

## **Effect of Micro Credit on Income Level and Poverty Status of Women in Edo State, Nigeria**

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**Abstract:** *The study focused on the effect of micro- credit on income level and poverty status of Women in Edo State, Nigeria. It specifically examined the socio-economic characteristics of the respondents, evaluated the perceived effect of micro credit on the income level and poverty status of the respondents and identified the constraints in accessing micro credit loan. Data for the study were collected using a well structured questionnaire administered to 90 randomly selected recipients of micro credit in the study area. Data analysis was done using descriptive and inferential statistics. The results of the study show that majority of the respondents were women within the age range of 40-49 years (52.22%) and married (84.44%) with no formal education (40%). The major occupation of the women was trading (58.89%). About 81.1% of the women stated that they used part of the obtained loan for trading. The results further showed that the income level and poverty status of the women increased significantly after accessing the micro- credit loan. The identified constraints to accessing micro-credit loan in the study area were high interest rate, inconvenient method of repayment of loan and lack of timeliness in obtaining the loan in descending order of seriousness.*

**Keyword:** *Micro- Credit, Income, Poverty Status, Women, Edo State*

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### **I. Introduction**

Micro credit as defined by Joanna Ledgerwood is the provision of financial services to low income clients (the poor) including the self employed ones. She says that the financial services generally include savings and credit provisions (Jammeh, 2002). Micro credit programmes ensure availability of funds without collateral. Micro credit refers to programs that are poverty focused and also provide financial and business services for impoverish persons to enable them generate income for self-employment and improved on their poverty status. According to Anyanwu (2004) the demand for microfinance services in Nigeria are still high. This demand is due to continuous lay-off of workers from various sector of the economy.

Microcredit is the extension of very small loans (microlans) to impoverished borrowers who typically lack collateral, steady employment and a verifiable credit history (MIE, 2009). Micro credit programmes according to Mushtaq (2008) extend loans to very poor people for self employment projects that generate income for their survivals, allowing them to take care of themselves and their families. She went further to say that micro credit is now considered as one of the most effective tool that is used to fight poverty.

Poverty is that characteristic of being in a state of joblessness, illiteracy, landlessness, homelessness, lack of adequate capital facilities and food to earn a decent living and powerlessness, (Yunus, 1997). Poverty exist when one or more persons fail to attain a specified level of well being that is deemed to constitute a reasonable minimum standard of living set by that society, (Ravallion, 1992). Imoudu (1998) sees poverty as a condition of living with little or no money required in providing the basic necessities of life such as shelter, food and clothes.

Studies have shown that majority of people who live in poverty are women since they have to manage the family with virtually nothing, giving all they have in other to make sure nobody goes hungry but they. In different parts of the world women faces so many barriers to economic, social and political opportunities, for these reasons amongst others, micro credit is believed to be much more relevant to women than men as it gives them the opportunity to compete with their male counterpart (Latifee, 2003).

It is targeted towards poor individuals and families, particularly women and does not classify them as not credit worthy as the commercial banks does. Women make up the greater proportion of all micro-credit loan recipients worldwide; they also have higher repayment rates and they tend to easily accept smaller loans than men (Milford, 2010). Micro credit provides loan at affordable cost to the poor and plays a vital role in helping poor persons discover potentials to stride for better living and break the vicious cycle of poverty by creating self employment and generating income (Latifee, 2003). Oruonye and Musa (2012) stated that farm credit accessibility is the surest way of breaking the vicious cycle of poverty in the rural areas of developing countries, particularly in sub Saharan Africa. Can this be said of Edo state, this study is set to fill this gap. It seeks to achieve the following specific objectives: to examine the socio-economic characteristics of the respondents;

evaluate the perceived effect of micro credit on the income level and poverty status of respondents; and identify the constraints in accessing micro credit loan.

## II. Methodology

The study was conducted in three Local Government Areas of Edo State (Uhumwode, Orhionwon and Etsako Local Government Areas). These Local Government areas were purposively selected because of the presence of major micro-finance institutions in these areas. LAPO micro-finance institution was the institution selected as it is one of the leading MFI's in the state. 30 respondents who were current recipients of LAPO loans were randomly selected from each of the Local Government area making a total of 90 respondents.

A well structured pre-tested questionnaire was used to elicit information from a total of 90 respondents in the study area. Data were analyzed using descriptive and inferential statistics. Descriptive statistics such as frequency counts, mean and percentages was used to analyze the socio-economic characteristics of the respondents and constraints in accessing micro credit loan. The student t- test was used to test the significance in the difference between income level of respondents before and after accessing micro-credit loan. In this study, the 'before and the after approach' was used to provide information on the poverty status of the borrowers. More specifically, the following formula has been used to determine the net impact of micro credit of borrowers:

$$P^* = (Pbt1 - Pbt0)$$

Where P\* is the net impact of micro credit on poverty status of borrower households, Pbt1 is the poverty status of borrower households after the loan while Pbt0 is the poverty status of the borrower households before the credit. This is to isolate the effect of credit on the poverty status of the borrowers; all other variables are assumed to be constant.

## III. Results And Discussion

### Socio-Economic Characteristics of Respondents

The result of the socio-economic characteristics of the respondents is presented in Table 1. The results show that majority of the recipients of micro-credit loan in the study area were women who fell within the age range of 40-49 years, this may imply increase in remittance of the loan as the women were in their active age when productivity is high. Majority of the women were married (84.44%) and had trading as their major occupation (58.89%). A considerable percentage of them had no formal education (40%). This shows that education was not a criterion for obtaining the loan.

**Table 1: Socio-Economic Characteristics of Respondents**

| Variables                             | Description       | Freq(90) | % (100) |
|---------------------------------------|-------------------|----------|---------|
| Age range                             | 20-29             | 42       | 46.67   |
|                                       | 30-39             | 47       | 52.22   |
|                                       | 40-49             | 1        | 1.11    |
|                                       | 50 & above        | -        | -       |
| Marital status                        | Married           | 76       | 84.4    |
|                                       | Single            | -        | -       |
|                                       | Divorce/separated | 3        | 3.33    |
|                                       | Widow             | 6        | 6.67    |
| Education                             | Non formal        | 36       | 40      |
|                                       | Primary school    | 33       | 36.67   |
|                                       | Secondary school  | 15       | 16.67   |
|                                       | Tertiary          | 6        | 6.67    |
| Major occupation                      | Trading           | 53       | 58.89   |
|                                       | Civil service     | 12       | 13.33   |
|                                       | Farming           | 25       | 27.78   |
| Marketing/processing experience range | 10 & below        | 41       | 45.6    |
|                                       | 11-15             | 18       | 20.0    |
|                                       | 16-20             | 8        | 8.9     |
|                                       | 21-25             | 8        | 8.9     |
|                                       | 26-30             | 8        | 8.9     |
|                                       | >30               | 7        | 7.8     |

**Perceived Effect of Micro Credit on the Income Level of the Respondents**

Findings of Table 2 show that 85.6% of the respondent agreed to an increased income after obtaining the micro credit loan while 52.2% stated that their standard of living improved after accessing the loan. This finding is in conformity with the findings of Fasanya and Onakoya (2012) which stated that micro credit is a veritable tool for reducing poverty in rural Nigeria.

The results of Table 3 showed a significant difference in the total income level of the women before and after accessing micro credit loan. This difference tested using the student t-test was found to be significant at 10% level of significance. A break-down of the different activities the loans were put into showed a significant difference in the income before and after accessing the loan for cassava production, trading, poultry production and oil palm processing and production. Only fish farming and cassava processing did not have a significant difference in the income before and after accessing the micro credit, this may be due to the amount of capital required to carry out these two enterprises.

**Table 2 Perceived Effect of Micro Loan on the Income Level of Respondents**

| Benefit Statement           | Frequency | Percentages (%) |
|-----------------------------|-----------|-----------------|
| Increased Income            | 77        | 85.6            |
| Decreased Income            | 5         | 5.6             |
| Improved standard of Living | 47        | 52.2            |

**Table 3: Difference in Income Level Before and After Accessing Micro Credit Loan (₦)**

| Activities          | Before    | After      | Difference  |
|---------------------|-----------|------------|-------------|
|                     | Mean      | Mean       | Mean        |
| Fish farming        | 33,000.00 | 45,421.05  | 1,2421.05   |
| Cassava Production  | 18,719.05 | 37,095.24  | 18,376.19*  |
| Oil palm production | 21,933.33 | 44,150.00  | 22,216.67*  |
| Poultry Production  | 49,958.33 | 280,083.33 | 230,125.00* |
| Trading             | 26,042.55 | 42,680.85  | 16,638.30*  |
| Oil palm Processing | 2,133.33  | 34,355.56  | 32,222.23*  |
| Cassava Processing  | 22,008.33 | 30,083.33  | 8,075.00    |

Significant at 1%, p = 0.01; significant \*

The general poverty level was decomposed into different poverty components such as hard core poor, core poor, vulnerable and non poor as shown in table 4. The incidence of poverty before accessing micro credit was 36.6 percent. On further investigation, 10.24 percent of the respondents were hard core poor, 26.33 percent were core poor, 18.81 percent were vulnerable while 44.67 percent were non poor before loan. It was shown that the incidence of poverty declined to 30.99 percent after accessing micro credit. This was an appreciable decline of about 5.58 percent in poverty. After having access to micro credit, the hard core poor declined to 7.42 percent, (a decline of about 2.82 percentage points), core poor to 23.57 percent (a decline of 2.76 percent), vulnerable to 14.68 percent (a decline of 4.15percent) and the non poor increased to 54.33 percent (an increase of 9.71 percent). From the above analysis, it could be inferred that micro credit has played a positive role in poverty alleviation. This has further confirmed an earlier assertion by Ilavbarhe and Imoudu, (2013)

**Table 4: Poverty Status of Borrowers Before and After Credit.**

| Poverty Status | % of Household Before Credit | % of Household After Credit | Difference |
|----------------|------------------------------|-----------------------------|------------|
| Hard Core Poor | 10.24                        | 7.42                        | - 2.82     |
| Core Poor      | 26.33                        | 23.57                       | - 2.76     |
| Vulnerable     | 18.81                        | 14.68                       | - 4.15     |
| Non Poor       | 44.62                        | 54.33                       | 9.71       |

Source: Computed from Survey Data, 2014

**Constraints to Accessing micro credit Loan**

Table4 show the variables that acted as constraint in accessing micro credit loan. The result shows that 35.6% of the respondents stated that high interest rate was a constraint, while 27.8% and 25.6% of the respondents stated that inconvenient method of returning loan and lack of timeliness in obtaining the loan respectively were constraints in obtaining loan. This finding is in agreement with the findings of Oruonye and Musa (2012) and Umoh (2006) which stated high interest rate as a major constraint in accessing micro credit. Only 14.4% of the respondents stated that lack of collateral was a constraint in obtaining loan, this finding is in agreement with the guiding principle of micro lending that collateral is not a criterion for obtaining micro credit loan.

**Constraints to Accessing Micro Credit Loan**

| Variable                                 | Frequency | Percentage (%) |
|--|-----------|----------------|
| High interest rate                       | 32        | 35.6           |
| Inconvenient method of returning loan    | 25        | 27.8           |
| Lack of timeliness in obtaining the loan | 23        | 25.6           |
| High collateral                          | 13        | 14.4           |

**IV. Conclusion and Recommendations**

The study established that the income level and standard of living of the respondents significantly increased after accessing loan. The major constraints to accessing micro loan as stated by the respondents were high interest rate, inconvenient method of returning loan and lack of timeliness in obtaining loan. Based on the findings of this study it is therefore recommended that funds should be timely released by the micro finance institution to enable the women make use of the funds as at when necessary. Considerable efforts should also be put in place to ensure the time of processing the loan and interest rate is reduced as much possible.

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