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The Effect of National Poverty Eradication Programme (NAPEP) Loan on Socio-Economic Development of Ogun State

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Abstract: The study examines the effect of NAPEP loan on socioeconomic development of Ogun state. Structured questionnaire was used to collect data from small and medium scale entrepreneurs that operate within markets in the study area. Differences of means and Probit analyses were used to analyze data collected. The study revealed that there is no significant difference in the business worth of the loan beneficiaries and non-beneficiaries ($p>0.05$). The average expenditure on the dependants was significantly higher for the loan beneficiaries ($p<0.05$). The probability that a small or medium scale entrepreneur obtain NAPEP loan is positively influenced by age, years of experience and educational status. The probability of being a loan beneficiary was 0.74 the loan beneficiaries should be regularly enlightened on proper used of fund to avoid too much concentration on consumption expenditure at the detriment of their business expansion.

Keywords: Business worth, loan beneficiary, microfinance, poverty alleviation, probit analysis

INTRODUCTION

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latest capacity of the poor for entrepreneurship would be significantly enhanced through the provision of micro finance services to enable them engage in economic activities and be more self reliant, increase employment opportunities, enhanced household income and create wealth (Central Bank of Nigeria, 1999, 2005). Poverty has been described as a multi-faceted phenomenon which encompasses economic, social, cultural and psychological dimensions. In essence, a person who has a much lower income than that of the rest of the population and who is deprived of any real access to basic services (health, lodging and education) is regarded as living in poverty. In a given population, the poor are those whose incomes are lowest and who therefore consume least. They are those who have the worst quality of life. Poverty alleviation can therefore be seen as enabling or empowering individuals to get themselves out of poverty not only as increasing the income and assets of households or individuals.

Poverty is one of the greatest challenges facing the world today. While countries of the West are working to eradicate it within their circles, others in the rest of the world are still formulating policies that may not be totally geared towards solving the real problem. In Nigeria, the main thrust of poverty alleviation on strategy of the government is to create economic opportunities in various forms and empower the poor through education and financial resources (Economic Policy Watch, 2002).

Moreover, it is often argued that the financial sector in low-income countries has failed to serve the poor. With respect to the formal sector, banks and other financial institutions generally require significant collateral, have a preference for high income and high loan clients and have lengthy and bureaucratic application procedure. With respect to informal sector, money-lenders usually charge excessively high interest rate, tend to undervalue collateral and often allow racist and or sexist attitudes to guide lending discussions. The failure of the formal and informal financial sectors to provide affordable credit to the poor is often viewed as one of the main factors that reinforce the vicious circle of economic social and demographic structures that ultimately cause poverty (Chowdhurry, 2004). Anyanwu (2004) is of the view that Nigerians, the rich and poor, are enterprising and industrious. But the poor who account for over half of the population do not have access to formal banking services and they rely heavily on formal and informal micro finance institutions for credit.

The term “Microfinance” pertains to the lending of extremely small amounts of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available to the wealthy, albeit at

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a smaller scale. This particular form of lending has existed in the world for quite some time, though formalized by Mohammed Yunus in Bangladesh during the 1970's. Yunus won the Nobel Peace prize in 2006 for his efforts in combating poverty and providing resources to the poor via the Grameen Bank and the microfinance model (Banuri, 2006).

Successive governments in Nigeria have come up with different programmes to address lack of access to credit and unemployment as manifestations of poverty. The programmes included the establishment of National Accelerated Food Production Programme and the Nigerian Agricultural and Co-operative Bank, The Community Banks, National Directorate of Employment (NDE), The Family Economic Advancement Programme (FEPA), Better Life Programme (BLP), The Family Support Programme (FSP). While these programmes were well intentioned, none had any significant, lasting, or sustainable positive effects on the people they were planned for International Monetary Fund (2005) Country Report, Akinyosoye (2005). Giving the breakdown of the recent trend of poverty incidence in the country, National Bureau of Statistics (2005) disclosed that in 1980, the figure was 28.1%, the poverty incidence rose to 46.3% in 1985. The value dropped marginally to 42.7% in 1992. In 1996 65.6% of the populace are poor; the rate rose to 70 and 54.4% in 1999 and 2004 respectively.

Due to insignificant success achieved by various programmes embarked upon to address poverty as result of lack of credit, National Poverty Eradication Programme (NAPEP) was launched in 2002 to address not only lack of access to credit by the poor but also bring about reduction in unemployment rate in Nigeria. With the programme in place, it is expected that lack of access to credit which has stifled growth in the small and medium scale enterprises sector of the economy would now be redressed (Emeni, 2008).

This study is necessary in order to determine whether the loan has impacted significantly on the business worth of the beneficiaries or not and also to determine the impact of the loan on consumption expenditure of dependants. Copestake *et al*. (2001) used the impacts of microfinance on business performance as another indicator of general wellbeing. The study also determines the factors influencing the probability that a small or medium scale entrepreneur chosen at random will be NAPEP loan beneficiary.

LITERATURE REVIEW

Microfinance has enjoyed a wealth of literature in the past and is quite often seen as one of the most significant tools developed (in recent history) to combat poverty at the grassroots level (Banuri, 2006). Adeyemi (2008) observes that across the globe, governments of various developing countries have sought to provide finance to the poor through the creation of agricultural development banks, special lending schemes and the support of the growth of cooperatives and other self-help groups (SHGs). Provision of credit to the less privileged has been a wonderful instrument for the reduction of poverty in the world. Ehigiamusoe (2008) observes that the improving condition of living in Bangladesh is a good example of how to develop with small loans. The South East Asian nation was in mid-1970s branded a 'basket case' by Henry Kissinger (the US Secretary of State at the time) on accounts of the nation's hopeless development prospects. Small loans are effective weapons for addressing mass poverty since most poor cannot afford any amount to expand or even initiate a small scale business.

Adeyemi (2008) however, documents that despite decades of public provision and direction of provision of microcredit, policy reorientation and the entry of new players, the supply of microfinance in Nigeria is still inadequate in relation to demand. This suggests that there is some inefficiency in microfinance operations in Nigeria due to some institutional inadequacies such as undercapitalization, inefficient management and regulatory and supervisory loopholes.

Microcredit is crucial for the poor to create self-employment and reduce their poverty situation (Ahsan, 2005). Poor persons with access to credit can make investments in enterprises that bring them out of poverty (Shastri, 2009).

Copestake *et al*. (2001) used income growth as the indicator for the wellbeing along with survey responses and focus group analyses. While consumption level is indeed important for the households, the overall income level has a direct impact on the consumption in the short term. This shows a viable alternative to the use of household consumption data as an indicator of poverty. Copestake *et al*. (2001) also used the impacts of microfinance on business performance as another indicator of general wellbeing. Here, business performance was defined and operational zed as the change in business profits before and after receiving the loan. Since business profits are another source of income for the loan recipients and all the respondents were business owners by design, growth in business profits would translate to household income growth. The key difference is that wellbeing is measured both via the growth in income as well as a qualitative analysis on the quality of life via interviews and focus groups.

METHODOLOGY

The study was carried out in Abeokuta. Abeokuta has two Local Government Areas (Abeokuta South and Abeokuta North) is the capital of Ogun State with residents not only comprising of the indigene but other non-indigenes from other 18 Local Government Areas

that make up Ogun State. The study was carried out in 2011.

The sources of data used for this research were both primary and secondary. In gathering and collating the data, a two-dimensional approach was adopted. The primary source of data was the study questionnaire and the secondary sources were the Internet, journals and books. The respondents were traders in major markets in Abeokuta, the state capital of Ogun State.

The respondents were selected using stratified random sampling. The first stage involved the stratification of markets in Abeokuta based the locations. The markets were Lafenwa market, Kuto Market, Itoku market and Iberekodo market. They respondents (traders) were selected randomly from each market (stratum) to give the total sample size. The stratification was necessary in order to ensure fair representation of respondents regardless of worth of their business. The research instrument (questionnaire) for this study was administered based on this stratification.

Two sets of questionnaire were administered. One set of questionnaire was for NAPEP loan beneficiaries while the other set was for the non-beneficiaries. The beneficiaries of the loan were identified in the market through the disbursing microfinance bank. For the loan beneficiaries, questions were asked on loan procurement and loan utilization while questions on business owner's profile and management were asked regardless of whether the respondent is beneficiary or non-beneficiary. Out of 230 questionnaires administered, 198 were returned.

Descriptive, probit analysis and difference of means were utilized to achieve the objective of the study. The study utilized probit analysis to determine the effect of NAPEP loan on the business worth and the gross revenue of respondents. It was also used determine the factors influencing the probability that a respondent will secure NAPEP loan in Ogun state.

According to Sperman (2008) probit is based on a latent model:

$$\begin{aligned} P(y_i = 1 \mid x) &= P(y_i^* > 0 \mid x) \\ &= P(x_i^{'}\beta + \varepsilon_i > 0 \mid x) \\ &= P(\varepsilon_i > -x_i^{'}\beta \mid x) \\ &= 1 - F(-x_i^{'}\beta) \end{aligned} \quad (1)$$

Latent variable: Unobservable variable y* which can take all values in (-∞, +∞). Generally, y_i is the binary dependent variable.

y = 1 represents the loan beneficiary
y = 0 represents the non-beneficiary
x_i = The independent variables
X_1 = Age (year),
X_2 = Experience (year) in business
X_3 = The business worth (N'000)
X_4 = Gross revenue (N'000)
X_5 = The gender (male = 1, female = 0)
X_6 = The amount spent on dependants

Difference of means was used to determine the variation in business worth of loan beneficiaries before and after loan procurement is determined using difference of means. Since the sample size (the number of years) for the study is greater than 30, large sample formula as shown below was applied:

$$Z = \frac{\mu_{BW(WL)} - \mu_{BW(L)}}{\sigma_{(BW(WL) - BW(L))}}. \quad (2)$$

$$\sigma_{(BW(WL) - \mu BW(L))} = \sqrt{\frac{\sigma^2_{BW(WL)}}{N_{BW(WL)}} + \frac{\sigma^2_{BW(L)}}{N_{BW(L)}}}. \quad (3)$$

where,
μ_{BW} (WL) = The average business worth after procuring NAPEP loan.
μ_{BW} (L) = The average business worth before procuring of NAPEP loan.
σ^2_{BW} (WL) = The variance of business worth after procuring NAPEP loan.
σ^2_{BW} (WL) = The variance of business worth before procuring NAPEP loan.
N_{BW} (WL) = The number of beneficiaries after procuring NAPEP loan.
N_{BW} (WL) = The number of respondents before procuring NAPEP loan.

RESULTS AND DISCUSSION

The result revealed that 72% of the respondents are female while 28% are male. This may be attributed to the large number of loan beneficiaries who were mainly traders selling food stuffs, building material, cooking ingredients, vegetables, 'provision', meat and fish among others. The aforementioned trade is generally populated by female. The average age of respondents was 39.3 years. Figure 1 shows that 68.9% of the respondents had 0-10 years of business experience while 2.5% and 0.8% respondents had 21-30 and 41-50 years of business experiences respectively. Only 0.8% had 41years and above business experience. Fifty-one percent (49%) of the respondents are loan beneficiaries while 51% are the non-beneficiaries. Seventy two percent (72%) of the loan beneficiaries are female while 68.7% of non-beneficiaries are female. Also, the result revealed 1.22month as the average loan processing period. Seventy five percent (75%) of the loan beneficiaries were literate.

The result of probit analysis revealed that out of the seven independent variables, five variables influenced the loan status based on the significance of their respective marginal effect (slope). These variables are

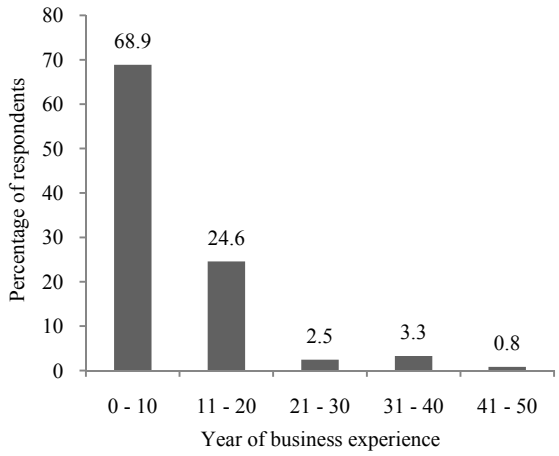

Fig. 1: Distribution of business experience (year)

Age ($p<0.1$), years of experience in Business ($p<0.01$), business worth ($p<0.1$), Literacy Status ($p<0.01$) and amount spent on dependants ($p<0.05$).

Also, an infinitesimal increase in the years of experience in business leads to increase in the probability of securing NAPEP loan by 5.1% (Table 1). Moreover, the result revealed that an infinitesimal increase in the business worth (N) leads to reduction in probability of obtaining NAPEP loan by 0.00004%. A change in respondent's educational status, from non-literate to literate, increases the probability of securing loan by 50%. Furthermore, the result showed that an infinitesimal increase in the amount spent on dependants reduces the probability of obtaining loan by 0.0011% (Table 1). Prediction from the resultant probit model showed that the average probability that a trader in the study area chosen at random will be a loan beneficiary was 0.74.

Moreover, the average business worth of the respondents that benefited from NAPEP loan is greater than those that do not benefit, the result however revealed that there is no significant difference (statistically) in the average business worth of the respondents that benefited from NAPEP loan and those that did not benefit ($p>0.10$) (Table 2) . This may be attributed to unimpressive business environment in terms of low purchasing power by consumer and irregular power (electricity) supply. Bad attitude of the beneficiaries who often think that loan extended to them is their own share of national cake; by diverting the loan to other uses other than the agreed purpose.

Also the insignificant difference in the business worth before and after the loan ($p>0.05$) may be due to

Table 1: Result of probit analysis

c	Coefficient	S.E.	z -value	Slope
const	-1.971	0.6037	3.265	
Ag	0.0195	0.0121	1.621*	0.00773
ExpBy	0.1295	0.03187	4.068**	0.05149
BizW	-1.249×10^{-06}	7.6277×10^{-07}	-1.638*	-4.965×10^{-07}
GroRev	1.696×10^{-07}	1.1187×10^{-05}	0.0152^{ns}	6.7400×10^{-08}
Gend	-0.3531	0.2411	-1.465^{ns}	-0.138
LitSta	1.35982	0.27680	4.909***	0.5006
Amtsde	-2.6737×10^{-05}	1.3228×10^{-05}	-2.021**	-1.0626×10^{-05}

Result of data Analyzed (2011); *** means significant at 1%, ** means significant at 5%, * means significant at 10%, ns means not significant

Table 2: Result of difference of means comparing average business worth of loan beneficiaries before and after

					p-value	
Parameter	Variable	Mean	Variance	Z-Stat	One- tail	Two- tail
Business worth	After loan	117438.1443	2309522295	-1.131	0.1298^{ns}	0.2595ns
	Before loan	93948.45361	23489339884			

Result of data analysed (2011); ns means not significant

Table 3: Result of difference of means comparing average amount spent on dependants by beneficiaries and non-beneficiaries

					p-value	
Parameter	Variable	Mean	Variance	Z-Stat	One-tail	Two-tail
Amount (N) spent on dependants	Beneficiaries	13924.24242	1929365478	2.91	0.0022***	0.0044***
	Non-Beneficiaries	1057.731959	1471215.636			

Result of data analysed (2011); *** means significant at 1% level of significance

Table 4: Result of difference of means comparing average business worth of beneficiaries and non-beneficiaries of NAPEP LOAN

					p-value	
Parameter	Variable	Mean	Variance	Z– Stat	One-tail	Two- tail
Business worth	Beneficiaries	117438.14	23489339884	0.228	0.41^{ns}	0.82^{ns}
	Non-Beneficiaries	122600	26599698163			

Result of data analysed (2011); ns means not significant

substantial amount of money spent on the dependants by loan beneficiaries compared to non-beneficiaries. If the amount realised from business as a result of loan procurement, the business worth of the loan beneficiaries would have been significantly greater than that of non-beneficiaries. Table 3 showed that there is significant difference in the amount spent on dependants by loan beneficiaries and non-beneficiaries ($p<0.01$). Specifically, loan beneficiaries spent more on dependants. The same reason can be adduced for the insignificant difference in the business worth of the beneficiaries and non-beneficiaries ($p>0.05$) of the loan (Table 4). The insignificance may also be attributed to poor management of fund by the loan beneficiaries who often see such loan as 'national cake.'

CONCLUSION AND RECOMMENDATIONS

The study examines the effect of NAPEP loan on the socioeconomic development of Ogun State. Specifically, the study showed that dependants' consumption expenditure improved for the loan beneficiaries while there was no significant difference between the average business worth of the loan beneficiaries and non-beneficiaries. Surprisingly, the average business worth of the non-beneficiaries is higher than that of the beneficiaries. Improvement in the dependants' consumption expenditure may be seen as a temporary reduction in poverty. The study revealed that the returns on the credit is used for non-investment purposes such as repaying existing debt, improving housing or social obligations such as taking care of dependants. Little or nothing is ploughed back for the expansion of business. The study showed that NAPEP loan has the potential of improving the socioeconomic development of Ogun State if the returns from such loan is not only used for improving the consumption expenditure of the beneficiary households but also invested in their business. From the foregoing it is important that loan beneficiaries need to be enlightened on the proper use of fund.

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