Effect of Microfinance Institutions on Rural Households Well-being in Oyo State: A Case Study of IFAD/RUFIN Supported Project

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Abstract

In many developing countries, including Africa, the rural people often lack access to financial support because of inadequate infrastructure and pro-urban banking systems. This situation may be overcome where microfinance systems are introduced. A system of microfinance usually signifies a financial arrangement designed to help the rural poor transform their economic condition. Micro financing can also be viewed as a means to transform rural economic, environmental and social development by empowering communities to find their own solutions to their developmental needs. The proposed study will assess the role play by the Rural Finance Building (RUFIN) programme in the capacity building of microfinance systems in Nigeria and the Village Saving and Credit Group with a view to delivering credit to rural group and also to measure the impact it had on the indirect beneficiaries’ socio-economic well-being. The study provides analysis of the patterns of empowerment using the sustainable livelihood framework to measure the impact of the micro finance on the beneficiaries in three local government area of Oyo State over a six-year period of the intervention. Data were collected through interviews and administration of structured questionnaires. The data were analyzed using descriptive and inferential statistical techniques. Preliminary findings reveals the significant effect of microfinancing on the well-being of beneficiary rural people compared with the non-beneficiaries. The study will also profiles and recommends the changes needed in micro finance schemes, including access by women.

Keywords: Microfinance, Well-being, Livelihood, Gender, Sustainability.

Introduction

The Rural Finance Institution Building Programme (RUFIN) is a Loan Agreement of US$27.2 million between the International Fund for Agricultural Development (IFAD) and the Federal Government of Nigeria. The central objective of the programme is to develop and strengthen Micro Finance Banks (MFBs), other member-based Micro Finance Institutions (MFIs), by enhancing the access of the rural populace to the services of these institutions in order to expand and improve agricultural productivity and Micro-Small Rural Enterprises.

The goal is to alleviate poverty with a particular focus on the rural poor and especially women, youth and the physically challenged. The study therefore presents empirical findings on the impact of Rural Finance Institution Building Programme (RUFIN) on the livelihood of the indirect beneficiaries in south west state of Oyo state of Nigeria with particularly focus on the beneficiary local governments of ATISBO and Ibarapa East Local Government. As indicated in the literature, poverty is number one problem in the world today as depicted by the following startling statistics: three billion people live below US$2 per day (World Bank, 2001); one and half billion people live below US$1 per day; 70-90 per cent of people in the developing world are poor;

No Poverty is the number one goal of the seventeen Sustainable Development Goals (SDGs); and 75 per cent of the world poor are women. It seems as if all the strategies applied in the past to fight poverty have proved ineffective, but the world seems to have found a most promising strategy. From the historical literature, informal saving and credit unions have operated for centuries across the world. In the middle
Ages, for example, the Italian monks had created the first official pawn shop (1462 AD) to counter usury practices. In 1515 Pope Leon X authorized pawn shops to charge interest to cover their operating costs. In the 1700s, Jonathan Swift initiated the Irish Loan Fund System, which provided small loans to poor farmers who had no securities. It is on record that the fund gave credit to about 20 per cent of all Irish households annually. In the 1800s, the concept of the financial cooperative was developed by Friedric Wilhelm in Germany. By 1865, the Cooperative movement had expanded rapidly within Germany and other European countries, North America and some developing countries (Bright, Helms, 2006).

In early 1900s, adaptations of the models developed in the preceding century appeared in some parts of rural Latin America (Bright and Helms, 2006). Efforts to expand access to agricultural credit, in Bolivia for example were made unsuccessful as the rate charged was too low and banks failed. By early 1950 – 1970, experimental programmes were on stream to extend small loans to groups of poor women to enable them invest in micro business. These experiments were initiated by the Grameen Bank of Bangladesh, ACCION International in Latin America and the Self-Employed Women’s Association Bank in India (Little Field, Morduch and Hashemi, 2004). The term Microcredit began to be replaced by microfinance in the early 1990. By that time the term had started to include savings, and other services such as insurance and money transfers (Basu et al, 2000). Microfinance is the provision of financial services, such as loans, savings, insurance, money transfers, and payments facilities to low income groups. It could also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it could be used to provide for immediate family expenditure on food, education, housing and health. Microfinance is an effective way for poor people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income (Robinson, 2001). Microfinance is no longer an experiment or a wish, it is a proven success. It has worked successfully in many parts of the World – Africa, Asia, Latin-America, Europe and North America. It is safe and profitable; indeed it is the oldest and most resilient financial system in history. The key issues in Microfinance include the realization that poor people need a variety of financial services, including loans, savings, money transfer and insurance which Microfinance provides. It is a powerful tool to fight poverty through building of five basic assets and serving as an absorber against external ties and financial shocks. Microfinance involves building of financial sub-system which serve the poor and its architecture could be easily integrated into the financial system of the nation.

The other key issues of Microfinance are the fact that it can pay for itself and should do so if it is to reach a large number of poor people. Microfinance is not limited to only micro-credit; it is inclusive of other financial services, such as micro-insurance, micro-asset finance, money transfer and savings.

Furthermore, donor funds are meant only to support and assist Microfinance institutions and not compete with them. In the developed world, leaders talk about the poor and how to alleviate poverty. One hears this often at political and conferences across Europe and other parts of the World. There are also talks of strategies of equitable trade, debt relief, subsidies and aid flows etc. It has become clear that the ultimate strategy for the World to meet the needs of the poor is through microfinance which gives them access to financial services to enable them make everyday decision on: payment of children school fees; payment for food and shelter; meet health bills and meet unforeseen finance needs resulting from flood, fire, earthquake, etcetera. Microfinance may not be able to solve all the problems of the poor, but it certainly puts resources in their hands in order for them to live an enhanced standard of life. Microfinance has globally achieved great accomplishments over the last 30 years. It has shown that poor people can be viable customers and that microfinance can create strong institutions which focus on them. No doubt Microfinance has strongly attracted the interest of private sector investors. However, the following challenges, among others, face Microfinance institutions: They need to increase the scale of financial services to the poor; they need to reach out and seek the poor wherever they are and give them access to finance. The Grameen Bank of Bangladesh has set a good example in this direction by allowing credit and
other services to cost less for the poor and train staff to be uniquely suitable to Microfinance business. The latter enhances efficiency and sustainability of the sector; and develops and tailors products to meet the needs of the clients – the poor. This study presents evidence based and empirical findings on the impact of rural finance institution building programme on livelihood of the indirect beneficiaries of ATISBO and Ibarapa local government of Oyo state in Southwest Nigeria.

**Methodology**

**Analytical Framework**

The analytical framework will be based on the Sustainable Livelihood Framework which was first developed by the Department for International Development (DFID, 2001) and used by Olayide and Ikpi (2013) will be adapted as the analytical framework for the study. The proposed analytical framework explicitly accounts for the theoretical and empirical continuum of livelihoods assets (inputs) leading to production output; and the livelihood outcomes (well-being). Furthermore, the proposed analytical framework recognizes the role of financial asset (capital) and institutions in influencing well-being and development outcomes. As in the DFID framework the ability of people to access food therefore depends on their assets. Assets act as a buffer between production, exchange and consumption. Assets are built up in times of surplus and can be converted into food or production inputs in times of need. Peasants, and, more generally, poor people tend to have fewer assets than other groups and may be constrained in the utilisation of those assets they do possess due to their partial integration in (imperfect) markets and society. Different assets have different roles in production, exchange and entitlements.

![Sustainable livelihoods framework](image)

**Figure 1**: Source: Adapted from Olayide and Ikpi (2013)
Figures 2 & 3 Source: Sustainable Livelihood Framework (DFID)

Research Design
This section covers the description of the type of survey adopted in the study. It is expected to define the population, the sample size as well as the sampling technique adopted in selecting the sample size. Sources of data collection, data analysis and data presentation are part of the research design. This research is designed to study the impact analysis of microfinance institutions on rural households’ wellbeing in Oyo state; a case study of IFAD/RUFIN supported project. The purpose is to assess the role of RUFIN in stimulating capacity building for the MFIs and the VSCG providing the need linkages to improving the livelihood of the indirect beneficiaries. ATISBO and Ibarapa-East Local Government of Oyo State constitute scope of field survey. Questionnaire was administered in a survey conducted among the benefitting microfinance banks and the Village Saving and Credit Groups in the benefitting LGAs.

Study Area

Oyo State is an inland State in southwest Nigeria. The capital of Oyo State is Ibadan. The State is bounded in the north by Kwara State, in the east by Osun State, in the south by Ogun State and in the west partly by Ogun State and partly by the Republic of Benin.

Historical Considerations

Oyo State was formed in 1976 from the former Western Region, and originally included Osun State, which was split off in 1991. Oyo State is homogenous, and mainly inhabited by the Yoruba ethnic group who are primarily agrarian (farmers) but have a predilection for living in high density urban centers. The indigenes mainly comprise the Oyos, the Ibadans and the Ibarapas, all belonging and speak Yoruba language. Ibadan is reputed to be the largest indigenous city in Africa, south of the Sahara. Ibadan had been the centre of administration of the old Western Region, Nigeria since the days of the British colonial rule. Other notable cities and towns in Oyo State include Oyo, Ogbomoso, Isẹyin, Kiṣi, Okeho, Saki, Eruwa, Lanlate, and Igbo-Ora. The climate in the State favours the cultivation of crops like maize, yam, cassava, millet, rice, plantain, cacao tree, palm tree and cashew. There are a number of government farm settlements in Ipapo, Ilora, Eruwa, Ogbomosho, Iresaadu, Ijaiye, Akufo and Lalupon. There is abundance of clay, kaolin and aquamarine. There are also vast cattle ranches at Saki, Fasola, Moniya and Ibadan.
Population and Sample Design

The target population for this study consists of the benefitting VSCG in the LGAs as well as the MFB and MFI in the two LGAs. According to the secondary data obtained from RUFIN there were a total number of 295 groups as at May 2016.

<table>
<thead>
<tr>
<th>AKINYELE LOCAL GOVERNMENT, MONIYA</th>
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<tbody>
<tr>
<td>RUFIN GROUPS CATEGORY RATING, MAY, 2016</td>
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<table>
<thead>
<tr>
<th>No</th>
<th>Category</th>
<th>No of groups</th>
<th>%</th>
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<tr>
<td>1</td>
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<td>65</td>
<td>96</td>
</tr>
<tr>
<td>2</td>
<td>Moderate</td>
<td>3</td>
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<td>3</td>
<td>Weak</td>
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<td>Total</td>
<td></td>
<td>68</td>
<td>100</td>
</tr>
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</table>

Table 1 Source: RUFIN Report, May 2016
The sample selection takes into cognizance the groups that are women led so as to underscore the gender parity of the study.

Focus group discussion and Key Informant guide was use to obtain relevant information from participating MFB, MFI and a cross section of members and leadership of the VSCG.

**Data Collection and Source of Data.**

At the core of the impact evaluation are two measurements: a baseline survey conducted before the beginning of the intervention and one follow-up survey, conducted afterward. We shall employ the use of Qualitative survey method which are Key Informant Interviews (KII) and Focus Group Discussions (FGDs) and quantitative survey methods (structured questionnaire administration). Multi-stage sampling techniques will be employed. A total of 450 (that is, 150 from each LGA) beneficiaries will be sampled

The type of data to be collected include: socio-economic data, welfare data, gender-specific data and information on the administration of credits by the MFIs.

Both secondary and primary data are being used in this research work. The primary data were collected through the use of well-structured questionnaires, and administered by well-trained enumerators in the study area. The study covers two benefitting LGA and one Non-benefitting LGA in Oyo state, Nigeria. Secondary data were obtained from the records made available by the RUFIN Coordinating centre in Abuja, Nigeria through relevant reviews and publications, text books and publications of the Central Bank

**Reliability of Instrument.**
The questionnaire employed for the primary data in this study was pilot-tested at Akinyele LGA a benefitting LGA and found very reliable. It led to rework before the main study was conducted. Although the respondents may be subjective, the questionnaire is still able to capture relevant and needed information based on their opinions. Using Statistical Package for Social Sciences (SPSS) that data were analyzed.

**Questionnaire.**

Basically, the questionnaire is structured in such a manner that brings out maximum information about the indirect beneficiaries of the group and also of the group to which they belong. Loan activities of group, the five domain of livelihood assets. The questionnaire contains a combination of closed and open ended questions. The open ended questions encourage respondents to provide detailed answers to the questions, while answers to the closed ended questions require that the researcher seeks further clarification from other sources in order to be able to use such information adequately.

The questionnaire seeks information about the personal data of respondents, circle of credit obtained from the banks, the use to which such loans are put, length of time for repayment, profit profile of small scale business borrower’s etcetera. The questionnaires were administered directly to respondents and responses were collected immediate, except where the respondent asked for more time. This ensures collection of a high percentage of responses, for analysis and results presentation. The schedule of the questionnaire is attached as an annexure to this chapter.

**Analytical Technique**

Descriptive statistics and cross tabulations will be used to describe the socio-economic characteristics of the beneficiaries’ households. The loan default rate will be computed.
RESULTS AND DISCUSSION

Socio-economic characteristics of the respondents

The Mean Age of respondents

Figure 5.1 shows that the ages of the beneficiaries respondent range between ages 19 years to 72 years and the mean age is 42.9 years while that of the non-beneficiaries ranges between 20 years to 66 years and the mean age is 42.4 years which implies that the respondents were in the active and productive age range. Age has been found to determine how active and productive the individual would be, which implies that majority of the beneficiaries, in the studied area are energetic and still able to do manual work and it can be concluded that the beneficiaries are in their “working age” and as such the likelihood of moving out of poverty and food insecurity is high.

Fig 5.1: Source: Field survey 2017

Gender of respondents

Figure 5.2 shows that 44.3% of the beneficiaries are Male compared to 58% of the non-beneficiaries while 55.7% of the beneficiaries are Female compared with 42% of the non-beneficiaries. This underscores that the RUFIN programme is female gender inclusive and completely relevant to the beneficiaries.
Fig 5.2: Source: Field Survey 2017.

Marital Status of the respondents

The Figure 5.3 reveals that 3% of beneficiaries and 18.7% of non-beneficiaries are single/never married as at the time of survey. 96.3% of beneficiaries and 66.7% of non-beneficiaries are married, and 0.7% of beneficiaries and 2% of non-beneficiaries had separated from their spouses. The beneficiaries have record of divorced and widow which underscores that marriage in the African culture is a hallmark of responsibility and also that the various religious faith adduced to the fact that Marriage is the foundation for household development. RUFIN Programme was able to cover the greatest household within the study area.
Fig 5.3 Source: Field survey 2017

Level of education of respondents.

Figure 5.4 reveals that most of the beneficiaries and non-beneficiaries respondents have completed secondary (45% and 52.7%) and post-secondary (21.3% and 32%) school education while the remaining 33.7% and 15.3% of the respondents had no formal education or uncompleted secondary school education. The level of education plays significant role in the success of any micro credit based programme and the studied area indicates a high literacy level among respondents. The level of education could determine the level of opportunities available to improve livelihood strategies, enhance food security and reduce the level of poverty. High education status of farmers and petty traders will enable them acquire knowledge and skills, for budgeting, saving, adoption of innovations and using resources as it was demonstrated by the RUFIN programme. (Esturk and Oren, 2014). Okojie (2002) also reported that, the higher the educational level of the household head, the greater the household welfare and food security and, the lower the probability of the household being poor. RUFIN therefore is program that is relevant to the targeted rural working poor.

![SOCIO-ECONOMIC CHARACTERISTICS HIGHEST EDUCATION](image)

Fig 5.4. Source: Field Survey 2017

Enterprises experience of respondents

Figure 5.5 shows that 40% of the respondents were engaged in Petty trading, 31% are farmers, 11.3% are craft makers, 4.0% engages in bi-vocational enterprises (Farming and petty trading-3.7% Farming and Craft making-0.3%). 13.7% of the respondent engages in other enterprises that are not captured in the survey instrument.
Fig 5.5 Field Survey 2017

Linkage for access to credit.

Figure 5.6 shows that majority of the beneficiaries have enjoyed a linkage to access credit. It worthy of note that 18.7% of the non-beneficiaries have access to credit which is as result of the spillover effect of impact of RUFIN programme. A second degree Impact.

Fig 5.6 Field Survey 2017
Gender Access to credit

Figure 5.7 shows that 36.3% of the loan beneficiaries are female while 29% are male. The underscores that the RUFIN programme gave priority to the female gender and this was attested to by the MFI officials. And it is believed that majority of 34.7% that are on the verge of being linked to the MFI are female.

Fig 5.7 Field Survey 2017

COMPARATIVE ANALYSIS OF THE IMPACT OF RUFIN ON RURAL HOUSEHOLD, BETWEEN BENEFICIARIES AND NON-BENEFICIARIES OF THE SUPPORTED PROJECT.

The manifestation of the Project on the Physical and Financial Assets of the respondents.

From Figure 5.8, it was evident that the project has a very strong positive impact on the physical and financial assets of the beneficiaries of the RUFIN supported project. This was established as a result of more than 75 percent of improvements that happened to the physical and financial assets (Size of dwelling unit, Quality of dwelling unit, Farm machinery, Household income, Household savings, Access to credit, Business assets and Profit making) of the project beneficiaries. It was only in a case that there was no record of up to 75 percent improvement, and this was farm machinery which has 43.2 percent improvement.

However, this was due to the fact that there was no provision for direct farm machinery in the implementation of the supported project, the beneficiaries got these implements through the funds they were able to access as a result of the project through the MFBs. Consequently, hence the low record of improvement in their farm machinery, similarly, in spite of the low record observed the improvement still surpass that of non-beneficiaries, which recorded 15.3 percent improvement in their farm machinery. This could still owed to the fact that, there was no supported program on ground either from the government or non-governmental organizations (NGOs) through which this categories of people could derive benefits.

Subsequently, the only improvement worthy of note from the non-beneficiaries sections that stood as the control units of the research work was their household income which also has more than 75 percent
improvement level. In the same vein, it was still lesser compared to that of the beneficiaries with 94.3 percent level of improvement. Therefore, these results showed significant level of impact the supported project has on the physical and financial assets of the beneficiaries.

The manifestation of the Project on the Social Capital and Empowerment of the respondents.

Figure 5.9 revealed and reflected on the social capital and empowerment of the respondents. It was observed that the supported project by RUFIN brought note-worthy improvements to the beneficiaries’ social capital and empowerment. This was established as a result of 70 or more percent level of improvements on these variables;

i. Responsiveness of government to gender issues
ii. Linkage between community and NGOs
iii. Linkage between community and the private sector
iv. Membership of association, and
v. Access to financial services of the beneficiaries.

Although in some variables, the percentages of the improvements are less than 70 percent but to a reasonable extent, it was still appreciable. These are;

i. Responsiveness of government to community needs
ii. Responsiveness of government to the needs of the poor
iii. Responsiveness of community to the need of the poor, and
iv. Responsiveness of government to the needs of the physically challenged.
The consequence of this low record was tantamount to the down-shift in the economic level of the country, which was general tagged as “recession”. This was captured through the open-ended questions that the beneficiaries responded to.

On the other hand, considerable amount of improvement was also noted from the non-beneficiaries sections (control units), and this was their membership of association which has 69.3 percent improvement level. Similarly, it was still lesser compared to that of the beneficiaries with 90 percent level of improvement. The implication of this was that the non-beneficiaries also have a reasonable way of forming a cooperative society through which any individual could be a member and could also be empowered as long as he/she belong that society. In the same vein, it was observed that their societies lack substantial capacity in the area of finance due to the fact that the societies have no link with the government, private sector and non-governmental organization (NGOs).

Therefore, these results also showed significant level of impact the supported project has on the social capital and empowerment of the beneficiaries.
The manifestation of the Project on the Human Capital and Empowerment of the benefiting respondents.

The Figure 5.10 below indicated the impact of RUFIN on the human capital resource of the benefitting individuals. 91% have been trained while 92.7% have access to linkages and market information and 72.7% have enjoyed some forms of skill improvement. Human Capital development is key to any successful intervention.
The Sustainability indicators measured in terms of economic, social and environmental

**Economic Indicator**

The programme delivers on the economic dimension of sustainability which are expressed in the figure above. Over 80% of the respondent experience improvement in their business asset, household saving, household income, quality of dwelling unit etc. Economic empowerment of the rural poor was a major trust of the programme.
Fig 5.11 Field Survey 2017

Social Indicator

The programme addresses the social dimension of sustainability through its impact as measured above. Over 70% of the beneficiaries have experienced improvement in female gender inclusion, access to food markets, drinking water, health services, education and community participation, etc. Indeed, RUFIN has delivered on its mandate of social inclusiveness.
Environmental Indicator
The third dimension of sustainability is the environment and it is a key component in measuring sustainability of any developmental programme. Over 79% of the beneficiaries experience ease of rural-urban movement which amplified the peaceful coexistence of the community and development is hinged on prevailing environmental peace. Other environmental variables measured are access to transportation, food market, drinking water, health service, education and human capital training (skill acquisition).
Conclusion
The focus of this study is to proof with empirical evidence the impact RUFIN had on the in-direct beneficiaries who in this case are the individual member of the groups and their household. From the result findings it can said that the microfinancing of farming and small scale enterprises in the rural areas in a major policy trust towards alleviating poverty. Living standards of group members have improved through the acquisition of assets such as furniture, motorbikes, cars and home-improvement investments. Increase in household cash flows has enabled smoother payment of children’s school fees, purchase of better quality of food, easier payment for medical treatment and better participation in community decision making process. Following the introduction of the volunteers, the number of groups in the villages has started increasing meaning that more households will be affected positively.

The project in itself was faced with some short comings as attested to by the respondent. It must be noted that emphasis must be lay also on the level of worsened responses of the beneficiaries, knowing fully well that the purpose of every research is to improve on the existing situations and circumstances, some of the beneficiaries lamented on the loan assessment procedure of the MFBs from which they were getting financial assistance which ranges from high interest rate, short repayment duration, credit disbursement un-timeliness, difficulties in getting civil servant as a guarantor and insufficient fund to procure business asset and farm implements. All these factors have taken its toll on the beneficiaries’ business asset and profit making.
The sustainability of the programme can be guaranteed by satisfying the sustainability indicators which are economic, social and environmental which the RUFIN had delivered to the targeted beneficiaries. Over 80% of the beneficiaries experience improvement in the economic wellbeing while over 70% experienced improvement in their social wellbeing and over 79% experience improvement in the prevailing environment that have positive impact on their wellbeing. RUFIN indeed is a sustainable programme.

It is to be noted also that many of the RUFIN interventions which have produced promising results were introduced quite late in the project life and required major thrust in follow-up and implementation to ensure and firm their sustainability.

Rural population can only be helped if intervention are designed for continuity which was a concern for RUFIN according to the Mid-term report of 2013. Rural microfinance as demonstrated by RUFIN as a veritable tool towards alleviating poverty.

Recommendation

These observations prove that in order for microfinance to serve the poor properly, all factors such as social fabric of the community, capabilities of borrowers and local conditions of host communities need to be weighed and balanced so as to achieve smooth operations that will benefit both the borrower and the lender. Microfinancing intervention in rural communities must at the formation stage takes into account the need of the people.

The apex bodies that are saddle with the responsibility of helping the poor out of poverty must conduct a social inclusive capacity building on the implementers of rural micro financial services and also approve the establishment of Rural Outreach Units (ROUs) to further consolidate on the gains of the programme. The hiring of the RUFIN VSCG volunteers as agents by R-MFIs should also be considered so as to increase the bottom tier beneficiaries.

The establishment of socially inclusive loanable fund with lowest possible interest must be considered as the option of financial service for the rural poor and also the establishment of equipment and machinery centre where simple and basic equipment and machinery can be access at an affordable fee that will foster a return on Investment. This is of great importance in order to advance the wellbeing of the rural poor. The RUFIN model should be adopted by Government at Federal, State and private level to entrench the benefit of microfinancing to the rural poor.

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