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EVALUATION OF FINANCIAL INCLUSION IN POVERTY ALLEVIATION AMONG RURAL HOUSEHOLDS IN NIGERIA

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ABSTRACT

Financial inclusion is widely recognized as a critical mechanism for poverty alleviation, particularly in developing economies. This study examines its specific role in the context of rural Nigeria, where poverty and financial exclusion remain persistently high. The research aims to assess the impact of access to financial services including microcredit, mobile banking, and financial literacy on poverty reduction outcomes. Conducted in selected rural areas across five states in South-West Nigeria, the study employed a mixed-methods approach. Quantitative data were collected through structured questionnaires administered to 750 household heads, while qualitative insights were gathered via interviews with financial institutions, government officials, and NGO representatives. The results paint a stark picture of financial exclusion, with 54% of respondents completely outside the formal financial system. Among those with access, mobile money wallets (60.9%) are the most common entry point. However, infrastructural and educational barriers are significant; 70% of mobile money users cited poor network connectivity as a major challenge. The impact of microcredit was found to be positive but nuanced; while 77.5% of borrowers reported increased household income, 56% saw no change in employment, suggesting loans are used for capital intensification rather than job creation. A logistic regression model revealed that financial inclusion variables are significant positive predictors of a household's likelihood of being above the poverty line. Holding a formal account and using mobile money more than doubled the odds, but the most powerful predictor was financial literacy, which tripled the odds (Odds Ratio=3.06). The study identifies key barriers as a lack of money (69.3%), distance to facilities (64%), and high costs (52%). It concludes that while financial inclusion is a potent tool for poverty alleviation, its success hinges on an integrated strategy. Merely providing

access is insufficient. Effective intervention must pair the expansion of digital financial services with targeted financial literacy programs and robust policies that address underlying infrastructural deficits and economic vulnerabilities.

KEYWORDS: Financial Inclusion, Poverty Alleviation, Rural Nigeria, Mobile Money, Microcredit, Financial Literacy, Logistic Regression.

INTRODUCTION

Financial inclusion is viewed as a powerful tool in poverty alleviation, helping individuals and households manage risks, invest in education and businesses, and improve their overall economic conditions (Demirgüç-Kunt et al., 2017). Financial inclusion has emerged as a critical tool in the global fight against poverty, particularly in developing nations like Nigeria. It refers to the process of ensuring that individuals and businesses, especially those marginalized and underserved, have access to useful and affordable financial products and services that meet their needs transactions, payments, savings, credit, and insurance delivered in a responsible and sustainable manner. In Nigeria, financial inclusion has been a major policy priority, with the Central Bank of Nigeria (CBN) launching the National Financial Inclusion Strategy (NFIS) in 2012. However, progress has been uneven, especially in rural areas where financial exclusion remains widespread. In rural Nigeria, poverty levels are notably high due to factors such as poor infrastructure, low literacy rates, and lack of access to financial services. This study aims to investigate the role of financial inclusion in alleviating poverty in rural Nigeria, focusing on how increased access to financial services such as microcredit, mobile banking, and insurance impacts poverty reduction.

Problem Statement

Despite Nigeria's vast economic potential, poverty remains a major challenge, especially in rural areas where financial exclusion is pronounced. Lack of access to financial services hinders economic participation, reducing opportunities for saving, investment, and business expansion. Rural dwellers often rely on informal financial systems, which are neither efficient nor reliable for economic growth. The impact of financial inclusion on poverty alleviation in rural Nigeria remains under-researched, creating a gap in knowledge that this study seeks to fill. This research will assess the extent to which access to financial services contributes to poverty reduction in rural Nigeria.

Research Objectives

The main objective of this study is to assess the role of financial inclusion in poverty alleviation in rural Nigeria. Specifically, the research aims to:

1. Examine the relationship between financial inclusion and poverty levels in rural Nigeria.
2. Assess the impact of access to microcredit on income and employment generation in rural communities.
3. Investigate the role of mobile banking and digital financial services in enhancing financial inclusion.
4. Evaluate the contribution of financial literacy programs to economic empowerment in rural Nigeria.
5. Identify the challenges limiting financial inclusion and recommend strategies to overcome these barriers.

Research Questions

The study seeks to answer the following questions:

1. How does financial inclusion impact poverty levels in rural Nigeria?
2. What is the effect of access to microcredit on income generation and employment in rural areas?
3. How do mobile banking and digital financial services enhance financial inclusion in rural communities?
4. What role do financial literacy programs play in improving economic empowerment in rural Nigeria?
5. What are the major barriers to financial inclusion in rural Nigeria, and how can they be addressed?

Literature Review

The concept of financial inclusion has been widely discussed in the literature, with many studies indicating that access to financial services can stimulate economic activity and reduce poverty. Beck et al. (2007) found that financial inclusion can reduce income inequality and poverty by promoting entrepreneurship and providing the necessary capital for small-scale businesses. Financial Inclusion and Poverty Alleviation in Africa

In the African context, mobile banking has revolutionized financial inclusion efforts, particularly in East Africa. M-Pesa in Kenya is a widely studied example of how mobile money can enhance financial inclusion, providing a low-cost means for people in rural areas to access financial services. Jack and Suri (2014) found that access to M-Pesa services led to significant reductions in poverty among rural households, as it enabled users to save money, manage risks, and access credit for small businesses.

However, other studies, such as those by Allen et al. (2021), argue that mobile banking's impact on poverty alleviation depends on various factors, including education, infrastructure, and the regulatory environment. While financial inclusion through mobile services has expanded in Africa, disparities remain between urban and rural areas, with the latter still facing significant barriers to financial access.

In Nigeria, financial inclusion is part of the national agenda, with the Central Bank of Nigeria (CBN) launching the Financial Inclusion Strategy in 2012 to promote greater access to financial services.

However, rural areas in Nigeria remain significantly underserved due to infrastructure challenges, illiteracy, and a general lack of trust in formal financial institutions (Adediran, 2018). Mobile banking has been suggested as a solution to these challenges, with evidence from Kenya (Mbiti & Weil, 2013) showing that mobile money platforms increased financial access and reduced poverty. This study will build on this body of work by focusing on rural Nigeria, where poverty levels are higher and financial exclusion is more pronounced.

Research Methodology

Research Design

This study employed a mixed-method approach, combining both quantitative and qualitative techniques. The quantitative aspect involves the collection and analysis of primary data from rural households using structured questionnaires, while the qualitative component involved interviews with key stakeholders, including financial institutions, government officials, and beneficiaries of financial inclusion programs.

Study Area

The study was conducted in selected rural areas across five states in southwest Nigeria (Ekiti, Oyo, Ogun, Ondo and Osun). These states represent different geographical sites with varying levels of poverty and financial inclusion.

Sampling Technique

A multi-stage sampling technique was used to select the study sample. In the first stage, five rural communities from each state was selected based on poverty levels and financial inclusion penetration. In the second stage, 30 households were randomly selected from each community, resulting in a sample size of 750 households.

Data Collection

Data was collected using structured questionnaires administered to household heads. The questionnaire captured information on household demographics, income levels, access to financial services, participation in financial literacy programs, and perceptions of poverty. Interviews were conducted with local financial institutions, government officials, and NGOs involved in financial inclusion initiatives.

Data Analysis

Quantitative data was analyzed using descriptive statistics and econometric techniques. The impact of financial inclusion on poverty was estimated using a regression analysis, with poverty status (measured by income levels, consumption, and employment) as the dependent variable and access to financial services as the key independent variable. Qualitative data from interviews was analyzed thematically to provide deeper insights into the challenges and opportunities related to financial inclusion in rural Nigeria.

Results and Discussion

A total of 750 household heads across five states in South-West Nigeria were surveyed. The socio-demographic profile is summarized in Table 1.

Table 1: Socio-Demographic Characteristics of Respondents

	Category	**Frequency**	**Percentage (%)**
Gender	Male	512	68.3
	Female	238	31.7
Age Bracket	18-35 years	195	26
	36-55 years	401	53.5
	56 years and above	154	20.5
Education Level	No Formal Education	128	17.1
	Primary Education	281	37.5
	Secondary Education	271	36.1
	Tertiary Education	70	9.3
Primary Occupation	Farming	315	42
	Petty Trading	248	33.1
	Artisan/Skilled Work	112	14.9
	Other	75	10

The data in table 1 indicates a predominantly male sample, reflecting the cultural norm of male-headed households in the region. A significant proportion of respondents (53.5%) are within their core productive years (36-55 years). Critically, over half (54.6%) have only a primary education or none at all, highlighting potential challenges for financial literacy. Farming and petty trading constitute the primary livelihoods for 75% of the sample, confirming the informal and volatile nature of income sources in the study area.

The State of Financial Inclusion

Table 2: Access to and Usage of Financial Services.

Indicator	Category	Frequency	Percentage (%)
Has a Formal Account	Yes	345	46
	No	405	54
Type of Account (n=345)	Mobile Money Wallet	210	60.9
	Savings Account (Bank/MFB)	258	74.8
	Cooperative Society	95	27.5
Primary Savings Location	At Home / With ROSCA	338	45.1
	Mobile Money Wallet	180	24
	Bank/Microfinance Bank	165	22
	No Savings	67	8.9

Table 2 reveals a significant financial inclusion gap, with 54% of respondents completely excluded from formal financial services. Among those with access, mobile money wallets are the most common type of account, indicating its role as an entry point. However, the preferred method of saving remains informal (at home or in rotating savings groups - 45.1%), suggesting a persistent trust deficit or a preference for traditional, non-digital methods.

Impact of Microcredit on Income and Employment

Table 3: Impact of Access to Microcredit (n=280 who took a loan)

Impact Area	Increased Significantly	Increased Slightly	No Change	Decreased
Household Income	85 (30.4%)	132 (47.1%)	63 (22.5%)	0 (0%)
Business/Farm Output	92 (32.9%)	120 (42.9%)	68 (24.3%)	0 (0%)
Employment in Enterprise	45 (16.1%)	78 (27.9%)	157 (56.1%)	0 (0%)

Identified sources of loans:

Informal (Friends/Relatives/Money Lenders): 45%

Mobile App Lenders: 25%

Cooperative Societies: 18%

Banks/Microfinance Banks: 12%

A substantial number of households (37.3%) had accessed credit, primarily from informal sources. The data suggests a positive perceived impact on income and output, with over 77% reporting some level of increase in household income. However, the impact on employment generation is less pronounced, with 56% reporting no change. This implies that microcredit is primarily used for capital intensification and consumption smoothing rather than for hiring labour, potentially because most enterprises are small, family-run operations.

Role of Mobile Banking and Digital Services

Table 4: Usage and Perception of Mobile Banking/Digital Services

Aspect	**Category**	**Percentage (%)**	
Mobile Phone Ownership (n=750)	Smartphone	35	
	Basic Phone	55	
	No Phone	10	
Used Phone for Financial Tx (Last 6 months)	Yes	58	
	No	42	
Main Advantage of Mobile Money (n=435)	Convenience	65	
	Speed	55	
	Cost-effectiveness	30	
Main Challenge (n=435)	Poor Network	70	
	Lack of Knowledge	45	
	Fear of Fraud	35	

While mobile phone penetration is high (90%), its use for financial transactions is moderate (58%). The primary driver for adoption is convenience, aligning with the goal of reducing the physical distance to financial points. However, infrastructural and educational barriers remain formidable. Poor network connectivity is the most cited challenge (70%), directly impeding the potential of digital financial services in these rural communities.

Relationship between Financial Inclusion and Poverty

A logistic regression was run to predict the likelihood of a household being above the poverty line (defined as monthly income > ₦40,000 and rarely/never skipping meals), based on key financial inclusion and demographic variables.

Table 5: Logistic Regression Predicting Likelihood of Being Above Poverty Line

Predictor Variable	**B**	**S.E.**	**Odds Ratio [Exp(B)]**
Has a Formal Financial Account (Yes=1)	0.85**	0.21	2.34

Accessed Microcredit (Yes=1)	0.62*	0.25	1.86
Uses Mobile Money (Yes=1)	0.71**	0.23	2.03
High Financial Literacy Score (Yes=1)	1.12***	0.28	3.06
Education Level (Ref: No Formal Edu)	0.45**	0.15	1.57
Constant	-2.1	0.45	0.12

Model Summary (Nagelkerke $R^2 = 0.31$)

Note: *p<0.05, **p<0.01, ***p<0.001

The model is statistically significant and explains 31% of the variance in poverty status. All financial inclusion variables are significant positive predictors. Holding a formal financial account more than doubles (Odds Ratio=2.34) the odds of a household being above the poverty line. The use of mobile money also doubles the odds (Odds Ratio=2.03), underscoring its transformative potential. Most powerfully, having a high financial literacy score triples the odds (Odds Ratio=3.06) of a household being non-poor. This highlights that access alone is insufficient; the capability to use financial tools effectively is paramount.

Challenges to effective financial inclusion

Table 6: Barriers to Financial Inclusion and Suggested Solutions

Barrier (Cited by Respondents)	Frequency	Percentage (%)	Proposed Strategy (from Thematic Analysis of Interviews)
Lack of Money / Too Poor	520	69.3	Link financial inclusion with social protection programs; promote "no-frills" accounts.
Banks/Facilities Too Far	480	64	Scale Agent Banking and Mobile Money Vendor networks.
High Cost of Services	390	52	Regulatory action to mandate low-cost basic accounts; promote transparency in pricing.
Lack of Trust in Institutions	310	41.3	Public awareness campaigns; strengthen consumer protection frameworks.
Lack of Financial Literacy	295	39.3	Integrate financial education into existing community structures (e.g., farmer cooperatives).
Poor Network Connectivity	280	37.3	Public-Private partnerships to improve rural telecom infrastructure.

The barriers are multifaceted, intertwining economic, infrastructural, and educational dimensions. The most cited barrier, "Lack of Money," is a vicious cycle where poverty itself prevents financial inclusion. The proposed strategies, derived from interviews with stakeholders, emphasize a holistic approach that combines infrastructure development (network, agent banking), regulatory oversight, and targeted financial literacy programs that are context-specific and delivered through trusted local channels.

CONCLUSION

The investigation into financial inclusion in rural South-West Nigeria yields several conclusive findings. Primarily, a state of high financial exclusion persists, with a majority of households dependent on informal financial mechanisms. Within this context, mobile money has established itself as the key driver of formal inclusion, though its efficacy is hampered by network reliability issues. The analysis of specific financial instruments reveals thatmicrocredit has a modest, positive impact on borrowers' income and output, but a limited effect on broader employment generation. Most significantly, the research identifies financial literacy not merely as a beneficial component, but as the single most critical factor in enabling households to escape poverty more impactful than the mere possession of a financial account. Ultimately, the barriers to inclusion are deeply systemic, rooted in poverty, infrastructure, and accessibility. These results collectively affirm that financial inclusion can play a significant role in poverty alleviation, but only when it is delivered as part of an integrated solution. This solution must pair service access with targeted financial education and be supported by policies that address the underlying infrastructural and economic barriers.

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