Impact of a rural microcredit scheme on female empowerment and household vulnerability in Nigeria

Background

While 60% of the population lives in absolute poverty, women are considered one of the most vulnerable groups in Nigeria, where social norms and traditions prescribe their subservience to men.

In 2011, the Central Bank set aside funds to be lent to SMEs, through microfinance banks, with the specific aim of reducing the population of women excluded from the financial system by 2020.

Research question and objectives

Despite their popularity in practice, the effectiveness of microcredit interventions is now questioned in related literature, due to inconclusive and limited evidence regarding any impact.

This study aims to evaluate the impact of a microcredit scheme, specifically designed to reach women in rural areas of Nigeria, on the household vulnerability and the empowerment of the female beneficiaries.

Key findings

Impact on empowerment

Improvements in several measured outcome dimensions clearly demonstrate the positive impact of microcredit on the empowerment of beneficiaries, through increases in:

- household decision-making (bargaining power)
- networking and community activities (social capital)
- perception of self-confidence
- financial inclusion (use of financial services)

Impact on household vulnerability

The results also show that the households of the beneficiaries are found to be less vulnerable, through a significant decrease in:

- food shortage in the household
- frequency of child labour

But these latter results are not conclusive, as no significant difference was detected in the other three dimensions of vulnerability.

The microcredit scheme also generated significant positive indirect effects on the household members of the beneficiaries through increases in:

- per capita income, expenditure, and savings
- the share of labour income as part of the total
- household income
- number of adults working and
- number of hours worked per week

The analysis also shows association between the key outcomes (empowerment and vulnerability) and particular aspects of the microcredit scheme design, including pricing, repayment method, loan duration, and the use of the loan.

E.g. higher empowerment is associated with visits from bank staff to collect repayment in small amounts.

Policy implications

Based on their findings, the researchers make the two following recommendations for policy decisions:

1. Design of microcredit interventions for the rural poor need to take into account the multiple dimensions of poverty and vulnerability.
   - Any policy that leads to improvement in one dimension will not necessarily lead to improvement in the other dimensions.
   - For example, the difference between policies for short-term and long-term improvement will need to affect change on different dimensions.

2. The contract negotiation between clients and microcredit providers needs to consider how design factors (pricing, repayment method, loan duration, etc.) and potential use of the loan can influence the success of the scheme.
   - In particular, the research team recommends that supply side interventions (such as training programs on the use of the loan) should accompany the microcredit.
   - Microcredit spent on income-generating activities will yield different effects than microcredit spent largely on non-income generating or social activities.