Microcredit as a Strategy for Poverty Reduction in Makurdi Local Government Area of Benue State, Nigeria

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Abstract

The study investigates microcredit as a strategy for poverty reduction in Benue state, Nigeria. Primary data were used and applied on a cross-sectional data of 274 respondents in 2012. The analytical tools include descriptive statistics and logit regression model. The result shows that 0.52 and 0.022 incidence of sever poverty existed before and after microcredit. The Gini coefficient also indicates a high and low income inequality of 0.6 and 0.04 existed before and after microcredit. The result from logit regression techniques, indicates that the computed value of Nagelkerke R^2 is as high as 0.723, this implies that microcredit influence the poverty status of the respondents. The study concluded that microcredit institutions in the study area are bisected with myriad of problems. However, microcredit has help in reducing poverty among the respondents. The study recommends that the capital base of microcredit institutions should be increased so as to meet up with the required demand of respondents and also ensures that microcredit are judiciously use.

Key words: Microcredit, Poverty Reduction, Logit Regression Model and Gini coefficient.

Introduction

Microcredit institutions play a pivotal role in meeting the financial needs of both households and microenterprises. Traditional financial institutions have failed to provide adequate saving and credit services to the poor, and microcredit institutions and programmes have developed over the years to fill this gap. On the supply side microcredit could be the best instrument to bring about poverty eradication by loosening constraints on capital, opening doors for investment, smoothing consumption over time and meeting emergency liquidity needs. On the demand side microcredit institutions could mobilise poor people's savings and enable them to accumulate interests on their deposits (United Nations, 2008).

The extent of poverty and the importance of the rural sector to the economy make it pivotal for microcredit interventions. Poverty in Nigeria, like in most other sub-Saharan African countries, is predominantly a rural phenomenon. The poverty line estimated by the CBN (2010), showed that 39.5% of the population is poor and 26.5% were found in the extremely poor bracket. Rural poverty is estimated to contribute approximately 85% to national poverty. Poverty is highest among self-employed households, farmers and petty traders. In spite of these, agriculture, which is mainly rural-based and the core of the Nigeria economy, remains the principal sector for the development and growth of the economy. Although there has been no organized form of a microcredit system that embraces 'best practices' until recently. Notwithstanding this, microcredit has continued to gain popularity among rural developers as a viable tool for improving rural agricultural practices and the diversification of economic activities of small-holder farming households in Benue state.

Lack of adequate loan funds, inadequate institutional capacities, poor coordination, little or no participation of the beneficiaries in the planning of microcredit programs, lack of effective training programs for both beneficiaries and operators of the programs are some of the reasons behind the ineffectiveness of microcredit as a strategy for poverty reduction in the state. There have been so many attempts in time past to solve or reduce poverty in rural Nigeria.

This include the Structural Adjustment Programme and Economics Recovery Programme all aimed at increasing the welfare of populates of the urban and rural area. Unfortunately, all these programmes failed to reduce poverty. In the face of the failure, that the idea of microcredit was developed in Nigeria. Hence there had been claims of the miraculous power of microcredit in reducing poverty in the Asia and Latin America. Microfinance is the process of lending capital in small amounts to poor people who are traditionally considered unbankable to enable them to invest in self-employment (Kasim and Jayasooria, 2001). The World Bank (2006), describes microcredit as "a process in which poor families borrow large amounts (or lump sums) of money at one time and repay the amount in a stream of small, manageable payments over a realistic time period using social collateral in the short run and institutional credit history in the long run". However, microcredit is the "provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households", and it comprises microsavings, microcredit, and microinsurance.

Ravallion (1994), saw poverty, as a lack of command over basic consumption needs i.e. the situation of inadequate level of consumption; giving rise to insufficient food, clothing and shelter. While Ghosh (1990), viewed poverty from the perspectives of moneylessness and powerlessness. Moneylessness means insufficient of cash and chronic inadequacy of resources of all types to satisfy basic human needs such as nutrition, warmth, rest and body care. Powerlessness on the other hand means lack of opportunities and choice to govern oneself. However, poverty can be seen as a state of involuntary deprivation to which a person, household, community or nation can be subjected. As the idea of microfinance began to spread, so many Microcredit Institutions also began to spring up. However, with the emergence of many Microcredit Institutions in Benue state, there seem to be some hope for the poor, but some questions that come to mind are: what is the relationship between income level of respondents before and after the microcredit? Has the poverty level reduced due to the presences of microcredit? What is the impact of this microcredit on the livelihood of the poor? It is for this reason that this study is being undertaken.

The study has it theoretical underpinning from the structuralist view point. That is since financial development follows economic growth as a result of increased demand for financial services to reduce poverty. The demand for financial services is dependent upon the growth of real output and upon the commercialization and modernization of agriculture and other subsistence sectors. Thus, the creation of modern financial institutions is a response to the demand for investors and savers in the real economy. Farmers make new investments to innovative products through bank lending which instigate poverty reduction. In order to reduce income gap (inequality), Goetz and Gupta (2010), said that the improvement of access to credit by the poor through the microfinance will boosts income levels, increases employment at the household level and thereby alleviates poverty.

Several empirical applications have followed the logit regression. These include, Adesunmi (2004), researched on the extent to which microcredit impact on small scale farm production in Ondo state. The study evaluated the production efficiency of farmers participating in the microfinance and the determination the of credit utilization on traditional farming in western Nigeria. A multi-stage sampling technique was used to collect primary data using structured questionnaire from 100 beneficiaries from the selected financial institutions in the study area. The study showed that the margin beneficiaries after microfinance loan are relatively more farm resources than their before merging counterparts.

Nudamatiya, Giroh and Shehu (2009), research on the impact of Micro finance on poverty reduction in Adamawa state. The study used a simple random selection of 88 beneficiaries of four micro finance institutions through a questionnaire survey. Data collected were analyzed using descriptive and inferential statistics. The survey also revealed that microfinance has on the income of beneficiaries. It is therefore, recommended that policy should address issues of inadequate access and high interest rates. While Olaitan (2005), research on the impact of Micro finance on poverty reduction. The result revealed that access to microfinance is very important because it enables the poor to create, own and accumulate assets and smoothened consumption. Annan (2003), observe that "sustainable access to microfinance helps alleviate poverty by generating income, creating families to obtain health care and empowering people to make the choice that best serve their needs. Noah and Muftau (2009), research on the impact of microcredit on poverty reduction in the informal sector of Offa was carried out by the use of a collection of household data and regression analysis. The result shows that informal financial institution has helped smoothened temporary shocks in their consumption and made them have enough funds to restock supplies in their businesses, which in the long run has helped improved their living standard and those of their family.

Microcredit Policy in Nigeria

Policy objectives of microcredit policy are the following: i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services; ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system; iii. Enhance service delivery by microcredit institutions to micro, small and medium entrepreneurs; iv. Contribute to rural transformation; and v. Promote linkage programmes between universal/development banks, specialized institutions and microcredit banks.

Based on the objectives listed above, the targets of the policy are as follows: i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty. ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015; iv. To eliminate gender disparity by improving women's access to financial services by 5% annually; and v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

A number of strategies have been derived from the objectives and targets as follows: i License and regulate the establishment of Microfinance Banks (MFBs); ii. Promote the establishment of NGO-based microcredit institutions; iii. Promote the participation of Government in the microcredit industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs; iv. Promote the establishment of institutions that support the development and growth of microfinance service providers and clients.

Methodology

The study was conducted in Makurdi Local Government Area of Benue state. The study used primary data based on 2011. Primary data were collected with the use of a structured questionnaire to collect data. Data were collected on the socio economic variables such educational attainment, household size and house type. The questionnaires were given to educated respondents to fill, while uneducated ones were interviewed orally. The questionnaires were distributed to five wards out of the ten council wards in Makurdi LGA of Benue state. 60 questionnaires were administered in each of the five wards purposively selected due to the prevalence of microfinance institutions in the areas, these council wards include; Agan, Modern Market, Fiidi, Central Mission and Bar respectively. This was done to provide equal presentation, however only a total of 274 questionnaires were return out of the 300 questionnaires distributed. Two methods were used to analyze the data collected. These are: firstly, descriptive statistics consisting of bar charts, simple percentages and proportion which is used to examine the data collected. Secondly, the study employed logistic model to analyze the impact of microcredit on poverty reduction in the area. The logistic regression model is represented as follows:

In $(P/1 - P) = Z = \alpha + \beta_i x_i + \mu_i$ i

Z = the probability, which measures the total contribution of the independent variables in the model and is dependent variable (poverty status), known as logit and is calculated as:

Z =   <u>Average Annual income of Household from farming activities</u>

Total number of days in a year (365 days)

If the result (poverty status) is less than $1.5 dollars naira equivalent, it means that the household is poor as such they were assign (1). But if the result (poverty status) is $1.5 dollars and above it naira equivalent, it means that the household is non-poor; in this case (0) were assign. Assuming that $1.5 dollars naira equivalent is (₦225) that is, $1: ₦150.

α = constant; β_1 = parameters to be estimated (i = 1, 2, 3, 4.....8).

X_1 = household size in numbers; X_2 = household income in naira; X_3 = access to improved medical services (1 if a respondent visits maternity, specialist and general Hospital, O if otherwise). X_4 = level of education of the respondent (I if the respondent attains at least secondary school, O if otherwise). X_5 = number of meals taken; X_6 = farm size in (H); X_7 = quantity of sales in naira; X_8 = amount of loan offered by micro finance; μ = error term; A positive β mean that X increases the probability of the outcome; a negative β mean that X decreases the probability; a large β means that the factors strongly influence the probability; while a near zero means that the X has little influences on Z (poverty).

Decision rule

To test the hypothesis that all the slope coefficients are not simultaneously equal to zero, if the Likelihood Ratio (LR) is greater than the probability (P) value, the null hypothesis is rejected and the alternative accepted. If the LR is smaller than the P value, the null hypothesis was accepted and the alternative rejected. Finally, the Nagelkerke R^2 was used to measure how much the explanatory variables in the model contribute to Z. Poverty was measured using FGT Index (Foster, Greer and Thorbecke, 1984). Poverty status was measured using Headcount Ratio and Poverty Gap measures. The Headcount Ratio is expressed as:

$H = Q/N$ …………………………………………………………………… ii

Where,

H = Headcount ratio with values ranging from O to 1. The closer the value to 1, means the higher the proportion of people below the poverty line.

Q = Number of households below the poverty line.

N = Total number of household in the studied population.

The poverty gap is measured as follows:

$$P_\alpha = 1/n \ \Sigma \ \frac{(Z - Y)}{Z} \ .... \ iii$$

Where, P_α = Poverty gap, Z = Poverty line, Yi = Income of the ith household in poor population, α = The FGT parameter with values from 0, 1, and 2. n = Total numbers of population studied, α represent less than or equal to 1 for each. That is α ≥ 0. If α = 0, then P_o is simply the Headcount Ratio which is also called incidence of poverty and if α = 1, P_1 is renormalization of the income – gap measure which is also refer to as poverty gap. Finally, the sensitive measure P_2 is obtained by setting α = 2 and is called severity of poverty. Finally, the research arguments Gini coefficient to measure income distribution among the population. The Gini coefficient can be calculated using the method below:

$$G = \frac{N + 1}{N - 1} - \frac{2}{N(N-1)u} \ (\Sigma_{i-1} P_i X_i) \ .... \ iv$$

Where u is the mean income of the population, P_i is the income rank of P of individual i, with income X, such that the richest individual receives a rank of 1 and the poorest a rank of N, this effectively gives higher weight to poorer people in the income distribution, which allows the Gini to meet the transfer formula (Ajekaiya, 2001).

Results and Discussions

Table I: Assesses savings' and amount of credit granted to respondents in the area

Amount Saved by Respondents	No of Respondents	Percentage
Less than ₦30,000	10	4
₦30,000 – ₦50,000	50	18
₦51,000 - ₦70,000	98	36
₦71,000 – ₦90,000	60	22
₦91,000 and above	56	20
Total	**274**	**100**
Level of Savings' Exhibited		
High	195	71
Low	79	29
Total	**274**	**100**
Amount of Credit Granted		
Less than ₦30,000	25	9
₦30,000 – ₦50,000	50	18
₦51,000 - ₦70,000	109	40
₦71,000 – ₦90,000	60	22
₦91,000 and above	30	11
Total	**274**	**100**

Source: Field Survey, 2012

The analysis from the table I above provides data regarding the amount saved yearly by the members of the Microcredit. The data indicates that 36 and 22 percent of the beneficiaries saved between ₦51, 000 to ₦70, 000 and ₦71, 000 to ₦90, 000 yearly. Also 20 percent of the respondents saved between ₦91,000 and above. While 18 and 4 percent saved between ₦30, 000 to ₦50, 000 and less than ₦30, 000 yearly respectively. The result shows that members cultivates savings habits, this may be because respondents cannot satisfy the conditionalities and procedures involved in obtaining loans from microcredit institutions. As such membership with obtaining microcredit institutions therefore, could give the member opportunity of getting loan easily; this is because it does not require collateral security.

The assessment of savings exhibited by the beneficiaries of the microcredit institutions. Table I indicates that out of the two hundred and seventy four (274) respondents, only 195 represents 71 percent opined that the savings behavior of the beneficiaries are very high. While 79 representing 29 percent of the respondents are of the view that savings behavior of the beneficiaries is low and need to be improved.

The study spur to investigate the amount of credit granted to individuals in the study area. The result in table I above indicates that 169 respondents representing 62% were granted credit to the tune of ₦51,000-₦90,000, while 50(18%) respondents enjoyed credit between ₦30,000–₦50,000, whereas 30(11%) respondents were found enjoyed credit to the tune of ₦ 91,000 and above. While only 25(9%) respondents enjoyed credit below ₦ 30,000.

Average annual income assessment

Table II: shows **Average annual income** *of Beneficiaries of microcredit in the area*

Distribution of Responses	Before Microcredit		After Microcredit	
	No	%	No	%
Average annual income(₦)				
Less than ₦50,000	68	25	5	2
₦50,000 – ₦100,000	89	32	30	11
₦101,000 - ₦150,000	59	22	89	32
₦151,000 – ₦200,000	39	14	80	29
₦201,000 and above	19	7	70	26
Total	**274**	**100**	**274**	**100**

Source: Field Survey, 2012

The result from table II shows that 43% and 61% of the respondent earned annual income of ₦ 101,000 - ₦ 201,000 before and after obtaining microcredit. The average annual income was sufficient to place respondents above 1.5 dollars per day increasing from 36% to 43% and 61% to 87%, before and after obtaining microfinance loan. This means that before obtaining microcredit about 57% respondents were living below 1.5 Dollars benchmark per day. While only 13% of the respondents were living below 1.5 Dollars benchmark per day when they obtain micro finance. The result shows that more respondents earn higher income when they had loan from microcredit institutions. However, average annual income was subjected to poverty status of the respondents. The poverty lines were estimated before and after obtaining microcredit so that classification about the respondents can be made. This can be done as follows:

  i.   A moderate poverty line equivalent 2/3 of the mean income per year.
 ii. A core poverty line equivalent 1/3 of the mean income per year.

This was done in line with (Yusuf, Adesanoya and Awotile, 2008) work on household classification into either as core poor, moderate poor or non poor. Applying the Foster – Greer- Thobecke (FGT) index, the different dimensions of the incidence of poverty, P_o P_1 P_2 Gini coefficient.

Table III: Distribution of Poverty indices before and After Microcredit in the area

Distribution of Responses	Before Microcredit	After Microcredit
Total Average annual income	63,120,000	130,011,052
Mean Average annual income	230,364.96	474492.89
2/3 of the mean income	153576.64	316328.59
1/3 of the mean income	76788.32	158164.30
Headcount index (P_o)		
Core poor	0.25 (25%)	0.2 (2%)
Moderate poor	0.32 (32%)	0.43 (43%)
Non poor	0.43 (43%)	0.55(55%)
poverty gap index (P_1)		
Moderate poor	0.23	0. 22
Core poor	0.26	0. 13
Severity of poverty (P_2)	0.52	0.022
Gini coefficient	0. 6	0. 04

Source: Author's computation

Figure 1: Bar chart showing Headcount Indices Before and After Microcredit
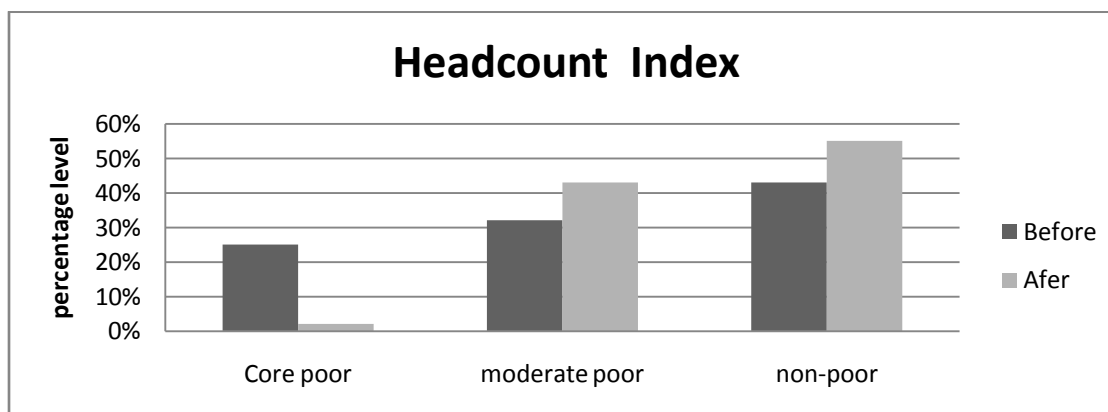
The table III and figure I shows that poverty headcounts before and after obtaining microcredit for core poverty status are relatively high as 0.25 and 0.2, implying that 25% and 2%nof the respondents were extremely poor before and after obtaining microcredit, their core poverty status declined from 0.25 to 0.2 implying that only 2% of the respondents were extremely poor after obtaining m microcredit. In the category of moderately poor, the proportion appears to be higher (i.e. 32% as against 43% for before and after obtaining microfinance). However, by placing respondents on poverty line shows that moderate poor status after obtaining microcredit tend to be higher than that of before obtaining micro finance in the area. This may be because with the microcredit, more respondents have moved from the core poverty status to this category. The net implication is overall welfare improvement. Moreso, the poverty gap index (P_1) which defines the extent to which a poor individual income level falls below the poverty line is relatively higher before obtaining microcredit, that is 0.23 and 0.26 for moderate poor and core poor respondents.

This explained that, the income level of moderate poor respondents before obtaining microcredit fall below the poverty line of ₦ 153576.64   by 23% amounting to ₦ 3,532,262.72 annually in addition to individual income to be non – poor. Similarly, for core poor, their income was 26% below the poverty line of ₦76788.32; this means that a core – poor respondent needed about 26% of ₦ 76788.32 representing ₦ 19,964.96 annually in addition to their income in order to be moderately poor. On the other hand, poverty gap index for moderate poor after obtaining microfinance, are 0.22 and 0.13 for moderate poor and core poor respondents. That is, the income level of moderate poor respondents after obtaining microfinance fall below the poverty line of ₦ 316328.59 by 22% amounting to ₦ 69,592.29 annually in addition to individual income to be non – poor.   While for core poor, their income was 13% below the poverty line of ₦ 158164.30; this means that a core – poor respondent needed about 13% of ₦ 158164.30 representing ₦ 20,561.36 annually in addition to their income in order to be moderately poor.

In assessing the before and after obtaining microcredit, poverty gaps index status in the area, the result shows that ₦ 58,359.12 and ₦ 19,964.96 are needed annually in addition to a respondents average annual income to move from one poverty level to another as opposed to higher amounts of ₦ 69,592.29 and ₦ 20,561.36 required annually in addition to a respondents annual income to move from one poverty status to another.

This was subjected to poverty severity index (P_2), the result shows that sever poverty incidence of 0.52 among the respondents before obtaining microcredit and a lower degree of poverty severity index of 0.022 among the respondents after obtaining microcredit in the area. This explained why beneficiaries are better-off after obtaining microcredit than without or before obtaining microcredit in the area. The Gini coefficient also indicates that before obtaining microcredit. The shows a high income inequality (0.6) and after obtaining microcredit, the Gini coefficient recorded was 0.04 indicating lower level of income inequality among individuals.

Table IV: Summarizes Logit Model Estimate

Variables	Coefficient	S.E	Sig	Exp(B)
Constant (β_0)	-3.650	1.174	0.013*	0.12
Household Size	0.708	0.164	0.055**	0.64
House Income	-0.435	0.256	0.085*	0.91
Improve medical services	-0.594	0.632	0.003*	0.87
Education	-0.315	0.665	0.001*	0.81
Number of Meals Taken	- 0.414	0.753	0.004*	0.67
Farm Size	-0.325	0.144	0.025**	0.43
Quantity of Sales	-0.667	0.647	0.067**	0.72
Amount of Loan Offered	-0.456	0.256	0.056**	0.84
LLR 111.024				
R^2 62%				
chi –square value 51.032				

Source: computed from data processed. ** *significant at 1% level; ** significant at 5% level; * significant at 10%

From the table IV, shows that the log likelihood is 111.024 which indicate that some of the coefficients of the independent variables are statistically different from zero. This is further confirmed by the Nagelkerke R^2 of 0.62 which implies that 62% variation in the poverty status of the respondents by the introduction of microfinance in the area. That is microcredit influence the poverty status of the respondents, therefore, the null hypothesis that microcredit influence has no significant effect on poverty reduction in Makurdi local government area of Benue state is reject. The chi –square value of 51.032 shows that the model performed well as it is statistically significant at 1% level.

The results from the table IV, show that Household income, access to improved medical services, quantity of sales, farm size, amount of loan offered, education and meals taken per day are negatively and statistically significant at 10% level. This indicates a reduction in the log likelihood of the respondent being poor. While household sizes are positively related to poverty status and statistically significant at 5% level. This implies that an increase household size will lead to increase in the log likelihood of the respondent being poor. This is in line with the findings of stiglitz (1999), which states that increase household size will lead to increase in dependence rate, which may result to increase poverty.

Table V: Major Problems encountered by Microcredit Institutions in the study area

Problems of MFI in the Area	No of Respondents	Percentage
Inadequate Capital	139	51
Corruption	47	17
Loan repayment difficult	60	22
Managerial problems	19	7
Others (political involvement, inadequate commitment)	9	3
Total	**274**	**100**

Source: Field survey, 2012

Table V, indicates that, 51% of the respondents complained of inadequate capital as one of the problem militating against the microcredit to meet the require needs of the farmers. While 22% of the respondents attest that, it is difficult for microcredit to recover loans giving to farmers, also 17% of the respondents also complained of corruption, because most time, they had to bribe top members of the credit institutions in order to obtained loan for their businesses/farming. 7% of the respondents opined that microcredit institutions are faced with management problems. While, other problems include; political involvement, inadequate commitment and so on account for 3%.

Conclusion

The study shows that microcredit has the potential to reduce poverty in Toto Local Government local government of Benue state. The study concluded that obtaining microcredit in the study area is bisected with myriad of problems. These problems constitute a blockage to the acquisition of loans by the respondents. However, microcredit in the study area has been translated into increase in assess which help in reducing poverty among the respondents.

Recommendations

Based on the results obtained in this study, it is recommended that farmers in the study area should ensure that microcredit institutions should look for the socio – economic characteristics that significantly influence loan repayment before granting loans and advances to respondent's in order reduce the incidence of loan delinquencies and default. Also the research recommends that microcredit institutions should increase their capital base so as to meet up with the required demand of respondent. Moreso, government policies should also be geared towards reducing the interest rate and increasing access to credit.

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