

Accessing the Influence of Micro Finances on Improving Poverty Status of Households in Abia State

Alozie E.N

*Department of Home Economics, Hospitality Management and Tourism
Michael Okpara University of Agriculture Umudike
College of Applied food Sciences and Tourism
Abia State Nigeria.*

Abstract

The study assesses influences of improving economic status of households through accessing microfinance in Abia state. The objective of this paper is to determine the influence of accessibility of microfinance on the lives of its beneficiaries. It is believed that poverty can be reduced when the poor become economically active supported through microfinance. However, poverty rate in Abia state remain high despite the existence of microfinance banks. A total of 398 samples were selected using multi-stage sampling method, while 393 responses were eligible for the analysis. Data was collected by administering questionnaire, descriptive statistics and averages were employed to analyse the data. The finding revealed that 23.4 percent have access while 76.6 percent have no access to microfinance bank loan facility. Likewise out of the total beneficiaries of microfinance loans 191 household's equivalent to 48.6 percent are better-off, 25 households (6.4) percent their lives remain unchanged and only 3 households became worse-off. It is therefore recommended that increase number of microfinance banks should be encouraged by less stringent requirements when establishing new microfinance entities. Cost of capital should be reduced to a moderate level this will allow wider outreach of the target group.

Keywords:

Influence, Micro finances, Poverty status, Households

Corresponding Author:

Alozie E.N

Background to the Study

Poverty is a global phenomenon that affects both developed, developing and under developed nations. However, the magnitude of poverty differs between countries depending on their development status. Researchers indicate that poverty incidence is very high in South Asia and sub-Saharan African, but more severe in sub-Saharan Africa (Todaro& Smith, 2011). Poverty is therefore defined as an undesired state where individuals or groups cannot afford the basic necessity of life. As a consequence to this, the poor is subjected to a total deprivation from opportunities, employment and security. Thus, poverty has a multi-dimensional effect on the life of an individual or group.

As poverty can lead to deprivation, which makes it difficult for the poor to afford to participate in many socially important activities, for instance, the poor lack the opportunities to work, due to their low income as an obstacle to acquire skills through education which is necessary for a better employment opportunity that will guide against low income makes the poor to suffer from health hazards with the inability to afford medical services for even common diseases. Thus, poor health may prevent people from taking advantages of opportunity to work, to learn and to participate in society. Likewise, the poor is mostly found living in slumps and disadvantaged neighborhood in such settlements. This poor condition tends to have negative impact on the socio-economic life of the inhabitants.

To improve on the life of the poor, it is necessary to improve his means of livelihood. The low level or no income status of the poor can be better off with access to external financing through borrowing. However due to the undesirable state of the poor, undetermined his ability to access financing intermediation from the formal financing institutions. The limiting factors to these are: lack of required collateral, unemployment, no history of credit records etc.

Microfinance banks are therefore established to provide financial assistance to the economically active poor to invest in the future and generate sustainable income. Microfinance financial support is designed in such a way that eases the stringent collateral and other requirement necessary for loans taken. This facilitates easy access to loan by the poor. It is believed that such financial assistance can help the poor to come out of poverty. Therefore, for microfinance banks to be able to effectively alleviate poverty the desired target group must be reached.

As part of the government's effort to arrest the above problems, a microfinance policy was enacted in 2005 which facilitate the establishment of microfinance banks with a prime objective of providing financial assistance to the poor who are traditionally not served by the conventional financial institutions. The role of micro-finance on the economic growth and development of any economy cannot be overemphasized. According to Anyanwu (2004), micro-finance is not just providing capital to the poor, but it is also targeted at combating poverty at individual and institutional levels of societal wellbeing.

A number of reasons have been identified in the literature for the establishment of micro-finance banks. According to CBN (2011), some of these reasons include: weak institutional capacity, weak capital base, the existence of a huge un-served market, employment

generation and poverty reduction, need for increased savings opportunity, interest of Local and International Communities in Micro-finance, the need to ensure Utilization of Small and Medium Enterprises, Equity Investment Scheme Fund (SMEEIS).

Thus in general, poverty can be defined as a denial of choices and opportunity, a violation of human dignity, and simply means lack of basic capacity to participate effectively in the society. It means not having enough to feed and clothe a family, not having a school or health care to go, not having the land to grow ones food or a job to earn a living and not having to credit (United Nation, 1998).

Olowoni (1996) described poverty as a poor economic condition characterized by low calorie intake, poor housing, inadequate health facilities, low income, unemployment and underemployment. Akintola and Yusuf (2001), see poverty as a social acceptable minimum standard of living in a given society some of these basic determinants of well being included adequate food, shelter, portable water, health care, education and employment opportunities. In some vein, United Nation Development Programme (UNDP), states that poverty is hunger, lack of shelter, being sick and not being able to see a doctor, not having access to school and not knowing how to read. Poverty is not having a job; rather it is the fear of the future, living one day at a time. Losing a child to illness brought about by water borne disease or preventable diseases. Poverty is powerlessness, lack of representation and freedom (World bank. 1994 poverty net 2004 in Duru). Hence poverty manifest itself through the inability of people to make themselves heard or influence or control what happens to them. Powerlessness results from multiple interlocking disadvantages which make it extremely difficult for poor people to escape poverty.

While according to Encarta (2004), regard man as poor when access to education or health services even if he have adequate food. Similarly poverty is also seen as a state of deprivation in the views of Federal Ministry of Economics Cooperatives and Development (1992) as 'not having enough to eat, a high rate of infant mortality, a low life expectation, low educational opportunities, poor water, inadequate health care, unfit housing and a lack of active participation in the decision making process'. Also Aluko (2008) holds that poverty is absence or lack of basic necessities of life or lack of command over basic consumption needs such as food, clothes and shelter.

Previous studies have identified a number of roles microfinance bank play in reducing poverty. While some of these roles are direct, many of these roles can also be considered as indirect. Jegede et al. (2011) showed that there was a significant effect of microfinance banks in alleviating poverty by increasing income and changing economic status of those who patronize them. The opinion of various scholars above revealed that microfinance banks play an important role or reducing poverty on the active poor (their clients) through credit delivery which leads to creation of employment opportunities and increase in the level of their income. The microfinance clients used such fund for acquiring assets for further income generation and ploughing back part of their increased income for the expansion of their business; Akinlo & Oni (2012) indicated that microfinance banks have been able to alleviate poverty among clients of microfinance banks as credits granted were expanded by the beneficiary to acquire and move them out of poverty line.

Thus, microfinance banks services have helped in improving standard of living of their clients; in Akinlo and Oni (2012), works shows that above 70% of the beneficiaries of the microcredit were able to have access to good things to life which is an indication of poverty alleviation. Other studies from abroad equally show that microfinance has been successful in many situations. According to Little, Murdudh and Hashemi (2003), “various studies on microfinance and poverty reduction have recorded increases in income and assets, and decreases in vulnerability of microfinance clients”. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh, Ethopia and Uganda which all shows very positive impacts of microfinance in reducing poverty. Mayoux (2001) states that while microfinance has much potential, the main effects on poverty have been:

1. Credit making a significant contribution to increasing incomes of the better-off poor, including women.
2. Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Objectives of the Study

The main objective of this study is to assess the influence of access to microfinance on poverty status of household's in Abia states. While the specific objective is to:

- i. Determine the extent to which households in Abia state access to microfinance banks' loans.
- ii. Determine the impact of microfinance on the wellbeing of the beneficiaries.

Research Questions

- a. How accessible is microfinance bank's loan to the poor in Abia State?
- b. What is the impact of accessing microfinance on the life of the poor in Abia State?

Methodology

The study area for the research in Abia state, and four (4) local governments were selected for the conduct of the research which includes: Umuahia North, Umuahia South, and Isiala-Ngwa North and South government. Three hundred and ninety eight (398) households were selected using a multi stage sampling technique, and structured questionnaire were administered. Three hundred and ninety three (393) questionnaires were retrieved and analyzed the analytical tool for the study was descriptive statistics, and it is used to explain the data collected through tables, percentages and averages.

Result Presentation

Table 1.1 Distribution of microfinance banks in the study area.

Area	No. of microfinance banks	Percentage
Umuahia North	2	14.29
Umuahia South	8	57.14
Isiala-ngwa North	3	21.43
Isiala-ngwa South	1	7.14
Total	14	100.00

Source: Field survey (2014).

The table above shows the number of microfinance banks locations in each local government in the study area. The data indicates that two (2) microfinance banks are in operation in Umuahia South local government, while 8, 3, and 1 are based in Umuahia North, Isial-ngwasouth and Isiala-ngwanorth local government areas of Abia state. From this, it is clear to say that microfinance banks are not efficiently provided when compared with the population of households in each area of 51025, 50298, 50299 and 46031 respectively.

Table 1.2 Benefitted from Microfinance Loan

	Frequency	Percent	Valid Percent	Cumulative percent
Valid No	295	75.1	76.6	76.6
Yes	90	22.9	23.4	100.0
Total	385	98.0	100.0	
Missing System	8	2.0		
Total	393	100.0		

Source: Field survey (2016).

Table 1.2 Analyses the level of patronage of microfinance services by households in the area under survey. The data shows that 90 households have accessed microfinance banks' loans however the remaining 295 who admitted no access to such loans but have accessed other forms of finance as indicated in table 3.3 and 3.4 below.

Table 1.3 Loan Collected from Other Sources.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Commercial bank	64	16.3	39.3	39.3
Credit and Thrift society	12	3.1	7.4	46.6
Adashi	87	22.1	53.4	100.0
Total	163	41.5	100.0	
Missing System	230	58.5		
Total	393	100.0		

Source: Field Survey (2016).

The frequency of families that obtained loan from commercial banks is 64, 12 from credit and thrift and 87 from Isusu out of the 163 respondents. In percentage term, 16.3 represent commercial bank access, 3.1 and 22.1 percent is for credit and thrift and Isusurespectively. However the high response to Adashi source of finance may not be surprising due to the fact that this system of financing is more common in the eastern part of the country.

Table 1.4 Other source of loan.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	341	86.8	86.8	86.8
Bank of agriculture	2	.5	.5	87.3
Collect from association	1	.3	.3	87.5
Family	2	.5	.5	88.0
Family and friends	1	.3	.3	88.3
Family support programme	1	.3	.3	88.5
Friends	1	.3	.3	88.8
Friends	2	.5	.5	89.3
Friends and family	1	.3	.3	89.6
Friends and relative	1	.3	.3	89.8
No	36	9.2	9.2	99.0
None	1	.3	.3	99.2
Personal friends	1	.3	.3	99.5
Personal lending	1	.3	.3	99.7
Wholesaler	1	.3	.3	100.0
Total	393	100.0	100.0	

Source: Field survey (2014).

The above table reveals other source of which the research respondents accesses financial assistance other than the ones specifically identified above. It shows that 15 of them resort to these other sources and acquire loans. In general therefore, 268 households under study have access to one form or the other means of micro financing and the remaining 125 households have not accessed any form of microfinance loan.

Table 1.5 Effect of loan acquired on life of respondent.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Never changed	25	6.4	11.4	11.4
Better off	191	48.6	87.2	98.9
Worse off	3	.8	1.4	100.0
Total	219	55.7	100.0	
Missing System	174	44.3		
Total	393	100.0		

Source: Field survey (2014).

To determine the effect of access to microfinance loans on the life of the beneficiaries, table 3.5 indicates that there are 191 beneficiaries whose lives were better-off, 25 leave their lives unchanged and only 3 beneficiaries became worse-off after accessing microfinance loans. This therefore justifies what the literature posits that microfinance have positive impact on the life of the poor as found in the works of Akinlo and Oni, (2012); Jegede et al (2011); Khandker (2003); Mayoux (2001); Murdudh and Hashemi (2003) among others.

Findings and Conclusion

From the forgoing analysis, the findings for the research are as follows:

- a. Access to microfinance loan facility improves the life of the poor.
- b. The number of microfinance banks existing in the state is inadequate.
- c. The spread of microfinance banks in Abia state is lopsided where most of them are located in the urban centers.
- d. People are not patronizing microfinance banks for loans due to expected high interest rate and to others due to ignorance.
- e. Therefore people prefer other source of micro financing than patronizing microfinance banks.
- f. In conclusion, it has become apparent to say that access to microfinance loan facility affects positively the life of the poor, where the facility help the poor smoothened its consumption, making investment to generate more income, increase wealth and thereby improve the wellbeing of the beneficiary.

Recommendations

- i. To increase the number of microfinance banks in Abia state, the government should motivate prospective and existing micro financial providers to established new and expand the existing ones through reducing bureaucratic bottle necks that restrain the case to establish such institution.
- ii. Existing microfinance banks operators should be encouraged extending their services to the rural areas where this services is much needed. This can be achieved by providing the necessary infrastructures such as electricity, water supply, and telecommunication services by the government.
- iii. There should be more publicity to create awareness on the benefits awaits the beneficiaries of microfinance banks' loans facilities. Since this institution can offer loans of large amount adequate to start up or expand businesses.
- iv. To encourage active poor to patronize microfinance banks' facilities the rate of interest charged must be moderate and the terms of loans repayment periods should span to at least two (2) years.
- v. To make microfinance banks stronger, the government should assist on the means for the banks to acquire commercial funds at lesser cost.

References

- Akande, O. & Olusola, B. (2012). *The impact of micro-credit on the performance of women owned micro-enterprises in Oyo state*.
- Akinlo, A. E. & Oni, I. O. (2012): impact of Microfinance in Poverty Alleviation in Ondo state *Australian Journal of Business and Management research*; 2. (9) (31-37) December.
- Akintola, J. O and Yusuf, J. M. (2001). Socio-economic analysis of poverty levels among rural dwellers in Kwara State, Nigeria. *International Journal of Environment and Development*, 5.(2) Pg 42-48.
- Akeredolu, E. O. (1975). Poverty as a social issue: a theoretical note, in Poverty in Nigeria: Annual conference of Nigeria Economic Society (NES).
- Aluko, M. D. O. (2003). Strategies for Poverty Reduction in Nigeria. *Journal of Social Science* 7(4) Pp 225-616.
- Anyanwu, C. M. (2004). *Micro finance institution of Nigeria; Policy. practice and Potential*, in Nigeria CBN Research paper P. 1-31.
- Armendariz, B. & Morduch, J. (2005). *The Economics of Microfinance* Cambridge, MA: MIT Press.
- CBN (2011). *Microfinance policy, Regulatory and supervisory Review*. Abuja Nigeria.
- De mel, S. Mckenzie, D. & Woodruff, C. (2008): Returns to capital in microenterprises: Evidence from a field experience. *Quarterly Journal of Economics*, 123(4); 1329-1372.
- Duru, M. (2008). An Analysis of the Socio-Economic Factors responsible for Poverty in Eastern States'; a bi-annual publication of the Department of Economics, Abu Zaria: Nigeria.. 1.(1).
- Encarta (2000). *encyclopedia Britanica*.
- Gumel, (2012). *Availability of Credit by Microfinance Institutions in Eastern Nigeria*.
- Haralambos, M. & Holborn, M. (2008). *Sociology; Themes and Perspectives (7th ed)*. Harper Collins: Publishers Limited London.
- Hulme, D. & Mosely, p. (1996). *Finance against poverty*. London: Rutledge, volume 2.
- Idolor, E. J. & Imhanlahimi, J. E. (2011). Access and Impact Assessment of Microfinance Banks on Rural Poor in Nigeria; A case Study of Edo State. *Indian Journal of Economics and Business*. (10), No. 2-3, pp 327-359.

- Jegade, C. A. ,Kehinde, J. & Akinlabi, B. H. (2011): Impact of Microfinance on Poverty Alleviation in Nigeria: An Empirical Investigation *European Journal of Humanities and Social Sciences*; ISSN 2220-9425. 2.(1).
- Kale, Y. (2010). *Issues in the New Poverty Report*. This day Live (Editorial); Wed, 05 June, online.
- Khandker, S. R. (2003). Microfinance and poverty: Evidence using Panel Data from Bangladesh Retrieved from <http://econ.worldbank.org>.
- Kurmanaliera, E. Montgomery, H. & Weiss, J. (2003). *Microfinance and poverty reduction in Asia: What is the evidence?*. A Paper Presented for the 2003 Asian Development Bank institute Annual Conference on Microfinance and Poverty Reduction; Tokyo Dec 5th.
- Marsland, D. (1989). *Universal Welfare provision creates a Dependent population*. The case for: Social studies, Review, November.
- Mayoux, L. (2011). *Women empowerment or feminization of Debts? Towards a New Agenda from African Microfinance*. Discussion paper for the World Action Conference, (United Kingdom Department for