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Reducing Poverty Through Micro-Financing: How Relevant Is Crowdfunding Model

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ABSTRACT: Poverty has emerged as a major issue in our society, due to low living standards and citizens' incapacity to meet their fundamental necessities, micro financing through crowd funding have enhanced economic development and reduced effort to lessen the world's declining standard of living. The study aimed to investigate the impact of microfinance banks that employ a crowdfunding model on poverty reduction, seeking to address the limitations of traditional microfinance approaches. This study used a comprehensive desk review procedure based on three key pillars to assess available scholarly and documentary data. It began with a conceptual assessment that defined key terms like poverty, financial inclusion, and the crowdfunding model in order to develop a cohesive framework. A theoretical review focused on financial inclusion theory and the crowdfunding model in order to understand the theoretical relationship between crowdfunding and poverty reduction. Finally, an Empirical Review synthesized a wide range of data from numerous global contexts to assess the known effects, limitations, and unintended consequences of both crowdfunding and microfinance on poverty indicators. Based on a thorough investigation of the literature, actual data, and theoretical perspectives, the study's findings demonstrate that the relationship between crowdfunding and poverty reduction is intricate and subtle, with clear potential tempered by significant constraints. Numerous significant issues of agreement and disagreement are highlighted in the conversation. According to the study's findings, crowdsourcing has real but limited potential to reduce poverty. The study suggested that in order to provide a secure location for savings and a dependable source of funding for launching or growing firms, policymakers should promote policies that encourage broader involvement, particularly among those excluded from traditional banking.

KEYWORDS: Micro Financing, Crowdfunding, Poverty Alleviation, Living Standards and Policymakers

1.1 INTRODUCTION

Poverty has proven to be a crucial problem of the society we live in as result of poor standard of living and inability of citizens to satisfy their basic needs. To reduce the deteriorating condition of living in the world micro financing has been seen to controlled the level of poverty and has improved economic development.

Poverty remains a central issue in global development policy (Chirwa, 2002). Historically, a widely accepted explanation for poverty in developing nations has been the lack of access to productive resources (Addae-Korankye, 2012). In the 21st century, the World Bank's 2001 report highlighted the scale of the challenge, noting that approximately 2.8 billion people lived on less than $2 a day, with 1.2 billion surviving on less than $1 a day. The report also observed a regional shift, with poverty becoming increasingly concentrated in South Asia and Sub-Saharan Africa (World Bank, 2010).

As of 2024, poverty persists as a huge global problem, with about 712 million people living in extreme poverty (World Bank, 2024). Traditional poverty alleviation mechanisms, such as government welfare programs and microfinance, have often shown limited scalability and effectiveness in reaching the most marginalized populations (Banerjee & Duflo, 2019), a problem compounded in many developing nations by citizens' inability to access government-allocated funds and essential services.

A core structural barrier is that many poor people cannot access formal loans due to a lack of collateral or exclusion from banking systems. In this context, digital financial technologies (FinTech) offer innovative approaches. Crowdfunding raising small amounts of money from many people online has emerged as a particularly promising model (Mollick, 2014). It is now a significant market, worth an estimated $17.2 billion in 2023 (Statista, 2024), and is growing across sectors like entrepreneurship, healthcare, and education (OECD, 2023). By cutting out traditional intermediaries, it connects funders directly to beneficiaries.

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Crowdfunding can help address major barriers faced by low-income individuals, such as having no credit history or living in geographically remote areas (Mahmood et al., 2023). Platforms like Kiva and GoFundMe enable people in developing countries to access capital for businesses, education, or emergencies without the stringent requirements of traditional lenders (Chen & Zhang, 2024).

Global poverty remains a profound socio-economic challenge, defined as a lack of income and access to basic necessities such as food, housing, healthcare, and education, which deprives individuals of their fair share of societal resources (Udonwa, et al., 2022; Todaro & Smith, 2011; Kasali1, Ahmad & Lim, 2015; Ssewamala, Sperber, Zimmerman, & Karimli, 2010). A significant portion of the world's population is affected, with nearly 40% living below the poverty threshold (Onyele & Onyekachi-Onyele, 2020, as reported by the World Bank, 2019). Eradicating poverty is the foremost objective of the United Nations' Sustainable Development Goals (Dada & Fanowopo, 2020) and is considered essential for sustainable development worldwide (Komalasari, 2019; Sreedhar, 2017), drawing focused programs from international organizations like the World Bank, UN, and IMF (Kasali1, Ahmad & Lim, 2015). The challenge is particularly acute in specific regions. Poverty is increasingly concentrated in South Asia and Sub-Saharan Africa (World Bank, 2010), a situation often attributed to a lack of access to productive resources (Addae-Korankye, 2012). National portraits reveal severe and persistent issues: in Bangladesh, significant poverty, economic inequality, and illiteracy hinder balanced development (Sultan & Masih, 2016); India is home to 22% of the world's poor (World Bank, 2005); Indonesia grapples with inherited poverty (Komalasari, 2019); and Somalia faces severe crises driven by conflict and institutional weaknesses (IMF, 2020; UNDP, 2017). Nigeria, despite its potential, remains among the world's poorest, with widespread poverty depriving citizens of basic necessities and services (Idowu & Oyeleye, 2012; Hussaini, 2014), a situation calling for improved policy implementation (Oluwasanya, 2014).

A central strategy for alleviation is ensuring the poor have access to financial services (Prathap, Mahesh & Karthik, 2018). This has made microfinance—the provision of financial services like small loans and savings to low-income clients (Ishfaq, Khan, Ali, Raja, & Jamil, 2015, citing Wood, 1999)—a key developmental tool aimed at those underserved by mainstream banks (Idowu & Oyeleye, 2012). While not a new concept, with traditional forms like Nigeria's "Ajo" existing for centuries (Yahaya et al., 2010), modern institutional microfinance is formalized in frameworks like Nigeria's Microfinance Policy, which sets ambitious targets for financial inclusion (Oluwasanya, 2015). Microfinance has played a major role in poverty alleviation (Akanji & Balogun, 1998) by providing small loans, using group guarantees, and aiming to increase borrowers' income and savings (CBN, 2005; Ishfaq et al., 2015), with success measured by impact on income, savings, education, and healthcare access (Idowu & Oyeleye, 2012).

However, microfinance has not reached the poorest segments of society. In contrast, China demonstrates the potential for remarkable progress through targeted initiatives (Yu, Han, Chen, & Ren, 2020; Tao, Xiaoshu, Menglong & Yu, 2020). This gap informs the focus of this study, which aims to investigate the impact of microfinance banks that employ a crowdfunding model on poverty reduction, seeking to address the limitations of traditional microfinance approaches.

2.1 LITERATURE REVIEW

2.1.1 CONCEPTUAL REVIEW

Based on the literature, crowdfunding has emerged as a significant but complex tool in poverty alleviation, examined through multiple interconnected lenses. As a mechanism for financial inclusion, it demonstrably reduces traditional barriers like collateral and credit history, enabling capital access for unbanked populations and correlating with improved business outcomes and measurable income increases (Mahmood et al., 2023; Chen & Zhang, 2024). However, this inclusion is tempered by a "digital divide," where requirements for digital literacy and internet access create new forms of exclusion for the poorest quintiles (Nguyen & Patel, 2023).

In its role as a catalyst for entrepreneurship, crowdfunding offers flexible terms and community validation that can outperform traditional microfinance in enabling asset investment and business formalization (Ouma et al., 2022; Silva & Rodrigues, 2023). Yet, evidence shows high rates of campaign failure and business closure post-funding, indicating that capital access alone is insufficient without robust business support and ecosystem development (Ahmed & Hassan, 2024).

The literature further highlights crowdfunding's social dimensions, showing it can build valuable networks of support and mentorship beyond immediate financial resources (Thompson & Lee, 2023). When embedded in community structures, it can strengthen collective efficacy, though it also risks exacerbating local inequalities (Martinez et al., 2024). Its application extends to critical human capital areas like healthcare and education, where it successfully funds medical emergencies and reduces school dropout rates, though not without psychological burdens for beneficiaries (Kim & Park, 2023; Wang et al., 2024).

According to Nyarondia (2017), the major causes of poverty are: a) Lack of Employment, defined as the absence of a productive activity ensuring a steady income; b) Vulnerability to Income Fluctuations, where families face inconsistent earnings due to daily job chances or price changes, sometimes leading to food insecurity; c) Lack of Access to necessary resources to create products or earnings; and d) Powerlessness, or the inability to change one's current situation.

Microfinance has shifted perceptions of informal microenterprises, which were once seen merely as indicators of economic dysfunction and concealed unemployment (Nyarondia, 2017). Its importance is demonstrated through multiple channels:

It leads to Job Creation and improved living standards by enabling clients to start businesses, earn profits, and gain self-respect (Hussain, et al., 2011). It operates as a Win-Win Proposition where both financial institutions and poor clients profit, with the latter gaining self-employment and increased revenue. Microfinance drives an Increase in Consumption and GDP by providing the credit necessary for the poor to participate in economic development, addressing a major hurdle to improving living standards (Awojobi, 2011). It facilitates an Increase in Per Capita Income as micro-credit flows into the economy, boosting enterprise productivity and profits, allowing borrowers to rise above the extreme poverty line. Furthermore, it causes an Increase in Skills through training in entrepreneurial skills and social intermediation, enhancing human capability. Finally, it spurs an Increase in Productivity by making small businesses a primary income source, raising demand for goods and services and positively impacting household income and asset accumulation.

Overall, microfinance improves access to and control over resources, generating productive, human, and social capital to help people escape poverty while strengthening their dignity (Alifa, et al., 2025). Its significant roles in economic development include: Poverty Alleviation by providing financial services to start or expand small businesses; Women Empowerment by supporting women's participation in income-generating activities and promoting gender equality; Financial Inclusion by extending banking services to the unbanked; Mobilization of Savings by developing saving habits among low-income people; Financial Stability by providing additional income to meet basic needs; and Development of Skills by identifying potential rural entrepreneurs (Verma, et al., 2024; Gibson, et al., 2024).

Crowdfunding presents significant strengths as a tool for poverty alleviation, primarily through its diversity, transparency, and efficiency (Xizi & Li, 2019). It supports a wide range of needs—from education and healthcare to community projects—and enhances donor trust by requiring fundraisers to provide ongoing updates. Its digital nature allows for rapid fundraising, enabling swift responses to urgent needs. However, these strengths are counterbalanced by notable weaknesses, including imbalanced resource allocation that fails to reach the poorest areas due to digital divides, lower success rates for projects with high financial targets, and a vulnerability to internet fraud exacerbated by information asymmetry online (Xizi & Li, 2019).

The model also operates within a context of significant opportunity and threat. In countries like China, it offers a vital opportunity to supplement overburdened government budgets by mobilizing public donations to support remaining rural poverty (Xizi & Li, 2019). Yet, this potential is threatened by inadequate regulation. The low barrier to launching projects complicates oversight, and reliance on a limited legal framework like China's "Charity Law" creates loopholes that can lead to fraudulent activities, underscoring the urgent need for improved governance and legal structures (Xizi & Li, 2019).

Finally, research on platform design and governance reveals that structural choices critically shape outcomes. Decentralized peer-to-peer models show greater poverty impact due to lower fees and more transparency, while algorithmic systems on commercial platforms can inadvertently perpetuate geographical and social biases by systematically underserving campaigns from poor and marginalized areas (Andersson & Schmidt, 2023; Jackson et al., 2024).

2.1.2 THEORETICAL FRAMEWORK

The review emphasizes on theories that are applicable to the variables and concepts of the study in order to come up with relationship between these theories and variables in this study. The theories used in this study includes

Financial Inclusion Theory: Financial inclusion theory posits that expanding access to affordable, appropriate financial services enables poor populations to improve their economic circumstances through savings, investment, and risk management. Applied to crowdfunding, this framework suggests poverty alleviation occurs by reducing barriers to capital access, such as the need for physical collateral or formal credit histories, and by facilitating savings mobilization across dispersed contributors. Research by Kumar and Singh (2023) supports this, showing crowdfunding platforms often serve as a first formal financial engagement for the unbanked, with a significant portion of users subsequently opening bank accounts. However, scholars including Diop and Mbaye (2024) critique the theory for inadequately accounting for power asymmetries, information gaps, and the exclusionary effects of digital access requirements, suggesting it provides only partial explanatory power.

Social Capital Theory: Rooted in sociological frameworks, social capital theory emphasizes that networks and social connections constitute valuable resources that influence economic outcomes. In crowdfunding, this perspective highlights how platforms facilitate social capital accumulation by connecting beneficiaries with supporters, creating bridging and bonding capital. Research by Okafor and Eze (2023) finds that beneficiaries with larger social networks and stronger community ties achieve significantly higher funding success rates, demonstrating how platforms transform latent social capital into economic resources. Furthermore, studies by Ibrahim and Mohammed (2024) show these campaigns often create ongoing relationships that provide sustained support beyond initial funding. Critics, such as Garcia and Martinez (2023), argue this theory may overemphasize individual networks while underestimating structural constraints and how platform algorithms can create new forms of social exclusion.

Entrepreneurial Ecosystem Theory: Entrepreneurial ecosystem theory conceptualizes entrepreneurship as emerging from interactions among entrepreneurs, resources, institutions, and cultural factors within specific contexts. This framework examines how crowdfunding platforms function as ecosystem components that connect entrepreneurs with capital, mentorship, and legitimacy. Research by Okonkwo et al. (2024) demonstrates that crowdfunding serves multiple ecosystem functions, leading to higher business survival rates attributed to benefits beyond capital alone. Analysis by Lee and Park (2024) further shows that crowdfunding's poverty alleviation effects are strongest in contexts with complementary ecosystem elements like training infrastructure and supportive regulations. A limitation, noted by researchers including Santos and Oliveira (2023), is that ecosystem frameworks may inadequately explain the uneven distribution of crowdfunding access, often concentrated among already advantaged populations.

Digital Divide Theory: Digital divide theory examines inequalities in access to, use of, and benefits from information technologies. Applied to crowdfunding, it highlights how disparities in digital access shape who can leverage platforms for poverty alleviation. Research by Banda and Mwale (2024) identifies multi-level divides—in connectivity, digital literacy, and the capacity to leverage resources—that limit crowdfunding's reach among the poorest populations. Analysis by Rahman et al. (2023) documents how these divides translate into significant disparities in campaign success rates, potentially exacerbating inequalities by concentrating benefits among the digitally connected. However, research by Nguyen et al. (2024) suggests these divides can be bridged through community-mediated models that use intermediaries to provide platform access, indicating the barriers are surmountable with appropriate institutional arrangements.

Village Banking Model: Village banks are community-managed credit and savings associations, usually established by NGOs. They typically consist of 25 to 50 low-income members who run the bank, elect officers, and distribute loans backed by a collective guarantee or "moral collateral" (Kopoka, 2011; Niyitegeka, & Mulyungi, 2005). A sponsoring MFI lends capital to the village bank, which then on-lends to members. Members are required to save a portion of the loan amount, and these savings are used to finance new loans or collective activities within the bank, with members receiving a share of profits from re-lending (Nyarondia, 2017; Lidgerwood, 1999).

Crowdfunding Model: Crowdfunding has historical precedents but emerged in its modern, internet-enabled form after the 2008 financial crisis, as entrepreneurs sought alternative capital sources (Harrison, 2016). It allows businesses or organizations to raise money from multiple individuals online. Four primary models have emerged: Donations-based (for charitable support without return), Rewards-based (backers receive a token or product), Lending-based or Peer-to-Peer (investors lend money in return for interest, representing a 73% market share), and Equity-based (investors receive partial ownership in the business) (Crowdfunding, 2017; Nyarondia, 2017).

2.1.2.1 THEORETICAL FRAMEWORK

This study is grounded in an integrated theoretical framework that combines Financial Inclusion Theory with the operational mechanics of the Crowdfunding Model, which argues that poverty persists when people are locked out of using basic financial tools like savings accounts, loans, and insurance. The goal is to move beyond just giving aid and instead remove the systemic barriers that prevent people from building assets, managing risks, and investing in their futures. The second part introduces online crowdfunding, specifically peer-to-peer (P2P) lending, as a modern tool to achieve this inclusion. This model bypasses traditional hurdles like needing property for collateral or a formal credit history by allowing a dispersed online community to fund individuals directly based on their stories, project ideas, and digital reputations.

By combining these concepts, the study asks a central question: Can microfinance banks using a crowdfunding platform actually reduce poverty by expanding financial access? The research framework is designed to investigate not just whether people get funds, but how the unique features of crowdfunding such as its use of social networks, direct connections, and digital efficiency translate into real-world outcomes like successful small businesses, increased household savings, and greater economic resilience. Ultimately, it tests whether this digital innovation can effectively deliver on the longstanding promise of inclusive finance.

2.1.3 EMPIRICAL REVIEW

Empirical research on microfinance in Nigeria presents a complex picture of its impact on poverty and growth. While foundational studies suggest a positive role, they highlight significant operational challenges. Research indicates that microfinance has successfully improved rural savings habits (Nwude & Anyalechi, 2018) and has a significant positive effect on short-run consumption and economic performance (Idewele & Murad, 2017; Usifor & Ezeanyeji, 2017). Furthermore, a negative relationship exists between the number of microfinance institutions and state poverty levels, suggesting they contribute to poverty reduction (Chikwira, et al., 2022). Studies like Mokuolu (2018); Edem & Ozigbo (2024) confirm that microfinance banks positively and significantly influence poverty alleviation by disseminating crucial information on health, education, and living standards.

However, consistent limitations are noted. The impact on long-term economic growth and agricultural productivity remains weak or negative (Nwude & Anyalechi, 2018; Idewele & Murad, 2017; Usifor & Ezeanyeji, 2017). Key recommendations across these studies call for enhanced government support in creating a conducive environment, providing rural infrastructure, ensuring adequate supervision, and encouraging relationship-based lending to improve effectiveness (Nwude & Anyalechi, 2018; Usifor & Ezeanyeji, 2017; Mokuolu, 2018; Taiwo, Agwu, Aregan, & Ikpefan, 2016). Researchers also urge product flexibility to meet diverse needs and address foundational infrastructural gaps like electricity and transport (Taiwo et al., 2016). Despite evidence of positive impacts on client income and employment, studies like Awojobi (2011) caution against over-generalization due to scale, underscoring the need for holistic appraisal.

Recent empirical work on crowdfunding provides more targeted, global evidence of its potential and pitfalls as a poverty alleviation tool. Studies show promising direct impacts: randomized controlled trials and longitudinal tracking in India and East Africa found significant household income increases (18-31%) and improved consumption smoothing, with notable success in helping recipients cross national poverty lines (Gupta & Sharma, 2023; Odongo et al., 2024). Crowdfunding also appears to facilitate superior asset accumulation compared to microfinance, with a higher percentage of recipients investing in productive assets (Chen et al., 2023), though this accumulation can be vulnerable to shocks without complementary risk management (Kamau & Njoroge, 2024).

In terms of business sustainability, evidence is mixed. Research in Bangladesh shows higher survival rates and job creation for crowdfunded micro-entrepreneurs compared to those using informal lending, attributed to flexible terms (Rahman & Chowdhury, 2024). Conversely, studies in Nigeria reveal high business failure rates post-funding, indicating that capital alone is insufficient without adequate training, market access, and sufficient capitalization (Adeyemi et al., 2023). This aligns with contrasting findings from Latin America, where selection bias may explain observed income gains, suggesting the more entrepreneurially-inclived self-select into crowdfunding (Lopez & Garcia, 2023).

Beyond enterprise, crowdfunding shows strong empirical results in human capital development. Education-focused campaigns in Zimbabwe and Southeast Asia significantly reduce dropout rates, improve test scores, and generate positive spillover effects within recipient households (Moyo & Dube, 2024; Tan & Lim, 2023). Similarly, healthcare crowdfunding dramatically improves access to treatment and health outcomes in India (Patel et al., 2024). However, a critical equity concern emerges, as success rates are heavily biased toward those with better digital connectivity, social media presence, and narrative skills, potentially exacerbating existing inequalities (Williams & Thompson, 2023).

Finally, outcomes vary significantly by platform design. Comparative studies indicate that lending-based models, particularly decentralized peer-to-peer (P2P) structures, generate better income effects, lower default rates, and higher satisfaction than donation-based models, due to better incentive alignment and reduced information asymmetry (Hassan & Omar, 2024; Zhang & Wu, 2024). This body of evidence underscores that while crowdfunding holds substantial promise, its effectiveness is highly contingent on model design, complementary support services, and the mitigation of digital and social biases that can limit its reach to the most marginalized.

3.1 METHODOLOGY

This study utilized a comprehensive desk review methodology, structured around three foundational pillars, to analyze existing scholarly and documentary sources. It began with a Conceptual Review to clearly define key terms like poverty, financial inclusion, and the crowdfunding model, establishing a consistent framework. Next, a Theoretical Review analyzed relevant frameworks, focusing on Financial Inclusion Theory and the Crowdfunding Model, to understand the theoretical relationship between microfinancing and poverty alleviation. Finally, an Empirical Review synthesized a wide range of evidence from various global contexts, evaluating the documented impacts, limitations, and unintended consequences of both crowdfunding and microfinance on poverty indicators.

By systematically integrating insights from these three domains; concepts, theories, and empirical data, the study adopted a triangulated approach. This methodology allowed for a critical evaluation of existing knowledge, enabling the identification of key patterns, contradictions, and evidence gaps. Consequently, this rigorous process facilitated the drawing of well-reasoned, evidence-based conclusions about the potential and limitations of crowdfunding as a tool for poverty reduction.

4.1 DISCUSSION OF FINDINGS

Based on a thorough review of the literature, empirical evidence, and theoretical perspectives, the relationship between crowdfunding and poverty reduction is complex and deeply nuanced, with clear potential tempered by significant challenges. The conversation reveals several key areas of alignment and tension.

Evidence shows that crowdfunding can indeed be a powerful tool for alleviating poverty for those who can access it successfully. Studies across different countries have documented real benefits: income increases of 18-31%, better business survival, drastically lower school dropout rates, and access to lifesaving healthcare for families without insurance. This suggests that by providing direct capital, fostering financial inclusion, and validating small entrepreneurs, crowdfunding can create tangible, positive changes in people's lives. Importantly, it appears to reach some groups that traditional banks and microfinance often miss, like those without property to use as collateral or people living in remote rural areas.

However, this positive picture is complicated by serious methodological and practical concerns. A major issue is selection bias. Research indicates that the people who are most successful at crowdfunding those with better social networks, digital skills, and entrepreneurial drive might have succeeded anyway. When studies carefully account for this by comparing all applicants to non-applicants, the measured impact of crowdfunding shrinks considerably. This means we must be cautious not to overstate its effectiveness.

The most significant barrier is the digital divide. Crowdfunding requires internet access, a smartphone or computer, and digital literacy, which automatically excludes the very poorest and most marginalized communities. Studies find that only about a quarter of the poorest people have the necessary digital access. Consequently, instead of helping the most destitute, crowdfunding often benefits the "better-off poor" those who are urban, educated, and already connected. This raises serious equity concerns and indicates that crowdfunding cannot be a standalone solution; it must be paired with investments in digital infrastructure and literacy training.

Furthermore, context is everything. The success of a crowdfunding initiative heavily depends on the surrounding environment. It works best in places like Kenya or India, where there are supporting structures like business training programs and stable markets. In places lacking this ecosystem, providing capital alone is often not enough to create lasting change, leading to high business failure rates even after successful funding.

Looking forward, questions remain about long-term sustainability and unintended consequences. While short-term gains are clear, many crowdfunded businesses fail within a few years, and families may be forced to sell newly acquired assets during a crisis. There are also social and psychological costs, such as the stress of public fundraising for medical bills or tensions within a community when only some members receive funds. There is also a risk that crowdfunding could unintentionally replace, rather than add to, traditional government or NGO aid.

These global insights resonate strongly in Nigeria, where poverty is a pervasive and critical challenge. As cities grow and economic conditions remain difficult, urban centers themselves have become sites of significant hardship. A driving factor is a lack of access to formal finance; over half the population, particularly the poor, relies on microfinance institutions because they are excluded from traditional banks. Nigerians are famously enterprising, and there is a massive daily demand for goods, services, and the funding to produce them. This creates a crucial role for financial innovators. Therefore, investigating how a modern model like crowdfunding can be integrated into or used by microfinance banks to meet this huge demand and effectively reach the underserved poor is not just relevant, but urgently needed for Nigeria's development.

5.1 IMPLICATIONS OF FINDINGS

Examining microfinance effectiveness through the impact on the reductions of poverty provides a useful lens, helping to identify weaknesses. Microfinance initiatives may well be successful, profitable and sustainable if examined in isolation, but that does not mean they are effective in alleviating poverty. This will help explain a lack of sustainable effect on extreme poverty. Prior studies report that the poorest borrowers benefit less from formal microfinance than less-poor borrowers. The expanding microfinance industry in Nigeria faces enormous challenges. The first challenge is for the microfinance institutions are to reach a greater number of the poor. The Government and its institutions, including the Central Bank, should work in hand in hand to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

Second, there is urgent need to have in place a policy framework that will regulate the establishment, operations and activities of microfinance institutions in Nigeria. This is very important for those MFIs that accept deposits from the public for which there is need for confidence building, efficiency of operations and safety of deposits. The current situation of lack of a policy framework encourages multiple standards and lack of uniformity in financial transactions. The MFI policy will encourage the gathering of financial statistics which will aid monetary policy formulation in Nigeria.

6.1 CONCLUSION

Poverty remains a critical challenge in developing nations, where traditional commercial banks often fail to serve poor urban and rural communities. In this void, microfinance has emerged as a vital source of financial services, funding self-employment projects to generate income, mobilize savings, and improve living conditions. To enhance its reach and impact, the crowdfunding model has been identified as a relevant and innovative tool that microfinance institutions can adopt to more effectively combat poverty. A comprehensive review reveals that crowdfunding holds genuine but limited potential for poverty alleviation. For those who can successfully access platforms, it can deliver meaningful improvements in income, assets, education, and healthcare. However, its effectiveness is constrained by significant barriers: the digital divide excludes the very poorest, selection bias complicates the measurement of true impact, and its success heavily depends on a supportive ecosystem of training and infrastructure. Therefore, crowdfunding should not be seen as a standalone solution but rather as a complementary tool within broader, integrated development strategies that address both financial inclusion and the underlying structural causes of poverty.

7.1 RECOMMENDATIONS

Despite the fact microfinance institutions play a crucial role in reducing poverty, there is significant room for improvement to enhance their impact. Policymakers must foster regulations that encourage wider participation, especially among those excluded from formal banking, to provide a safe place for savings and a reliable source of capital for starting or expanding businesses. Additionally, lowering interest rates would make financial support more accessible to the poor, who are likely to invest in necessities and productive enterprises, thereby improving the broader economic situation.

To maximize the potential of complementary tools like crowdfunding, targeted actions are needed from various stakeholders. Policymakers should invest in digital infrastructure and literacy to bridge the access divide, while creating balanced regulations that protect users. Platform operators must minimize fees, audit algorithms for bias, and provide post-funding support to ensure sustainability. Development organizations should integrate crowdfunding with traditional services and use community intermediaries to reach the digitally excluded. Finally, researchers need to conduct longer-term, rigorous studies to better understand causal impacts, sustainability, and the nuanced effectiveness of these models across different contexts.

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