

**MICROFINANCE AND POVERTY REDUCTION IN NIGERIA:
EVIDENCE FROM LOKOJA, KOGI STATE**

Godwin Enesi Alex¹, Ekundayo Mathew Rotimi² & Babatunde Olamide Olaoluwa^{3*}

^{1,2,3}Department of Economics, Federal University, Lokoja, Nigeria

*babatundeolamide584@gmail.com

ABSTRACT: This study investigates the impact of microfinance on poverty reduction in Lokoja, Kogi State, Nigeria, focusing on how microfinance services influence income generation and job creation among beneficiaries. Data were collected from 370 microfinance clients using structured questionnaires and analyzed through descriptive statistics, correlation, and regression analysis. The results indicate that microfinance services significantly enhance poverty reduction primarily through income generation, while job creation was not statistically significant. The findings highlight that access to loans, savings, and financial training improves beneficiaries' financial autonomy and household welfare. Challenges such as high interest rates, rigid repayment terms, and limited financial literacy constrain the effectiveness of microfinance. Based on these results, the study recommends strengthening financial literacy programs and improving loan accessibility to maximize the poverty-alleviation potential of microfinance services.

Keywords: Microfinance, Poverty reduction, Income generation, Job creation, Lokoja

INTRODUCTION

Microfinance has become a central policy instrument in global efforts to reduce poverty, particularly in developing economies such as Nigeria, where access to formal financial services remains limited for a large proportion of the population (Aiyedun, 2024). By providing small-scale financial services, including microcredit, savings, insurance, and financial training, to individuals excluded from conventional banking systems, microfinance aims to enable low-income earners to engage in productive economic activities, manage financial risks, and improve their socio-economic well-being (Chikwira, Vengesai, & Mandude, 2022).

Despite its widespread adoption, the empirical effectiveness of microfinance as a poverty reduction tool remains contested. While numerous studies report positive outcomes, others suggest that the impact of microfinance varies depending on the specific transmission mechanisms through which it operates (Ngong, Thaddeus, & Onwumere, 2022). In particular, there is limited consensus on whether poverty reduction occurs primarily through income generation, job creation, or a combination of both. Some studies emphasize income growth from self-employment and microenterprise expansion as the dominant pathway (Mohammed & Jallah, 2025), while others argue that employment creation is essential for broader and more sustainable poverty alleviation (Edem & Ozigbo, 2024). This lack of clarity represents an important empirical gap, especially in semi-urban contexts where microenterprises dominate economic activity.

Microfinance institutions (MFIs) play a critical role in promoting financial inclusion, especially among women, small-scale entrepreneurs, and informal sector operators who face stringent collateral requirements, complex lending procedures, and limited financial literacy within the formal banking system (Khan et al., 2021; Nwanna & Okeke, 2022). By offering relatively flexible financial products and repayment terms, MFIs seek to support micro and small enterprise development, enhance income generation, and promote economic stability (Obadire, 2022). In addition to credit provision, many MFIs offer financial literacy and basic business management training, which are expected to improve loan utilization and enterprise performance. However, persistent challenges, such as high interest rates, inadequate loan sizes, rigid repayment terms, and weak non-financial support, continue to raise questions about the depth and sustainability of microfinance-induced poverty reduction (Mokuolu, 2018).

In Nigeria, microfinance has been promoted as a key strategy for poverty alleviation and financial inclusion through policies implemented by the Central Bank of Nigeria (CBN) aimed at expanding access to credit for low-income earners, farmers, and small-scale entrepreneurs (Mokuolu, 2018). Nevertheless, poverty remains widespread, particularly in semi-urban and informal economies, suggesting that access to microfinance alone may be insufficient without effective income and employment outcomes (Nwanna & Okeke, 2022).

Lokoja, the capital of Kogi State, provides a relevant context for examining these issues. The city hosts a growing microfinance sector and a diverse range of micro and small enterprises, petty trading activities, and informal businesses that rely heavily on microfinance services for startup and working capital (Kabir, 2018; Onuka, 2021). Yet, despite the increasing availability of microfinance services, many residents continue to experience income insecurity and financial vulnerability. This raises a critical empirical question: to what extent do microfinance services in Lokoja reduce poverty through income generation and job creation, and which of these mechanisms is more effective?

Accordingly, the objective of this study is to empirically examine the impact of microfinance on poverty reduction in Lokoja, Kogi State, with specific emphasis on the relative roles of microfinance services, income generation, and job creation. Using cross-sectional survey data and econometric analysis, the study assesses whether poverty reduction among microfinance beneficiaries is driven primarily by increased income, employment creation, or broader access to financial services. By addressing this question, the study contributes localized empirical evidence to ongoing debates on the effectiveness of microfinance mechanisms and provides policy-relevant insights for enhancing poverty alleviation strategies in Nigeria. The remainder of the paper is structured as follows: literature review, methodology, results and discussion, conclusion, and recommendations.

REVIEW OF LITERATURE

Theoretical Framework

This study is anchored on the Poverty Alleviation Theory, developed by championed by Sen (1999) and further supported by Yunus (2006) and Sachs (2005). The theory emphasizes the role of

financial resources and economic empowerment in reducing poverty. Yunus, the founder of the Grameen Bank and a pioneer of microfinance, argued that providing small-scale financial services to low-income individuals enables them to engage in productive activities, generate income, and break the cycle of poverty. The theory suggests that access to credit, savings, and other financial services empowers disadvantaged individuals to improve their livelihoods, leading to long-term economic stability.

Microfinance aligns with this theory as it provides financial support to small-scale entrepreneurs, particularly in developing countries such as Nigeria, where access to traditional banking services is limited. Through microfinance institutions, individuals can obtain small loans to start or expand businesses, enhance household incomes, and invest in education and healthcare, thereby fostering economic growth and social development (Chikwira, Vengesai, & Mandude, 2022). However, while microfinance has the potential to alleviate poverty, challenges such as high-interest rates, loan defaults, and financial illiteracy often limit its effectiveness (Ngong, Thaddeus, & Onwumere, 2022). This study will evaluate how well microfinance institutions in Lokoja, Kogi State, align with the Poverty Alleviation Theory by assessing their role in improving income levels, employment opportunities, and overall economic well-being.

Empirical Literature

Microfinance, Income Generation, and Poverty Reduction

A substantial body of empirical literature suggests that microfinance contributes to poverty reduction primarily through income generation and improved financial capacity. Mohammed and Jallah (2025) found that financial inclusion, microcredit, and micro-savings significantly reduced poverty among SME owners in Abuja, emphasizing income growth as a key transmission mechanism. Similarly, Adebisi, Ajala, and Zannu (2024), using time-series data for Nigeria, reported that microcredit and lower interest rates were associated with reductions in poverty levels, reinforcing the importance of income-enhancing financial access. Hussaini (2023) also observed that microfinance loans positively influenced income levels when utilized for business expansion, although high interest rates constrained long-term benefits.

At the enterprise level, several studies document positive income and performance effects of microfinance services. Odumusor and Idor (2025) found that access to credit and savings mobilization significantly improved small-scale enterprise performance in Delta State, while Kayode et al. (2024) reported that microfinance bank services enhanced MSMEs' sales growth in South-West Nigeria. Eke, Ozabor, and Iriogbe (2024) further confirmed that microcredit, savings mobilization, and payment services significantly supported SME growth in Edo State. Evidence from outside Nigeria also supports these findings; Dharmawansa and Madhuwanthi (2023) showed that micro-savings, insurance, and training significantly enhanced SME growth in Sri Lanka, although microcredit alone was not sufficient, suggesting that complementary services matter for sustained income generation.

Despite these positive outcomes, some studies highlight mixed or conditional effects. Aiyedun (2024) found that while microfinance loans provided financial relief and enabled investment in

education, they also imposed repayment burdens that could offset income gains. These findings indicate that income effects are sensitive to loan conditions, interest rates, and borrowers' financial literacy.

Microfinance and Job Creation Effects

The evidence on microfinance-induced job creation is more mixed. Edem and Ozigbo (2024) demonstrated that group lending and women-targeted microfinance programs significantly influenced both income generation and job creation in Abuja, suggesting that institutional design plays a critical role in employment outcomes. Zannah et al. (2024) similarly reported that microfinance banks contributed positively to entrepreneurial productivity and self-employment in Yobe State, with implications for job creation and poverty reduction.

However, other studies report weaker employment effects. Lawal, Olorunlambe, and Adebayo (2023) found that microfinance banks in Ilorin West had an insignificant impact on SME establishment and expansion, limiting their contribution to employment generation. Ayobami et al. (2023) also observed that microfinance banks did not significantly influence SME growth in Osogbo, despite meeting standard lending criteria. These findings suggest that while microfinance may support self-employment, its capacity to generate broader employment opportunities remains limited, particularly where loan sizes are small and repayment terms are restrictive.

Institutional and Operational Constraints in Microfinance Delivery

A growing strand of literature emphasizes that institutional and operational constraints shape the effectiveness of microfinance interventions. Oyasor (2024) identified strict qualification requirements, high interest rates, and low financial literacy as key barriers limiting the growth and sustainability of SMEs in Kwara State. Sunday, Abdullahi, and Idris (2024) similarly highlighted staffing limitations, loan repayment challenges, and weak institutional capacity as major constraints facing microfinance banks in Abuja.

Beyond Nigeria, Kakama et al. (2025) documented comparable challenges among small-scale fisheries in Africa, including lack of collateral, limited financial literacy, and geographical barriers to accessing financial institutions. These constraints underscore the importance of non-financial services, such as training, advisory support, and digital financial inclusion, in enhancing the developmental impact of microfinance.

While short-run evidence largely supports the poverty-reducing potential of microfinance, some studies raise concerns about its long-term effectiveness. Chikwira, Vengesai, and Mandude (2022), using a VECM approach, found that microfinance increased poverty in the long run due to inefficient fund utilization, even though SMEs and agricultural growth reduced poverty over time. This finding contrasts with the predominantly positive short-term evidence and highlights the risk of misallocation and weak monitoring mechanisms.

Existing studies converge on the view that microfinance can contribute to poverty reduction, particularly through income generation and self-employment. However, divergence remains

regarding the magnitude and sustainability of job creation effects, as well as the role of institutional design and loan conditions. These unresolved issues are especially pronounced in semi-urban contexts, where informal enterprises dominate economic activity.

Gap in Literature

Although a substantial body of literature has examined the relationship between microfinance and poverty reduction in Nigeria, important analytical gaps remain unresolved. Existing studies generally agree that microfinance has the potential to improve economic outcomes for low-income populations; however, there is limited consensus on the specific mechanisms through which microfinance reduces poverty. In particular, the relative effectiveness of income generation versus job creation as pathways for poverty alleviation remains empirically unclear.

Several studies emphasize income growth as the primary channel through which microfinance influences poverty reduction (Mohammed & Jallah, 2025; Adebisi et al., 2024), while others highlight employment creation and enterprise expansion as critical outcomes (Edem & Ozigbo, 2024; Zannah et al., 2024). Conversely, some evidence suggests that microfinance interventions may yield weak or even adverse long-term effects when loans are inefficiently utilized or constrained by institutional weaknesses (Chikwira et al., 2022). These mixed findings point to an unresolved analytical debate regarding which dimensions of microfinance interventions most effectively translate into sustained poverty reduction.

Moreover, much of the existing literature either examines microfinance services in aggregate or focuses on broad national or urban samples, with limited disaggregation of microfinance outcomes into distinct economic mechanisms. As a result, there is insufficient empirical evidence that directly compares the poverty reduction effects of microfinance-induced income generation and job creation within a single analytical framework. This limitation restricts the ability of policymakers and practitioners to design targeted interventions that maximize the developmental impact of microfinance programs.

Against this backdrop, the present study addresses this analytical gap by empirically examining the impact of microfinance on poverty reduction through income generation and job creation, using cross-sectional survey data from Lokoja, Kogi State. By explicitly testing the relative contribution of these mechanisms, the study contributes to ongoing theoretical and policy debates on the effectiveness of microfinance as a poverty alleviation strategy, while providing context-specific evidence from a semi-urban Nigerian economy.

METHODOLOGY

This study adopts a cross-sectional survey research design to examine the impact of microfinance on poverty reduction in Lokoja, Kogi State. Lokoja was selected due to its strategic commercial importance, arising from its location at the confluence of the Niger and Benue rivers and its role as a hub for trade, informal enterprises, and small-scale economic activities. These characteristics make the city particularly suitable for analyzing microfinance outcomes in a semi-urban Nigerian context.

Population, Sample Size, and Sampling Technique

The study population comprises microfinance beneficiaries in Lokoja, including small business owners, traders, artisans, and other low-income earners who have accessed services from registered microfinance institutions. Based on records obtained from local MFIs and the Kogi State branch of the National Association of Microfinance Banks (NAMB), the estimated beneficiary population was approximately 5,000 as of 2023. The Taro Yamane (1967) formula was applied to determine the sample size at a 5 percent margin of error:

$$n = \frac{N}{1 + Ne^2}$$
$$n = \frac{5000}{1 + 5000(0.05)^2} \approx 370$$

Accordingly, a sample size of 370 respondents was adopted. A simple random sampling technique was employed to ensure equal selection probability and to minimize sampling bias.

Data Collection and Measurement of Variables

Primary data were collected using structured questionnaires administered through Google Forms, which facilitated efficient distribution, response tracking, and data management. The questionnaire captured information on microfinance services, income generation, job creation, and poverty-related outcomes.

Poverty reduction was measured using self-reported Likert-scale indicators reflecting changes in respondents' economic well-being, including perceived improvements in income adequacy, ability to meet basic needs, financial stability, and overall living conditions. The use of self-reported poverty indicators is consistent with microfinance and development studies where objective income or consumption data are difficult to obtain, particularly among informal-sector participants. While such measures may be subject to perception bias, they provide valuable insights into beneficiaries lived experiences and perceived welfare outcomes, which are central to assessing microfinance effectiveness at the household level.

All Likert-scale items were coded from 5 (Strongly Agree) to 1 (Strongly Disagree), while binary responses were coded as Yes (1) and No (0).

Conceptualization of Variables and Theoretical Linkage

Guided by poverty alleviation theory and the capability approach, this study conceptualizes microfinance services as the primary intervention that enhances individuals' productive capacity and economic opportunities. Income generation and job creation are treated not merely as independent correlates, but as key mechanisms through which microfinance influences poverty reduction. Specifically, access to microfinance services is expected to facilitate enterprise expansion, increase income flows, and support self-employment or employment creation, which in turn improve household welfare and reduce poverty.

Accordingly, poverty reduction (PR) is modeled as a function of microfinance services (MS) and the economic outcomes they generate, namely income generation (IG) and job creation (JC). This specification allows for an empirical assessment of the relative contribution of these mechanisms to poverty reduction, thereby addressing the unresolved analytical debate identified in the literature.

Model Specification and Data Analysis

Data analysis was conducted using descriptive statistics, correlation analysis, and multiple regression techniques. The functional and econometric models are specified as follows:

$$\text{Functional Model: } PR = f(MS, IG, JC) \quad 1$$

$$\text{Econometric Model: } PR_t = \alpha_0 + \beta_1 MS_t + \beta_2 IG_t + \beta_3 JC_t + \mu_t \quad 2$$

Where PR represents poverty reduction; MS denotes microfinance services (including loans, savings, and financial inclusion); IG refers to income generation; JC represents job creation; α_0 is the intercept; β_1 – β_3 are the estimated coefficients; and μ_t is the stochastic error term.

Ethical Considerations

The study adhered to ethical research standards by ensuring voluntary participation, respondent anonymity, confidentiality of responses, and the use of collected data strictly for academic purposes.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Socio-economic Characteristics of Respondents

| Variable | Category | Frequency | Percentage (%) |
|----------------------------------|---------------------|-----------|----------------|
| Gender | Male | 140 | 37.8 |
| | Female | 230 | 62.2 |
| Age Group | 18–25 years | 199 | 53.8 |
| | 26–35 years | 116 | 31.4 |
| | 36 years and above | 55 | 14.8 |
| Marital Status | Single | 273 | 73.8 |
| | Married | 46 | 12.4 |
| | Divorced | 51 | 13.8 |
| Educational Qualification | No formal education | 58 | 15.7 |
| | Primary education | 20 | 5.4 |
| | Secondary education | 29 | 7.8 |
| | Tertiary education | 263 | 71.1 |

| Variable | Category | Frequency | Percentage (%) |
|---------------------------|--------------------|-----------|----------------|
| Occupation | Students | 156 | 42.2 |
| | Self-employed | 83 | 22.4 |
| | Employed | 73 | 19.7 |
| | Salaried employees | 58 | 15.7 |
| Monthly Income (₦) | Below 20,000 | 122 | 33.0 |
| | 20,000–50,000 | 74 | 20.0 |
| | 50,001–100,000 | 121 | 32.7 |
| | Above 100,000 | 53 | 14.3 |

Source: Researcher's computation using SPSS, 2026

Table 1 shows that females (62.2%) constitute the majority of respondents, reflecting the strong participation of women in microfinance programs. Most respondents are young, with 85.2% aged under 35 years, and predominantly single (73.8%), indicating that microfinance services in Lokoja primarily attract young, economically active individuals. The high proportion of respondents with tertiary education (71.1%) suggests a relatively educated beneficiary base. Students and self-employed individuals form the dominant occupational groups, while income distribution indicates that most respondents fall within the low- to middle-income bracket, underscoring the relevance of microfinance in supporting financially vulnerable populations.

Microfinance Services Usage

Table 2: Microfinance Services Usage of the Respondents

| Items | Options | Freq. | (%) |
|--|------------------------------|------------|--------------|
| Have you accessed microfinance services before? | No | 73 | 19.7 |
| | Yes | 297 | 80.3 |
| | Total | 370 | 100.0 |
| How long have you been using microfinance services? | 1 – 3 years | 96 | 25.9 |
| | 4 – 6 years | 65 | 17.6 |
| | Less than 1 year | 191 | 51.6 |
| | More than 6 years | 18 | 4.9 |
| | Total | 370 | 100.0 |
| What type of microfinance services have you accessed? | Business advisory services | 50 | 13.5 |
| | Financial training | 78 | 21.1 |
| | Loans Savings | 158 | 42.7 |
| | Non | 25 | 6.8 |
| | Savings | 30 | 8.1 |
| | Savings and deposit services | 29 | 7.8 |
| | Total | 370 | 100.0 |

| | | | |
|--|--------------------------|--------------|--------------|
| How frequently do you utilize microfinance services? | Frequently | 56 | 15.1 |
| | Occasionally | 149 | 40.3 |
| | Rarely | 114 | 30.8 |
| | Very often | 51 | 13.8 |
| | Total | 370 | 100.0 |
| Items | Options | Freq. | (%) |
| What is the main reason for using microfinance services? | Business expansion | 75 | 20.3 |
| | Business startup | 100 | 27.0 |
| | Personal financial needs | 170 | 45.9 |
| | Nil | 25 | 6.8 |
| | Total | 370 | 100.0 |

Source: Researcher's computation using SPSS, 2026

Table 2 shows that 80.3% of respondents have accessed microfinance services, indicating substantial penetration of MFIs in Lokoja, while 19.7% reported no access. A majority of users (51.6%) have utilized microfinance services for less than one year, suggesting a recent increase in participation, whereas only 4.9% have engaged with MFIs for more than six years.

Loans and savings dominate service usage, accounting for 42.7% of responses, followed by financial training (21.1%) and business advisory services (13.5%). Despite high access, utilization remains moderate, as 40.3% of respondents use microfinance services occasionally and 30.8% rarely, compared to 28.9% who reported frequent or very frequent usage.

Regarding motivation, 45.9% of respondents accessed microfinance primarily for personal financial needs, while 27.0% and 20.3% used the services for business startup and expansion, respectively. These statistics suggest that microfinance in Lokoja plays a dual role by addressing immediate financial needs while also supporting entrepreneurial activities.

Table 3: Responses on the Impact of Microfinance on Poverty Reduction

| Questions | Mean | Std. Dev |
|---|------|----------|
| Microfinance services have improved my standard of living. | 3.35 | 1.100 |
| Access to microfinance has helped me afford basic necessities such as food, healthcare, and education | 3.77 | .880 |
| Microfinance loans have enabled me to start or expand my business, leading to increased income. | 3.53 | 1.232 |
| Microfinance programs have reduced my financial dependency on other individuals. | 3.56 | .970 |
| My participation in microfinance programs has enhanced my ability to manage financial risks and unexpected expenses | 3.55 | 1.273 |

Source: Researcher's computation using SPSS, 2026

Table 3 indicates a moderate positive impact of microfinance on poverty-related outcomes among respondents. Improvement in standard of living recorded a mean score of 3.35 (SD = 1.10),

suggesting overall agreement, though with notable variation in individual experiences. The strongest impact was observed in access to basic necessities, which recorded the highest mean score of 3.77 (SD = 0.88), indicating that microfinance has been particularly effective in supporting essential household needs.

Microfinance-enabled business startup or expansion recorded a mean of 3.53 (SD = 1.23), reflecting generally positive income effects, albeit with greater dispersion across respondents. Similarly, reduced financial dependency (mean = 3.56; SD = 0.97) suggests increased economic independence among beneficiaries. The ability to manage financial risks also showed a positive mean score of 3.55, though with a relatively high standard deviation (SD = 1.27), indicating uneven outcomes likely influenced by differences in loan size, financial literacy, and utilization patterns.

Table 4: Access and Effectiveness of Microfinance Services

| Questions | Mean | Std. Dev. |
|--|------|-----------|
| I have easy access to microfinance services in my locality | 3.58 | 1.290 |
| The loan application and approval process in microfinance institutions are simple and flexible | 3.17 | 1.288 |
| Microfinance institutions offer loan amounts that meet my financial needs | 2.89 | 1.419 |
| The repayment terms of microfinance loans are affordable and manageable | 2.83 | 1.042 |
| I receive adequate financial training or business support from microfinance institutions | 2.98 | 1.037 |
| The interest rates charged by the microfinance institutions I have access to are fair and reasonable | 2.95 | 1.240 |

Source: Researcher's computation using SPSS, 2026

Table 4 shows that respondents generally perceive access to microfinance services as relatively easy, with a mean score of 3.58 (SD = 1.29), suggesting that physical or geographical access is not a major constraint. However, perceptions of operational effectiveness are more moderate. The simplicity and flexibility of loan application procedures recorded a mean of 3.17 (SD = 1.29), indicating mixed experiences among beneficiaries. Respondents expressed dissatisfaction with the adequacy of loan amounts (mean = 2.89; SD = 1.42) and repayment terms (mean = 2.83; SD = 1.04), implying that loans may be insufficient and repayment conditions challenging. Similarly, financial training and business support (mean = 2.98; SD = 1.04) and the fairness of interest rates (mean = 2.95; SD = 1.24) were rated below the neutral benchmark, reflecting concerns about the cost of borrowing and limited non-financial support. Overall, the findings suggest that while access to microfinance in Lokoja is relatively widespread, challenges related to loan adequacy, repayment conditions, and institutional support may constrain its effectiveness in reducing poverty.

Tables 5: Microfinance institutions and Income Generation

| | Mea n | Std. Dev. |
|---|----------|--------------|
| Microfinance loans have helped me start or expand my business | 3.32 | 1.186 |

| | | |
|--|------|-------|
| My income has increased since accessing microfinance services. | 3.19 | 1.270 |
| Microfinance support has enabled me to purchase necessary business tools and equipment | 3.16 | 1.170 |
| I am able to save a portion of my earnings due to financial support from microfinance institutions | 3.63 | 1.129 |
| My financial stability has improved due to access to microfinance services | 3.25 | 1.159 |
| Microfinance institutions provide financial education that helps me manage and grow my income. | 3.11 | 1.076 |

Source: Researcher's computation using SPSS, 2026

Table 5 indicates that respondents generally perceive microfinance as moderately supportive of income generation. Microfinance loans were reported to help start or expand businesses (mean = 3.32; SD = 1.19), while income growth since accessing services scored slightly lower (mean = 3.19; SD = 1.27), reflecting uneven impact across beneficiaries. The provision of business tools or equipment also showed mild agreement (mean = 3.16; SD = 1.17). Notably, respondents reported the highest benefit in their ability to save, with a mean of 3.63 (SD = 1.13), indicating improved financial resilience. Overall financial stability was moderately enhanced (mean = 3.25; SD = 1.16), while financial education support scored 3.11 (SD = 1.08), suggesting that microfinance contributes to income management but that literacy and training support could be strengthened to maximize long-term benefits.

Table 6: Microfinance institutions and Job Creation

| | Mean | Std. Dev. |
|--|------|-----------|
| Microfinance support has enabled me to employ additional workers in my business | 2.94 | .991 |
| The availability of microfinance services has contributed to job opportunities in my community | 3.39 | .968 |
| Microfinance loans have helped me to create self-employment for myself | 3.52 | 1.248 |
| My business has expanded enough to provide stable employment for others | 3.00 | 1.064 |
| Microfinance institutions offer training that enhances employment opportunities | 3.40 | 1.090 |
| Access to microfinance has reduced unemployment among small business owners in my area | 3.71 | 1.243 |

Source: Researcher's computation using SPSS, 2026

Table 6 reveals that respondents perceive moderate positive effects of microfinance on job creation in Lokoja. While support for employing additional workers scored the lowest (mean = 2.94; SD = 0.99), reflecting the small scale of most businesses, broader community-level impacts were stronger. Respondents agreed that microfinance contributes to local job opportunities (mean = 3.39; SD = 0.97) and self-employment (mean = 3.52; SD = 1.25), highlighting its role in empowering individuals economically. Business expansion sufficient to provide stable employment for others received a neutral mean (3.00; SD = 1.06), suggesting limited large-scale job creation. Non-financial support, such as training, was valued (mean = 3.40; SD = 1.09), while the highest score indicated a strong perception that access to microfinance has reduced unemployment among small

business owners (mean = 3.71; SD = 1.24). Overall, microfinance is seen as an effective tool for fostering self-employment and reducing informal unemployment, even if broader workforce expansion remains constrained by small business size.

Correlation Analysis

The correlation analysis explores the strength and direction of the relationships between poverty reduction (PR) and the three independent variables: microfinance services (MS), income generation (IG), and job creation (JC). All correlations are measured using Pearson’s correlation coefficient.

Table 7: Correlation Matrix Result

| | | PR | MS | IG | JC |
|-----------|---------------------|--------|--------|--------|-----|
| PR | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| MS | Pearson Correlation | .605** | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| IG | Pearson Correlation | .902** | .672** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | | |
| JC | Pearson Correlation | .752** | .623** | .893** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |
| | N | 370 | 370 | 370 | 370 |

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher’s computation using SPSS, 2026

The correlation analysis shows that all independent variables, microfinance services (MS), income generation (IG), and job creation (JC), are positively and significantly associated with poverty reduction (PR) among respondents in Lokoja. The relationship between poverty reduction and microfinance services is moderately strong ($r = 0.605$, $p < 0.01$), indicating that greater access to loans, savings, and financial inclusion is linked with improved living conditions. Income generation exhibits the strongest correlation with poverty reduction ($r = 0.902$, $p < 0.01$), highlighting the critical role of increased earnings from business expansion or self-employment in alleviating poverty. Job creation also shows a strong positive relationship ($r = 0.752$, $p < 0.01$), suggesting that microfinance-facilitated employment, whether through self-employment or hiring, substantially enhances financial stability and well-being. Overall, these results emphasize that microfinance’s effectiveness in reducing poverty in Lokoja operates largely through boosting income and employment opportunities.

Regression Analysis

This section presents the regression analysis results, which examine the relationship between microfinance services (MS), income generation (IG), and job creation (JC) with poverty reduction (PR) in Lokoja, Kogi State. The regression analysis provides insight into the strength and significance of these variables in influencing poverty reduction, presented in Table 8.

Table 8: Regression Estimation Result

| Variable | Coeff. | Std | T-stat | Prob. | VIF | Remark |
|--------------------|-------------------|-------|--------|-------|-------|------------------------|
| MS | 0.275 | 0.049 | 5.555 | 0.000 | 4.963 | <i>Significant</i> |
| IG | 0.968 | 0.043 | 22.265 | 0.000 | 5.538 | <i>Significant</i> |
| JC | 0.011 | 0.033 | .327 | 0.744 | 1.832 | <i>Not significant</i> |
| Adj R ² | 0.827 | | | | | |
| DW | 1.932 | | | | | |
| F-stat | 588.313 | | | | | |
| Prob. | .000 ^b | | | | | |

Source: Researcher's computation using SPSS, 2026

The regression results show that microfinance services (MS) have a significant positive impact on poverty reduction, with a coefficient of 0.275 and a p-value of 0.000. This indicates that for every unit increase in microfinance services, poverty reduction improves by 0.275 units. The finding aligns with Financial Inclusion Theory and prior studies (e.g., Mohammed & Jallah, 2025), emphasizing that access to loans, savings, and financial support directly enhances beneficiaries' living standards and reduces financial vulnerability.

Income generation (IG) exhibits a very strong and highly significant effect on poverty reduction, with a coefficient of 0.968 and a p-value of 0.000. This suggests that each 1-unit increase in income generation yields a 0.968-unit reduction in poverty. This result is consistent with Poverty Alleviation Theory and previous empirical findings, underscoring that microfinance-driven income growth, through business expansion or self-employment, is a key pathway to improved livelihoods and reduced poverty.

Job creation (JC), however, was not statistically significant, with a coefficient of 0.011 and a p-value of 0.744. While theory suggests that employment generation should reduce poverty, this finding indicates that in Lokoja, microfinance impacts poverty more directly through income enhancement rather than through the creation of new jobs. Several contextual factors may explain this outcome: Most beneficiaries operate micro or small businesses that are often family-run and labor-intensive rather than labor-extensive. These businesses may increase household income without necessarily hiring additional workers, limiting measurable job creation effects. Also, a significant proportion of enterprises in Lokoja operate in the informal sector, where labor practices are flexible and casual, making formal job creation difficult to capture statistically. Lastly, microfinance may enhance income quickly through working capital and productive investment, whereas job creation is often a slower process that depends on business expansion beyond subsistence levels.

These explanations suggest that while job creation remains theoretically important, its measurable impact in semi-urban and microenterprise contexts may be weaker than the immediate effect of increased income per household. This contrasts with studies in larger urban centers or more industrialized settings (e.g., Edem & Ozigbo, 2024), where microfinance interventions more directly generate employment opportunities.

The overall model demonstrates a strong fit, with an Adjusted R-squared of 0.827, indicating that approximately 82.7% of the variation in poverty reduction is explained by the combined effects of MS, IG, and JC. The F-statistic of 588.313 ($p = 0.000$) confirms that the model is statistically significant, and the Durbin-Watson value of 1.932 indicates no serious autocorrelation in the residuals. Multicollinearity was not a concern, as VIF values for MS (4.963), IG (5.538), and JC (1.832) were all below the threshold of 10, confirming that the independent variables are sufficiently independent.

The findings highlight that microfinance reduces poverty primarily by enhancing access to financial services and income generation, rather than through job creation in the local context. This underscores the need for policymakers and microfinance institutions to focus not only on expanding employment opportunities but also on strengthening mechanisms that directly increase household income and entrepreneurial productivity.

DISCUSSION OF FINDINGS

The findings indicate that microfinance services, particularly loans, savings, and financial inclusion initiatives, significantly enhance beneficiaries' economic well-being in Lokoja. Consistent with Financial Inclusion Theory, access to these services expands opportunities for income generation, consumption smoothing, and asset accumulation. In the semi-urban context of Lokoja, many micro-enterprises are small-scale, family-run, or informal, allowing loans and savings to directly increase household income without necessarily generating formal employment. This highlights that microfinance in Lokoja primarily operates through improving personal income and financial autonomy, rather than creating widespread jobs, reflecting the unique characteristics of local economic activities.

Income generation emerged as the strongest predictor of poverty reduction, underscoring its role as the primary mechanism through which microfinance alleviates economic hardship. This aligns with findings from Mohammed and Jallah (2025) and Zannah et al. (2024), while also reflecting Lokoja-specific factors: most beneficiaries apply microfinance funds directly to small-scale trading, artisanal work, or agricultural activities, producing immediate gains in household consumption and living standards. Conversely, job creation, although positively correlated with poverty reduction, was not statistically significant, contrasting with studies in larger urban centers (e.g., Edem & Ozigbo, 2024). This discrepancy likely stems from the informal nature of local enterprises, the prevalence of family labor, and the relatively short time frame for microfinance to expand businesses enough to create measurable employment.

Contextual barriers further shape these outcomes. High interest rates, rigid loan terms, and limited non-financial support, such as business training and financial literacy programs, constrain the capacity of beneficiaries to fully utilize microfinance for sustainable poverty reduction. These challenges echo prior studies (Kayode et al., 2024; Adebisi et al., 2024) and underscore the need for tailored interventions in semi-urban and informal-sector settings. Overall, the study demonstrates that in Lokoja, microfinance reduces poverty primarily by boosting income generation and self-employment, with job creation playing a secondary, longer-term role, providing

actionable insights for policymakers and microfinance institutions seeking to maximize local economic impact.

Conclusion

This study demonstrates that microfinance services in Lokoja, Kogi State, reduce poverty primarily by enhancing income generation and supporting self-employment, while job creation plays a less immediate role. Loans, savings, and financial training were found to directly improve beneficiaries' financial autonomy, household welfare, and access to basic needs. The study highlights that the effectiveness of microfinance is context-dependent, shaped by factors such as the informal nature of local enterprises, limited business support, and repayment constraints. Empirically, the findings suggest that microfinance contributes to poverty alleviation most effectively when it facilitates personal income growth, confirming the central tenets of Poverty Alleviation Theory and extending prior evidence from urban contexts to a semi-urban setting.

Policy Recommendations

Based on these findings, policymakers and microfinance institutions should prioritize strategies that strengthen the impact of microfinance on income generation:

1. Expand accessibility through branch expansion, mobile banking, and digital platforms to reach underserved populations.
2. Enhance financial literacy and business support, equipping borrowers with skills to manage finances effectively and grow micro-enterprises.
3. Revise loan terms and interest rates to reduce financial strain and improve repayment sustainability.

While these recommendations are informed by the study's empirical evidence, their broader applicability to other regions or urban contexts should be approached cautiously. Future research could explore longer-term impacts of microfinance on job creation and business scaling in semi-urban and rural Nigerian communities.

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