Chapter 16
The Effect of Microfinance on Inequality and Household Shocks Easing in Nigeria

Ezebuilo R. Ukwueze
University of Nigeria, Nigeria

Henry T. Asogwa
University of Nigeria, Nigeria

Augustine C. Odoh
Godfrey Okoye University, Nigeria

ABSTRACT

The chapter aims at finding the microfinance effect on households' shocks easing of Nigerians, and estimating the inequality in the use of MFIs' services under the backdrop that rural farmers do not have access to credits to boost productivity and this affects their income and widens inequality. Based upon the World Bank microdata on financial inclusion survey for 2014 (the Global Fundex survey data set), the study employed the Heckman selection model and concentration index. The results show that households in urban areas have more access to MFIs services than rural households in terms of mobile money accounts, emergency funds, and receiving remittances to smooth their consumption shocks. The results also show wide disparities in deprivation of owning accounts, in loans for apartment, in trend of saving habits, in capacity to participate in MFIs services between the rich and the poor. The study, therefore, recommends that more MFIs can be established in rural areas and more awareness campaign be carried to reach out to the targeted households.

INTRODUCTION

Generally, microfinance programmes are basically meant to provide financial services to the poor especially those that are under-served by mainstream financial service providers. These services include microcredit, micro-savings, micro-leasing, and micro-insurance and payment transfer (Babajide, 2011).

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Microfinance impact analysis is the process by which one determines the outcomes (effects) of microfinance as an intervention (Ledgerwood, 1999). Microfinance Institutions (MFIs) do the provision of financial services to low-income individuals, and also the self-employed. The services include credit, savings, insurance and payment. However, Koveos and Randhawa (2004) argued that the main idea behind microfinance is to reduce and ultimately eliminate poverty by providing credit to individuals who are too poor to access fund from the formal financial institutions. Microfinance has come to replace or reduce the activities of private money lending activities with their high interest-charging capacities which are mostly usurious, and other illicit activities beclouding it.

It should be noted that it is not only the very poor that benefit from the microfinance credits; the "working poor" also patronize the MFIs. The working poor are those who are working but have little earned income or those whose earned income cannot meet their household needs. They cannot also borrow from the formal financial institutions, due to their inability to provide collaterals. The links between microfinance development and improvement in lives and welfare of households have come to focus in empirical studies, especially as this plays veritable role in reducing inequality in the areas of consumption smoothening. Developing countries are characterized by disparities: income gaps, inequality, poverty, vulnerability and welfare levels. Greater households depend on subsistence income accrued from rural faming and other related economic activities. These rural farmers do not have access to credits to boost productivity and this affects their income and widens inequality.

Providing effective financial services to low-income households often requires social intermediation, the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals (Bennett, 1997). Also, some MFIs provide enterprise development services such as skills training and basic business training (including bookkeeping, marketing, and production) or social services such as health care, education, and literacy training. These services can improve the ability of low-income households to operate microenterprises either directly or indirectly. It should be noted that the type of services rendered by the MFIs depend on the MFI's objectives, the demands of the target market, the existence of other service providers, and an accurate calculation of the costs and feasibility of delivering additional services (Ledgerwood, 1999).

According to Ledgerwood (1999), there are four cardinal services which may be provided to microfinance clients and include: first, financial intermediation, or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems. Second, social intermediation is the process of building the human and social capital required by sustainable financial intermediation for the poor. Third, they provide enterprise development services or non-financial services that assist micro-entrepreneurs. They include business training, marketing and technology services, skills development, and subsector analysis. Fourth, social services or non-financial services that focuses on improving the well-being of micro-entrepreneurs. They include health, nutrition, education, and literacy training.

Since microfinance is believed to ease the microcredit constraints on the poor, it is expected to have equalizing effects on income disparity and by extension has the capability of cushioning the effects of shocks on poor households' consumption. Shock easing effect of microfinance is easily manifested in the consumption smoothening potential of the microfinance institution (Dunford, 2013). The ability of households to smoothen consumption portrays an important dimension of wellbeing as it shows people's capability to satisfy their basic needs despite the occurrence of shocks (Sugiyanto, Kusumastuti & Donna, 2012). According to Hashemi and Rosenberg (2006:1), microfinance enables poor people to use loans, deposits, and other financial services to reduce their vulnerability, seize opportunities, and increase their earnings, hence alleviating their poverty.