

The Impact of Micro Credit Finance on Poverty Alleviation in Ogun State

¹Oba Abimbola Aina-David, ²Ayoola Quadri Adejonwo & ³Henry. O. Makinde

^{1&3}Department Business Administration & Management, Moshood Abiola Polytechnic, Abeokuta

²Department of Banking and Finance, Moshood Abiola Polytechnic, Abeokuta

Abstract

This study examines the impact of micro credit finance on poverty alleviation in Ogun state. A well structured questionnaire was used to collect data from one hundred and seventy-six (176) respondents through quota sampling technique. Data obtained was analyzed using Pearson product moment correlation coefficient (r) with the use of Software Package for Social Science (SPSS version 24). The result showed that there is a significant relationship between micro credit finance and poverty alleviation in Ogun state. Subsequently, recommendations were made that for poverty to be eradicated, micro finance institutions need to be more effective, and increase outreach, design products to include the poorest, and any other measure needed to spread the poverty alleviation net wider, so that significant decline in poverty takes place.

Keywords:

Micro Finance,
Poverty Alleviation,
Credit Facilities,
Character, Capacity,
Capital

Corresponding Author:

Oba Abimbola Aina-David

Background to the Study

In the recent years, in its wider dimension micro credit known as microfinance has become a much favoured intervention for poverty alleviation in the developing countries and least development countries. There is scarcely a poor country and development oriented donor agency (multilateral, bilateral and private) not involved in promotion (in one form or other) of a microfinance programme. Many achievements are claimed about the impact of microfinance programmes, and an outside observer cannot but wonder at the range of diversity of the benefits claimed.

With an estimated 1.3 billion people of the world (around 1/3 of the world's population) living on incomes of less than \$1 a day, the governments of the poor countries face enormous challenges to reduce poverty. This is particularly so in the countries of South and East Asia where the majority of the world's poor live. Various studies demonstrate the rapid and sustainable poverty reduction depends on interaction of a wide range of policy measures and interventions at macro and micro levels. The availability of microfinance, broadly defined as the provision of financial services such as savings and credit to the poor household is necessary but not a sufficient condition for rapid poverty reduction.

Nevertheless, microfinance can play an important role. One element of an effect strategy for poverty reduction is to promote the productive use of the Poor's labour. This can be done by creating opportunities for wage employment, by raising agricultural productivity among small and marginal farmers, and by increasing opportunities for self-employment. Microfinance is particularly relevant to increasing the productivity of self-employment in the informal sector of the economy. In an environment where economic growth is occurring, microfinance also has the capacity to transmit the benefits of growth more rapidly and more equitably through the informal sector. It is well documented that for many micro entrepreneurs, lack of access to financial services is a critical constraint to the establishment or expansion of viable micro enterprises. Microfinance may also enable small and marginal farmers to purchase the inputs they need to increase their productivity, as well as financing a range of activities adding value to agricultural output and in the rural off-farm economy. Access to savings facilities also plays a key part in enabling the poor to smooth their consumption expenditure, and in financing investment which improve productivity in agriculture and other economic activities.

In recent years MFIs have moved from the margins of the financial system towards the mainstream. It is now more widely accepted that populations traditionally excluded by the formal financial sector can, in fact, be a profitable market niche for innovative banking services. The 1997 Micro credit Summit launched a global movement to reach 100 million of the world's poorest families with credit for self-employment and other financial and business services by the year 2005. Much remains to be done, however, to integrate microfinance fully into the mainstream of domestic financial systems, and for orthodox financial institutions, notable commercial banks, to recognize its full potential.

Research Question

Is there any relationship between micro credit finance and poverty alleviation in Ogun state?

Aim and Hypothesis

Based on the review of available literature, it is postulated that specific factors contribute to the experience of micro credit finance of individuals. At the same time, this study foresaw that micro credit finance leads to poverty alleviation in Ogun state. The hypothesis below was set for this study:

H₁: There is a significant relationship between micro credit finance and poverty alleviation in Ogun state

Literature Review

In micro credit, more emphasis is on loans. Micro credit caters commercial needs of poor for enabling them to raise their income levels and improve standard of living. Micro credit means more emphasis on loans while micro finance also includes support services where you open up channels for thrift, market assistance, technical assistance, capacity building, insurance, social and cultural programmes. So, where micro-finance is 'credit plus', there micro credit is 'only credit'. Micro credit financial requirements are generally not meant for economic development activities, but for consumptive needs like it education of child, medicinal requirements etc. here quantum are quite low, needs are very emergent, and there is hardly any difference between the consumptive purpose and productive purpose.

The Relevant C's of Credit to the Subject Matter

Character: Means how a person has handle past debt obligations. From credit history and personal background, honestly and reliability of the borrower to pay credit debts is determined.

Capacity: Means how much debt a borrower can comfortably handle income streams is analyzed and any legal obligation looked into, which could interfere in repayment.

Capital: Means current available asset of the borrower, such as real estate, savings or investment that could be used to repay debt if income should be unavailable.

Regulatory Framework

This issue has come to the forefront because MFIs are providing financial services and products to the poor, outside the formal banking system.

In view of the history of MFIs (most of which are NGOs or self help groups), it can be argued that the conventional regulatory framework such that of formal banks and financial institutions is not appropriate and hence not required under the circumstances prevailing in many MFIs are not accepting deposits with checking facilities. The unique features of MFIs in the field of social and financial services with the core objectives of poverty alleviation differentiate the industry from the formal financial sector and further justify the proposition, however, that does not in any way downplay the importance of having some strategic in any way downplay the importance of having some strategic monitoring measures that are compatible and appropriate to MFTs, objectives,

institutional operation and development culture. The measure should incorporate user-friendly prudential norms/indicate guidelines in the form of a concrete 'code of Norms Conduct which would ensure sound and organized growth of MFIs on a sustainable basis. A set of financial standards, reporting format and performance standards may be an effective way to keep the MFIs on the right track. There is a broad range of experiences to draw from in establishing appropriate standards including the work being done by PKSF in Bangladesh.

Major Achievement in Microcredit

The global picture regarding the outreach of micro credit provides the contributions made by the programme. Till December 31, 2001, a total of 2186 MIFs have reported reaching 54.9 million clients with a current loan, 26.8 million of whom were among the poorest when they started with the programme. Out of the 2186 institutions that had reported to the Mirco credit Summit Campaign, 1075 are in Asia, 740 are in Africa, 230 are in Latin America and Carribean, 59 are in North America, 59 are in Europe and the NIS, and 23 of them are in the Middle East. Out of the total global clients of 54.9 million, 47.9 ,million are in Asia, 4.5 million are in Africa and 2 million are in Latin America and Caribbean. Asia can rightfully boast about a vibrant micro credit sector which stands high above all other achievements elsewhere on the globe.

Creating National Autonomous Microcredit Fund or Wholesales

In most of the countries around the world donors, business houses, private individuals and governments are providing fund to various domestic microfinance institutions (MFIs) to carry out micro credit program (MCPs). In order to fulfil the micro credit submit goal of reaching 100 million of the world's poorest families with micro credit by the year 2005, step must be taken to ensure more resources to promote micro credit and to ensure that those resources are provided to MFIs in cost effective ways. The present mechanism of channeling funds to MFIs especially government and donor funds, has proved to be inefficient. The total cost of providing funds directly to micro credit programs(or "retailers") is usually high when the cost of feasibility studies, appraisal mission, monitoring, evaluating reporting and so on are included. This is particularly true in cases where the funding agency does not have permanent office or adequately trained personnel near the MCP being funded. MCPs require flexible, user-friendly, consultative and fast-moving processes located near their area of operation. As a result of the high cost involved in providing funds directly to MCPs, as well as the high cost incurred by many MCPs in receiving and administering these funds, a relatively small amount of these funds are actually provided as loans to the poorest. It is very difficult to give figures on how much donor funds go to the poor. Some estimate may be made. About 51% of CGAP's core fund reached the poorest as direct lending in its first 3 years of operating and the rest was spent on capacity building, technical assistance, 25% of the total funds reached the poorest. About 10% to 25% of donor funds actually reach the poorest, while the rest is spent on administration, overhead, training, institution building and consultants (Yunus, 1999). Therefore, there is a need to create autonomous and cost - effective micro credit funds (MCFs). In a large country or in country where MCPs have great potential, national funds can be created. In small countries where MCPs are not well developed, sub-regional funds can be created.

A major advantages of autonomous micro credit funds is their ability to screen and monitor micro credit programs (MCPs) according to standard criteria, compared to often inconsistent 'ad hoc' evaluations of individual MCPs by donor and government agencies. Funding and supporting based on uniform standards create a level playing field. Standard monitoring requirements also contribute to more professional MCPs which may be converted to professional microfinance institutions for poverty eradication. It may be worthwhile to recall how PKSF in Bangladesh played the role of both financial intermediary and market developer. The rational emphasis recently placed by many donors and governments to fund "institution" rather than "ad hoc projects" is in line with the arguments put forward for creating autonomous micro credit funds.

Recent attempts to establish such micro credit funds (MCFs) in other countries (like PPAF in Pakistan, RMDC in Nepal, LID in Bosnia-Herzegovina, FONCAP in Argentina, MWF in Mexico etc.) are a move in the right direction, because, among other functions, MCFs will be an effective institutional option to fund startup micro credit programs within a poor/poorest friendly regulatory framework. An independent autonomous apex body outside the government's control may be formed to ensure that the 'code of conduct' and the micro credit standards are complied with by the MFIs which are essential aspects of a regulatory framework discussed in section 7(f). Non-compliance by the MFIs may ultimately result in cancelling the permission/registration of a defaulting MFI.

It is in that context that micro credit has recently assumed a certain degree of prominence; it is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 3,000 microfinance institutions in developing countries. These institutions also help create deeper and more widespread financial markets in those countries.

Since the world Summit for Social Development the priority given to poverty eradication has grown. As stated in the previous report of the Secretary-General on the eradication of poverty (A/52/573), it is now broadly accepted that robust economic growth that is labour-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1,3 billion people), are a winning combination in the fight against poverty.

Several factors have led to increase interest in micro credit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. In addition, the value of the role of non-governmental organizations in development is receiving more attention. Informal and small-scale lending arrangements have long existed in many part of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-

rounds", "ensusus" etc). They provided the rural population with access to savings within the local area with a certain cushion against economic fluctuations, and they encourage a cooperative and community feeling. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress.

Understanding how to alleviate poverty is a central concern of development economies. Bruno, Squire and Ravallion (1995) indicated that there are ample evidence that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty. Such program can have a short- run or long-run perspective. Basley (1997) took a short run perspective on program design for alleviating poverty, assuming that income-earning abilities are fixed. He took two desperate approaches to program design, which he called the technocratic and the institutional. The technocratic approach usually associated with economist, focusing on targeting, exploring the theoretical and empirical implication of trying to direct limited resources to people with the greatest need. These efforts emphasized the difficulties of identifying target groups and use creative approaches to program design that substitute for detailed information required to achieve first-best results. Central to such explorations are the incentive effects of program design, which underscore the need to know key behavioural parameters, such as labour supply responses, in order to formulate policy.

The institutional approach is more common among non-economists. For them the question of why program for the poor do or do not work has much more to do with social institutions than with policy design. In this view antipoverty policies fail because the poor lack political power or because administrative incompetence or corruption keep governments from delivering services. Thus improving the lives of the poor requires developing institutions, improving government performance, and changing political structures and attitudes towards the poor.

The gulf between these two perspectives is evident in their views of the role of non-governmental organizations (NGOs), in poverty alleviations programs. The technocratic approach rarely refers to NGOs, while the institution approach considers them vital to the attack on poverty in developing alleviation program stems from governments desire to minimize the cost of achieving poverty alleviation objectives. This desire is an implication of models in which taxpayer, as financiers of transfer programs, seek fiscally efficient methods of helping the poor-that is, they want program to be designed in a way that minimizes the financial burden imposed. Thus the insights from the technocratic literature are legitimate concerns in a well-defined decision making model of antipoverty policy.

A commonly accepted model of program design, the cost-minimizing approach, addresses a number of salient features in current debates about transfers to the poor. Moreover, it is consistent with the desire for targeting. It is also a useful step toward

developing a positive theory of transfer to the poor. The model by Besley (1992) and Coate (1995) makes no pretense at realism. The model is a useful vehicle for clarifying thinking about a number of issues relating to poverty alleviation programs. The model views society as composed of two groups: those who make transfers (the rich) and those who receive them (the poor). The model assumptions as follows:

1. That the rich care only about consumption of the poor and not their utility.
2. The rich control government and its objective is to design a poverty alleviation programs that is financed through taxes paid by the rich.

There must be voluntary participation by the poor in poverty alleviation program, which mean that the poor must be willing to take any benefits intended for them. However, certain transfers to the poor such as food-for-work program in India and Bangladesh have been proved to enhance the efficiency of credit markets by using the coupon as collateral. For example in Bangladesh and Srilanka, a poverty program allowed people who participated in a loan program to pledge their rice ratio coupon collateral and a result, borrowers repayment rates increased substantially (Sandetne, 1986). In addition, in the private informal credit market, 45 percent of household pledge the ratio cards that gave them access to subsidized "fair price" shops (Platteau).

Micro-Finance as a Strategy for Poverty Reduction in Africa (in Nigeria)

In West Africa, where microfinance institutions are still in their infancy, a World Bank case study of nine microfinance programmes the pride, Credit rural and credit mutual de Guinee; Credit mutual du Senegal and Village Banks Nganda of Senegal; Reseau des caisses popularizes and Sahel Action Project de promotion du petit credit rural of Burkina Faso; and Caisses Villageoises du pays dogon and Kafo Jiginew of Mali- concluded that all nine of these programmes are very much in the mainstream of best practice in the field of microfinance. In terms of sustainable lending to microentrepreneurs, the study gave high marks to the programmes on the following basis: all nine programmes are located near their clients and in the largest catchment areas possible, they use lending technologies that are simple, well-tailored to the cultural environment effective techniques for obtaining high repayment rates; most include savings, which meet a critical need of many people, and they price their loans far above commercial lending rates, though not at full cost recovery. When the democracy administrative came into office on the 29th May 1999, it paid attention to poverty reduction. During the regime preceding this administration the World Bank tried to focus on poverty reduction in Nigeria and so commissioned a study on poverty Assessment in Nigeria. The study not only profiled poverty but also established quantitatively the trend of poverty encroachment to development from 1980 to 1996.

The study showed that poverty level in Nigeria has been extremely high, with about two thirds of the population living below the poverty line in 1996. This situation, the study indicated could have been worse but for the dampening effect the period 1985 to 1992 had on poverty, when the rising trend of the earlier period was reversed before the upward movement resumed again. Specifically, poverty level went to 50% between 1980 and 1985, from 28.15%. to 46.3%. Between 1985 and 1992, there was a drop of about 4 percentage

points to 42.7%. However, by 1996, the level jumped up to 65.6%, an increase of more than 50% of the 1992 figures. In absolute figures, however the population in poverty continued to rise over the 16 year period. Despite the drop in poverty level in 1992, high population growth resulted in an increase of about 5 million in the population in poverty over the period 1985 and 1992. The estimated number of the poor therefore rose from 18 million 1980 to 35 million in 1985, to 39 million in 1992 and to 67 million in 1996. By the end of 1999 estimated poor rose to 74.2million. The movement in the per capital household expenditure (pce) over the period determined this pattern of poverty. After normalizing for inflation, the figure revealed that pce for 1996 was not only lower than for other years but also was less than half of 1980pce. The figures (in 1996prices) were for 1980, N1,270 for 1985, N1,780 for 1992 and 1050 for 1996. The estimate for 1999 rose by 10.8% to N1,163 due to improved workers.

Over past decade, microfinance institutions have adopted innovative ways of providing credit and savings services to the entrepreneurial poor. Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the income generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues, proponents of the so-called new minimalist approach argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person who is able to repay loan without dictating to that person how and on what the loan should be used. Some studies have pointed out that the problem of the non-productive use of credit, as advocated by the minimalist approach, lies in the fact that by consuming rather than investing their loan, the actions of such borrowers if imitated by other poor people, could produce a negative impact on the future growth to micro credit.

Recent Developments of International Institutions

One of the outcomes of recent discussion has indicated that a more coordinated and concerned international effort is required if micro credit is to spread and succeed on the scale that expectations now require. It is with that perspective in mind that the World Bank has led the process of international coordination primarily by establishing the Consultative Group to Assist Poorest (CGAP), which bring together a number of western donor countries and international agencies. The group has ancillary structures which ensure that government organizations and borrowers in general are consulted.

CGAP, which comprises 25 members, including United Nations bodies, is a multi-donor effort to address the problems facing micro-financing. The most important of these are lack of access to information, the measurement of loan delinquency, setting of interest rates, designing procedures and developing business projects. The objective of CGAP is to foster good donor practices, including performance standards.

With regard to the level of funding to micro credit institutions, in its first two-and-a-half-years, CGPA provided about \$18 million in grants to microfinance institutions and also committed \$400 million in the past three years to micro finance activities. These are

relatively modest amounts. Grants have been made directly to institutions and networks of practitioners. Eligibility criteria have included the following : (a) institutions must serve more than 3,000 very poor clients, of which at least 50 per cent must be women; (b) institutions must be operationally self-sufficiency; and (c) institution must be on the path to mobilizing domestic commercial resources.

An important positive development from the CGPA process is that success stories and their characteristics are now much better known. To spread these best micro credit practices to different part of the world -often under vastly varying conditions-is now the challenge facing the international community and the developing countries.

Within the international community, many United Nations organs have now started to support micro credits, especially, under the leadership of the United Nations Development Programme (UNDP). The provision of actual financial resources is rather limited; instead, United Nations bodies have emphasized capacity-building and institutional strengthening, training and consultations to spread best practices. Under the provisions of General Assembly resolution 52/194, all United Nations organs were requested to provide information on their activities; this information is contained in chapter below.

It should be borne in mind that total world ODA is diminishing, and resources for United Nations bodies are under special strain. Therefore, a better use of the available resources has become a more pressing impressive. It is important that resources are channeled to sectors that have potential, especially agriculture, infrastructure and education. It would be a pity of experimentation with new forms of development activities were lead to a squandering of aid.

Experience of some micro-finance models

There are basically formal and informal models of purveying micro credit to the target group. The most successful had been the informal model because several developing economies where poverty is high, some individuals, households and regions remain isolated from markets and from mechanisms for borrowing and lending or insuring against risk (Aryeetery, 1995). Consequently, informal lenders tend to target the poor (including women) albeit not always successfully, attempts by better financed innovative schemes to target the same poor people have been more successful. The issue therefore is no longer simple one of targeting or not targeting, but of how to equip institutions that can reach the poor at least cost (that is, informal lenders) to extend their reach.

The Informal Model

The informal model is built around group concept. The model works in a situation where whose commitment to savings and credit are weak and loop up to donor sponsored credit. While this works better with a group that voluntarily come together to form a revolving savings and credit associations, it develops managerial problems where the group are not cohesive and not voluntary (Besley, coate and Loury 1993).

The Grammen Bank: Experience started with the group concept informal lending to the poor. It was started to assist landless people in

Obtain Credit: Which could not be obtained through the formal commercial banks credit facilities. The program was successful because the groups were cohesive (landless) and voluntarily formed. The program has since been linked to formal micro credit model. It operates using the modality of collective guarantees, close supervision and peer pressure from other members of the Grammen group. The model has been quite successful as a bank of the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of poor. As at 1999, the Grammen Bank had provided its services to about 1.5 million poor, unified about 60,000 small village banks in the linkage process and about \$480 million to its clients for small scale trade, construction, backup funds or local production credit as well as for emergency funds.

Non-Government organization (NGO): Approach is also grouped as informal model as it intends to adapt the Grammen principle and usually are gender specific and sectorial motivated. There are women groups, farmers union, trader union etc.

In Ghana and Gambia, the most successful micro credit programs are women finance association. The programs were reported to have had high rate of payment. In the Gambia experience, the program rewarded depositors at above market rate of interest which was 20-50 percent in 1999. The high interest rate was not fixed by the formal institution by the village assemblies. The assemblies meet to decide on the composition and responsibilities of credit committees, the interest rate and the types of savings instruments. Although, the Ghana and Gambian programmers operate as an informal credit model; the quality of service could be compared to the financial market.

Esusu: Esusu is a revolving loan scheme in Nigeria and entrenched in most West Africa countries operating as an informal micro-credit programme.

The group formed to operate the revolving schemes are voluntarily. Members make fixed contribution of money at regular intervals. At each interval, one member collects the entire contributions from all. Every members make fixed contributions from all. Every member takes a turn until the cycle is completed, and then it starts again. For people, who take their turn late, esusu functions as a saving mechanism. The esusu are very strong program that have associated the target group to alleviate poverty, particularly among market women in rural/urban markets. East Esusu's group has a recognized leader and Esusos are often used as a model by NGOs trying to establishing micro-finance programme in urban setting.

The Formal Model

The formal micro-finance model is built around financial institutions such as the commercial banks, rural. Village/community bank etc. most of the formal institutions that purvey credit to the poor had not been successful. The reason adduced for their failure had

been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institution. The Grammen experience is an example of that model that have been able to transform from informal to formal model of purveying Micro-credit the poor. The credit need of the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problem of no collateral. The formal micro credit operates have found that per-client cost are high and expensive to reach groups of client physically and in part because poorly developed infrastructure increases the expenses of delivering even basic needs. In addition, most programs offering micro-finance services have a small capital base and do not have access to the level of financing that would be required for significant scaling up. This is the reason why commercial banks and development banks could not really purvey micro-credit and could not be used as the second-best to informal lending. The case of Nigerian Agricultural and Cooperative Bank, Nigeria Industrial Development Bank, People were quite recent and confirmed the enormous problems of using the formal model as a strategy to alleviate poverty.

The Linkage Model

The frame work for linking informal savings collectors to the formal institutions formed the basis of the breakthrough discussed earlier. In view of the banks' readiness to acquire more information about the informal sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programs. An examples in the recent meager of the Nigerian Agricultural and Cooperative Bank (NACB), People Bank of Nigeria and Family Economic Advancement Program (FEAP) to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB).

Also the current Bankers committee initiative which is supported by the CBN, for banks to set aside 10% of their profit before tax for equity investment in small scale industries will be tangential to alleviating poverty through the lending window or through Joint Venture.

In Ghana, the framework for linking informal savings collector to the largest commercial bank was done by the collectors forming a registered association with which the bank deals. The linkage has led to an increase in the proportion of esusu depositors that gain access to credit facilities from their esusu collectors. The loans to deposits in The Ghana model rose from 9 percent to 60 percent in the two years of operations. The scheme was based on observation that increased lending by collectors often led to larger numbers of depositors.

The linkage that has been made with the new institution NACRDB should be enhanced by designing policy to overcome the observed obstacle such as distort, inadequate knowledge about informal agents and prejudice, all which create a risky environment for formal banks linking up with informal micro-credit activities.

Donors Model

Donors have played a very strong role in the micro-credit programs, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model propose by union Gabriel and Itoro O Ibanga (1997)called "The Ekpuk

(family) model work perfectly well within an extended family structure, particularly Proven successful in some village in Akwa Ibom State. However, this system of credit delivery need to be encourage to work through formal credit institutions as much as possible, such as the community banks and NACRDB. It will help to support the development of strong non-banks financial institutions with less risk of default.

Effort at micro-credit delivery to the poor; Nigerian Government Efforts and Problems

By the understanding of the level of poverty in Nigeria, Government attempted with several micro-credit programs to alleviate poverty programs/projects such as Agricultural Development programs (ADPs), National Directorate of Employments (NDE), Better Life for Rural Dwellers (Later named family support programs), the Directorate of Food, Roads, Rural infrastructure (DFRRI) were pursued during 1986 to 1999. Other institutions that have also attempted purveying micro-credit were the rural banking scheme (1977-1990), People's Bank (1987-1990); community bank (1990 to date). In addition ,the Central Bank of Nigeria's Agricultural Credit Guarantee Scheme which came into existence since 1977. Although all the programs were directed at improving the productive bases for sustainable growth, most of the efforts at purveying micro credit to alleviate poverty were largely irrelevant, urban structured from the standpoint of the realities of (who is the poor?) understanding the poor.

The programs in terms of resource endowment were dominated by government who gave paternalistic subventions in trickles the way the programs and functioned over the years was such that credit system was essentially directed at meeting the needs of elites whereas the programs is largely for small peasant poor group. The semi-bank agencies in the system, some of which were created precisely to redress the weaknesses of the existing system were saddled with myriads of problems especially inadequate funding as well as lack of appropriate skills to mobilized/identify the poor and cannot therefore provide the essential remedy in a sustainable way. The most serious problem in the agencies set provide credit (NACB, etc)was the fact that they lacked adequate professional staff. CBN (1986) credit study shared that some 64% of personnel of NACB were administrative staff. Lending procedure were tortuous, with extremely demanding forms for completion by uniformed and illiterate farmers and the target group who are basically seeking relatively small loans.

Bilateral/Multilateral Institution Efforts

The World Bank Group and the international Monetary Fund's efforts at assisting countries to understand the poverty situation in the economy assess the level and determine to reduce the level, knowing that most developing economies are held back.

With debt obligations, have proved quite successful in most developing countries. It has helped Nigeria to open up again discussions with our creditors and have enable us reschedules our debt at very accommodating concessions at the Pairs Club Group of creditors.

The World Bank and the IMF determined in 1999 that nationally-owned participatory poverty reduction strategies should provide the basis for all their concessional lending and debt relief under the enhanced heavily Indebted Poor Countries (HIPC) initiative. This approach builds on the principles of the comprehensive development papers on Poverty Reduction Strategy by country authorities for submission to the Bank and the fund boards. There are core principles underlying the development and implementation of poverty Reduction strategies and these are as follow:

1. Country-driven, involving bread-based participation by civil society and the private sector in all operational steps.
2. Result-oriented, and focused on outcomes that would benefit the poor.
3. Comprehensive in recognizing the multi- dimensional nature of poverty, but also prioritized so that implementation is feasible, in both fiscal and institutional terms;
4. Partnership-oriented, involving coordinated participation of development partners (bilateral, multilateral, and non-governmental). Based on a long-term perspective for poverty reduction, the World Bank created no blueprint for building a country's poverty reduction strategy. Rather, they established key processes which should reflect a country's individual circumstances and characteristics. To develop effective poverty reduction program, there is the need to:
5. Develop a comprehensive understanding of poverty and its determinants, beginning with an understanding of who the poor are, where may live and their main barriers to moving out poverty. Furthermore, the multidimensional nature of poverty (low income, poor health and education, gender, insecurity, powerlessness etc) needs to be carefully considered.
6. Choose the mix of public actions that have the highest impact on poverty reduction. A solid understanding of the nature and causes of poverty allows a foundation to select and prioritized macroeconomic structural and social policies based on their expected impact on achieving a country's poverty targets.
7. Select and track outcome indicators using appropriate framework to indicate progress for chosen poverty outcome and to test the effect the policies and programs and adjust as needed.

Micro-Finance Model for Nigerian Poverty Alleviation Strategy

Starting from the conceptual dimension of transfers of wealth and transfers through government fiscal operation, one will want to agree that in the current dispensation the country can afford realistically to adopt a model of transfer from the rich through the government fiscal operation and from the government through deliberate fiscal allocation to the poor to implement program that will alleviate poverty. Nigeria must pursue a progressive micro-finance model. The program must be such that will assist the totality of the needs of those groups that will participate. The credit must facilitate production (economic activities), consumption (hunger etc), social/welfare (health, education etc.).The program must be such that can serve as seed capital to provide fund for the development of promising ideas or products including the development of prototype. There are many school leavers with promising ideas and many handcraft workers who need only small seed capital to move out of poverty.

The program must be such that can finance start-ups by providing funds for commercial production and marketing, developed ideas and products. It should be available to finance expansion of commercially viable/successful business in order that the operator will not sink back into poverty. Consequently, micro finance model for Nigeria should be such that would have, the linked institutional framework coupled with fiscal support for effectiveness (see chart).

The chart showed the flow revenue to the program and the credit service required of the program. The services must ensure the following:

1. Operations are concentrated in rural areas and focus on the micro enterprises.
2. Ensure working capital loans. As regards credit, most micro-entrepreneur need working capital loans.
3. Do not include restriction concerning the use of loan, allow for guarantee that matches their capacities such as personal guarantees and peer pressure.

However in implementing the strategy through the new institution, it would be quite instructive to utilize the result of poverty assessment in order to establish priorities for financing. First identify the region with high level of poverty and organize them into cohesive groups. Second, determine what transfer programmes you want to adopt. For example, grains coupon etc. which could be used as collateral to access micro-credit which could alleviate poverty. These regions would form pilot projects with adequate supervisory, monitoring and evaluation teams, for replicating in other regions. More importantly is the need to have financial regulatory authority to be part of the team for effectiveness and for completeness considering the current of Universal Banking.

Principles for effective micro-finance institution

The experience of micro-finance lending in Nigeria had been not been quite successful from the formal model approach. In adequate information will preclude making a categorical statement of the success of the informal model. However, most poor groups seems to appreciate informal lending. In order that the proposed model where we have linked institution to purvey credit work successfully, the following principles should be considered to avoid the pitfall of the past institutions:

1. **Simplify Services:** make the credit program customer-friendly. Use a simple application process (often not exceeding one page) appropriate to low levels of literacy and numeracy and streamline operations to minimize staff time per loan.
2. **Offer small initial loans:** start with very small loans appropriate for meeting day to day financial requirement of micro enterprises and motivate repayment by offering larger loans as incentives for repeat customers.
3. **Offer short term loans:** offer initial loans of three to six months with frequent repayment periods.
4. **Localize services, focus on scale:** local close to entrepreneurs (in small scale industrial estates, village etc.). select staff from local communities. Including people with lower levels of education (and salaries) rather than from staff in formal banks. Locate where there is a critical mass of client in order to reduce transaction

costs. Micro-finance programs reach sustainability in part by making large volume of loans.

8. **Shorten turnaround time:** limit the time between loan application and disbursement. Since the majority of micro-loans are for working capital, speed is ideal for borrowers and saves administrative costs for lending institutions. Turnaround time can be lowered by relying on solidarity groups to screen clients and by decentralizing loan.
9. **Motivate repayment:** motivate repayment via group solidarity and joint liability. Group lending is efficient because it externalizes costs. Character-based lending to individuals (as opposed to groups) can be effective where the social structure is cohesive and there is little potential for political abuse.
10. **Recognize that the poor do save:** credit program are more sustainable when they are financed with personal savings. Savings are often half of informal finance. However, accepting deposit is labour-intensive and therefore quite costly. Moreover, unstable programs can rob the poor of their savings. Great care must be taken when an institution accepts fiduciary responsibilities.
11. **Charge full-cost interest rates (factoring in inflation, loan losses and delinquency and the cost of loan funds):** The administrative costs of lending to the poor require interest rates that are sustainably higher than rates charged by commercial banks. Micro entrepreneurs have shown a willingness to pay high rates of service that meet their needs.

Methodology

The research design for this study is the descriptive survey. The data for this study was collected through questionnaires from two public (that is, residents) located in Ogun state, Southwest Nigeria. Quota and simple random sampling techniques were adopted; one hundred and seventy six (176) questionnaires each were administered.

In addition, the main research instrument for this study is the questionnaire which was developed by the researcher. The questionnaire was used for data collection because of the high level of literacy of the respondents and because it is the most widely used and acceptable instrument in studies involving large population.

Moreover, in the analysis of the data collected from the questionnaires, simple statistical techniques such as frequency table and percentages were used in the presentation of results to make interpretations and inferences. Descriptive statistics of frequency counts, percentages, mean and standard deviation were used to analyse the demographic data as well as to answer the research questions. Inferential statistics of Pearson's Product-Moment Correlation Coefficient was used in testing the hypothesis at 0.05 level of significance.

Procedure

The respondents were carefully selected according to the characteristics required for the study utilizing purposive sampling technique. The consent was taken from the respondents for the participation in the study. They were informed regarding the purpose

of the study. They were asked to first fill the demographic sheet and then proceed to other study scales for the measurement of micro credit fiancé and poverty alleviation. Respondents were instructed regarding the completion of the scales. They were assured about the confidentiality of the information obtained through the present study and were thanked for their cooperation. The data analyses were conducted with the aid of Statistical Package for Social Sciences (SPSS version 24).

Results

Table 1: Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	83	50.6	50.6	50.6
	Female	81	49.4	49.4	100.0
	Total	164	100.0	100.0	

Table 1 indicates that 50.6% of the participants are male while 49.4% are female. This implies that majority of the respondents are male.

Table 2: Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 but below 35years	20	12.2	12.2	12.2
	35years and above	144	87.8	87.8	100.0
	Total	164	100.0	100.0	

Table 2 shows that majority of the respondents are above 35years. This implies that the chosen participants are those who are old enough to manage their own business.

Table 3: Educational Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SSCE/Equivalent	22	13.4	13.4	13.4
	ND or equivalent	51	31.1	31.1	44.5
	1st degree or equivalent	91	55.5	55.5	100.0
	Total	164	100.0	100.0	

Also, table 3 shows that majority of the participants are first degree holders. This implies that majority of them are literates.

Table 4: Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	17	10.4	10.4	10.4
	Married	147	89.6	89.6	100.0
	Total	164	100.0	100.0	

Lastly on the demographic reports, majority of the targeted participants are married.

Pearson's Correlation:

Results of the table below shows the relationship of the variables

Table 5: Correlations

		micro credit finance	poverty alleviation
micro credit finance	Pearson Correlation	1	.181*
	Sig. (2-tailed)		.000
	N	164	164
poverty alleviation	Pearson Correlation	.181*	1
	Sig. (2-tailed)	.000	
	N	164	164

*. Correlation is significant at the 0.05 level (2-tailed).

The Pearson correlation coefficient between micro credit finance and poverty alleviation in Ogun state is 0.181 with 0.000 as level of probability at 5% level of significance. The implication of this is that the null hypothesis would be rejected in favour of the alternative. Conclusion can therefore be made that there is a significant relationship between micro credit finance and poverty alleviation in Ogun state.

Summary

This paper has established that Micro-finance is indeed a strategy of poverty reduction, more importantly is the model of purveying credit to the poor as discussed in section two. It is a progressive strategy for Nigeria to have developed a strong link institution by merging the formal, semi, formal and informal institutions that has in the past purveyed credit to the poor under one umbrella eg. NACRDB. Looking ahead to the future of micro-finance programs in Nigeria, several conclusion could be drawn. First, there is significant room for improvement within the current programs using principles and practices established in this paper. Second, the unique conditions in Nigeria of having the best of time in revenue generation through oil wind fall, efforts must be made to strengthen the institution that have been merged, to also reduce poverty level before the 2003 election. The higher the level of poverty in any democratically run economy, the lower the score for good governance.

Conclusion and Recommendation

In this paper, we have discussed different facts and broad issues that we believe will be critical for the future success of the micro credit movement. Micro credit has proven to be an effective tool of poverty alleviation. As the micro credit movement matures, we get a clearer idea of what its strengths are and what its limitations. For poverty to be eradicated, the micro finance institutions need to be more effective, and increase outreach, design products to include the poorest, and any other measure needed to spread the poverty alleviation net wider, so that significant decline in poverty takes place. We also need to have transparency in the management system of the MFIs and prepare for the eventuality of decreased donor funding and move towards sustainability, the seminar, we hope, will be a suitable forum toward sustainability. The seminar, we hope, will be a suitable forum towards our moving forward.

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