

MICROFINANCE AND POVERTY REDUCTION IN NIGERIA: A STUDY OF ABUJA, THE FEDERAL CAPITAL TERRITORY

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Abstract

This study investigates the impact of micro-credit, micro-savings, training, and financial inclusion on poverty reduction, guided by Financial Inclusion Theory. The objectives were to assess how each of these variables contributes to alleviating poverty among SMEs in Abuja, FCT. Using a quantitative research design, data were collected from a sample of 160 respondents through structured questionnaires. Descriptive statistics and multiple regression analyses were employed to interpret the data. Results show that the independent variables collectively account for 62.8% of the variance in poverty reduction, with micro-credit demonstrating the highest influence on poverty reduction, underscoring its critical role. Micro-savings contributed significantly by enhancing financial security, while training supported skill development crucial for economic empowerment. Financial inclusion expanded economic access, further facilitating poverty alleviation. The findings suggest that targeted policy measures, including enhanced support for micro-credit programs, incentivizing savings, and financial literacy initiatives, could strengthen the role of microfinance in poverty reduction. This research highlights the importance of financial access in creating sustainable pathways out of poverty for underserved populations.

Keywords: Microfinance, Poverty Reduction, Financial Inclusion, Micro-Credit, Micro-Savings, Training and Advisory Services

1. Introduction

Microfinance has become a critical tool for poverty reduction in Nigeria by offering financial services such as credit, savings, and insurance to underserved low-income populations who typically lack access to conventional banking (Ledgerwood, 2013). In a country where over 40% of people live below the poverty line, microfinance is particularly relevant (World Bank, 2020). Even in Abuja, Nigeria's Federal Capital Territory (FCT), financial inequalities persist among low-income individuals and SME owners, many of whom depend on microfinance to stabilize and grow their incomes (CBN, 2019). Microfinance services empower these individuals to invest

in their businesses, maintain consumption levels, and build resilience against economic shocks, thereby playing a direct role in reducing poverty (CBN, 2019). Given the high financial exclusion rates in Nigeria, especially in marginalized communities, examining the role of microfinance in Abuja could offer insights into broader, more inclusive financial policies that effectively address poverty nationwide (Demirguc-Kunt et al., 2018). Despite the introduction and expansion of microfinance initiatives aimed at reducing poverty in Nigeria, significant challenges persist, leaving millions in entrenched poverty (Obaji, 2023). While microfinance programs theoretically enable low-income individuals to access credit, savings, and other financial services, the actual impact on poverty alleviation has been mixed. Many beneficiaries continue to struggle with poverty due to limitations in the scope, structure, and sustainability of these services (Ledgerwood, 2013; World Bank, 2020). In the Federal Capital Territory (FCT) of Abuja, for instance, small business owners and low-income earners often experience barriers such as high interest rates, limited loan amounts, and inadequate support in financial literacy, which hinder their ability to leverage microfinance effectively for substantial economic progress (Central Bank of Nigeria, 2019).

Objectives of the Study

- i. To assess the effect of micro-credit on poverty reduction in FCT.
- ii. To evaluate the impact of micro-savings on poverty reduction in FCT.
- iii. To examine the impact of training & advisory services on poverty reduction in FCT.

2. Literature Review

2.1. Theoretical Framework

2.1.1. Financial Inclusion Theory

The Financial Inclusion Theory provides a guiding framework for understanding how accessible financial services, such as micro-credit, micro-savings, and training, contribute to poverty reduction. This theory asserts that affordable financial services empower low-income individuals by enabling them to invest in businesses, smooth consumption, and build resilience against economic shocks, creating pathways out of poverty (Demirgüç-Kunt et al., 2018). Access to services like micro-credit allows small-scale entrepreneurs, particularly in underserved communities, to grow their businesses and increase their income, a vital component in poverty alleviation (Banerjee, Karlan, & Zinman, 2015). Micro-savings similarly enhance financial stability by helping individuals accumulate funds, which provides a safety net for emergencies and supports longer-term economic goals (Karlan et al., 2014). Training and capacity-building initiatives are essential elements of this theory as they provide low-income individuals with business and financial literacy skills, enabling them to utilize financial products effectively and increase their income-generating potential (Dupas & Robinson, 2013).

2.2. Empirical Review and Hypotheses Development

Empirical studies emphasize the pivotal role of microfinance, particularly microcredit, in poverty reduction.

2.2.1 Micro-Credit and Poverty Reduction

Yin, Chen, Zhou, Chen, and Liu (2023) found that microcredit significantly boosts income stability and growth for impoverished farmers in China, highlighting both short- and long-term impacts on poverty alleviation. Similarly, research by Ezeanyej, Usifoh, Obi, and Ejefobihi (2020) using ARDL models in Nigeria demonstrates that microfinance loans have a long-term negative effect on poverty, suggesting that over-reliance on debt without proper support can lead to negative outcomes. In Bangladesh, Akhter and Cheng (2020) confirmed that microcredit empowers rural women, enhancing their access to financial resources, while Al Mamun (2023) pointed to microfinance's effectiveness in poverty alleviation in rural areas. Sohn and Ume (2019) studied 96 countries and concluded that microfinance drives sustainable economic growth and poverty reduction, particularly benefiting women. In Nigeria, Tafamel (2019) observed a strong positive relationship between microfinance institutions and poverty reduction among SMEs, while Mustapha, Yusuf, and Abdullahi (2019) showed that loans from Rima Microfinance Bank increased incomes and reduced poverty by 6% in Sokoto. For rural Nigerian farmers, Nwibo, Okonkwo, Eze, Mbam, and Odoh (2019) confirmed microcredit as a vital funding source that aids in poverty reduction.

Thus, from the above discussions, the section hypothesized the following:

H₁: Micro-credit has a significant positive effect on poverty reduction in Abuja, the FCT.

2.2.2 Micro-Savings and Poverty Reduction

In Aiyedun's (2024) study on Nigeria, microfinance services—especially micro-savings—were found to significantly impact family welfare, including improving children's school enrolment rates. The ability to save helped low-income households manage school fees, enhancing both economic and educational outcomes. Brune, Giné, Goldberg, and Yang (2016) further demonstrated in Malawi that commitment savings accounts encouraged farmers to invest more in agricultural inputs, leading to higher yields and more stable incomes, which helped reduce poverty. The research conducted by Niyi and Aliyu's (2024) in Ondo State, Nigeria, micro-savings from microfinance institutions were shown to effectively reduce poverty and support economic stability among low-income residents. Abiola (2016) explored the effects of innovative savings products on self-employed, low-income individuals in Nigeria, finding that the introduction of creative savings accounts increased savings rates by 160%. The study recommended expanding awareness of these products to boost engagement further.

H₂: Micro-savings contribute significantly to poverty reduction in Abuja, FCT.

2.2.3 Training and Advisory Services and Poverty Reduction

Meyer and Woodbury (2023) examined the impact of entrepreneurial training and advisory services in the U.S. for low-income individuals. Their study found that programs focused on financial literacy and business management significantly enhanced participants' income-

generating capacities. By offering skills necessary for sustainable business creation, these services were effective in helping individuals escape poverty, especially by opening doors to better job opportunities. Williams and Wright (2022) reviewed various capacity-building programs across Sub-Saharan Africa, with a particular focus on advisory services for small-scale entrepreneurs. They concluded that training programs tailored to local needs, such as agricultural skills and small business management, were crucial in increasing productivity, improving business profitability, and reducing poverty. The study also emphasized the need for continuous support through advisory services to ensure sustained long-term impacts. Chidiebere and Okafor (2021) focused on the role of advisory services in Nigeria, particularly for SMEs and rural farmers. Their research revealed that training programs on financial management, marketing, and product diversification were key to improving livelihoods. These services helped build resilience to economic shocks and promoted sustainable growth, ultimately contributing to poverty alleviation. Santos and Duarte (2021) explored the impact of financial literacy training and advisory services on micro-entrepreneurs in developing countries. Their study found that training in savings, investment, and debt management significantly improved the economic stability of micro-entrepreneurs. This resulted in enhanced productivity and reduced poverty, underlining the importance of advisory services for fostering financial independence among low-income individuals.

H₃: Training and Advisory Services has a significant positive impact on poverty reduction in Abuja, FCT.

3. Methodology

This study adopts a quantitative approach, which focuses on the numerical assessment of data to objectively evaluate relationships between variables (Creswell & Creswell, 2017). Using a structured survey, the study employs descriptive and inferential statistics to examine the effect of micro-credit, micro-savings, training, and financial inclusion on poverty reduction among registered SMEs in Abuja, FCT. A quantitative design is suitable for this type of research as it allows for the systematic analysis of quantifiable data, facilitating reliable insights into the relationships under study (Bryman, 2016). The target population comprises registered SMEs in Abuja, which include businesses from manufacturing, trade, agriculture, and services sectors (SMEDAN, 2021). A sample size of 339 respondents was initially targeted, with a final valid response rate from 160 respondents. This sample size was determined using the Raosoft Sampling Calculator to ensure a representative subset of the population (www.raosoft.com). However, a stratified sampling technique was used to arrive at the sample .

Data were collected through a structured questionnaire, which covered sections on demographics, micro-credit, micro-savings, training, and financial inclusion indicators. The survey instrument was designed to capture responses using a Likert scale for consistency and

reliability in responses (Likert, 1932). Questionnaires are effective for this study as they allow for the efficient collection of data from a large group of respondents within a short time frame (Saunders, Lewis, & Thornhill, 2019). Descriptive statistics were employed to summarize demographic information and the main characteristics of the sample population, providing a foundational understanding of the data (Pallant, 2020). Multiple regression analysis was then conducted to assess the relationship between microfinance services, financial inclusion, and poverty reduction. Multiple regression is a powerful statistical tool that allows for the simultaneous examination of multiple predictors and their impact on a single dependent variable, which is ideal for this study's objectives (Hair, Black, Babin, Anderson, & Tatham 2014).

4. Results

Descriptive Analysis

The demographic data of the respondents, as displayed in the tables, provides an overview of their characteristics and background:

Response Rate

Out of the 339 distributed questionnaires, 160 were correctly filled and valid, resulting in a valid response rate of 47%. An additional 179 questionnaires were returned but invalid, accounting for 53% of the total as displayed in Table 1.

Table 1: Response Rate

Questionnaire	Numbers	Percentage
Correctly filled	160	47
Returned but not Valid	179	53
Total	339	100

Gender Distribution

The sample comprises 98 male respondents (56%) and 62 female respondents (44%), showing a higher representation of males in the study as presented in Table 2.

Table 2: Gender Distribution

Gender	Frequency	Percentage
Male	98	56
Female	62	44
Total	160	100

Age Distribution

As demonstrated in Table 3, the majority of respondents fall within the 32–42 age range (40.6%), followed by 43–53 years (32.5%), 21–31 years (14.4%), and 54+ years (12.5%).

Table 3: Age Distribution

Age Range	Frequency	Percent
21 - 31 years	23	14.4

Age Range	Frequency	Percent
32 - 42 years	65	40.6
43 - 53 years	52	32.5
54 plus years	20	12.5
Total	160	100.0

Level of Education Distribution

As shown in Table 4, most respondents hold a diploma (32.5%), while others have a secondary school certificate (26.3%), a bachelor's degree (27.5%), or a postgraduate degree (13.7%). This distribution highlights a diverse educational background on microfinance services.

Table 4: Level of Education Distribution

Level of Education	Frequency	Percent
Secondary School Certificate	42	26.3
Diploma	52	32.5
Bachelor	44	27.5
Postgraduate Degree	22	13.7
Total	160	100.0

Reliability Statistics

As displayed in Table 5, the Cronbach's Alpha for the survey instrument is 0.710, indicating acceptable reliability for the study's measurement scale (Nunnally & Bernstein, 1994).

Table 5: Reliability Statistics

Cronbach's Alpha	N of Items
.710	5

Regression Analysis

The regression analysis in Tables 6–8 examines the effect of micro-credit, micro-savings, training and advisory services (TAS), and financial inclusion on poverty reduction:

Model Summary

The model summary as displayed in Table 6 shows an R-Square value of 0.628, indicating that approximately 63% of the variance in poverty reduction (Pov_Red) is explained by the four

predictors: micro-credit, micro-savings, training, and financial inclusion. The Durbin-Watson statistic is 1.815, suggesting no significant autocorrelation.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.792 ^a	.628	.618	1.885	1.815

a. Predictors: (Constant), Fin_Inc, TAS, Micro_Credit, Micro_Savings

b. Dependent Variable: Pov_Red

ANOVA

The regression model as shown in Table 7 is statistically significant ($F = 65.309$, $\text{Sig.} = .000$), demonstrating that the independent variables together have a significant impact on poverty reduction ($p < 0.05$).

Table 7: ANOVA^a

Sum of Squares	df	Mean Square	F	Sig.
928.617	4	232.154	65.309	.000 ^b
550.976	155	3.555		
1479.594	159			

a. Dependent Variable: Pov_Red

b. Predictors: (Constant), Fin_Inc, TAS, Micro_Credit, Micro_Savings

Significance Testing

The regression coefficients indicate the effect size and statistical significance of each predictor:

Micro-Credit: This variable has a coefficient of 0.449 ($p < 0.001$), with a high t-value (9.012), confirming a strong, positive relationship with poverty reduction. Micro-credit is a significant predictor, suggesting that access to small loans enhances the financial stability of respondents and helps them invest in business activities which is consistent with previous findings of Banerjee et al., 2015 and Karlan et al, 2014 respectively.

Micro-Savings: The coefficient for micro-savings is 0.236 ($p < 0.001$), with a t-value of 5.395, also indicating a significant and positive effect on poverty reduction. This result aligns with prior research showing that micro-savings provide a financial buffer and enable better economic planning (Karlan et al., 2014).

Training and Advisory Services (TAS): With a coefficient of 0.183 ($p = 0.002$), TAS has a significant positive impact on poverty reduction. This finding underscores the importance of training in empowering individuals with business and financial skills, which is key to sustaining income-generating activities (Dupas & Robinson, 2013).

Overall, all four variables—micro-credit, micro-savings, training, and financial inclusion—are significant predictors of poverty reduction, highlighting the comprehensive role of financial services and skills training in improving the economic resilience and quality of life for low-income individuals.

The study aimed to examine the effects of micro-credit, micro-savings, training, and financial inclusion on poverty reduction among SMEs in Abuja, FCT. The regression results indicate that all four variables have significant and positive impacts on poverty reduction. This aligns with the study's objectives to explore how each component—micro-credit, micro-savings, training, and financial inclusion—contributes uniquely to income growth, financial security, and economic access for low-income individuals and small businesses.

The statistical significance of these variables ($p < 0.05$ for each) underscores their combined role in improving financial resilience and reducing poverty. Specifically, micro-credit and micro-savings showed the strongest correlations with poverty alleviation, suggesting that access to financing and the ability to save are crucial for income generation and managing economic shocks. These findings support the broader literature, which emphasizes the need for accessible financial services and training to foster economic empowerment (Demirgüç-Kunt et al., 2018; Banerjee et al., 2015).

Analysis of Independent Variables

Micro-credit

The strong positive impact of micro-credit on poverty reduction, with a coefficient of 0.449, indicates that access to credit is critical for income generation and business growth among SMEs. By providing low-income entrepreneurs with the capital needed to invest in business activities, micro-credit helps foster economic stability and growth. This finding is consistent with previous studies, which show that micro-credit helps increase financial independence and reduces vulnerability to poverty (Banerjee, Karlan, & Zinman, 2015). The positive association also highlights how credit access empowers individuals to make productive investments that improve their quality of life.

Micro-Savings

Micro-savings show a significant positive relationship with poverty reduction, as indicated by a coefficient of 0.236. The capacity to save provides a safety net that enables individuals and businesses to manage unexpected expenses and invest in growth opportunities. Research underscores that micro-savings contribute to financial security and resilience, especially for those in low-income communities, by helping individuals manage cash flow and avoid reliance on high-interest loans during financial crises (Karlan, Ratan, & Zinman, 2014). This result demonstrates that even small savings accounts can create financial stability over time, which is vital for poverty alleviation.

Training and Advisory Services

The impact of training, with a coefficient of 0.183, highlights the role of skill-building in poverty reduction. Training programs provide essential skills in financial management, entrepreneurship, and business operations, enabling individuals to maximize the benefits of micro-credit and micro-savings. Training improves participants' capabilities to run profitable businesses, increase productivity, and navigate economic challenges (Dupas & Robinson, 2013). This result aligns with studies that show how financial literacy and business training are instrumental in ensuring that individuals use financial resources effectively and sustain income-generating activities (Cull, Ehrbeck, & Holle, 2014).

Comparison with Literature

The results align well with existing literature on financial inclusion and poverty alleviation. Studies by Demirgüç-Kunt et al. (2018) and Banerjee et al. (2015) support the positive role of micro-credit and micro-savings in empowering low-income individuals through access to financial resources that facilitate income generation and economic growth. Similar findings by Karlan, Ratan, and Zinman (2014) emphasize the importance of micro-savings for creating financial security and preventing poverty traps. Moreover, Dupas and Robinson (2013) highlight the essential role of training in maximizing the impact of financial services, aligning with the positive effects of training on poverty reduction observed in this study. This study's results add to the growing body of evidence suggesting that financial inclusion is a powerful tool for poverty reduction, particularly when complemented by micro-credit, micro-savings, and capacity-building initiatives. The findings emphasize the interconnectedness of these variables in fostering economic empowerment and resilience, particularly in developing economies like Nigeria, where financial exclusion is prevalent. By situating the study within broader research, it is evident that access to a diverse array of financial services and training can significantly enhance poverty reduction efforts and support sustainable development goals.

5.0 Conclusion and Recommendations

Conclusion

This study demonstrates that microfinance initiatives, specifically micro-credit, micro-savings, training, and broader financial inclusion, positively impact poverty reduction among SMEs in Abuja, FCT. The findings underscore that micro-credit enhances income generation and business growth, micro-savings build financial resilience, training provides essential skills for effective financial management, and financial inclusion expands economic access. Together, these components form a holistic approach to poverty alleviation by providing both capital and the necessary support for sustainable economic activities (Demirgüç-Kunt et al., 2018; Karlan et al., 2014). These insights support the argument that access to financial services and skill-building opportunities can empower individuals and reduce poverty sustainably.

Policy Recommendations:

- i. Micro-credit programs should be enhanced by government institutions as it is crucial for small and rural businesses and would benefit from partnerships between governments and financial institutions to reduce interest rates and offer flexible repayment schedules tailored to seasonal income variations .
- ii. Government should promote micro-savings schemes through incentives and financial literacy programs to encourage a savings culture among low-income individuals, providing them with financial buffers against economic shocks and supporting overall poverty reduction efforts..
- iii. Government should create and promote Training and Advisory Services as a deliberate policy to enhance capacity building of microfinance institutions with a view to reducing poverty in Abuja , FCT.

Implications for Practice

These findings provide valuable insights for policymakers, microfinance institutions, and local governments. Policymakers should prioritize financial inclusion by creating frameworks that support the growth and sustainability of microfinance services. Microfinance institutions can leverage these results to improve service delivery, focusing on tailoring financial products to meet the unique needs of low-income clients. Local governments can use these insights to implement targeted poverty reduction programs, particularly in areas with limited access to traditional banking services, ensuring that economic growth is inclusive and reaches marginalized communities.

6. Limitations and Suggestions for Further Research

Limitations

This study faced several limitations. First, the sample size of 160 valid respondents, while informative, may limit the generalizability of the findings to the broader population of SMEs in Abuja and beyond. Additionally, data collection relied solely on self-reported responses via questionnaires, which can introduce response bias. Furthermore, the cross-sectional design of the study provides a snapshot view and does not capture changes in poverty levels over time. These constraints suggest that while the findings are valuable, they may not fully capture the dynamic and long-term impact of microfinance services on poverty reduction.

Suggestions for Future Research

Future research could address the limitations of this study by using a longitudinal approach to observe how micro-credit, micro-savings, training, and financial inclusion affect poverty levels over time, providing insights into the sustainability of these impacts. Employing a mixed-methods design that includes both quantitative data and qualitative insights from interviews or focus groups could also offer a more comprehensive understanding of the mechanisms by which

microfinance influences poverty alleviation. Additionally, examining these services' effects across various regions, sectors, or demographic groups, both within Nigeria and in other developing nations, would further enrich the existing literature on financial inclusion and poverty reduction (Demirgüç-Kunt et al., 2018; Dupas & Robinson, 2013).

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