

Chapter 7

The Role of Microfinance in Africa: A Review of Outcomes From Ghana and Nigeria

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ABSTRACT

This chapter examines the role of microfinance in developing countries, particularly Ghana and Nigeria. The chapter begins with an overview of the link between microfinance, poverty, and women empowerment in the chapter introduction. The background to the chapter sets out the main difference between microfinance and microcredit. The role of microfinance in contemporary development finance is then discussed. In this context, existing literature on the role of microfinance in reducing poverty, women empowerment, and microenterprise growth is extensively reviewed. Key solutions and recommendations are then presented next, followed by future research direction and the chapter conclusion.

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INTRODUCTION

Microfinance is intricately linked to poverty reduction in developing countries (Bakhtiari, 2011; Imai, et al., 2010; Nawaz, 2010; Chowdhury, 2009). For example, Kristof (2009) argue that microfinance is the most visible innovative policy for poverty reduction and financial inclusion in developing countries. Similarly, Bakhtiari (2011) has shown that access to microfinance can help low-income earners build their assets and improve their income earning capacity leading to an improvement in their quality of life. Likewise, using a cross country data in Bangladesh, Imai, et al. (2012) found that the provision of microfinance does not merely reduce the occurrence of poverty but also the intensity and severity of it. This view is consistent with Khandker and Samad (2013) who also discovered that the provision of microfinance could perhaps help users earn more income, thus helping them out of the cycle of poverty. Furthermore, microfinance has been reported to have alleviated poverty of women, considered marginalised in some societies in both developed and developing countries (Islam, 2012). However, according to Ebomuche, et al. (2014) the role of microfinance on poverty reduction is still unclear. In this context, Van Rooyen, et al. (2012) have found that microfinance has both positive and negative impact on poverty alleviation as their findings suggest that microfinance increases both capital and loan stocks of beneficiaries. Similarly, Bateman (2012) established that microfinance has rather left several rural communities with more debts, making them more impoverished than before. In fact, the author argues that even prominent advocates of microfinance now accept that microfinance has failed to impact poverty positively. The analysis and evaluation of the above studies suggest the role of microfinance on poverty alleviation is inconclusive and therefore requires rigorous evaluation to determine the exact impact of microfinance on poverty reduction.

The role of microfinance in women empowerment has also been reported by several studies (Islam, 2012; Rehman, et al., 2015; Sarumathi and Mohan, 2011). For instance, Sanyal (2009) suggests that microfinance plays a pivotal role in fostering women's social capital and influence in society. Similarly, Aruna and Jyothirmayi (2011) have shown that microfinance has a significant impact on the economic and social status of women. This is because microfinance creates employment opportunities for unemployed women thus increasing the level of their income and productive capacity. On the contrary, Khan and Noreen (2012) argue that microfinance has a positive impact on women empowerment only if the support provided by the microfinance institution is utilised by the beneficiary women and complemented by the provision of education. The implication of this is that microfinance can only empower women if it is provided together with training and the opportunity to use the support for productive purposes. This view is supported by Taimur and Hamid (2013) who also argue that the provision of microfinance in conjunction with education fosters women empowerment by improving the economic conditions and wellbeing of women. However, Kabeer (2005) argue that although microfinance has been found to have a positive impact on the economic productivity and wellbeing of women, it does not foster women empowerment automatically. The question then is how can the positive outcomes of microfinance such as improved social wellbeing and economic productivity be translated into women empowerment? Evidence of a positive relationship between microfinance and economic development in developing countries has also been reported by various studies (Sultan and Masih, 2016; Donou-Adonsou and Sylwester, 2017). The objective of this chapter therefore is to determine the role that microfinance play in reducing poverty, empowering women and fostering microbusiness and economic growth in Africa particularly Ghana and Nigeria.

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