

## **ANIMPACT ANALYSIS OF MICRO-CREDIT ON POVERTY REDUCTION AMONG WOMEN IN TARABA STATE, NIGERIA**

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### **Abstract**

*This study is aimed at examining the efficacy of micro credit in breaking the vicious circle of poverty among women with particular reference to Taraba state. Various statistics are cited to show that poverty has a female face, for example, the fact that of the more than one billion adults who have no access to basic education, more than 60 per cent are women and that of the 1.3 billion absolute poor today over 900 million are women. The case of microcredit – the granting of small loans for self-employment – is stated as a potent anti-poverty tool for women all over the world. The paper adopts the Ragner Nurkse Viricious circle theory, and cites specific experiences with microcredit which shows that it is a tool for the empowerment of women, is sustainable and easily replicable; is already serving large numbers of people all over the world and helps borrowers to work their way out of poverty. It is also argued that when poverty is conceived as a broad problem, the lack of money, education and other financial services should be integrated with group-based lending to the poor. This approach must be taken for microcredit programmes to really make a meaningful and sustainable impact on the fundamental causes and consequences of poverty on the women folk.*

*Keywords: Micro credit, Poverty Level, Women, GDP, Internally Generated Revenue, Nigeria*

## INTRODUCTION

Reducing poverty has been the aim of socio-economic policies, particularly since the collapse of the global economy, the crisis of development on the continent and the economic restructuring programmes of the 1980s. Underdevelopment and poverty are seen as problems of economic growth and development, while others see them as problems of economic decline. Even though poverty is an elusive and controversial concept (Onimode, 1975, 1982; Afonja, 1996). 'poverty like beauty, is in the eye of the beholder', as Aboyade (1975) once remarked. The poor are chronically malnourished, especially the children, and they therefore easily fall victim to illnesses that, for most people, are not usually fatal. Thus in the UNDP Human Development Report (2004), it was observed that: despite all our technological breakthroughs, we still live in a world where a fifth of the developing world's population goes hungry every night, a quarter lack access to even a basic necessity like safe drinking water, and a third lives in a state of abject despair – at such a margin of human existence that words simply fail to describe it.

This paper has shown that most of the poor people described are found in the rural areas and that they are trapped in a vicious circle of poverty which can be broken by microcredit. The poor, referred to here are predominantly female. Analyses of the various methods have demonstrated the superiority of the microcredit programmes. The conclusion looks beyond microcredit schemes and stresses the need for the training of women entrepreneurs, as well as the provision of other financial and business services despite the fact that women's labour makes a critical contribution to developing countries' economies; women's access to key resource is very limited. In African countries, for example, women are said to account for more than 60 per cent of the agricultural labour force, and contribute up to 80 per cent of the total food production, yet they receive less than 10 per cent of the credit provided to small farmers (UNIFEM 1997:7); as a result poor women are forced to turn to traditional moneylenders – who may charge interest rates as high as 200 per cent. Paying these exorbitant rates, the poor women remain poor passing the burden, and often the debt, on to future generations. Thus a major other vital inputs. This is why there is a growing support for microcredit programmes that serve the poorest people, especially women.

## THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Poverty has been conventionally defined in economic term focusing on individual and household relative or absolute financial capacity. However, it is now generally been recognized as multi dimensional and not only defined by a lack of material goods and opportunities. There is no standard definition of poverty because of its multi dimensional nature. It is commonly viewed as a situation in which individuals are unable to meet the basic necessities of life such as food,

clothing, shelter, education health and security. It is basically a situation of low income or low consumption (Obadan, 1997). According to Afonja (1996:35) 'the farm settlement schemes, cooperative, integrated rural agricultural development programmes, urban housing and transportation schemes influenced by economic growth and basic needs models failed because they were designed by the elite without recourse to the needs defined by the poor and ended up to the advantage of the elite'.

Within (1985-2015), quite a few grassroots development programmes have been introduced, such as the Directorate of Food, Roads and Rural Infrastructures, the National Directorate of Employment, the Better Life for the rural Dwellers, the People's Bank, the Community Banks Scheme and the Family Support Programme. The impact of these programmes on the poor varies, but they have succeeded in at least generating more awareness about poverty and to some extent mobilizing the poor for development. These programmes would probably have achieved more, but for the fact that they were mostly ad-hoc in nature and were introduced to temper the negative impact of SAP, they have only scratched the surface of the problem.

The failure of these programmes gave momentum to a growing support for a participatory approach to enable the poor people themselves to 'participate' in the decision making about their needs and to take action to meet these needs within an enabling environment.

There is a strong tradition of credit and savings in Nigeria, which has for centuries supported informal sector activities. These include the well known "*Esusu*" (revolving credit associations) and regular collection of savings, both of which are frequently cited as indigenous practices in West Africa. In addition there is the mutual aid programme where members assist each other through the extension of cash and in-kind services.

What is not widely appreciated, however, is that several Nigerian NGOs have adapted traditional practices and created dynamic community development finance programmes that are beginning to make a significant impact on the lives of their clients. For example, NGOs like the Farmers Development Union (FADU) and the Country Women Association of Nigeria (COWAN) now have an almost national spread of microcredit programmes; while others like the Development Exchange Center (DEC), Life Above Poverty Organization (LAPO) cover a number of states, within a region where they have comparative advantage.

Microcredit programmes extend small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families. Microcredit as an anti-poverty tool has great scope for empowering poor people, especially women, to end their poverty. There is both a substantial track record of accomplishments and a significant body of

scholarly studies that together paint a picture of microcredit as a compelling anti-poverty and development strategy. The overall picture of the growth of microenterprise finance institutions in developing countries is that they are sustainable. Various studies like Rhyme and Vogel (1994) and Awolowo-Dosumu et al., (1997), have highlighted the achievement and expansion of individual programmes.

Extreme poverty can be conceived as an economic condition in which household income is not sufficient to supply the minimum nutrition needed for growth and long-term survival. Poverty can also be conceived as a vicious circle of compounding circumstances that leave the poor with few, if any, choices. Individuals constrained within this circle experience little improvement from year to year or sometimes from one generation to the next. Although the majority of the poor live in developing countries, (India and China together are said to account for nearly one-third of the world's poorest, 20%), poverty and hunger are also found within the borders of the wealthiest nations. But the common features of poor people whether male or female, or whether found in developing or developed countries is that they are constrained within the vicious circle of poverty. Also, Agnes and MKNelly (1997) related microcredit theoretically and empirically to poverty alleviation. They argue that Microcredit facilities such as ESUSU results in reducing the gap created by the vicious circle of poverty. Dunford(1996) reasoned that Educational process, either parallel to or integrated with the financial services, could prompt a behavior change that will result in a break in the poverty circle. this study was based on regression analysis in the form of stepwise regression method.

In both developing and industrialized countries, poverty has a predominantly female face. For example, the experience of the United Nations Development Fund for Women (UNIFEM) shows that women earn only 10 per cent of the world's income, and own less than 10 per cent of the world's property. It is also reported in the Microcredit Summit Declaration and Plan of Action that of the more than those one billion adults who have no access to basic education, more than 60 per cent are women; and of the 1.3 billion absolute poor today (i.e. people living on less than US\$1 a day – over 900 million absolute are women! (Microcredit Summit, 2007). It has also been observed that the poverty of women generally results in higher birth rates and the physical and social underdevelopment of their children. Thus malnutrition, infections disease, and the lack of education rob hundreds of millions of the opportunity to fulfill their human potential. The world is, therefore, denied the vast social and economic contributions of the women.

The good news is that there is a growing awareness that very poor people (especially women) are ready and willing to pull themselves out of poverty. If given access to basic economic inputs in an enabling environment. There is also a growing awareness that the

cornerstone of any global anti-poverty strategy is the irrepressible desire and innate capacity of poor people (especially women) to improve their situation and to succeed. For example, the majority of the poor who cannot fund wage paying work, combat poverty by eking out a living using whatever means they have. A woman selling oranges on the streets of Wukari or a man hammering out pots from recycled metal in Bombay, are examples of how millions survive, by creating work and income for themselves and their families, where there are no jobs. It has been observed that the self-employed, most of whom are women, comprise between 50 to 60 per cent of the labor force in many developing countries, (Microcredit Summit, 19).

From the above literature review, it is evident that the interdependence between poverty, economic growth, as well as the impact of control variables such as: microcredit, local Farm implements, Education and Gender inequality in the relationship has been overlooked by most studies carried out for Nigeria. However, this study aims at examining the interdependency between these variables. This is because it is believed that for a growing economy such as Nigeria, the impact of Women contribution on economic growth cannot be swept aside, more so, the attendant impact of Microcredit and productivity rate which could be triggered from the relationship calls for investigation. Thus, a major concern of this study is to investigate the nature of relationship existing between Micro credit schemes and Poverty alleviation among Women in Taraba State..

## **METHODOLOGY**

### **Sources of Data**

This study relied basically on secondary data sourced from the following microcredit houses in Taraba State. Taraba savings and Loans Ltd, Taraba microfinance bank,Avvyi Microfinance bank, Microfinanace Bank Karim Lamido. Annual Report and statement of account, 2014.

### **Method of Analysis**

The method of study adopted in this work is both descriptive and analytical. The descriptive tools consist of the use of tables and percentages. The analytical tool used here is the ordinary least square regression analysis employing autoregressive distributed lag model (ARDL) and the Granger test.

### ***Granger-Causality Test***

To just assume that since the size of microcredit available to women in Taraba State over the years has continued to increase and the rate of poverty among women in the state has on the average during the period has been reducing, and then Microcredit and poverty level

simultaneously induce each other is rather simplistic. In an attempt to avoid doubt based on this simplistic assumption, we intend to conduct GRANGER CAUSALITY TEST on microcredit to internally Generated revenue and Poverty level using IGR as proxy for Gross Domestic Product in Taraba State. According to Granger (1969) causality is said to exist if when  $Y_t$  is causing  $X_t$  using all available information than if the information apart from  $Y_t$  had been used.

We now state the functional relationship:

$$Y_t = f(Y_{t-1}, X_{t-1}, \dots, X_{t-1}) \dots \dots \dots 1$$

If  $X_t$  causes  $Y_t$ , the functional relationship will be

$$X_t = f(X_{t-1}, Y_{t-1}, \dots, Y_{t-1}) \dots \dots \dots 2$$

In the simple causal model, a change in the value of lagged independent variable(s) does not have to affect the dependent variable in the same period. Usually, the dependent variable has current period value. In the case of the existence of feedback between  $Y_t$  and  $X_t$  denoted thus  $Y_t \leftrightarrow X_t$ , Granger shows that such feedback is said to occur when  $Y_t$  is causing  $X_t$  and vice-versa.  $\square$  ARDL Test: The specific theoretical representation of the causes of inflation for any given period in Nigeria can therefore be put symbolically in a macroeconomic form. Here we adopted a univariate model involving a dependent variable and one regressor. Thus:

$$POVL_t = \alpha_0 + \alpha_1 POVL_{t-1} + \alpha_2 MCRL_t + \alpha_3 MCRL_{t-1} + \alpha_4 MCRL_{t-2} + \mu_t \dots \dots \dots (3)$$

*A priori*,  $\alpha_1 > 0$ ;  $\alpha_2 < 0$ ,  $\alpha_3 < 0$ ,  $\alpha_4 < 0$

Where (a period of one-year interval) ranges from 1970 -2009. The variable notations are explained as follows:

$POVL$  = Poverty Level

$MCRL$  = Rate of Microcredit availed to Women

$\mu_t$  = Error-term

## RESULTS AND DISCUSSIONS

Before estimating the model, the variables were subjected to the unit root test of stationarity using both the Dickey Fuller (DF), the Augmented Dickey-Fuller (ADF) and Phillips-Perron tests. It is important to note that stationarity of time series data implies that the mean, variance and autocovariances (at various lags) remain the same, no matter what time we measure them, i.e., they are time invariant. This is very important in the sense that it ensures the reliability of the above statistics, making a model suitable, reliable and appropriate for both control and prediction purposes (Hill et al; 2008). Empirically, the DF, ADF and PP tests involve running a regression of the first difference of a series against the series lagged once lagged difference terms and optionally with a constant and time trend. The null hypothesis for the three tests is that the series in question has a unit root (i.e. it is non-stationary) whereas the alternative

hypothesis is that the series has no unit root (i.e. it is stationary). The decision rule of rejecting the null hypothesis is that their t-statistic derived from the tests must be largely negative, and its absolute value greater than the reported critical values.

Under the unit root test carried out on the variables, the results of the three tests- DF, ADF and PP on the two variables been tested-poverty rate (POVL), and microcredit level (MCRL). The tests on the levels of the variables with only a constant and no trend in the equations, show that the null hypothesis of a unit root can be rejected at the 5 percent or 10 percent levels. In this case the series were differenced once in order to make them 1(0) series. From the above, it may be concluded that any dynamic specification of the model in levels of the series is likely to be appropriate and may be devoid of problems of spurious regression. Since our variables are differenced at levels i.e. 1(0), we then proceed with the ordinary least square (OLS) estimation using the autoregressive distributed lag estimates (ARDL) since it is a case of univariate and the Granger-causality test.

### **Global Test Statistics**

In our findings, the regression coefficient along with the standard errors, t-values, F-ratio and Durbin-Watson statistic are reported. It can be observed that poverty model for Nigeria is statistically significant as shown by the statistically F-value of 6.96. The results of the estimation show that the explanatory variable accounts for 47.3 percent variations in poverty rate in Nigeria. From the equation specified and estimated above, it was observed that the independent variable (Deficit/GDP) in the model in the preceding two years lagged was statistically significant at both the 5% and 10% level and with the expected signs while inflation was also significant at 10% level. The adjusted  $R^2$  of 40.5 per cent was also significant. Hence, poverty reduction though may not only be caused by microcredit, however a significantly high variation in poverty reduction among women in Taraba State could be explained by the corresponding linear influence of micro credit schemes. The value of the DW at 1.596 and DH-Statistic of 2.153 are within the good region of no serial correlation. However, this should be interpreted with caution as the appropriate test for serial correlation in the presence of lagged endogenous variables should be Durbin's h -statistic. The other diagnostic tests carried out include the Lagrange multiplier (LM) test and the heteroskedasticity test. Both results are significant at 5% and 10% significance level. The LM test of residual serial correlation confirms the absence of autocorrelation.

### Granger causality test

In Granger causality test, the thrust is to regress autoregressive distributed lag model of *MCRL* on *POVL*. Models based on Granger-causality as in equation(2) are expressed in this paper, as follows:

$$MCRL_t = \alpha_0 + \alpha_1 MCRL_{t-1} + \alpha_2 MCRL_{t-2} + \alpha_3 POVL_{t-1} + \alpha_5 POVL_{t-2} \dots (4)$$

$$POVL_t = \alpha_0 + \alpha_1 POVL_{t-1} + \alpha_2 POVL_{t-2} + \alpha_3 MCRL_t + \alpha_4 MCRL_{t-1} + \alpha_5 MCRL_{t-2} \dots (5)$$

*Null hypothesis Obs F-stat Probability*

*MCRL does not granger cause POVL* 38 4.35522 0.02096

*granger cause POVL*

*POVL does not granger cause MCRL* 0.02470 0.97562

*granger cause MCRL*

The model was estimated using two lags for the variables. Granger-causality results from the estimated results shows that the null hypothesis which says that microcredits level (*MCRL*) does not Granger cause reduction in poverty level is rejected since the result is significant with probability less than 0.05. This implies that availability of microcredit could cause reduction in poverty level. However, no feedback mechanism was confirmed, thus accepting that there is a uni-directional causality running from microcredit schemes to poverty reduction among Women in Taraba state.

### CONCLUSION AND RECOMMENDATIONS

From the statistical computation, analysis and findings of our test carried out, we found out that microcredit can be a powerful anti-poverty tool. However, when poverty is conceived as a broader problem than lack of money or even lack of food, or security, additional structures, etc., educational services, are mandatory for fostering self-help among the very poor, especially women in rural areas. Thus education and other financial services need to be integrated with group-based lending to the poor before microcredit programmes can have a meaningful and sustainable impact on the fundamental causes and consequences of poverty.

The contribution of women generally to economic development in the LDCs is immense as shown in this study, particularly in the area of food production. The economic landscape in LDCs confers on the women the responsibility of producing food crops to meet the rural family nutritional needs and other family economy chores. In doing this, women are confronted with a number of constrains, which impede their potentials and increase their burden in the society. If women can be linked to socio-economic and technical opportunities to enhance and empower them, it will effect positively on their over-all productivity. There is also the need for capacity building and co-operative training scheme for women, capacity building good practice should



include sensitive communication before and after project design and implantation, use of local resources in training scaling up skills, true representation of women in communities, broad consultation with all stakeholders and ensuring capacity for both advocacy and representation. Employment opportunities that are enterprise based in the society should be enhanced, all viable but failed agricultural projects and agro allied industries especially those affecting women should be resuscitated by all stakeholders concerned as a means of generating employment for the women.

Micro-entrepreneurs are knowledgeable about doing business in their local economy. They often have years of experience in their trade working with dedication and determination. Belief in the intelligence and business knowledge of clients is critical. While often marginal, microenterprises are viable, locally important activities that should be upgraded. These small-scale economic activities are valid business activities to be taken seriously. Microfinance rates of interest must reflect operating costs to achieve sustainability. Organization making large numbers of small loans will have high transaction costs and thus need to charge rates that are higher than commercial rates. However, microfinance rates are still significantly lower than the exorbitant rates charged by money lenders and other source from whom the poor borrow.

Although programmes which package credit with other services may seem ideal, they require large subsidies and have proven to be largely unusable. The minimalist approach used by the Grameen Bank and many others has shown that clients can use credit in small amounts to start or improve the profitability of their microenterprises. Providing marketing and many other areas of services is valid, but best managed separately

The high repayment rate of millions of microfinance clients is empirical proof that the poor are creditworthy The high rate of savings reported by many microfinance organizations demonstrates that the poor can value savings as much as credit

The remarkable success of institutions lending to over 10 million clients around the world, the vast majority of whom are below the official poverty line (usually defined by caloric intake), proves beyond any doubt the ability of the poor to improve their lives with their own drive.

There is a uni-directional causality running from level of microcredit to level of poverty reduction among women in Taraba State.

Policies targeted at poverty reduction in Nigeria could be best achieved if they are targeted at increasing microcredit availability.

The Nigerian government should be mindful about the sources of the budget deficits so as to be able to manage the economic fluctuations and increase activities in the real sector. The need to entrench fiscal discipline in government operations at all levels that will ensure

management of public finances, improve budgetary processes, including openness in the budget preparation, execution and reporting is been advocated. There is need to support growth in the real sectors of the economy by encouraging Women investors to have access to investible funds from banks.

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