# INSTITUTIONAL ENVIRONMENT AND ACCESSTO MICROFINANCE BY SELF-EMPLOYED WOMEN IN RURAL AREAS OF CHANCHAGA LOCAL GOVERNMENT AREA, NIGER STATE

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## ABSTRACT

This study investigated the extent to which microfinance services reach women and its impact on the self-employed. The study also examined the institutional environment in which MFIs function and identity the characteristics of MFIs which enhance their ability to contribute to poverty reduction of women client. The primary data was obtained through a structured questionnaire administered to 75 respondents in the area. Similarly 15 MFIs were also selected and data collected from their managers. Data were analysed using descriptive statistics and regression. The results of the analysis show that most of the respondents were married (82.67%) and had acquired some education (82.66%). Further analysis of the results shows that the size of the loan benefitted by respondents ranges from ₦31,000 – ₦50,000 however, only 13% of the clients obtain a loan of ₦100,000.00 and above. In addition the loan facility had positive impact on the businesses of the client. Many of them that are farmers no longer have to purchase inputs on credits or go into forced selling of their products, and this has improved their income status as well as their standard of living. It was therefore recommended that more MFIs be established in the area with more capital (funds) provided to enable them expand their loan facility and target more women clients.

**KEYWORDS:** Microfinance Institutions (MFIs), Millennium Development Goals (MDGs), Microfinance Banks (MFBs), Non-Governmental Organisations(NGOs)

## INTRODUCTION

One factor inhibiting the attainment of development goals in less developed countries is the populace's general inability to access factors of production, especially finance. This limits the entrepreneurial ability of the people, especially the poor. Micro-credit has been one frame work adopted to address this problem. Its evaluation reflects acknowledgement of credit market failures especially in the formal financial sector. Therefore, there has been a shift from the formal financial sector to microfinance which incorporates both savings and credit (Vonderlack and Schreiner, 2001). In Nigeria, Microfinance activities are rooted in the culture of the people and come in various forms formal and informal institutions (Central Bank of Nigeria, 2005). Many governments supported by multilateral agencies have diverted considerable resources to supplying cheap credit to farmers and small businesses in a myriad of institutional settings, but results of many of these interventions have been disappointing (Etsu. 2007).Similarly, despite high levels of subsidy to rural credit in Nigeria, surveys conducted have shown that many farmers and rural women depend on credit from money lenders whose interest rate is extremely high (FAO, 2000). While there is evidence to suggest that microfinance can be a critical input in poverty reduction, the impacts are not automatic. To reduce poverty, MFIs must reach poor and very poor clients. Thus the assessment of the poverty levels of microfinance clients or of poverty outreach is an important policy issue for both practitioners and donors (Weiss and Montgomery, 2004).Evaluation of impact is very important in a developing country where resources are relatively scarce and every dollar spent should be aim at maximizing its impact on poverty reduction (Baker, 2000). Impact analysis can guide improvements in MFI management and customer service.

The institutional arrangement of microfinance can be formal or informal. A successful microfinance program-defined in terms of outreach, financial sustainability, or socio-economic impact is likely to be one designed and implemented for effective operation in a particular environment (AIMS, 1997). Microfinance is hailed as a tool for poverty alleviation and is one of the major strategies to achieve the Millennium Development Goals (MDGs). It is further argued that financial services for the poor can help them, turn their savings into sums large enough to satisfy a wide range of business, consumption, personal, social and asset-building needs (Parivartan, 2006). It also enables them to take advantage of economic opportunities to build assets, and reduce their vulnerability to external shocks that adversely affects their living standards (Majeha and Nwachukwu, 2008; Ramirez, 2006; Woroniuk and Schalkwy, 1998). Arumachalam (2007) posits that micro finance has been considered as having its roots in the women's quality movements but that today it emphasizes finance more than gender. With regards to the institutional framework for microfinance service provision, Project Parivartan (2006) identified three basic types of providers. These are informal, semi- formal and formal providers. According to Schreiner (1999), informal association in

Argentina for instance does not use social capital to screen members and enforce repayment. Instead, they rely on reduced transaction costs, regulations, the legal system, and individual risk evaluations. Three basic models used by public or private sectors to set up MFI were identified by Project Parivartan (2006). These are community-based, solidarity groups and partner-agent models. In reality, many services are a combination of different microfinance models shaped to the context of clients and the need for financial sustainability. Hofman and Marius-Gnanou (2007) observed that women have been the focal point of many development strategies since the 1980s, and that 84.2 percent of the poorest microfinance clients worldwide are women. The authors further added that since women are taking on the financial responsibility for the family and household promised a greater development impact on a collective level, and offer opportunity to make some form of contribution to the household and improve living conditions for their children. They also become less dependent on their in-laws, by participating in decision-making concerning the use of the loans and income, thus gaining respect and sometimes social acknowledgement from the community. Similarly, Hofman and Marius-Gnanou (2007) also submitted that microfinance empowers women which enable them in the acquisition of a right to free speech and social recognition, and is considered as a process moving towards equality between men and women. Lending credence to this, Arunachalam (2007) lists out four discernable broad level impacts that access to microfinance has had on women: It has enable women to have a collective bargaining mechanism at local level, it has facilitated them to move beyond their household and build relationships with various stakeholders, it has given them a platform to combat various social oppressions, and finally, more than the money received through microfinance, at a very basic level, the self-management that it has fostered in some models (such as the village banks and/or self-help groups) is what has perhaps led to some empowerment of women. Microfinance has three distinguishing features from other formal financial products which include the smallness of the loans advanced and/or savings collected, the absence of asset-based collateral, and simplicity of operations. There is therefore a strong case for attempting to assess both the depth of outreach of MFIs and impact of MFI Services on the welfare of clients. Also, do the rural women utilize credit from MFIs for the intended purpose? And do women encounter problems in acquiring credit from MFIs? To answer these research questions, this paper analyzed how the institutional environment of microfinance in Nigeria promotes or hinders poverty reduction among self-employed women. The specific objectives are to highlight the socio-economic characteristics of clients in the study area, investigate the extent to which micro-finance services reach the women, assess the impact of microfinance services on self-employed women in the study area, examine the institutional environment in which the MFIs function, and identify the characteristics of MFIs which enhance their ability to contribute to poverty reduction.

## RESEARCH METHODOLOGY

The study was conducted in the rural Areas of Chanchaga Local Government Area (LGA) of Niger State, with a population of 202,151 (NPC,2006), and the people are predominantly subsistence farmers. Focus Group Discussion (FDGs) was the units of discussion and 15 MFIs were selected (5 each of formal, semi-formal and Informal). In all, 75 clients from 15 MFIs were selected for the survey.

The data was analyzed using descriptive statistics such as means, frequency distributions and tabulation were used to analyze most of the objectives. However, regression Analysis was used to achieve objective 3 i.e. impact of microfinance services on self-helped woman in the study area. The function in its explicit form is specified as:

$$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + U$$

Where Y = Income of women entrepreneurs/clients of MFIs (in ₦).

$b_0$ = Intercept or constant term

$b_1 - b_5$ = Regression coefficient to be estimated

U = Error term

$X_1$ = Family size of respondents (in Numbers)

$X_2$ = Educational level of respondents (measured in number of years spent in school).

$X_3$ = Employment status of respondents (measured as Agribusiness =1, Non-agribusiness =0)

$X_4$ = Other capital used in the business such as fertilizer, chemical, water, seeds etc (in ₦)

$X_5$ = Microfinance credit (in ₦)

## RESULTS AND DISCUSSION

The socio-economic characteristics of the respondents are shown on Table 1 while Table 2 shows the distribution of the respondents based on the amount of credit taken from the MFIs. Table 3 shows the parameter estimates of the variables in the multiple regression indicating that the Cobb-Douglas function with $R^2$ of 68% gave the best fit and hence was chosen as the lead equation. The variables in the model jointly exert significant influence on the dependent variables as indicated by the F-value which is significant at 1%.

The results on Table 1 shows that most of the respondents were married (83%) implying that the clients of these MFIs will be very responsible in the utilization of the credit facilities extended to them, and all things being equal, the default rate will be low. In addition most of the MFI clients acquired formal education (83%) which makes them potentially willing to accept innovation, and no wonder they applied for credit to enable them purchase the new technology. About 56% of the clients are farmers but only 47% of them are involved in farming. Another 20% of the respondents carry out trading and other forms of agribusinesses.

**Table 1:    Socio-economic characteristics of MFIs client in Chanchaga Local Government (n=75)**

| Parameter | Frequency | Percentage |
|---|---|---|
| Marital status | | |
| Single | 5 | 6.67 |
| Married | 62 | 82.67 |
| Divorced | 4 | 5.33 |
| Separated | 1 | 1.33 |
| Widow | 3 | 4.00 |
| Total | 75 | 100.00 |
| Educational level | | |
| Qur'anic education | 13 | 17.34 |
| Primary education | 16 | 21.33 |
| Secondary education | 22 | 29.33 |
| Tertiary education | 24 | 32.00 |
| Total | 75 | 100.00 |
| Family size: | | |
| 1 – 5 | 26 | 34.67 |
| 6 – 10 | 33 | 44.00 |
| 11 – 15 | 10 | 13.33 |
| 16 – 20 | 4 | 5.33 |
| Above 20 | 2 | 2.67 |
| Total | 75 | 100.00 |
| Mean | 7±4.3 | |
| Employment status | | |
| Farming | 35 | 46.67 |
| Trading | 15 | 20.00 |
| Teaching | 12 | 16.00 |
| Civil servant | 10 | 13.33 |
| Housewife/house maid | 2 | 2.67 |
| Banker | 1 | 1.33 |
| Total | 75 | 100.00 |
| Clients | | |
| Farmers | 42 | 56.00 |
| Artisan fishers | 18 | 24.00 |
| Women traders | 12 | 16.00 |
| Women potters | 3 | 4.00 |
| Total | 75 | 100.00 |

*Source:* Field survey, 2011.

| Amount of loans(₦) | Frequency | Percentage |
|---|---|---|
| 1000.00 – 30,000.00 | 25 | 33.33 |
| 31,000.00 – 50,000.00 | 27 | 36.00 |
| 51,000.00 – 100,000.00 | 13 | 17.33 |
| 101,000.00 – 150,000.00 | 6 | 8.00 |
| 151,000.00 – 200,000.00 | 2 | 2.67 |
| 201,000.00 – 250,000.00 | 1 | 1.33 |
| 251,000.00 – 300,000.00 | 1 | 1.33 |
| Total | 75 | 100.00 |

Mean= 54,233

Source: Field survey, 2011

Table 3: Regression Analysis of the Impact of Microfinance on Women and their Businesses in the Study Area

| Variable | Linear | Cobb-Douglas | Semi-log | Exponential |
|---|---|---|---|---|
| Constant | -2015164** | -9.495 | -22857491** | 11.181*** |
| | (-2.049) | (-1.280) | (-2.536) | (13.227) |
| Family size ($X_1$) | 646312.95*** | 0.602*** | 874303.87** | 0.355** |
| | (2.972) | (3.330) | (3.891) | (1.901) |
| Education level ($X_2$) | 2229.202** | 0.185*** | 2231774.94** | 0.002** |
| | (1.819) | (2.99) | (1.022) | (2.012) |
| Employment status ($X_3$) | 0.078 | -0.106 | -424154.2 | 4.49E-0.06 |
| | (0.018) | (-0.473) | (-1.557) | (1.206) |
| Other capital in business ($X_4$) | 0.113 | 0.066 | 42922.526 | 1.78E-007 |
| | (0.350) | (0.787) | (0.419) | (0.646) |
| Microfinance credit ($X_5$) | 8.579*** | 0.1743*** | 2013802.4*** | 7.47E-006*** |
| | (3.199) | (3.407) | (3.239) | (3.242) |
| $R^2$ | 0.652 | 0.680 | 0.630 | 0.632 |
| $R^2$ – adjusted | 0.613 | 0.644 | 0.588 | 0.588 |
| F-ratio | 16.590*** | 18.758*** | 15.060*** | 15.167*** |

$***P<0.01, **P<0.05, *P<0.1$

Source: Field survey data, 2011.
Note: Figures in parenthesis are the respective t-ratios.

Table 2 reveals that majority of the respondents (36%) acquire a loan of between N31, 000.00 and N50, 000.00. Furthermore, only about 13.33% of the clients acquire a loan facility of above N100, 000.00 in the study area. The implication of this finding is that most of the clients of MFIs are micro-entrepreneurs operating microenterprise businesses, and thus having low income due to low level of investment. Meanwhile, with time, the prospect of higher investment to earn high incomes is higher in the area and this is because of their high repayment capacity that will enable them acquire repeat loans for further investment.

Table 3 shows the regression coefficients of the MFI clients in Chanchaga Local Government Area of Niger State. From the Table, it can be inferred that the coefficients with respect to microcredit facility is positive, i.e 0.1743 and statistically significant at 1% level. This implies that there is a statistically significant positive relationship between access to microcredit from the MFIs and the total value of output (income). In other words microfinance credit had a positive significant impact on the total value of output/income of its clients. If access to microfinance credit is increased by 1%, the total value of output or income will increase by 0.1743%. Microfinance credit enables the clients like the farmers to expand farm size and acquire other capital inputs.

INSTITUTIONAL ENVIRONMENT OF MFIS IN THE STUDY AREA: The finding of this study suggests the existence of two classes of MFIs in the study area. These are formal and informal institutions. The former comprises of Microfinance Banks/microcredit units of Commercial Banks such as Minna microfinance bank and NEXUS Microfinance bank, and First Bank, NACRB, intercontinental Bank, Zenith Bank, GT Bank and Unity Bank Microfinance Units. The latter comprises of rotating savings and thrift associations/societies (such savings as UK Bello cooperative society, S and T cooperative society, NGO Cooperative society, etc.). These institutions possess varied distinguishing characteristics such as structure, objectives, and management styles, sources of funds, services

rendered, and types and manner of services delivery. While erstwhile Community Banks and NGOs that transformed into MFBs have targeted and reached women with microfinance, there is no evidence that Commercial Banks that have established microfinance department reach rural women adequately. However, none of the formal MFIs had any reserved loans and credit arrangement nor do they have any managerial or Board positions reserved for women. In view of this, there is a need to establish special MFIs for women just as we have Education Bank or Urban Development Bank.

## CONCLCUSION AND RECOMMENDATIONS

This study, which examines the institutional environment and access to microfinance by self-employed women in the rural areas of Chanchaga LGA shows that the clients were mostly married couples that hard modern education. They are engaged in agribusinesses ventures like farming and Agric. Trading. They acquire long facilities from ₦1000.00 to ₦300, 000.00 and this has had a positive impact on their level of incomes. Microfinance credit facilities in Chanchaga LGA to self-employed women in the rural areas has helped to increase their income levels and thus improve the welfare of these clients who were all female folks. Based on the findings of the study our recommendations are; More MFIs should be established in the study area by either government or non-governmental organizations, the already established MFIs should be registered in the mainstream of the banking sector so that they could access more funds to enable them increase their outreach, more poor women should be targeted by the MFIs in the study area because most women interested in running microbusinesses in the area still lack adequate capital, extension education should be extended to the women entrepreneurs in the study areas, such as entrepreneurial training and capacity building, monitoring of the outreach of microfinance institutions should be carried out by the Central authority (CBN) to avoid diversion of funds and political interference with the activities of MFIs by politicians.

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