

Incorporating NGOs in Microcredit Delivery: Prospect and Challenges in Delta State, Nigeria

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Abstract: The study assessed the prospects and challenges of using NGOs as strategy for micro-credit delivery using Shell Petroleum micro-credit scheme in Delta State, Nigeria for a case study. Ten NGOs involved in the implementation of the Shell micro-credit scheme were sampled. Data from 519 participants and non-participants in the scheme were analysed using frequency counts, mean and t-test. The study revealed that there was prospects in using NGO for micro-credit delivery as the income of participants in the NGO-managed scheme (₦282,895.14) was significantly higher than that of non-participants (₦165,971.54). However, a number of challenges were associated with this strategy namely: delay in service payment charge by the sponsoring agency, i.e., SPDC (mean = 4.00), difficulty in accessing communities (mean = 3.67), poor staff commitment (3.44) and failure of beneficiary group to adhere to loan management guidelines (= 3.22). Closer monitoring of the beneficiary groups by the NGOs and enforcement of appropriate selection criteria as well as provision of adequate logistics to improve NGO's delivery was recommended.

Key words: Non-Governmental Organisation (NGO), microcredit, credit delivery, prospect and challenges, micro-credit delivery

INTRODUCTION

Teegen *et al.* (2004) explained that NGOs are private, non-profit organizations that aim to serve particular societal interests by focusing on several services such as advocacy and/or operational efforts on social, political and economic goals including equity, education, health, environmental protection and human rights. Ulleberg (2009) in his contribution however observed that NGOs have become the main service providers in countries where the government is unable to fulfill its traditional role. Teegen *et al.* (2004) opined that NGOs are vehicle that delivers social services such as poverty relief and environmental protection.

Nwigwe noted that international organizations have realized that NGOs are veritable and effective channels for effective implementation of development programmes such as poverty alleviation programmes. According to Okunmadewa (1998), their effectiveness is anchored on their firsthand knowledge of the needs and interest of the poor with whom they interact. Baruah (2010) asserted that the use of NGOs in the implementation of microcredit has become justified by the fact that they were seen to be

universally less bureaucratic, less conservative and closer to their constituencies and are therefore more in touch with their needs and constraints.

NGOs utility as intermediaries in microfinance delivery is not new. In a survey of 206 micro-credit delivery institutions, 73% were NGOs, 13.6% were credit unions, 7.8% were banks and the rest savings unions. Most microfinance NGOs in Nigeria took off first as credit financial institutions, sourcing loans from donor agencies for onward lending to their members at the grassroots. Ogunidipe (1999) reported that external donor funds accounted for about 77% of their funding between 1992 and 1996. Corroborating, Ogunidipe (1999) and Adetunmbi (1999) reported that over 80% of the aggregate loan funds available in the semi-formal microcredit institution in Nigeria were from donors and governmental sources while about 20% were self-imposed tariffs. This development has serious implications for the sustainability of the system.

With the emergence of several industries and the Nigerian government insistence on corporate social responsibility, many companies have sought ways to impact on their community of operation. Corporate social

responsibilities of the different companies have focused on several areas such as educational scholarship, entrepreneurship training, etc. Frynas (1998) reported that oil companies such as Shell have embraced major international corporate social responsibility initiatives such as Kofi Annan's Global Compact and the Global Reporting Initiative (established by CERES, the Coalition for Environmentally Responsible Economies). Furthermore, oil companies have initiated, funded and implemented significant community development schemes. It is estimated that global spending by oil, gas and mining companies on community development programmes in 2001 was over US\$500 million. Oil companies now help to build schools and hospitals, launch micro-credit schemes for local people and assist youth employment programmes in developing countries. Corroborating the earlier information Jedrzej and Wood (2001) asserted that Shell Petroleum Development Company (SPDC) provides its major contract managers with a development budget so that when a new pipeline is built, the manager can initiate a new development project within a community in order to enable pipeline construction to continue unhindered. When the SPDC team finishes the construction of a particular section of the pipeline, the community development budget for the area is simply closed which follows the logic of why the firm embarked on the project in the first instance. Thus, projects are driven by short-term expediency rather than the long-term development needs of a community and the problem of this short-term funding is exacerbated by the fact that the major contract managers are not development specialists.

SPDC is involved in several corporate social activities in Nigeria such as building of schools and hospitals, award of scholarship construction of roads and market and also launched a micro-credit scheme (Jedrzej and Wood, 2001). The company partners with NGOs in its micro-credit delivery. This unique partnership is a rarity in the Nigerian system where micro-credit delivery is operated on a profit basis. But how has this system of partnership fared? How effective has it been in improving the livelihood of beneficiaries? What are the challenges confronting such partnership? These are some of the issues this study addressed.

Hypotheses of the study: The following null hypothesis was tested:

Ho: There is no significant difference in the income of participants and non-participants in the NGO-managed SPDC's micro-credit scheme.

SPD micro-credit scheme (an overview): The Shell micro credit programme started in 1998 and had the following objectives (Osagie, 2004):

- Make fund available for disbursement to the rural poor in their host communities
- Improve the economic base of the rural poor in their host communities
- Improve the living standard of the rural poor in their host communities
- Improve the community relation mileage of the company through the provision of microfinance

The micro credit scheme is targeted mainly at women residents who have no source of income or collateral security to secure credit. The focus on women is in consonance with FAO (2001) and Iheduru (2002) observed that micro-credit (loans) given to women tend to be more beneficial to the whole family than loans given to men. The loan is re-payable and attracts a minimal interest as determined by the participants. The charging of interest to loan participants is aimed at growing the fund which resides in the cooperative society's bank account. The fund is used as a revolving loan which revolves around the cooperative members within the benefiting communities.

The company employs the '3Cs' of micro-credit concept as key factors in managing their microfinance programmes so as to ensure effective use of loans, prompt repayments and ensures business growth. These key strategies are given.

Character: The credit history of the potential participants is considered, i.e., how he or she has handled past debt obligations. Her ability to pay credit debts is determined.

Capital: Capital refers to the current available assets of the borrower such as real estate (for the purpose-TV set, video players, furniture, fridge, motor bikes, etc.), savings or investments that could be used to pay debt if income should be unavailable.

Capacity: This means how much debt a borrower can comfortably handle. Income streams are analyzed and any legal obligations which could interfere in repayment are considered. The procedure used in the administration of SPDC micro-credit scheme is as follows:

Community entry and sensitization (community entry): The first stage of the SPDC microfinance schemes involves an SPDC-nominated NGO going into the community of interest to introduce itself and intimate the

community of the mission of the SPDC scheme. In community sensitization, the NGO discusses with the stakeholders of the programme and give detail report to the donor company.

Capacity building of Scheme Management Committee (SMC): The beneficiaries are trained on the business they have selected. The Scheme Management Committee (SMC)'s training focuses on:

- Importance of owning a small business
- Planning and managing your business
- Keeping records of your transactions
- Loan application process and utilization
- Importance of saving
- Interest payments, loan repayments and recovery
- Group mobilization/cohesion and obligations
- Attendance at meetings

Loan (fund) disbursement: At this phase of the scheme, the SMC teams are advised to open an account with a bank of their choice, preferably those close to them. At the initial time, the account is jointly opened with the NGO being a co-signatory to act as a check to the management of the fund. Funds are disbursed into the account for onward transmission to the beneficiaries.

Monitoring and reports: Monitoring of the loan is the process by which visits are made by the NGOs to the beneficiaries' business site to confirm if the fund disbursed is being productively utilized and in a manner that will ensure prompt repayments. The content of the reports includes:

- Date (or period) of the training
- Names of community executive committee members trained
- Names of Scheme Management Committee (SMC) members trained
- Key topic (subjects) covered
- Key concern/issue rose at the training
- Major decisions taken
- Relevant photographs taken during these activities are attached to the report

Loan recovery and repayment period: The fund disbursed to the beneficiaries is paid back to the NGO with an agreed minimal interest. The interest is expected to grow the fund. During the recovery phase both the capital and interest are returned to the cooperative account after

which other members of the cooperative society who have applied for loan are given. The period between the receipt of fund by beneficiary (loan disbursement) and the payback scheduled date is known as a CYCLE.

Graduation: The graduation period is the terminal point of the NGO's project implementation process, i.e., the time when the total sum of the money (both the borrowed and interest) are given to the cooperative's SMC who will then take full responsibility of managing the fund without the NGO.

Close out report: This is the report prepared at the end of 6 months when the SMC would have taken over the management of the scheme. This report gives a detailed account of all aspect of the programme from inception till date. The beneficiaries of the loan are selected based on the following criteria:

- They must be indigenes of the community
- Must be registered members of the benefiting cooperative society
- Must be financially committed member of the cooperative society

MATERIALS AND METHODS

Delta State is one of the Niger Delta states in Nigeria, located approximately between longitude 5°00' and 6°45' East of the Greenwich meridian and latitude 5°00' and 6°30' North of the equator. It has 25 Local Governments (LGs) distributed across 3 senatorial zones namely Delta North, Delta Central and Delta South. It has an estimated population of 4,098,391 persons and a land area of about 17,011 km². In the Southwest and South East, it has approximately 122 km of coastline bounded by the Bight of Benin. Farming is a major occupation of the people in the state.

This study focuses on participants and non-participants of the SPDC micro-credit scheme as well as the NGOs implementing the scheme. Geographically, the study covered SPDC operational communities in Delta State of Nigeria. Delta State was purposively selected because it was the birth place of the scheme.

The study used a multistage sampling technique in the selection of participants and non-participants of the scheme. Two of the three senatorial zones (Delta Central and Delta South Senatorial Zones) in the state were purposively sampled because SPDC micro-credit scheme is predominant in these areas. Delta Central and Delta

South zones both have 8 and 7 LGs, respectively. Four LGAs were randomly sampled from the 2 selected zones while 2 communities serving as host to the SPDC micro-credit scheme were purposively selected from the selected LGS making 16 communities.

Goldberg (2005) asserted that most studies on programme impact (effect) assessment attempt to isolate programme effect by comparing the outcomes of participants against a comparison group of non-participants. This study adopts a similar pattern by comparing participants and non-participants of SPDC micro-credit scheme. Thus, 20 participants and non-participants were randomly selected from each community. The list of participants was obtained from SPDC. A total of 620 respondents were sampled. However, only 519 responses were finally used for data analysis. To tackle the selection bias inherent in impact studies, the researchers sampled non-participants who expressed willingness to collect SPDC micro-credit facility. Pitt and Khander equally suggested that impact studies should be based on comparative design, i.e., participants and non-participants approach using income and savings as indicators. The study adopts the income approach. SPDC uses NGOs to implement its micro-credit intervention programme. Twenty five NGOs were engaged by SPDC in the study area, out of which 50% were randomly selected. However, responses were only received from only 10 of the NGOs. Validated questionnaire and interview schedule were used to collect the primary data from the respondents. Frequency tables, means were used to analyze the data obtained.

RESULTS AND DISCUSSION

Challenges faced by NGO in the management of SPDC microcredit scheme:

Table 1 revealed the challenges

faced by the NGOs in the management of the SPDC micro-credit scheme. Major constraints include delay in payment of NGO service charge by the donor company (SPDC) (mean = 4.00); difficulty in accessing the communities where the loan disbursements are to be done due to bad terrain (mean = 3.67), poor motivation of NGOs' staff which can lead to poor commitment (mean = 3.44) and biasness or favouritism in the selection of beneficiaries by the SMC (mean = 3.00). These constraints can limit the performance of the implementing NGOs and therefore reduced the effectiveness of the scheme.

The finding is in consonance with Sudhir (2010) who identified deficiency of efficient and trained staff, lack of committed personnel to work in rural and remote areas and quality monitoring as well as supervision of disbursed fund as great challenges that face the implementation of microcredit scheme.

NGO's years of establishment and experience with

SPDC: Table 2 shows the years that the sampled NGOs were established. Majority (44.4%) had existed for 10 years while 22.2% had existed for over 10 years. The finding suggests that the NGO were experienced in community development work, especially in the study area. The Table 2 also shows the years that the NGOs have been working with Shell Petroleum Development Company of Nigeria Limited in terms of implementing its microcredit scheme. About 22.2% have worked with SPDC for 1-3 years and above 6 years while 11.1% had worked with SPDC for 4-6 years. Information from the Economic Empowerment team of the donor company (the team that handles the scheme in SPDC) revealed that the years of experience of an NGO working with them determines their level of performance and the company's level of dependability and reliability on them.

Table 1: Challenges faced by NGO in the management of SPDC microfinance scheme

Challenges	Mean	SD
Delay in payment of NGO service charge by donor company (SPDC)	4.00*	0.0
Difficulty in accessing communities where disbursements are to be done due to the terrain	3.67*	0.5
Poor motivation of the NGOs' staff by their employer	3.44*	0.5
Poor commitment to duty by the NGO' staff	3.44*	0.5
Failure of Scheme Management Committee (SMC) to adhere to stated guideline in loan management process, etc.	3.22*	0.4
Existence of biasness or favouritism in the selection of beneficiaries by the SMC	3.00*	0.7
Lack of accounting and book keeping skills of the beneficiaries	2.89*	0.3
Community resistance to NGO's implementation of the scheme	2.33	0.5
Low educational status of the rural populace	1.89	0.3
Diversification of loan by beneficiaries for other uses	1.67	0.5
Delay in fund release by the donor company	1.67	0.5
Default in loan repayment by beneficiaries and cooperative societies	1.56	0.5
Insufficient staff to implement, supervise and monitor the scheme	1.56	0.9
Lack of (insufficient) vehicles to implement the scheme, e.g., for monitoring and other purposes, etc.	1.44	0.5
Poor level of cooperation between the scheme management committee and NGO	1.33	0.5
Insufficient fund for the scheme implementation	1.11	0.3

*Serious (mean ≥ 2.50)

Table 2: NGOs' year establishment

Year of establishment	Frequency	Percentage
10 and below	4	44.4
>10	2	22.2
No. response	3	33.4
Experience with SPDC		
1-3	2	22.2
4-6	1	11.1
>6	2	22.2
No response	3	33.3

Table 3: Credit volume obtained by SPDC participants

Amount (₹)	Frequency	Percentage
50,000 and below	81	31.3
50,001-100,000	99	38.2
100,000-150,000	34	13.1
Above 150,000	30	11.6
No response	15	5.8
Total	259	100.0

Table 4: Criteria for credit volume disbursed to participants

Criteria	Mean	SD
Type of enterprise engaged in by participants	3.67*	0.500
NGO's need assessment result	3.44*	0.527
Discretion of NGO and Scheme Management Committee	2.33	0.500
The quantity of oil produced in the community	1.89	0.333
The amount of money saved by the prospective beneficiary (cooperative member)	1.78	0.441
SPDC's recommendation	1.67	0.500
Recommendation of community leaders	1.33	0.500

*Important (mean ≥ 2.50)

Credit volume obtained by participants: Table 3 shows the modal (38.2%) credit volume received by SPDC participants' to be ₹50,001-100,000 while 31.3% got ₹50,000 and below. The modal (38.2%) credit volume received was sizable (since it is called microcredit) and it is expected to have a positive impact on the beneficiaries livelihood. Erie (2008) explained that when the farmers have more credit, they are able to pay for innovations and other inputs that could expand their enterprise and this translates to more production and income.

Criteria for credit volume disbursed to participants: Table 4 shows the criteria used by the implementing NGOs to determine the volume of credit disbursed to SPDC participants. A major consideration was the type of enterprise the potential beneficiary was engaged in (mean = 3.67) as well as the determined need of the participants by NGO based on their need assessment (mean = 3.44). Type of enterprise engage in by an individual will to a great extent determine his/her capacity to repay borrowed funds hence it is an important consideration. A proper need assessment survey will highlight the extent to which credit is needed by individuals.

Income distribution of respondents: The modal income range of participants was ₹100,001.00-200,000.00 per annum (37.8%) and <₹100,000.00 for non-participants (40%) (Table 5). The results show that the annual average income of beneficiaries (₹282,895.14) was higher than that of non-beneficiaries (₹165,971.54). The t-test result (t = 4.09; p<0.01) is significant suggesting that the beneficiaries income was significantly higher than that of non-beneficiaries.

This finding suggests that access to SPDC micro-credit scheme had positive influence on the participants' earnings. This finding is in consonance with Dunn and Arbuckle (2001) who found beneficiaries of micro-credit to have earned \$740 annually more than the non-participants.

The findings suggest that participation in SPDC microfinance scheme had significant positive effect on income of participants. This result agrees with Toshio (2007) and Saka *et al.* (2008) affirmation that the provision of credit to entrepreneurs translates to improvement of their economic and social status. The researchers further reported that individuals who benefitted from microcredit intervention programme recorded higher income earnings from their economic activities than those who did not. This also agrees with Hussien and Hussain (2003) who reported that household income of beneficiaries increased as much as 61% for women in Pakistan which translated to and this has also improved their economic independence and self-confidence.

Challenges faced by NGOs in the management of SPDC microcredit scheme: Table 6 reveals the challenges faced by the NGOs in the management of the SPDC micro-credit scheme. Major constraints included delay in payment of NGO service charge by the donor company (SPDC) (mean = 4.00); difficulty in accessing the communities where the loan disbursements are to be done due to bad terrain (mean = 3.67), poor motivation of NGOs' staff which can lead to poor commitment (mean = 3.44) and biasness or favouritism in the selection of beneficiaries by the Scheme Management Committee (SMC) (mean = 3.00). These constraints can limit the performance of the implementing NGOs and therefore reduced the effectiveness of the scheme.

The finding is in consonance with Sudhir (2010) who identified deficiency of efficient trained staff and lack of committed personnel to work in rural and remote areas and quality monitoring as well as supervision of disbursed fund as great challenges that face the implementation of microcredit scheme.

Table 5: Income distribution of respondents

Income (₦)	Beneficiary		Non-beneficiary		Total	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
≤100,000	42	16.2	104	40.0	146	28.1
100,001-200,000	98	37.8	89	34.2	187	36.0
200,001-300,000	58	22.4	39	15.0	97	18.7
>300,000	61	23.6	28	10.8	89	17.1
Total	259	100.0	260	100.0	519	100.0

Mean = Participants (₦282,895.14; non-participants = ₦165,971.54 (t-value = 4.094)

Table 6: Challenges faced by NGOs in the management of SPDC microfinance scheme

Challenges	Mean	SD
Delay in payment of NGO service charge by donor company (SPDC)	4.00*	0.0
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Insufficient staff to implement, supervise and monitor the scheme	1.56	0.9
Lack of (insufficient) vehicles to implement the scheme, e.g., for monitoring and other purposes, etc.	1.44	0.5
Poor level of cooperation between the scheme management committee and NGO	1.33	0.5
Insufficient fund for the scheme implementation	1.11	0.3

*Serious ($\bar{X} > 2.50$)

CONCLUSION

Researcher submits that the use of Non-Governmental Organizations (NGOs) in the delivery of microcredit scheme had a significant impact on the whole process despite the fact that they were plagued by several obstacles which reduced their performance and those challenges need to be given attention in order to maximize their potential to the benefit of the beneficiaries.

RECOMMENDATIONS

The study recommends new strategies such as appropriate monitoring of the SMC by the implementing NGOs. Stakeholders involved the SPDC microcredit scheme should introduce and enforce appropriate selection criteria that could be transparent and void of suspicion and bias. Credit volume disbursed to beneficiaries should be reviewed upward to avoid insufficiency. Adequate logistics provision should be made to improve NGO's delivery.

ACKNOWLEDGEMENT

Researchers acknowledge the cooperation received from staff of Shell Petroleum Development Company, members of SPDC micro-credit groups and the implementation NGOs.

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