Impact assessment of microfinance institutions in Nigeria: gaps, inefficiencies and emerging solutions

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Abstract: *Microfinance has received a lot of attention recently, both from policy makers as well as in academic circles. Microfinance interventions have contributed significantly to small business development. The success story of microfinance schemes notwithstanding, they have the problem of excluding the poorest of the poor and at times do not have the characteristics that encourage entrepreneurial development. This paper reviews the achievements of the 'microfinance revolution', through reference to the now extensive literature. It finds that there are many opportunities to improve and innovate. The interpretation reveals that as more the number of years of formal education of respondents, the more the level of enlightenment which will determine the level of annual savings. It is also confirmed that there is negative relationship between the nature of business enterprises and social cultural expenses. This negative relationship could be explained as the more the expenditure on social and cultural issues the less the annual savings. To illustrate this finding, the paper concentrates on examining what we need to know to design and deliver better financial products to the poor, especially the poorest. It argues that financial services for the poor are essentially a matter of helping the poor turn their savings into sums large enough to satisfy a wide range of business, consumption, personal, social and asset-building needs.*

Keywords: Microfinance, Institutions, Financial Services, Business, Capital, Informal Sector.

Introduction

Microfinance grew out of experiments in Latin America and South Asia, but the best known start was in Bangladesh in 1976, following the wide-spread famine in 1974. Advocates argue that the microfinance movement has helped to reduce poverty, improved schooling levels, and generated or expanded millions of small businesses. The idea of microfinance has now spread globally, with replications in Africa, Latin America, Asia, and Eastern Europe, as well as richer economies like Norway, the United States, and England. Among the features of microfinance is disbursement of small size loan to the recipients that are normally micro entrepreneurs and the poor. The loan is given for the purpose of new income generating project or business expansion. The terms and conditions of the loan are normally easy to understand and flexible. It is provided for short term financing and repayments can be made on a weekly or longer basis. The procedures and processes of loan disbursements are normally fast and easy. Additional capital can also be given after the full settlement of the previous loan. Microfinance is an alternative for micro entrepreneurs, which are normally not eligible or bankable to receive loans from commercial banks. (Rahman, 2007)

Microfinance is described also as banking for the poor. Microfinance programmes provide loans, savings and other financial services to low-income and poor people for use in small businesses. Originally based on traditional forms of community financing (a cross between finance and development assistance), microfinance is found all over the world in places such as Africa, Latin America and Asia. (Enugu Forum, 2006).The remainder of this introduction consists of a short review of the existing literature on the topic.

Literature

Microfinance means "programme that extend small loans to very poor people for self employment projects that generate income in allowing them to take care of themselves and their families" (Microcredit Summit, 1997). The World Bank has recognized microfinance programme as an approach to address income inequalities and poverty. The microfinance scheme has been proven to be successful in many countries in addressing the problems of poverty. According to the United Nations (UN), in 2002 almost one fifth of the world population (i.e. 1.3 billion people) were living in extreme poverty, earning less than one dollar a day. In recent public debates microfinance has been mentioned as an important instrument to combat extreme poverty. According to the United Nations (UN), microfinance can contribute significantly to the achievement of the United Nations Millennium Development Goals, as agreed upon by world leaders at the UN Millennium Summit in September 2000, and which aim at halving extreme poverty by 2015. (Lensink and Hermes, 2007).

Provision of rural credit can either be formal or informal. Formal intervention involves paper work and official procedures while informal intervention is based on social interaction with little or no paper work. Formal interventions in the provision of rural credit in Nigeria have been bedeviled by a multiplicity of problems such as gross inadequacy in staffing, organization and management as well as poor loan recovery (Soyibo, 1997). Apart from this, the interest rate charged by the formal sector is usually high, accessibility may be difficult because of requirements for collateral and the formal sector never gives incentives that will lead to entrepreneurial development. While the formal sector has performed woefully in the provision of credit the informal sector is doing reasonable well.

Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, et al, 2003). They also operate in the urban centres.

Microfinance programmes and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development. However, knowledge about the achievements of such initiatives remains only partial and contested. At one extreme are studies arguing that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997). At the other are writers who caution against such optimism and point to the negative impacts that microfinance can have (Adams and von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood and Shariff, 1997). In the 'middle' is work that identifies beneficial impacts but argues that microfinance does not assist the poorest, as is so often claimed (Hulme and Mosley, 1996; Mosley and Hulme, 1998).

Given this state of affairs the assessment of microfinance programmes remains an important field for researchers, policymakers and development practitioners.

Roles of the Micro Finance Institutions

Micro Finance continues to assume increasing importance as a result of the foregoing. The emphasis on micro credit in this century is such that the Global conscience believes that if unemployment is reduced, the world would be a better place as there would be a reduction in poverty, an improved living condition, increased productivity, and an overall resultant effect of an enhanced economic performance. Khandker (1998) observes that the lack of savings and capital makes it difficult for many poor people to become self-employed and to undertake productive employment generating activities.

Goals of Micro Finance Banks

The establishment of microfinance banks has become imperative to serve the following purposes:

• Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial;

• Mobilize savings for intermediation;

• Create employment opportunities and increase the productivity of the poor in the country, thereby increasing their individual household income and uplifting their standard of living;

• Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

• Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

• Render payment services, such as salaries, gratuities, and pensions for various tiers of government. With the effective implementation and monitoring of the on-going micro finance policy in Nigeria, it is expected that the issue of unemployment in Nigeria will be a thing of the past by the year 2020.

Over the past two decades, various development approaches have been devised by policymakers, international development agencies, nongovernmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which has become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson & Rogaly, 1997).

Research Methodology

The area of study includes the five (5) divisions of Lagos State namely Epe, Ikorodu, Ikeja, Island and Badagry. Lagos State has a total land area of 358,861 hectares or 3,577 square kilometers and is located in the Southwestern part of Nigeria on the narrow coastal plain of the Bight of Benin. The State lies approximately between Longitudes 20421 and 30221 East of the Greenwich Meridian (London) and between Latitudes 60221 and 60421 North of the equator. It is bounded in the North and East by Ogun State of Nigeria, in the West by the Republic of Benin, and stretches over 180 kilometers along the Guinea Coast of the Bight of Benin on the Atlantic Ocean. The method of analysis was based on Descriptive statistics (such as frequency counts, percentages, means and standard deviations) were used to summarize and describe the data. Data were obtained from a field survey of the five (5) divisions of Lagos State i.e. one hundred (100) in each division. Questionaire for the survey were amended based on experience acquired from pre-testing exercise. Information was sought on age, sex, occupation, saving culture, income e.t.c.

The descriptive statistics such as frequency table, mean, median, standard deviation, coefficient if variation and percentages were used to summarize socio-demographic variables of the respondents. A multiple regression model was used to analyze the factors affecting savings of respondents.

Table 1: *Respondents' Genders*

Gender	Frequency	Percentage (%)
Male	128	27.06
Female	345	72.94
	473	100%

Source: Field Survey, 2009

From Table 1 above, it is shown that 27% of the respondents were male and 73% of the respondents were female. The distribution showed that there were more female than male. This supports the findings of UNCDF (1997), Adebayo (1997), ADB (2000, 2005) Olomola (2001) and Adeyeye (2003) that members of microfinance beneficiaries are mostly women who along with children from the group that is vulnerable to poverty. This makes microfinance service delivery in the area a truly poverty alleviation.

Table 2: *Respondents' age Structure*

Range of Ages	Frequency	Percentage (%)
18-25	126	26.64
26-45	289	61.1
46 and above	58	12.26
	473	100%

Source: Field Survey, 2009

Table 2 above shows that the majority of the respondents fall between the age 18 – 45 years which constitutes 88% of the total sampled respondents. Therefore, the majority of the respondents are middle-aged people. The implication is that respondents were within close age bracket suggesting a very strong peer influence in group formation.

Table 3: *Respondents' Business Enterprises*

Agricultural Activities	Frequency	Percentage (%)	Non-Agricultural Activities	Frequency	Percentage (%)
Fish Farming	92	53.80	Trading	156	51.66
Poultry	64	37.43	* Artistry	114	37.75
Arable Farming	15	8.77	Food Processing	13	4.30
			Transportation	19	6.29
	171	100%		302	100%

Source: Field Survey, 2009

Table 3 above shows that more respondents i.e. 64% were involved in non-farming businesses than farming businesses (36%). In addition, more respondents were also into fish farming (54%) than poultry farming while more respondents (52%) were into trading activities than artistry activities (38%).

Table 4: *Respondents' savings culture/habit*

Level of Savings	Frequency	Percentage (%)
High	149	31.50
Medium	248	52.43
Low	76	16.07
	473	100(%)

Source: Field Survey, 2009

About 32% of the respondents has high level of savings habit while 52% of the respondents has medium savings culture and 16% of them have low saving habit. This support the findings of Alade (2006) that long-term savings in Nigeria accounted for 10% of the population while short-term savings was about 56% and medium-term accounted for 34%.

Table 5: *Respondents' borrowings from Microfinance institutions in 2008 & 2009*

Amount Borrowed	Frequency	Percentage (%)
1-50,000naira	131	27.70
50,001-100,000naira	225	47.57
100,001-200,000naira	65	13.74
200,001-300,000naira	23	4.86
300,001-400,000naira	17	3.59
400,001+	9	1.90
Not Applicable	3	0.63
	473	100 %

Source: Field Survey, 2009

About 76% of the sampled respondents obtained loan size of 1-50,000 and 50,001-100,000 19% of the respondents received loan size 100,001-200,000 naira 200,001-300,000 naira. From the study 6% of the respondents obtain 400,000 naira and above. These amounts given out as loans may seem small to people in Industrialized countries, but as a matter of fact the loans are a good start to the respondents (i.e. beneficiaries) in order for them to work their way out of poverty.

Table 6: Respondents average annual savings for 2008 & 2009

Savings	Frequency	Percentage(%)
1-5,000naira	19	4.02
5,001-10,000	45	9.51
10,001-20,000	152	32.14
20,001-30,000	124	26.22
30,001-40,000	67	14.16
40,001-50,000	34	7.19
50,001-100,000	23	4.86
100,001+	9	1.90
	473	100 %

Source: Field Survey, 2009

About 86% of the respondents had savings below 50,000 naira (equivalent of less than 30,000 naira annually), while only 14% saved 50,000 naira and above annually. Amount of annual savings can be said to be low because many respondents earn very low. The fact that savings by respondents is very low was supported by the findings of Adewunmi (1996) who observed that savings are low in Nigeria because the citizens earn low income.

Table 7: Respondents average annual income for 2008 & 2009

Income	Frequency	Percentage(%)
1-50,000naira	43	9.09
50,001-100,000	195	41.23
100,001-200,000	128	27.06
200,001-300,000	75	15.86
300,001-400,000	12	2.54
400,001-500,000	10	2.11
500,001-1,000,000	7	1.48
1,000,001+	3	0.63
	473	100 %

Source: Field Survey, 2009

Annual income of the respondents is presented in Table 7. The poorest respondents earned 18,530 naira, while the richest earned 299,100 naira. 50% of the respondents earned 100,000 naira or below per annum. However, 19% of them earned over 200,000 naira.

Correlation Matrix of the Determination of Respondents Level of Savings

As mentioned in the analytical procedure a functional relationship was formulated to ascertain whether Microfinance services resulted into significant increase in savings using the Pairwise Correlation Matrix.

A linear equation was chosen as the lead equation as follows;

$$\mathbf{Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon_t}$$

Where the dependent variable Y is the annual savings of sampled respondents, X1 is the educational level of respondents, X2 is the annual income of respondents, X3 is the nature of businesses of respondents, X4 is the socio-cultural expenses of respondents and X5 is the respondents gender.

Table 8: *Correlation Matrix of the Determinant of the level of Savings of Microfinance Institutions Beneficiaries.*

	Y	X1	X2	X3	X4	X5
Y	1					
X1	0.6149	1				
X2	0.4364	-0.1923	1			
X3	-0.0394	0.1822	0.1919	1		
X4	-0.1764	0.2282	0.4716	0.4163	1	
X5	0.5246	0.0345	-0.1947	0.6184	-0.1156	1

Source: Field Survey, 2009

Regression Result of the Model

$Y = 6245.91 + 41.44\,X_1^* + 196.79\,X_2^* - 506.72\,X_3$
(69.87) (18.19) (68.21) (+441.04)
$-0.39\,X_4 + 386.81\,X_5^*$
(0.075) (161.13)
$R^2 = 0.67789$
Adjusted R = 0.6119
F-statistics = 19.1928
Significant @ 5%

From the correlation matrix presented above, it can be shown that educational level of the respondents annual income and gender of respondents are positively related to level of savings while another variable i.e. nature of business of respondents are negatively related to level of saving. This is interpreted as the more the number of years of formal education of respondents, the more the level of enlightenment which will determine the level of annual savings. It is also confirmed that there is negative relationship between the nature of business enterprises and social cultural expenses. This negative relationship could be explained as the more the expenditure on social and cultural issues the less the annual savings.

Conclusion

This paper studied the impact assessment of Microfinance Institutions in Nigeria, with particular emphasis on the five divisions that make up Lagos State. Microfinance Institutions are established mainly to provide poor people with effective financial services helps them deal with vulnerability and can thereby help reduce poverty. However, the relationship is driven by complex livelihood imperatives and is not simple. Microfinance is not a panacea that converts the poor into the non-poor. Rather, it can be a platform that raises the likelihood of success of the strategies to escape poverty that poor households pursue. The paper concentrated on examining what we need to know to design and deliver better financial products to the poor, especially the poorest. It argues that financial services for the poor are essentially a matter of helping the poor turn their savings into sums large enough to satisfy a wide range of business, consumption, personal, social and asset-building needs.

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