المجهرية (Microenterprises) وحصول الفقراء على ضروريات المعيشة القابلة للتقوية. إلا أن الدراسة لم تقع على الائتلام البنائي في خط البناء النموذجي (Baseline Structural Model) وفق أقسام إحصاء السكان. واختتمت الدراسة بتقديم الإقتراحات والممارسات العالمية الجيدة بناءً نتائج الدراسة.

APPROVAL PAGE

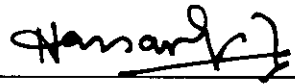
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DECLARATION

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

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Signature.....

Date.....06/01/2011

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ALLEVIATE INTERGENERATIONAL TRANSMISSION OF POVERTY
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This thesis is dedicated to my family, friends and other well-wishers for their support in its entire ramifications toward making my dream of acquiring a Ph.D. degree a reality.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADFT	Asymptotic Free Distribution Technique
AIC	Akaike Information Criterion
AMOS	Analysis of Moment Structures
ASA	Activists for Social Alternatives
BIC	Bayes Information Criterion
BOFIA	Banks and Other Financial Institutions Act
BoP	Base of the Pyramid
BRI	Bank Rakyat Indonesia
CBN	Central Bank of Nigeria
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CGAP	Consultative Group to Assist the Poor
CMIN	Chi-Square Minimum discrepancy
DFID	Department for International Development
DFRRI	Directorate for Food Roads and Rural Infrastructure
ECI	Early Child Intervention
EFinA	Enhancing Financial Innovation and Access
EPI	Expanded Programme on Immunization
EPZ	Export Processing Zone
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investments
FEAP	Family Economic Advancement Programme
FSS 2020	Financial System Strategy 2020
GoF	Goodness of Fit
HEPM	Household Economic Portfolio Model
IADB	Inter-American Development Bank
IBBL	Islami Bank Bangladeshi Limited
AIM	Amana Iktihar Malaysia

ICA	Investment Climate Assessment
ILO	International Labour Organization
ITP	Intergenerational Transmission of Poverty
JDC	Justice and Development Commission
LAPO	Live Above Poverty Organization
LSMS	Living Standards Measurement Scale
MCF	Microcredit Fund
MFBs	Microfinance Banks
MFI	Microfinance Institutions
MIX	Microfinance Information Exchange
MLE	Maximum Likelihood Estimates
MP	Media Player
MSEs	Micro and Small Enterprises
MTOs	Money Transfer Operators
NACB	Nigerian Agricultural and Cooperative Bank
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank
NAPEP	National Poverty Eradication Programme
NBCI	Nigerian Bank for Commerce and Industry
NDE	National Directorate of Employment
NEEDS	National Economic Empowerment and Development Strategy
NERFUND	National Economic Recovery Fund
NESG	Nigerian Economic Summit Group
NFI	Normed Fit Index
NGOs	Non-Governmental Organizations
NISER	Nigeria Institute for Social and Economic Research
NPC	National Population Commission
OPEC	Organization of Petroleum Exporting Countries
PBN	Peoples Bank of Nigeria
PECC	Pacific Economic Cooperation Council
RANQ	Resource and Needs Questionnaire
RMSEA	Root Mean Square Error of Approximation
RSCA	Rotating Savings and Credit Association
SAP	Structural Adjustment Programme

SEAP	Self-Reliant Economic Advancement Programme
SEM	Structural Equation Modeling
SHG	Self-Help Group
SICS	Small Industry Credit Scheme
SLA	Sustainable Livelihood Assets
SMEs	Small and Medium Enterprises
SMIEIS	Small and Medium Industries Equity Investment Scheme
SPSS	Statistical Package for Social Sciences
SSA	Sub Saharan Africa
SWT	Subhanahu Wa Ta'ala
UBE	Universal Basic Education
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WC	Washington Consensus
WHO	World Health Organization

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Even when it is as old as the existence of human being, poverty looks like a culture, which according to many researchers is multi-dimensional and complex both in terms of characterization and experience (Pramanik, Haneef, Meera, & Wan Yusof, 2008; Ugoh & Ukpere, 2009; Moore, 2001; & Narayan, 2000b).¹ Moore (2001) asserted that contingent upon the diverse cultures and sub-cultures of the world such characterization and experience cover a varying and wide ranging set of interrelated life chances. Therefore, there are many perspectives from which poverty may be viewed including social, religious, economic etc. Arguably, the most conspicuous one adopted in this study is based on socio-economic perspectives as viewed by the social scientists. The proponents of this approach, for instance Narayan (2000a), stated that poverty is lack of material well-being, insecurity, social isolation, psychological distress and lack of freedom of choice and action, unpredictability, lack of long term planning horizons, low self-confidence and self-esteem among many other manifestations of poverty.

As far as the multi-faceted nature of poverty is concerned, the social scientists' secular philosophies and the Islamic worldview have much in common. According to Islam poverty contributes to lowliness (Hassan & Alamgir, 2002 as cited in Khan, 2008). Abu Dawud (may Allah bless him) related a tradition of Prophet Muhammad (peace be upon him) that "O Allah, I seek refuge from poverty, insufficiency and

¹ According to Burra, Deshmukh-Ranadive & Murthy (2007:232) "poverty can be seen as an interlocking failure of ownership, exchange, and consumption entitlements and outcomes, shaped both by the domestic and macro-environments."

lowliness” (Khan, 2008:9). Based on many other traditions of the Prophet Muhammad (peace be upon him) poverty leads to *kufir* (disbelief)². It is also stated that poverty and faith are incompatible (Pramanik, 1993).

Although there is no universally acceptable definition of poverty, a consensus among development researchers and scholars suggests that poverty is a terrible state of the human condition. It describes a level of deprivation that encompasses shortfall and inadequacies in basic human needs which prevent people from achieving internationally acceptable level of well-being (Atoloye, 1997). According to the Nobel Laureate Yunus (1999, 2007), poverty is simply reflected in the inability of the poor to apply their latent talents to empower themselves due to the failure of institutions. Other development studies including Narayan (2000a, 2000b), and Sen (1981) viewed poverty from the perspectives of entitlements and human capabilities respectively.

According to Mathur (2008 cited in Daley-Harris, 2009:4), it is ironical that while a reasonably small number of people enjoy a life of unimaginable abundance, majority live in poverty. He aptly describes this as “Party in the Penthouse – Fire in the Basement”. Today, almost 3 billion people – about half of the earth’s inhabitants- live on less than \$2 per day.³ This category of people is referred to as those at the base of the pyramid (BoP).⁴ Presently, majority of these poor people live in Sub Sahara Africa (SSA), Latin America and South Asia (Islam, 2006). According to Moore (2001), it is estimated that by 2015 when the international developments target are

² Some Islamic scholars opine that this hadith is weak. However, the hadith that says "O Allah! I seek your refuge from the evils of the trials of wealth, and the evils of the trials of poverty" is said to have a strong chain of transmission (see Sahih-al-Bukhari 11/176, and Sahih Muslim 2078).

³ This threshold is universally acknowledged and adopted as defining the poor (Demirguc-Kunt & Levine, 2007:2). However, in realization of the underestimation of the number of the poor in the world, a threshold of \$1.25 was used in the most recent report of the World Bank. (see World Development Indicators Database, September, 2008).

⁴ According to Klein (2008:3), The BoP refers to a socio-economic group of people who form the ‘underclass’ of society and are prone to marginalization. Klein (2008:3) stated further that the world is often portrayed as a pyramid with three categories: the wealthy at the top, the middle class in the middle and the large numbers of poor making up the base.

met, an estimated 900 million people, most of whom live in rural areas in sub-Saharan Africa and South Asia will be living in poverty. Specifically, Islam (2006:5) quoting statistics from the World Bank stated that 46 percent of the world's poor based on the US\$1 threshold are projected to be from SSA by 2015.

In the case of sub-Saharan Africa, Nigeria plays a pivotal economic and political role given its vast human and physical resources. It is however, ironical that most Nigerians still live in poverty despite Nigeria being resource rich.⁵ Nigeria has apparently, one of the weakest economies in the world. It has a per capita GDP growth rate of 0.8 percent per annum which is far less than the 4.2 percent growth rate needed to substantially reduce poverty (National Economic Empowerment and Development Strategies (NEEDS) Document, 2004). According to Pramanik (2007), Nigeria is very poor in terms of most welfare indicators despite its abundant resources. Moreover, Nigeria has witnessed a gradual but consistent upsurge in the incidence of poverty from 18.1 million in 1980 to 86.0 million people in 2002 (World Bank, cited in Ijaiya & Bello, 2005)⁶.

More worrisome however, is the dimension of intergenerational transmission of poverty (ITP) as being experienced in Nigeria. In this case, unlike their cohorts from rich families who may inherit '*properties*', the children of the poor may likely inherit '*poverty*'. For this latter group of children, and like their poor parents and

⁵ Birdsall, Pinckney & Sabot (2004) and Roemer-Mahler (2006) linked the poverty incidence in Nigeria to the country's affliction with the 'Dutch Disease' and "staple trap." The former relates to the negative economic consequences a country suffers due to the discovery of a natural resource like crude oil. The latter relates to the economic retardation a country experiences due to the rent-seeking attitude prevalent in its dominant economic resource sector.

⁶ World Bank data cited in Todaro & Smith (2009:234-235), stated that Nigeria has a very low per capita monthly income of \$29.89, poverty headcount ratio of 92.33 percent, poverty gap of 60 percent, and 43.60 percent Gini Index based on poverty incidence at \$2 a day. At a relatively lower rate of \$1 per day, the picture is not different given a poverty headcount ratio of 71.18 percent, 34.59 percent poverty gap, and 43.60 percent Gini Index. The poverty statistics are higher than the Sub-Saharan Africa average of 71.96 percent and 41.09 percent poverty headcount ratio; and a poverty gap of 38.09 percent and 17.47 percent Gini indexes based on poverty incidence at \$2 and \$1 per day respectively.

grandparents who are trapped in poverty (Kimenyi, 2006) and live impoverished life (Demirguc-Kunt & Levine, 2007), breaking the poverty cycle is arduous. This seemingly unpleasant trend has attracted the attention of the government, development researchers and scholars alike. Obviously, there is the need for the evaluation of the social and economic development strategy pursued to alleviate poverty in Nigeria.

In order to transform Nigeria's economy from its present state of affairs to a most vibrant one, there had been often inadequate efforts on the part of the Nigerian government (NEEDS Document, 2004). Currently, and in line with global awareness, the government has been giving attention to the importance of microfinance and microenterprises with the aim of eradicating poverty and squalor conditions. Therefore, it is currently implementing the National Economic Empowerment and Development Strategies (NEEDS) with emphasis on the micro-enterprises towards achieving the objective of poverty alleviation.⁷ According to Cull, McKenzie, & Woodruff (2007), these enterprises are a major feature of the developing countries. They account for up to two-third of the total employment in most instances and thus are a veritable tool for capabilities enhancement and poverty alleviation.

Furthermore, in recognition of the relative indispensability of an efficient financial sector in the development process, the Nigerian government also approved the Financial System strategy 2020 (FSS 2020) in September 2007. The aim of the "FSS 2020" is to serve as a complement to the on-going financial sector reform in Nigeria; ensure greater stability, depth and diversity of the entire financial system. This is in particular regards of ensuring better access to financial services by all Nigerians. Based on numerous theoretical and empirical findings on the success of

⁷ Although the implementation of NEEDS is still ongoing as it is in its phase 2, some preliminary studies indicate the possibility of its failure in some if not all the four broad objectives it is meant to achieve. (see Ikeayinbe, 2009).

microfinance institutions, it is suggested that the poor do have talents and entrepreneurial capacity to escape from the poverty trap⁸ they are in. However, they are hindered by the failure of institutions as claimed by Yunus (1999, 2007).⁹

The development of the micro-enterprises sector in Nigeria is imperative especially given their apparently numerous socio-economic benefits. For instance, Wang, Ahmed & Furquhar (2007) citing the United Kingdom (UK) Department of Trade and Industry noted that 99 percent of the businesses in the UK are Small and Medium Enterprises who contribute immensely to the socioeconomic development of the country. Notwithstanding the positive potentials of these enterprises, the insufficiency in isolation of their promotion underlines the need for complementary policy options.

According to Narayan (2000a), and Balat & Porto (2005), the realization of the intended results from microenterprise policy option requires that complementary policies essential for poverty alleviation are put into place. These include extension services in terms of information technology, infrastructure, transport, electricity supply, irrigation, public education and health services, inclusive financial services, etc. However, lack of many, if not all of these complementary policies impede the growth of the Nigerian micro-enterprises sector (World Bank, 2002, Nigerian Institute of Social and Economic Research, NISER, 2003). The focus of this study is on the lack of an inclusive financial system as operationalized by appropriate institutions.

⁸ A situation in which poverty has effects, which act as causes of poverty. There are thus vicious circles, processes of circular and cumulative causation, in which poverty outcomes reinforce themselves. Poverty traps can operate at various units of analysis, from individual and household, to national. Poverty traps enmesh individuals and households in vicious cycles of material deprivation and a lack of investment in human capital and other livelihood assets (Chronic Poverty Research Centre, CPRC, 2009:133)

⁹ Ingrid Munro, Director of Jamii Bora in Kenya was cited in Daley-Harris (2009:6) as saying: "I had always believed that there was a lot of talent among those women and I always felt that everybody was neglecting the beggars. We started Jamii Bora with the idea that it would be a small club of beggar women and me, but it soon grew into a large movement of the desperate and neglected. The women started small businesses and some of them climbed quickly into a better life."