

# **Evaluation Of Credit Availability In Microfinance Institutions: Evidence From Northern Nigeria**

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## **Abstract**

The study examines the availability of credit facilities being provide by microfinance institutions in Northern Nigeria. The importance of microfinance institutions in Nigeria's economy cannot be over-emphasized; this is because it plays a vital role in the financial intermediation process and also improving the lives of low income earners whom constitute over 70 percent of the Nigerian population. The design and technique employed in data collection were survey method and data collection through the use of self developed likert scale questionnaire. The result of the study indicated that no significant difference was found among genders, geographical location and microfinance institutions affiliation in terms of availability of credit facilities being provided by microfinance institutions in Nigeria.

**Keywords:** Poor, credit, microfinance

## **I .Introduction**

Nigeria is one of the Sub-Saharan African countries, located in the extreme corner of the gulf of Guinea, covering an area of 923,768 sq. km (356,669 sq. mi), extending 1,127 km (700 mi) E–W and 1,046 km (650 mi) N–S.

Nigeria, being the most populous countries in the African continent with a population of over 150 million people, is also a large producer of oil. It is situated in the western part of the continent bordering Niger republic in the North, Benin republic in the East, Cameroon in the West and the Atlantic Ocean by the south. The country has a diverse population enclosing over 250 ethnic groups that cut across various areas in the country.

The country is well endowed with raw materials and natural resources which, with the application of the appropriate technology and production processes, will promote linkages between raw and natural resources, production capability, and the industry. It is the continued lack of this linkage between the oil and gas sector and industry which has largely been responsible for the oil and gas sector being exogenous to the rest of the economy. However, despite the oil wealth, Nigeria is a low income country in Sub Saharan Africa (World Bank, 2005). The economy was purely agrarian prior to the discovery of oil. However, with the discovery of oil in commercial quantities, the attention was shifted from agriculture to

petroleum production. The contribution of agriculture to the economy was recognized, especially in the 1960's up to early 1980's.

The contribution of agriculture to GDP, which was 63% in 1960, experienced a decline to 34% in 1988, not because the industrial sector increased its share, but due to neglect of the sector. It was therefore not surprising that by 1975, the economy had become a net importer of basic food items (Ekpo & Umoh, 2007).

The Global Monitoring Report (2009) defines extreme poverty as the proportion of individuals in developing countries who live on less than \$1.25 a day (based on purchasing power parity 2005 constant prices). The report further reveals that projections based on the new 2005 purchasing power parity (PPP) poverty data indicates that the share of people living on less than \$1.25 a day will fall from 41.7% in 1990 to 15.1% in 2015. However, the greatest poverty reduction occurred in East Asia and the Pacific and it is largely attributed to China (Global Monitoring Reports, 2009).

The data on poverty based on the purchasing power parity (PPP) shows that for the global regions, the richest population quintile has a 40% or larger share in national consumption, which is far greater than the 2 to 9% consumed by the poorest quintile. Sub-Saharan Africa and the fragile states have the greatest disparity between the richest and poorest quintiles (Global Monitoring Report, 2009).

The last decade has seen the evolution of microfinance institutions that have created significant income and employment opportunities for the poor in developing countries (Bhatt & Yan tang, 2001). In an attempt to fight against poverty, several efforts have been put forward in various countries. Examples of such efforts could be seen in ACCION's BancoSol in Bolivia, Bank Rakyat Indonesia's (BRI) Unit Desa program in Indonesia, Amanah Ikhtiar Malaysia (AIM) in Malaysia and the Grameen Bank in Bangladesh. It is evident that microfinance institutions could play a vital role in poverty alleviation based on the superior performance of these programmes.

The experiences of these and other prominent microfinance programs have triggered imitation efforts, in one form or another, in many countries of the world from Bolivia, Peru, Mexico, and Costa Rica to Nigeria, Mali, Malawi, Togo, Chile, Malaysia, Indonesia, Sri Lanka, Nepal, and India. The performance of the programs in some countries, however, has not been encouraging. Many have been weighed down with problems which include, among others, high default rates, an inability to reach sufficient numbers of borrowers, and a seemingly unending dependence on subsidies. Few of them have lived up to their original objective of "including the excluded" (Bhatt, 1997).

## **II. Research Objectives**

The objective of this study is to evaluate whether credit facilities are available in microfinance institutions in northern part of Nigeria. The purpose of the study also is to identify the

relationships among genders, geographical location and microfinance institutions affiliation in the provision of credit facilities by microfinance institutions.

### **III. Theoretical Background**

Microfinance is viewed as the provision of financial services to the poor and low income group (Micro finance Gateway, 2010). It can also be regarded as the process by which low income households will have a greater access to a variety of high quality financial services to finance their own small business enterprises. These services rendered by microfinance institution are not limited to credit facilities only, but it encompasses savings, insurance and money transfers. Typical microfinance clients include the poor and the low income people who find it difficult to benefit from the conventional or formal financial institutions.

Microfinance clients are predominantly living along the poverty line engaged themselves in small enterprises which include small retail shops, street vending, artisanal manufacture, black smithing, welding, carpentry and many others. In most cases where micro-credits clients receives micro loan to start their businesses, scattered research suggests that only half or less of the total loan proceeds are used for business purposes. Most of the credit receives tend to be spent on a range of households cash management needs which includes stabilizing consumption, expenses on education, health and other life cycle events (Micro Finance Gateway, 2010).

Asian Development Bank's microfinance development strategy (2000 1a) perceived the term microfinance as '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 their micro enterprises.' The Asian Development Bank's definition of microfinance focuses on low income households that are below the poverty line, but there are many households that are above or on the poverty line and in need of financial services especially in rural areas (Conroy et al., 2000).

1. There is demand for safe and convenient depository and savings facilities for the poor, so that they can save and meet their social obligations, education, consumption etc.
2. There is a need for credit facilities both to the households and micro- enterprises.
3. The poor and low income households have the need for other financial services such as insurance and fund transfers.

Therefore, the concept of micro financing covers not only the provision of credit services to economically active poor and the low income who have no access to formal financial system but it also focuses on the provision of financial services such as insurance, transfer payments and other forms of formal financial services.

At the global environment, the major players of microfinance industry include government, philanthropists, social investors, multi-lateral institutions and commercial banks. Microfinance institutions (MFIs) provide services to the people in the area of deposits, savings, insurance,

pension schemes, fund transfers, etc. Most of the MFIs clients are rural and urban poor who borrow mainly to finance farming, petty trading, arts and craft and other forms of small scale businesses or enterprises.

The World Bank estimated that there are more than 7000 micro finance institutions serving some 16 million poor populaces in most of the developing nations. As at 2006, there were 10,000 existing microfinance institutions worldwide serving about 64 million borrowers which represent 590.74 percents increase in the 2000 figure for about 9.3 million (Ovia, 2007).

Microfinance institutions can be conventional banks (private or government), specialized commercial banks or other financial service providers such as governmental or non-governmental organizations (NGOs) whose main area of expertise is not banking per se. The services rendered by MFIs include credit extension, (for production, consumption and emergency), savings facilities and the provision of basic insurance such as life, health and cattle insurance) (Mwenda, 2004).

Ledger Wood (1999) pointed out that “The failure of commercial banking to provide financial services to the poor coupled with disadvantages of using informal market are major rationales for intervention in the market for financial services at the micro level. Consequently, microfinance emerged as an economic approach intended to address the financial needs of the deprived group in the society”.

The development of the microfinance sector is based on the assumption that the poor and the low income group have the capacity to engage and implement income generating activities but are limited by lack of access to and inadequate provision of savings, credit and insurance facilities. This approach will greatly reduce government intervention and will drive efficient performance (Mwenda, 2004). However, after two decades of experiences, there is the need to expand the scope of micro finance initiatives and activities to address issues about welfare implications of microfinance institutions (Mwenda, 2004).

Iqbal (2002) pointed out that the banking system and entrepreneurship are the two key agents in the overall process of development. The banking system has been identified as the major mechanism through which capital are raised and channeled to their most productive investment in the economy. Micro financial institutions are considered as the micro credit delivery mechanism for the poor and the low income people through small amounts of collateral free affordable loan. One of the significant features of this loan is that it does not require any physical collateral to obtain loan from any of the micro finance institutions.

#### **IV. Research Method**

Survey approach was employed as it represents one of the most common types of quantitative research. Sample have been selected through cluster sampling technique from the ideal population that constitutes small scale entrepreneurs such as farmers, traders, barbers, and other skill workers who are mainly the customers or beneficiaries of microfinance institutions.

400 samples have been drawn from the ideal population and relevant statistical tools have been used in analyzing the data of the study which includes ANOVA, t-test and descriptive statistics.

## V. Result and Discussion

### Independent t-test

#### Mean, T- Value, Standard Deviation and Level of Significance among gender

Gender	Mean	Std. Deviation	<i>t</i>	<i>p</i>
Male	7.8087	1.81665	1.593	.112
Female	7.4653	1.95225		

N=378, DF=376 \**p*<.05

Table 1 indicated the result for availability of credit facilities among gender. An independent t-test was computed and the results indicates no significance difference among gender in terms of credit availability ( $t(376) = 1.593, p > .05$ ). Therefore, credit facilities are available to all microfinance clients in respective of their gender.

### Independent t-test

#### Mean, T- Value, Standard Deviation and Level of Significance among rural and Urban Areas

	Mean	Std. Dev	<i>t</i>	<i>p</i>
Rural	7.5391	1.98365	-1.231	.219
Urban	7.7947	1.79791		

N=378, DF=376, \**p* > .05

Table 2 indicated the result for availability of credit facility for the people in rural and urban areas. An independent t-test was computed and the results indicates no significance difference among the geographical locations in terms of credit availability ( $t(376) = -1.231, p > .05$ ). This indicates that microfinance institution provides credit facilities in both rural and urban areas. Therefore, local micro entrepreneurs have a greater access to secure credit facilities in microfinance institutions.

### Descriptive Statistics for One-Way ANOVA

#### On Credit Availability among different MFI

MFI	N	Mean	Std. Dev
Government	114	7.5088	1.93818
NGO	109	7.7982	1.98969
Private	155	7.8129	1.69333
Total	378	7.7169	1.85746

(t(375)=1.231, p>.05)

Table 3 shows a descriptive statistics for the availability of credit facilities being provided by different microfinance institutions. No significant difference found among the three different MFI (m=7.50, 7.79 and 7.81 SD =1.93, 1.98 and 1.6). Therefore, all the three microfinance institutions affiliation provides available credit facilities to the small scale entrepreneurs.

#### VI. Conclusion

The study has been able to identify the availability of credit facilities being provided by microfinance institutions in northern Nigeria. The review of literature shows that microfinance institutions have provides useful credit facilities to the poor and the vulnerable households. The findings of the study are as follows:

- There is no significant difference in the provision of credit facilities among gender. This indicated that gender is not a significant factor in terms of availability of credit facilities being provided by microfinance institutions in Nigeria. Therefore, credit facilities are available to both male and female clients.
- Geographical location of people is also not a significant factor in determining the availability of credit facilities provided by microfinance institutions. Both rural and urban households and local entrepreneurs can secure credit facilities from microfinance institutions.
- Microfinance institutions affiliation is also not significant factor in providing available credit products to the poor and the vulnerable households. Microfinance service providers owned by government, nongovernmental and private institutions have provided available credit facilities to the poor and local entrepreneurs for the purpose of poverty eradication in Nigeria. This shows that clients secured credit easily from each of the microfinance institutions. Olu (2009) revealed that microfinance institutions in Nigeria, are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the overall economy through the services they offer and the functions they perform in the economy.

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