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IMPACT OF MICROFINANCE ON POVERTY ALLEVIATION IN ONDO STATE, NIGERIA

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ABSTRACT

The paper examines the impact of microfinance on poverty alleviation in Ondo State, Nigeria. The paper is based on a survey of 240 beneficiaries of microcredit loans in Ondo State. The results of the analysis show that most beneficiaries of micro credit loans are educated youth between the age brackets of 18 and 40 years. Many of the beneficiaries utilized their loans to procure durable equipment needed in their small scale enterprises. The results show that loan empowerment has a significant positive effect on beneficiaries' welfare. Access to credit allowed the beneficiaries take advantage of economic opportunities by providing a fundamental basis for planning and expanding business activities.

Keywords: *Microfinance, Poverty Alleviation, Ondo State, Nigeria.*

INTRODUCTION

The level of poverty has continued to increase over the years in Nigeria. For example, the number of those in poverty increased from 27 per cent in 1980 to 46 per cent in 1985; it declined slightly to 42 per cent in 1992 and increased very sharply to 67 percent in 1996. The figure has consistently hovered around 70 per cent between 2000 and 2007 (NBS, 2008). To tackle the problem of poverty, many programs have been instituted by the various levels of government to relieve the poor of their deplorable conditions. These include among others the micro credit financing which is targeted at empowering the poor to create job[1]. This is based on the argument that one of the constraints facing the poor is lack of access to formal sector credit to enable them take advantage of economic opportunities to increase their level of output thereby moving out of poverty (Okurut et al., 2004).

In Ondo, the state government Micro Credit Agency was established in early 2000 to extend credit to the poor with a view to alleviating poverty in the state. The program has been in operation for over 20 years. The question remains: to what extend has the program helped in reducing poverty in the state. Hence, the objective of the paper is to examine the impact of Ondo State Microfinance Agency on poverty alleviation.

This study is important as it will help to shed light on whether or not the poverty alleviation agency of the State government is achieving the purpose for it has been set up.

The rest of the paper is structured as follows: In section 2, we provide summary of both theoretical and empirical issues on the impact of microfinance on poverty alleviation. Section 3 discusses the methodology. Section 4 provides the results. The last section contains the conclusion.

2. M ICROFINANCE AND POVERTY ALLEVIATION

Theoretical Issues

In this section, we provide a capsule summary of the theoretical issues on the relationship between microfinance and poverty. Micro credit is simply the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. The institution of micro credit is premised on the argument that most people in the

[1] In Nigeria governments at the various levels have instituted several microcredit programs to alleviate poverty including Agricultural Developments (ADPs), National Directorate of Employment (NDE), Better Life for Rural Dwellers (later called Family Support Programs), People's Bank, Community Bank and Microfinance Banks.

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developing countries lack access to financial services from institutions either for credit or savings, which further reinforces the vicious cycle of poverty. Microfinance therefore serves as vehicle through which the poor are empowered, thereby providing a valuable tool to assist the economic development process.

Theoretically, several other channels through which microfinance assists the poor have been properly articulated in the literature (Little, et al. 2003, Hulme 2000, Binswanger and Khandker 1995 and Chowdhury, 2009). However, the role of microfinance in reducing poverty has been disputed in the literature. DFID (2009) asserts that international microfinance experience shows that micro credit is not a suitable tool to assist the chronically poor. Hickson (2001) submits that most microfinance institutions have a long way to go in reaching the extremely poor so as to effectively achieve the goal of poverty alleviation. Srinivas (2004) argues that microfinance facilitate the diversion of valuable aid money from untested and non-viable microfinance programs- away from vital programs on health, education that are in dire need of such funds. Asides, some other critics of microfinance have contended that poor people are bad borrower, especially women; or that microfinance is not profitable[2]. In short, conflicting views surround microfinance and its effectiveness at reducing poverty in the less developed economies (LDCs). This has led to several empirical studies on microfinance and poverty reduction in the developing economies.

Empirical Evidence

Several empirical studies have been conducted to ascertain the impact of microfinance on poverty alleviation worldwide. However, no consensus has emerged on the impact of microfinance on poverty reduction. Some studies found that micro credit positively impacted poverty (Goldberg 2005, Khander 2003); while some others reported no positive effect (Mayoux 2001, Duong and Izumida, 2002, Hulme and Mosley 1996).

Study by Asemelash (2003) for Ethiopia showed that microfinance had positive impact on the poor. Specifically, the results showed that microfinance led to increased income for the poor. Asides, it helped to increase poor people access to better schools and medical facilities. In the same way, study by Alemu (2006) reported positive impact of microfinance on the poor in five different zones of the Amhara region. In particular, the results reported that microfinance helped the poor to smooth their income in the study area. All the same, the study reported cases of loan diversion. Some clients were found to have used their loans for unintended purposes.

The study by Rajendran and Raya (2010) for India showed that microfinance had positive impact on poverty reduction, women empowerment and environmental sustainability. Imai, et al. (2010) reported similar findings as Rajendran and Raya's for India. Littlefield et al. (2003) found that micro finance allowed poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger.

In the case of Nigeria, few recent studies conducted on the subject matter have shown that microfinance impacted positively on poverty. For example, study by Nwigwe, et al. (2012) showed that microfinance as an effective instrument for lifting the poor above the level of poverty working through increased self employment opportunities and improved credit worthiness.

Similarly, Yahaya, et al. (2011) for Kwara State, Nigeria found that microfinance played a significant role in poverty alleviation through provision of financial services to the active poor, creation of self employment opportunities and provision of small loans to small businesses. In the same way, study conducted by Ebimobowei, et al. (2012) for Bayelsa State, Nigeria revealed significant positive relationship between microfinance and poverty reduction. However, the study found that microfinance would require the existence of basic infrastructure such good roads, steady power supply, and good transport system to play a more effective role of poverty alleviation.

In contrast to the above, studies collected by Hulme and Mosley (1996) reported that households do not benefits from microfinance. According to them, it is only non poor borrowers (with income above poverty lines) that benefitted from microfinance. Indeed, it was reported that a vast majority of those with starting incomes below

[2] However, some studies have proved wrong this conventional wisdom and demonstrated that poor people, especially women, had excellent repayment rates, sometimes surpassing formal banks in most developing countries. Indeed, World Bank (2004) shows that the poor are willing and able to pay interest rates that allow microfinance to cover their costs.

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the poverty line actually ended up with less incremental income after getting microfinance loans, as compared to a control group which did not get such loans.

Some other studies that arrived at similar findings as Hulme and Mosley's include Majoux (2001) and Doung and Izumela (2002). The basic reason adduced for the limited success of micro finance is that most poor lack the basic education, experience, skills amongst others, to manage business activities (Karnani 2007, Mahajan 2005, and Pollin 2007). Essentially, the general consensus from studies that reported little or no positive impact of micro credit on poverty is that former is a necessary but not sufficient condition for poverty reduction. It is contended that basic infrastructure coupled with capacity development of the poor in terms of skills, and education are required for making microfinance an effective tool of poverty alleviation.

3. METHODOLOGY

The Study Area

The study on which this report is based was carried out in Ondo State. Ondo State was carved out of the defunct Western State of Nigeria in 1976. The State lies within latitudes 5^o 45' and 8^o 15' North and longitudes 4^o 45' and 6^o 5' East. The State covers a geographical area of 15,500 km^2. The State has a fairly large population of 3.4million people suggesting a potential for high output. From the population records, 60.92 per cent of the population lives in the rural areas while the remaining 39.6 per cent live in the urban areas. The economy of the State is dominated by oil and crop production which jointly account for 90 per cent of its gross state product. Although the state is blessed with many natural resources, the level of poverty is still high as most of the available resources remain largely untapped. Based on the report from the National Bureau of Statistics, the level of poverty is 80.13 per cent. In terms of infrastructural development, the State still faces a lot of challenges. Currently, it is the government that provides the needed infrastructural facilities. There is still minimal private sector investment in the provision of certain facilities which include housing, education and water supply.

Data and Methods

The data used in this study are from the survey work carried out in late 2008, on 265 beneficiaries of Micro credit facilities in the State. Existing information shows that 5,299 individuals have accessed the twelve micro credit windows in the three local government areas selected for the study. In choosing the sample, a multi stage random sampling methods were used. First, three local government councils were randomly selected out the existing 18 councils. The three randomly selected local government are namely; Owo, Akure and Okitipupa. Second, from the number of beneficiaries in each of the three selected local government councils, 5 per cent were randomly selected for the study. In all, 77 beneficiaries were selected from Owo local government council while 97 were selected from Akure South local government council. The remaining 91 were picked from Okitipupa local government council. In all, 240 questionnaires were retrieved and analyzed. This gives a response rate of 91 per cent.

The data generated were analyzed using both descriptive and inferential statistics. The descriptive approach entails the use of percentages, ratios. The inferential approach involves specification and estimation of a simple poverty determinant regression in which access to micro credit loan is used as argument. The estimated equation is given as:

$$DPCE = \beta_1 + \beta_2 \text{family size} + \beta_3 \text{estimated income} + \beta_4 \text{loans} + \beta_5 \text{housing index} + \beta_6 \text{food security} + \mu_i$$

where DPCE is the daily per capita expenditure. This is generated by calculating all estimated expenditure of beneficiaries over the year and divided by 365 and household size. Family size is the number of people in the family, loans refer to the total credit obtained by the beneficiaries, and house as well as food security indices are generated by assigning weights to various variables that constitutes each benchmark in the questionnaire.

4. ANALYSIS OF RESULTS

The socio-demographic characteristics of the respondents are as shown in table 1 below. From the table 1, some important facts are discernible. One, majority of the sampled beneficiaries is between the age brackets of 18-40 years. Over 70 per cent of the respondents fall between this age brackets. This might be a reflection of the prevailing high rate of unemployment in the country. Two, majority of those that accessed micro credit facilities are literate without sex discrimination. Three, large percentage of the respondents are married with family size ranging from 5- 9.

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Table 2 provides information on the empowerment and income status of the clients. As shown in table 2, majority (45.4 per cent) of the clients were able to access loans ranging from ₦51,000 to ₦100,000. Twenty three (23) beneficiaries representing 13.4 per cent were able to secure loans ranging from ₦101,000 to ₦150,000. On investment profile, majority (70 per cent) of the beneficiaries invested their loans on small scale enterprises, while 20.9 per cent of the clients invested their loans on agriculture. Finally, from table 2, eighty-nine (89) beneficiaries representing 37.1 per cent earned nothing from their major employment (job engaged in before securing micro credit loans). However, all those who secured micro credit loans earned income from their invested micro credit loans.

On how the micro credit loans have impacted beneficiaries' standard of living, virtually all of them claimed that their standard of living improved with micro credit loans. For example, majority (70 per cent) of the beneficiaries reported that they could afford three meals per day as compared to two or one before accessing micro credit loans. Many of the beneficiaries confirmed their families could afford to take meat twice or thrice a day as against once or none at all before accessing micro credit loans.

In general, the sample beneficiaries signaled that micro credit loans provided a fundamental basis for planning and expanding business activities. Many clients claimed that they used the loans to purchase productive assets like sewing machine, wielding tools, pop corn machine, deep freezers and beauty salon equipment. Only few of the beneficiaries reported to have used part of their loans for consumption and to defray debts. This result seems to support the argument that micro credit loans could be growth enhancing particularly where the loans are expended on durable goods as against consumption goods.

Empirical Results

The results of the estimated equation 1 are as shown below:

$$\begin{aligned} DPCE = {} & \underset{(4.56)}{211.19} - \underset{(1.98)}{21.17}{*}\text{family size} + \underset{(3.42)}{2.102}{*}\text{loans} + \underset{(2.943)}{2.46}{*}\text{housing index} + \\ & \underset{(2.22)}{1.952}{*}\text{estimated income} - \underset{(-0.91)}{0.444}{*}\text{food index} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2) \end{aligned}$$

$R^2 = 0.45$, F- statistics = 38.02 and SEE = 74.63.

All the variables are significant except food security index. The results show that micro credit loans has significant positive effect on the welfare of the beneficiaries, In the same way, estimated income and housing index both have significant positive effect on daily per capita expenditure. However, family size has significant negative effect on daily per capita expenditure. Food security index shows a negative relationship with daily per capita expenditure. This is contrary to a priori expectation. This negative sign of food security index might possibly reflect the fact that most beneficiaries save their incomes to buy durable items as against food consumption. This seems to support the claim of the beneficiaries that they used their loans to acquire durable goods. However, firm conclusion cannot be based on this as the coefficient is not significant.

5. CONCLUSION

The results show that majority of the beneficiaries of micro credit loans in Ondo State are within the age brackets of 18-40. Also, majority of the beneficiaries are literate without discrimination as to sex. Moreover, majority of the sampled beneficiaries secured loans ranging from ₦51,000 and ₦100,000. Majority of the beneficiaries (over 70 per cent) invested their loans on small scale enterprises. Many used their loans to procure durable equipment that are required for production in their small scale enterprises. The results show that micro credit loans housing index and estimated income positively impacted beneficiaries' welfare, while family size tends to reduce it.

Finally, given the positive impact of the micro finance on the beneficiaries in the study area, efforts should be made by the government to ensure efficient service delivery mechanism that would allow for effective use of economies of scale for group guaranteed loans. Moreover, more resources should be made available to the micro finance organization so that more people can benefit from the program.

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Table 5.1: Demographic Characteristics of the Respondents.

Age of the Respondents		
Years	Frequency	Percentage
18-30	96	40
31-40	73	30.4
41-50	43	17.9
51-60	28	11.7
Total	240	100
Sex Distribution of the Respondents		
	Frequency	Percentage
Male	117	48.8
Female	123	51.2
Total	240	100
Marital Status		
	Frequency	Percentage
Single	96	40
Married	131	54.6
Divorce	4	1.7
Widow(er)	9	3.8
Total	240	100
Level of Education		
	Frequency	Percentage
None	10	42.0
Primary	15	62.0
Secondary	80	33.3
Technical	21	8.8
Polytechnic	65	27.1
University	45	18.8
Postgraduate	4	1.7
Total	240	100.0
Total Family Size		
	Frequency	Percentage
1-4	24	10.0
5-9	190	79.2
10-14	24	10.0
15-above	2	0.8
Total	240	100.0
Sex of Household Head		
	Frequency	Percentage
Male	184	76.7
Female	56	23.3
Total	240	100

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Table 2: Respondents' Loan and Employment Records

Amount of Loan Borrowed		
	Frequency	Percentages
Below N5000	5	2.1
N11000-N50000	70	29.2
N51000-N100000	109	45.4
N101000-N150000	33	13.4
Above N150000	23	9.6
Total	240	100.0
Loan Investment		
	Frequency	Percentage
Basic Necessities	12	5
Agriculture	49	20.4
Construction	9	3.8
Small Enterprise	168	70
Education	2	0.8
Total	240	100
Income from major Employment in the last 12 Months		
	Frequency	Percentage
00	89	37.1
50,000-100,000	54	23.33
101,000-150,000	59	24.6
151,000-200,000	28	11.7
N201000-251,000	8	3.3
Above251,000	2	0.8
Total	240	100.0
Income from minor employment in the 12 months		
	Frequency	Percentage
Below 50,000	66	27.5
51,000-100,000	150	62.5
101,000 – 150,000	18	7.5
151,000 – 200,000	4	1.7
201,000 – 250,000	1	0.4
Above 250,000	1	0.4
Total	240	100.0