

# ANALYSIS OF MICRO-CREDIT AS A STRATEGY FOR POVERTY ALLEVIATION IN RURAL CROSS RIVER STATE, NIGERIA

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## ABSTRACT

Micro-credit mobilization has been acknowledged world wide as a veritable tool for poverty alleviation in poor countries. Their growing importance in the development of the information sectors and rural development has necessitated the study which focus is to analyze the various micro-credit sources for the poor in Cross River State, Nigeria. The study reveals a preference for formal micro-credit sources by the poor for sustainable livelihood activities. The study particularly indicates that because of limited access to capital, micro-credit has not significantly impacted on poverty alleviation in the study area, although it has a strong, positive significant correlation with poverty alleviation. Hence, the study recommends the expansion of formal the micro-credit outlets in rural areas and the building of synergies between formal and traditional micro-finance in order to create the much desired impact.

**KEYWORDS:** Micro-credit, strategy, poverty alleviation, Cross River State, Nigeria

## BACKGROUND

Recent development in Africa and other third world nations have reinforced the important of micro-credit structures as an essential tool for national development. Accordingly, the development of micro-finance and institutions over the last tow decades and a number of success stores have lent credence to the idea that micro finance is a major stimulus for development in countries of the south, and that is a powerful instrument for combating poverty (UNDP, 2002). The two basic assumptions for the mobilization and application of micro-credit as a tool for development lie on the premises that; poor populations possess the capacity to implement income generating activities that the main limitation to their initiative is the lace of access to capital and mutual associations and thrift societies that have dealt with financial institutions have not fared well. The first assumption pre-supposed that financial markets are still in their infancy and that given their poor tack record and lack of collateral, the existing financial institutions are reluctant to extent credit facilities to poor people or their organizations. Another factor being that mutual associations and thnft societies that have dealt with financial institutions have been huge failures (Ihedure, 2002). However, poor people given the access to capital and guided properly are favourably disposed managing and implementing income generating activities. In developing countries, poor people dominate the informal sector and they are constantly hindered by unfavourable business environments such as inadequate capital, poor operating business environment and policy inconsistency. Given this position, donor agencies and governments at the national level have renewed their commitments towards advancing the livelihood conditions of the vulnerable in the society especially women through integrating environmental concerns and providing sustainable livelihoods for all. The contentions is that micro finance is at the core of each of these goals (Pulver, 1998) as micro-financing provides the means to generate income that eventually leads to a sustainable development. In Nigeria, micro-finance institutions have rapidly evolved in the last decades and have been able to "crate significant income and employment opportunities for the poor". Although credit has been catalyst to a better life-enabling process for farmers and micro entrepreneurs however, the process of securing

credit has remained a formidable obstacle for many rural poor. Many micro-credit sources are available for the poor but their impact on poverty alleviation is quite insignificant. According to Ogbonna (2005), though loan acquisition through micro-credit sources does not require excessive bureaucratic processes and collateral's yet some of the micro-credit institutions imposes prohibitive interest rates. This and many other problems have tended to obscure the perceived positive effect of micro-credits on poverty alleviation. Therefore, the study was designed to investigate micro-credit sources available to poor people; poverty alleviation activities for which poor people apply micro-credits obtained from the various sources and finally determine the effects of micro-credit on poverty alleviation.

## METHODOLOGY

The survey was conducted in Akpabuyo Local Government Area of Cross River State between September-December, 2006. The area, shares boundaries with Calabar the State capital, Republic of Cameroon, Akamkpa Local Government Area and the "New" Bakassi Local Government Area respectively. The area is mainly agrarian as more than 60% of the populations are farmers. The farming population is predominantly peasantry who use crude implements to cultivate food crops such as cassava, yam, plantain/banana, cocoyam, rice, maize, melon and vegetables. Few farmers in the areas cultivate cash crops such as rubber, cocoa, and oil palm on a very small scale. About 10 percent of the populations are part time farmers, another 20 percent are involved in small scale business and official civil service works with less than 10 percent are involved in craft work.

A multi-stage clustered sampling technique was used to select communities and respondents for the study. The first sampling involves the random selection of ten (10) communities for the study. From each of the communities, a list containing twenty (20) farmers and ten (10) non-farmers was prepared. From, the lists, 10 farmers were randomly selected from each of the communities, while 5 non-farmers were also randomly sampled from sampled from each communities. A total 100 farmers and 50 non-farmers where used as respondents. Data used for the study were both primary and secondary data. Primary data were obtained

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using structured questionnaires prepared by the researchers and validated by colleagues in the departments of sociology and agricultural economic/extension, University of Calabar, Calabar. The questionnaires were used to elicit information on credit sources available to respondents and the livelihood activities where micro-credits are applied. Secondary data involved data from current and past literature on micro-credit and poverty alleviation, journal, articles and textbooks information on the subject matter.

Two sets of hypotheses were tested by the study. The first hypothesis was tested using the chi-square statistics to determine if micro-credit has any significance on poverty alleviation. The variables under consideration are micro-credit and poverty alleviation treated as nominal scales.

The second hypothesis which measured the relationship between micro-credit and poverty alleviation was measured using the Pearson Product Moment Correlation Coefficient.

The implicit form of the Pearson Product Moment Correlation Coefficient ( $r$ ) is given as:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

- Where,
- $r$  = Coefficient of correlation between micro-credit and poverty alleviation measures (Y)
- $N$  = Total number of paired values of micro-credit (X) and poverty alleviation strategies (Y)
- $\sum XY$  = Summation of paired values of micro-credit (X) and poverty alleviation strategies (Y)
- $\sum X$  = Summation of all values of micro-credit (X)
- $\sum Y$  = Summation of all values of micro-credit (Y)

## RESULTS AND DISCUSSION

### Rural Credit Sources for Poverty Alleviation

Table 1 Shows the various micro-credit sources for poverty alleviation:

Table 1: Micro-Credit Sources for Poverty Alleviation

| Variable                                  | Frequency | Percentage |
|---|-----------|------------|
| Community Banks                           | 65        | 46.43      |
| Osusu groups                              | 47        | 33.57      |
| Wealthy Neighbours                        | 40        | 28.57      |
| NGOs (Cooperatives)                       | 40        | 28.57      |
| Nigerian Agric and Rural Development Bank | 42        | 46.43      |
| Age grades                                | 65        | 46.43      |
| Thriffs and Savings                       | 34        | 24.29      |
| Community Organization                    | 53        | 37.85      |

Source: Field Survey, 2006

The Table showed that Community Banks were amongst the highest micro-finance institutions where respondents got loans. About 65 of the respondents representing 46.43 percent indicated obtaining small loans from Community Banks. The results also indicate that the Community Bank System is a strategic intervention by government in the provision of micro-financing especially among rural farmers and women as well as small scale industrialists. This however, confirmed past studies by Nwankwo (1991) and Markowski (2000). From the Table, borrowing from "Osusu" groups accounted for 33.57% of the total number of respondents who use the various credit sources while borrowings from the Nigerian Agricultural and Rural Development bank Accounts for 36.00 percent only. Borrowing from other micro-credit sources like wealthy neighbours reveals 28.57 percent, age grades 46.34 percent, thrift and savings 34.29 percent and community organizations 37.36 percent. As shown in the Table, borrowing from thrift and savings, neighbours and NGOs indicated smaller percentages as compared to other sources which may imply that the borrowing behaviour of the

poor is influenced by certain characteristics such as economic and non-economic factors. Economic factors like acceptable interest rates, collateral waivers, mutually acceptable repayment schedules among other influences positive borrowing attitude by the poor. However, non-economic factors like incessant pressure by community-based micro-credit institutions like Cooperative, NGOs and neighbours could deter the poor from patronizing these sources. As Markowski (2002) noted, "we must reckon that the rural poor are willing to pay services that the tuned to their demands, not to our development priorities. This shift from credit led services means a much more respectful interaction with the rural poor because we face their concerns and priorities seriously at the same time it means we make them more responsible for their financial obligations".

### Livelihood Activities of Poor Borrowers

Poverty alleviation activities where poor people applied borrowed funds are shown in Table 2.

Table 2: Livelihood Activities of the Poor Borrowers

| Variable                         | Frequency | Percentage |
|----------------------------------|-----------|------------|
| Purchase of seedlings            | 80        | 57.14      |
| Purchases of land                | 57        | 41.43      |
| Use of fertilizer                | 59        | 42.14      |
| Use of drugs/livestock           | 28        | 20.00      |
| Livestock husbandry              | 39        | 27.36      |
| Sheller construction             | 47        | 33.57      |
| Crop expansion                   | 43        | 30.71      |
| Livestock diversification        | 48        | 34.29      |
| Purchase of processing equipment | 36        | 25.71      |
| Hiring of labour                 | 56        | 40.00      |

Source: Field Survey, 2006

The Table indicates that all the various activities outline, the poor invest most of their borrowed funds 57.14 percent in the purchase or hiring of land, while 42.14 percent invest in purchase of fertilizers. Only 20 percent invest borrowed funds on the purchase of drugs for their livestock and 27.36 percent invest on their livestock. The Table also reveals that 33.57 of borrowers used their funds for shelter construction, 30.71 percent for crop expansion, and 25.71 percent for purchase of processing machineries and 40.00 percent to hire farm labour. Respectively from the Table, it could be inferred that poor people are in dire need of credit facilities and as Iheduru (2002) pointed out if guided properly and given adequate access to capital they are in a better position to implement and manage income generating business. In other words poor people have the capacity to run economic activities just like the rest of society given a congenial environment.

**Table 3: Chi-Square Test Result for Micro-Credit and Poverty Alleviation**

| Variables           | X <sup>2</sup> cal | X <sup>2</sup> tab | Significant |
|---------------------|--------------------|--------------------|-------------|
| Micro-credit        | 0.1468             | 12.60              | NS          |
| Poverty alleviation |                    |                    |             |

Note:

|    |   |                 |
|----|---|-----------------|
| df | = | 6               |
| N  | = | 150             |
| P  | = | 0.05            |
| NS | = | not significant |

The result of the chi-square test of hypothesis (Table 3) indicated that the chi-square tabulated (12.60) for degree of freedom 6 at 0.05 level of statistical significance was higher than the calculated chi-square of 0.1468. The null hypothesis was not rejected and by implication, micro-credit supply in the study area is not enough to alleviate prevailing poverty situation. As shown in Table 2, the poor who are mostly farmers required enough credit to acquire the inputs of seedling, labour and land for a sustainable livelihood which however is not enough.

**Table 4: Pearson Product Moment Correlation Coefficient and Test of significance**

| Variables               | r    | r-cal | t-tab | Significant |
|-------------------------|------|-------|-------|-------------|
| Poverty alleviation (X) | 0.74 | 3.122 | 2.306 | S           |
| Micro-credit (y)        |      |       |       |             |

Note:

|        |   |             |
|--------|---|-------------|
| S      | = | significant |
| N      | = | 12          |
| df     | = | 8           |
| P<0.05 |   |             |

Moreover, result of the Pearson Product Moment Correlation Coefficient (r) showed a correlation coefficient of 0.74, which indicate a positive and strong relationship between micro-credit and poverty alleviation. The test of significance r using t-value showed that a theoretical t-value of 2.305 at degrees of freedom 8 was less than the calculated t-value of 3.122. The null hypothesis was rejected, hence, the results indicate that micro-credits has a strong positive and significant relationship at rural and community levels must focus on micro-credit provision and providing equitable access to capital for the poor.

## CONCLUSION AND RECOMMENDATIONS

The rural poor are constantly involved in sustainable livelihood activities that are ultimately designed to alleviate their poverty. Their efforts have consistently been hampered by several factors one of which is access to capital. However, several traditional financial institutions have emerged over time but have not been able to adequately address the capital needs of the poor who mostly farmers. Therefore, the emergence of formal micro-finance institutions like Community Banks and the Nigerian Agricultural and Development Bank were mean to address the credit needs of the poor. Hence the study recommends the following:

1. Since the poor have been found to patronize formal micro-credit institution like the Community Banks for their needs, the Community Banking System should be strengthen with more outlets established to reach the poor in the rural areas.
2. The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) should have a network or outlet spreading to the rural areas since the poor indicates preference for formal micro-credit sources.
3. Formal micro-credit should build strategic partnerships with traditional finance institutions in the supply of micro-credit.
4. The capacities of traditional finance institutions should be enhanced for their effectiveness in micro-credit delivery.
5. Finally, the poor should undergo capacity building programmes to enhance their abilities to manage micro-credit facilities to reduce the rate of defaults in payment.

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