

The Perceived Role of Micro-Credit in Poverty Alleviation: The Case of South-South Nigeria

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Abstract

Gross market imperfection in resource mobilization, allocation and utilization exists in south-south Nigerian economy. This situation has given rise to dualistic tendencies in the operations of the rural and urban economies. The so called urban and semi-urban areas are seemingly developed better than the rural areas. Moreso, there is rural-urban migration that leaves the rural areas poorer and the urban areas filled with criminals because of lack of useful means of livelihood and over stretched facilities. Successive governments have evolved poverty alleviation programmes to alleviate the level of poverty. One of such among many others is the use of microcredit in poverty alleviation. However, the operations of microcredit have only been streamlined and not properly evaluated to assess its desired impact. Impact assessment of microcredit is highly recommended to know how to appropriately streamline operations.

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1 Introduction

Market economies the world over experience some degrees of imperfection in resource mobilization, allocation and utilization. The dualistic tendency is pronounced in developing economies like Nigeria. In developing economies, one can observe dualistic tendencies in the level of economic activities, the level of monetization and infrastructural differences between urban and rural areas.

The urban areas are better developed than the rural areas in terms of industrialization. The use of money in these areas is more pronounced than in the rural areas. Thus, in a developing economy like Nigeria, economic and financial operators in both areas operate at different degrees of efficiency. The existence of two main identifiable economic

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environments in an economy- urban and rural – has brought about distortions in the flow of economic resources. More often than not, resources flow from rural to urban areas thereby making the former poorer.

The existence of economic and financial dualism between the two areas has been sustained by structural differences. This situation has also induced urban pull of human, economic and financial resources from the rural to the urban areas (Chandavarkar, 1985). Economic operators in urban areas have access to financial houses and other economic resources. They are therefore much more able to pull unemployed resources from rural areas as their areas of origin. The urban areas have in turn suffered from the after effect of rural-urban migration. This implies more unskilled labor in urban areas and could be seen in high level of urban unemployment, strains in urban infrastructure, increase in crime, overcrowding of urban areas etc.

The rural economy needs an appropriate arrangement of institutional framework which can help in resource mobilization and utilization. Different attempts at achieving these had in the past tended to accentuate the situation instead of palliating it. The federal government introduced different poverty reduction programmes such as Directorate of Food, Roads and Rural Infrastructures (DFRRI), Better Life Programme (BLP), Family Support Programme (FSP), Family Economic Advancement Programme (FEAP), National Poverty Eradication Programme (NAPEP). All these programmes devoted to poverty reduction were more or less corruption ridden and inconsistently implemented (CBN, 2003). For example, the rural banking scheme, which was meant to serve the rural areas actually intensified urban pull of financial resources. The reasons were that savings mobilized in the rural areas were transferred to urban branches of the bank for lending. In other words, for such banks, rural branches served as savings mobilization centers while urban branches served as credit or lending centers.

The inherent problems of the rural economy could therefore be seen in terms of the following:

- a. The non existence of an appropriate institutional framework to help in efficient resource mobilization, allocation and utilization in rural areas.
- b. Urban pull of rural resources which leaves the rural areas poorer.
- c. Lack of social and economic infrastructures in the rural areas.
- d. Until recently, absence of a conscious effort on the part of the government and non-governmental organizations (NGOs) to address the lapses.

This paper attempts to bring into focus, how the existence of an appropriate framework of financial institutions in the rural areas, south-south Nigeria, could help bring about effective and efficient resource mobilization, allocation and utilization. The main focus of the paper is therefore on the perceived role of micro credit in socio-economic development of rural areas and by implication of poverty alleviation.

The paper is divided into five main sections. Section one is the introduction, section two considers the definition of concepts, section three reviews what have been evolved so far as development strategies of micro credit entities and what should be the operational strategies of micro credit entities, section four examines the role of micro credit in rural economic development and poverty alleviation while the last section contains policy recommendations and conclusions.

2 Definition of Concepts

The word “poverty” has been variously defined in economic literature. However, a poor person is considered not to have adequate resources to support a minimum standard of decent living (Edozien 1975, Olayide and Esang, 1975). The following constitute factors which can guarantee the minimum standard of living:

Literacy, sound and healthy living, food, shelter and clothes. A literate person would be in a position to break down cultural barriers that would engulf him or her in perpetual poverty.

Health is wealth. A healthy person would be up and doing economically to contribute his or her quota to income generation and would be in a position to provide himself or herself and his family with the necessity of life.

It could be stated that human poverty involves the absence of economic opportunities and choices which are most basic to consistent human development. Thus, a poor person is in all or more never actively creative, not free in thoughts and deeds and consistently denigrate himself or herself. Poverty is therefore a process and not a static condition in that a poor person could be wealthy and a wealthy person could become poor due to inability to manage resources available to him or her.

Poverty could be classified as:

1. **Income induced poverty:** a very low income level cannot guarantee the sustenance of a minimum standard of decent living. The person who is paid a salary that is not enough to earn a minimum standard of living will not have the chance of doing any other income generating job. The present job therefore generates an income induced poverty job.

2. **Extreme poverty:** a situation in which a person is lazy, indigent and cannot have a minimum food intake for survival. This means that the person may not have that level of education that can make him active. Thus, poverty alleviation programmes should be all inclusive including opportunities for a person to be educated.

3. **Absolute poverty:** this is a poverty level that is comparatively lower than the internationally acceptable one-dollar-a-day poverty line. This poverty line is used in comparing the degree of poverty across various countries.

It is however, important to identify the poor from the non poor in order to design and implement effective poverty alleviation strategies. The factors which could normally be used are: poverty lines, poverty profiles and poverty indicators.

1. **Poverty Line:** this provides an attempt to separate the poor from the non poor. A poverty line is a starting point for poverty analysis. The main basis for poverty line demarcation is “income” or “consumption”. It is, however, important to note that one cannot easily use income or consumption in a situation in which income or consumption cannot easily be imputed. Those who are actively being involved in farming activities may consume their farm products and still look poor and wretched because they do not earn adequate income to enjoy the consumption of capital intensive products. But from the point of view of primary product consumption, they are better off. In terms of relative poverty which compares the position of an individual or household with the average income in the country, the preponderance of subsistence farmers and hoarding of money by the people in rural areas could create computative or measurement problems and by implication distort national planning strategies.

2. **Poverty Profiles:** provide a summary of information on the basic factors which could be used to measure the degree of poverty. These factors are income, consumption,

economic activities and living conditions of the poor. These factors, again, are not static, relative to an individual poor or a group of poor people. They could change as a result of migration to town, enhancement of income from economic activities or availability of employment opportunities.

The fortunes of the poor could change remarkably by means of self-efforts which are aimed at creating opportunities for enhancement of the standard of living or government efforts aimed at alleviating poverty. However, any sustainable policy should not ignore education and entrepreneurship as lasting solutions to poverty alleviation.

The poor could be found in urban cities – urban poor and in rural communities – rural poor. In both communities, the poor may not be idle or lazy as the case may be. They do not have appropriate opportunities to enable them spring up above the poverty line. Most of the poor engage in one form of economic activity or a combination of economic activities. For example, the main activity of a rural community is farming. There are other economic activities such as shoe mending, bicycle maintenance and repairs, baking, building construction, carpentry, canoe construction, fishing, educational activities, welding etc. these trades, as they may be known, are either not properly coordinated or practiced in a consistent manner in order to derive adequate financial benefits. It is very common to see a farmer doubling as a shoe repairer or a fisherman or a carpenter. The depth of involvement in these economic activities could be considered as shallow because of inadequate time, basic infrastructural facilities, the absence of entrepreneurial skills, outmoded production techniques, funding problems, etc.

Micro credit on the other hand involves making credit available to a group of poor people who are not properly organized without asking for tangible collateral securities which they do not have or having no demonstrable records of steady cash flows or are not adequately literate to fill formal loan application forms. Micro-credit helps to bring the poor into the mainstream of economic activities. It helps the poor to be economically productive by having access to credit.

The major differences between micro credit and formal credit could be seen in the following:

- i. Filling of formal application forms.
- ii. Provision of adequate collateral securities.
- iii. Presentation of historical accounting information about the business.
- iv. Audited accounts of the business etc.

The micro-credit delivery system is quite informal, amount is small and the major targets are economic groups which have potentials for modernized and expanded productive activities. Micro-credit beneficiaries are however being consistently prepared for enterprise development and sustenance. Micro-credit is not an entirely new phenomenon. It has only been modernized with expanded scope and enhanced funding. It constitutes one of the basic options for rural development.

3 The Strategic Options for Rural Development

It has been noted that the highest percentage of national population is found in the rural areas. However, efforts were in the past, concentrated on the development of urban areas to the detriment of rural areas. The implication is that planning and development efforts were in the past concentrated where the lowest percentage of national population resided.

The importance of evolving strategic options for developing the rudimentary framework of economic activities in rural areas was not recognized so early by government and development economists.

Different categories of artisans could be found in the rural areas. They include farmers, tailors, fishermen, shoe repairers, bicycle repairers etc. thus, the rural economy is made up of different interdependent sections. In spite of the preponderance of farmers in rural areas, between twenty and thirty percent of rural dwellers earn their incomes from non-farm activities (World Bank, 1978).

Farming activities in rural areas have always been at the subsistence level. This has been, in spite of the availability of abundant economic resources. This situation brought about the following:

- i. Declining rural population due to migration of unemployed and under employed persons to urban areas.
- ii. Declining productivity resulting from decreasing productive labour force in rural areas.
- iii. Declining level of contribution of agriculture to the gross national income due to the growing petroleum sector.
- iv. Overstretched facilities in urban areas, resulting from the increase in urban population.
- v. Social unrest in urban areas due to increase in the number of unemployed persons who are predominantly unskilled.

In order to minimize the above problems, the attention of government, non-governmental organizations (NGOs) and development economists has, of recent been directed at rural economic development. Government on the one hand has been concerning itself with:

- i. Direct provision of rural infrastructures such as feeder roads, bailey bridges, educational institutions etc.
- ii. Provision of incentives to rural dwellers to also establish some infrastructures through self-help efforts; this has resulted in construction of civic centers, rural electrification etc.
- iii. Formulating policies which can induce rural socio-economic development. Such policy areas are: development of Cooperative Societies, Development Associations, Community Based Organisations (CBOs) etc.
- iv. Establishment of government organs which are specifically concerned with the provision and maintenance of rural infrastructures. E.g. DFRRI, Local Government Councils etc.

Development economists have on the other hand devised what could be considered to be an appropriate approach to rural economic development. However, there is a consensus that the integrated approach to rural development should be considered as the desirable strategic option. See for example, Ruttan (1975), Stavenhagen (1977), Mijindadi (1978), Onokerhorage (1978), Austin (1980).

The integrated approach to rural development according to Mbat (1987) involves:

- a) The provision of adequate and appropriate rural infrastructures to attract investors as well as retain potential migrants in productive and creative employment in the rural areas;
- b) Intensification of agricultural production through the introduction of modern farming techniques and a well articulated farm management process;

- c) Concurrent development of other interdependent economic sectors to induce economic specialization;
- d) Development of a functional rural financial market which is capable of efficiently mobilizing and allocating adequate financial resources to induce and sustain the tempo of economic activities in rural areas.

The dynamics of rural economic development has more often than not been slowed down by the non existence of appropriate funding institutions in the rural areas. The reason could be seen in the fact that more emphasis was placed on physical development of rural areas than on financial development.

However, some authorities like Adam (1983) and Von Pischke, Adams and Donald (1983) have opined that rural economic development should be backed up with rural financial market development in order that the former may be sustained by the later.

In Nigeria, the introduction of the rural banking scheme marked the starting point of a conscious effort on the part of the fiscal and monetary authorities to develop the rural financial market. The well deserved intention of the scheme was to harness and efficiently allocate financial resources in rural areas for productive use. Commercial banks then were, however, chosen as tools for the implementation of the scheme. They were therefore required to open branches at designated locations.

The scheme was a burden on commercial banks in that they were forced to adopt two different operational objectives and strategies to suit the urban and rural economies. In the first instance, it increased the bank's average operational cost (Mbat, 1982). On the other hand, the scheme created an avenue where banks could mobilize rural resources and transfer them to urban areas for investment in defiance of the original intention of the official policy content and operational guidelines. The moral justification given by banks for the urban pull of rural financial resources was lack of adequate number of committed economic operators who could ensure the viability of rural branches of commercial banks. It could therefore be said that rural areas need financial institutions which could help in developing:

- a) Banking habit (savings and credit) among rural households and economic operators;
- b) Rural commercial and industrial base and culture;
- c) Viable agricultural outfits and availability of rural micro enterprises.

Commercial banks, by the nature of their objectives and operational strategies could not be considered as appropriate financial institutions which can induce the development and sustenance of a viable economic base in rural areas (Mbat, 1982).

The community banking scheme which was evolved could be considered as very appropriate financial framework which could facilitate the economic transformation of rural areas. Community banks are supposed to be the rural based and development oriented. A community bank can easily facilitate the development of banking habit (savings and credit development) because its operations focus on community based services. A community bank is supposed to be owned by members of the community and managed by those who understand the banking needs of the community.

Community banks are therefore supposed to be engines of socio-economic development of the rural communities where they are located. Their operational strategies should help to:

- a) develop banking habit (savings and credit development) among rural dwellers;

- b) investigate and formulate viable rural micro projects and rural based industrial and commercial projects which are capable of sustaining their existence;
- c) mobilize savings to enhance rural capital formation;
- d) provide financial services to rural economic operators to induce economic growth and development in rural areas;
- e) establish a functional financial market operators in rural communities.

However, community banks operate like commercial banks. They are highly risk averse and can function efficiently in an economically organized environment. They cannot mobilize urban and rural poor for effective productive activities. The reason is that they require as a matter of prudence, appropriate collateral securities which the poor cannot provide. Community banks were transformed into microfinance banks for the purpose of granting micro credit to the poor. However, the policy establishing microfinance banks did not specify that they should be established in rural areas. More than 90% (ninety percent) of the microfinance institutions are found in urban and semi-urban areas. The operational strategies of the existing institutions are targeted at urban poor who may not experience extreme poverty as those in the rural areas.

The operations of microfinance institutions in Nigeria are more or less based on the experience of the programme in other countries in spite of the fact that attitudes and environments of micro credit beneficiaries in Nigeria are different. Group borrowing and lending which constitute the core area of micro credit operations are seen not to work in Nigeria because of power links of the beneficiaries with politicians. Moreover, some micro credit staff in the field may compromise the principle of lending to their own individual benefits as a way of corruption (Microfinance Bulletin, 2010. P.25). It is therefore important to evolve an effective credit system which can empower the poor for effective economic production. The credit system that can perform this “magic” is the micro credit organized by the non-governmental organizations (NGOs).

When micro credit system is properly evolved in any community, the microfinance banks can function effectively as participatory financial institutions where they are in existence. The relationship amongst donor agencies, micro credit entities and participating financial institutions is bound to induce a well articulated community based financial framework.

3.1 Operational Strategies of Micro-credit Entities

Micro-credit entities rely on three major sources of funds namely personal, participatory finance institutions, donor agencies. Funding by the entity requires tact and skills. The entity has to ensure that whatever amount is given out will be recovered within the stipulated period of time. This is done by the personal involvement of the promoters themselves.

Thus, most micro-credit entities adopt the group solidarity approach. This involves lending to a group of five (5) to twenty five (25) individuals. These individuals pursue common economic objectives and microenterprise activities. The group provides joint guarantees for each other's loan.

The essence of the group solidarity approach is therefore to guarantee loans to each member of the group. Since members pursue the same economic interest, they are much more able to facilitate the solution of common problems affecting them and promote group solidarity for effective economic bargaining. The group dynamics create leadership and management skills. In the process of constituting the group, a leader always emerges.

The leader of the group is expected to provide effective leadership in terms of group organization and activities.

The group selection process ensures that all members of the group have confidence in one another to the extent that access to credit for any member of the group depends on the consent of all members of the group. Thus, group members therefore share in risks and benefits accruable to members of the group. Meetings of the group are always held to discuss common problems, approve loans and ensure loan repayment as per schedule and offer business advice to each member. However, in spite of well articulated organization of the group, some members of the group default leading to the inability of the group to meet its obligations.

3.2 Techniques of Lending

When groups are already on ground, micro-credit entities have little or no problems making credit available to the group if properly constituted. But where there are potentials for economic exploitation and no groups are available, it is incumbent on the credit entities to help in the formation of viable economic groups.

Loans are normally advanced to each group and such loans are expected to be repaid under three (3) or four (4) months. It is common to grant loans of about five thousand (N5,000.00) Naira only, per member of the group. For a group of five (5) persons, this would amount to twenty five thousand (N25,000.00) Naira only. However, if some members of the group do not want, the total exposure would be much less. Any increase in the amount of credit would depend on the performance of the previous loan in terms of payment of interest and principal.

It is important to note that the viability of any business financed would bring about the viability of the financing entity. Thus, the long-term financial sustainability of any project would depend on the following:

1. Operational cost: This could be seen as the cost of rendering the service as well as risk of default. The operational cost should as much as possible be minimized to lend at the minimum possible interest rates.
2. Cost of capital: The cost of capital is the interest payable on funds from participating financial institutions. The interest payable by beneficiaries should cover interest payable on borrowed funds.
3. Inflation: Any interest charged should take care of the erosion of owned capital by the funding entity as well as implicit interest on capital used. Thus, micro-credit operations are likely to be based on above market interest rates. Our field study has indicated that most micro-credit entities charge N40.00 per N1,000.00. This amounts to about 48% (forty-eight percent) per annum. The current market interest rate is about 25% (twenty five percent). Microfinance banks charge about 25% (twenty five percent) per annum excluding administrative charges.

Credit could be given for direct production or marketing of basic agricultural products. One thing is important, credit availability would make the poorest person to develop interest in economic activity, generate income and evolve economic means of survival through engagement in productive activities.

4 The Role of Micro-credit Entities in Socio-economic Developments

A micro-credit entity, if properly organized, can exert the desired impact on its environment. In the first place, it is very appropriate for a rural environment. It can induce financial interest among rural economic operators. Those managing micro-credit entities are supposed to be people who understand the socio-cultural environment of the community. Inducement of financial interest equally implies development of banking habits. Thus, micro-credit entities could spearhead the formation of banking habits among rural economic operators.

Micro-credit entities can mobilize savings from rural economic operators as a result of the provision of micro-credit facilities. They also make funds available to deficit economic operators through lending. Thus, they constitute a ready source of borrowing by rural economic operators.

Micro-credit operators are expected to:

- a) arouse the interest of rural economic operators in financial matters;
- b) provide savings facilities to enhance savings mobilization;
- c) provide a ready source of borrowing by deficit economic operators;
- d) facilitate the monetization process in rural areas and by doing so, enhance the transmission mechanism of monetary policy impulse;
- e) minimize the activities of money lenders thereby directly and indirectly forcing them to channel their resources to the organized financial market;
- f) create the base for the development of a modern financial market in rural areas;
- g) help to develop an investment culture among rural economic operators;
- h) facilitate the development of an industrial culture by helping to finance factories, farmers, artisans, etc. and helping them to increase the dimensions of their operations;
- i) promote the formation of banking habit among rural households;
- j) help in mobilization of resources for national development;
- k) help in stemming the rural-urban drift as well as reverse the drift by promoting the development of a conducive environment for economic activities in rural areas.

However, it is not possible to properly evaluate the impact of micro-credit operations in south-south Nigeria and the country as a whole because the supervision of micro-credit administration is vested in the other financial institutions department (OFID) of the Central Bank of Nigeria (CBN) and the operators also, seem to be more interested in streamlining the operations of the micro-credit institutions and less in assessing the impact of micro-credit operations in poverty alleviation in Nigeria. Some countries have been able to undertake research to assess the impact of micro-credit institutions in poverty alleviation. See for example, Morduch (1999), Nasim and Aman (2009), Anis (2009), Okurut, Banga and Mukungu (2004) and Nathaniel (2005), etc.

5 Policy Recommendations

It is recommended that micro-credit should be used as a common tool for poverty alleviation in south-south Nigeria. In order for it to be effective, there should be coordinated efforts on the part of government, donor agencies, participating financial institutions and micro-credit entities which are mostly non-governmental organizations (NGOs).

Government at all levels should be involved in regulating the activities of micro-credit entities, providing funds at subsidized rates and facilitating the establishment of NGOs which can act as micro-credit entities at the local government levels.

Donor agencies should, through supervisory techniques, ensure that funds made available by them to micro-credit entities are effectively used for economic and not social purposes. Also, participating financial institutions should make more funds available to micro-credit entities for on lending to the poor. The micro-credit entities should ensure effective organization of the poor into groups to benefit from credit services, supervise the use of credit proceeds to minimize delinquent loans, engender increase in productive activities by the poor and undertake impact assessment of their services.

5.1 Conclusion

Micro-credit is basic to the survival of rural based micro-credit institutions. Microfinance banks operate under very formal conditions just like the commercial banks. They cannot interact directly with the poor who do not have something to show. However, micro-credit services offered by micro-credit entities could be used to develop the poor and make them ready to utilize the services of microfinance banks.

Micro-credit delivery is more of informal than formal credit activity. It could involve group lending targeted at a particular economic activity such as direct production-farming, marketing of agricultural products, processing of raw materials, etc. What is important is that credit availability arouses economic interest and productive activities which in turn produces more income and enhances the standard of living. Poverty alleviation, therefore, makes sense when the poor are engaged in economically productive ventures which generate income.

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