23

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CONTENTS

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Editor.

From the Editor's desk

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When Bal Gangadhar Tilak gave the call "Swaraj is my birth right and I shall have it"

When Sardar Patel Led the Bardoli Satyagraha (Strike)

When Prakasam dared the Simon commission in 1928

When Gandhi marched to Dandi on 12th March 1930

When Netaji Bose established Azad Hind Fouz and declared "Jai Hind"

When Nehru Unfurled national Flag on 15th August,1947 and delivered the Tryst with destiny address

When India became a Republic and adopted the Constitution on the 26th January 1950

When man set foot on the Moon for the first time in 1969

But you are alive today and witnessed the great success of "Mangalyan". You have become a part of it my fellow Indians. Celebrate it. Cherish this moment. Salute our great Scientists who made this great achievement possible in their very first attempt and put us on par with US, Russia and the EU who have achieved this earlier although not on their first attempt and at the lowest cost.

This has a phenomenal economic impact. India achieved this great feat at almost the 10% of the cost of what US spent on MAVEN. India already a less expensive Satellite Launcher for several countries and this would increase in the future and that would be a business of Rupees 20000 Billion(Over $330 Billion) for India in the next few years.

Microfinance and Mortgage Financing in Nigeria : A Rural Experience

Ijaiya, M.A.,* Lawal, W.A.** and Osemene, O.F.***

Abstract

Housing sector plays a critical role in a country's welfare than is always recognized, because it directly affects not only the wellbeing of the citizenry but also the performance of other sectors of the economy. However the bulk of the housing finance comes from commercial finance and institution. Using a multiple regression analysis, this paper examines the impact of informal microfinance on mortgage financing in rural Nigeria. Findings show that the inability of the rural respondents to get loans from the formal financial institution to build their houses is because of the scarce mortgage lenders and housing developers, high mortgage interest rate, dearth of long – term funds, difficulty in assessing land, title to land due to the shortcomings in the provision and implementation of Land Use Act of 1978,etc. Based on this, the study recommends the establishment of a rural regulatory body that would ensure quality of houses, remove risk involved in purchases of land and security of tenure. This step would encourage members of the informal microfinance to invest more on housing.

1. O Introduction

Housing sector plays a more critical role in a country's welfare than is always recognized. This is because it directly affects not only the wellbeing of the citizenry but also the performance of other sectors of the economy. Besides, housing is one of the basic needs of life; and also one of the indices of measuring the standard of living. Thus, because of its potential for socio –economic development, housing development used to occupy a prominent place in the policy decisions and budget outlays of Government world over particularly those of developing nations. (See Sanusi, 2003; Manoj, 2010)

However, Ferguson (1999) observed that the great bulk of home finance in Africa, Asia and Latin American and the Caribbean comes from outside commercial finance and institution. Household use their own savings, sweat equity, barter arrangements and their sources to build their homes. This is because government housing programmes have failed them; besides, mortgage lenders and housing developers are scarce and where they are available, they are unaffordable and mostly focus on the middle and upper market segments. (See also Solares, 2007).

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Thus, their services are inaccessible for household with informal incomes and informal titles. Hence, they resort to the informal form of housing finance to provide a home where they and their families can live in security and comfort.

Therefore, the concern of this paper is to discuss the impact of informal microfinance on mortgage financing in Nigeria, using a rural area experience.

The next section examines the conceptual issues of informal microfinance and mortgage finance. Section three discusses the data source and methodology. Section four presents the discussion of the results. Section five provides the conclusion and recommendation.

2.0 **Conceptual Issues: Informal Micro Finance and Mortgage Fincance**

2.1 **Informal Microfinance: Meaning, Types, Methods, and Importance.**

Microfinance refers to the provision of basic financial services like credit, savings, insurance and funds transfer to the poor and near-poor households which are normally excluded from the formal financial systems. Microfinance is classified into formal, semi-formal and informal. The formal microfinance is those institutions that are subjected to central banking regulation such as public and private banks, insurance companies and finance companies. For instance, microfinance banks, small scale industries credit scheme, *etc.* in Nigeria; Prodem in Bolivia; World Women Banking in Malawi, *etc.* The semi-formal are finance institutions that are not regulated by banking authorities but are subjected to supervision and regulation by government agencies, where government supports them with funds, technical assistance, and policy guidelines. Examples include credit unions, group lending, *etc.* The informal microfinance is the finance institution created by people themselves without external intervention and with no legal status. This type includes the moneylenders, pawnbrokers and member-owned organizations like self-help groups and Rotating Saving and Credit Association (ROSCAS). The methods that are generally associated with microfinance are group lending such as joint and several liability, limited liability, pre loan or forced savings requirements, gradually increasing loan sizes, etc. The joint and several liabilities encourage extremely careful selection of members because any member can be held liable for the defaults of others. It may however, deter the comparatively wealthy from joining the group, since they have more to lose. This method is adopted by the four of the most prosperous Asian microfinance institutions: the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand; the Grameen Bank in Bangladesh, the Bank Rakyat Indonesia Unit Desa and the Badan Kredit Kecamatan (BKK) in Indonesia. The group lending based on limited liability are common, borrowers are required to put part of their loans in a fund that would be forfeited if any member defaulted. If all members repay their loans, these deposits are returned. The Grameen Bank in Bangladesh also adopted this method, and the result is impressive. (See World Bank, 1989, Huppi and Feder, 1990., Nair, 2001). Other methods include individual lending, voluntary savings, lending to men and for consumption.(See World Bank, 1989; Doyle, 1998; Okafor, 2000; Aderibigbe, 2001; Akanji, 2001; Nair, 2001; Richard and Lennon, 2001; Wilson,2001; Pitamber, 2003; World Bank,2008; CIBN,2011). Bolnick and Mitlin (1999) observed that informal microfinance provides members with housing loans which improve the housing conditions of the poor. Clients are usually requested to save prior to the beginning of the housing loan programme. Loans are later extended to clients and are asked to make monthly repayment to their housing savings programme along with their savings. Most of the loans are used to finance finished houses. The microfinance institutions use group-based collateral and successful repayment of the microfinance serves as a precondition for large-scale credit. Besides, credit schemes developed for housing finance use some of the traditions of informal sector-finance and Non-Government Organizations (NGOs) micro-enterprises credit programmes. The strengths of such institutions in being able to deliver small loans with little delay have long been recognized (see also Remenyi 1991; Adams and Ghate, 1992 cited in Bolnick and Mitlin 1999). The Grameen Bank of Bangladesh in 1995 was reported to have provided three hundred and thirty thousand (330,000) housing loans to members of its saving schemes. While SEWA a microfinance institution in India now provides housing loans, and *Fundacion Carvajal* in Latin America was primarily involved in micro-enterprises development but initiated a program of housing loans in the late 1980s. This plays a very important part through emphasizing to people their value and capacity. Also, PROA in Bolivia has provided 500,000 inhabitants with variety of microfinance services such as housing credits, sewer connections, reforestation, health and microenterprise credit (See Anzorena, 1996, Ferguson, 1996; Davies, 1999; Mjoli-Mncube, 1999).

2.2 Mortgage Finance: Meaning, Characteristics and Importance.

Ferguson (1999) defines mortgage finance as a long term loan at market interest rates extended by a formal sector financial institution – typically one specialized in housing such as building society – that qualifies mortgagers based on underwriting criteria. The characteristics include fixed monthly payment at fixed interest rate that varies with the rate of inflation and using a lien on the property to which mortgager must have full legal title. On the other hand, Metzel (2011) said that mortgage microfinance applies to the principles of microfinance to housing, which addresses the bottleneck in the housing value chain for many of low income household. While Daphnis and Ferguson (2004) define mortgage microfinance as a discrete practice that intersects housing finance and microfinance. The definitions emphasize how microfinance integrates informal and incremental building practices that are common to low income households regardless of whether or not they conform to what may be considered prudent real estate development at a time. The incremental house building practice suits the low income and moderate income because the loans are small and incremental thus are affordable to low income. (See also Turner and Ficther 1972; Hardoy and Satterthwaite, 1989). The characteristics include, small loans, loans that can rotate, and para – legal ownership of land depending on the practice of the promoters. Discussing the importance of mortgage microfinance, Metzel (2011) observed that it focuses on small –medium sized loans for the low income demographic for incremental housing and the construction of their houses usually with locally available materials. Besides, the advantages also include community integration, employment opportunities, encouragement of personal finance management and seemingly improved housing conditions compared to what was often the case under the formal financing.

2.3 Mortgage Financing in Nigeria: An Overview

Adequate housing finance has been a major priority of Nigerian Government. Towards this end, the Government initiated policies aimed at providing affordable and comfortable housing for all Nigerians. This includes credit policies (where the Central Bank of Nigeria (CBN) stipulates minimum proportion of commercial banks credit to housing), Insurance companies' funds, specialized institutions such as semi-government agencies, mortgage banks and building societies, *etc.* Despite these policies, the hope of meeting the target of housing for all is still a mirage. This is so because the housing sector is faced with some problems such as poor funding of the Federal Mortgage Bank of Nigeria (FMBN) and Primary Mortgage Institutions (PMI), high interest rate, dearth of long – term funds, absence of secondary mortgage market, and inadequate branch network of Primary Mortgage Institutions for easy disbursement from the National Housing Fund, difficulty in assessing land, and title to land due to the shortcomings in the provision and implementation of Land Used Act of 1978. Others are the inadequate incentives, concessions and taxes, and non- availability of insurance framework. (See Sanusi, 2003; Njoku,2011; Chikezie,2012). These problems made it even more difficult for the low income earners to build their houses using the formal mortgage finance institutions.

3.0 DATA SOURCE AND METHODOLOGY

3.1 Data Source

This study focuses on Offa Local Government area in Kwara State Nigeria. The Local Government Area has an estimated population of 88,975 people according to the 2006 census. (FGN, Official Gazette, 2009). Offa is the headquarters of Offa Local Government Area, and it is located 58 kilometers away from Ilorin the headquarters of Kwara State. 250 kilometers away from Lagos and 500 kilometers away from Abuja, the Federal Capital city of Nigeria. Offa lies on latitude 8^0 09'N and longitude 4"44'E of the Equator. It covers an area of about 14,922sq km. and lies in the south of Ilorin. The Local Government Area is located in the guinea savannah region with an annual rainfall of about 60cm and temperature of about 80^0f. The major occupation of the people is farming and the major villages include Kere-Aje/Oga-Kunrin, Adeleke, Igbonna and Igbo-odun. (See Kwara State, 2000). A multi-stage random sampling method was used to select the respondents after a pre-field work visit to the four randomly selected villages to identify the members of the informal microfinance in each village. A structured questionnaire was distributed to 50 members of the informal microfinance in each village, thus bringing the total number of respondents to 200 but only 180 Of the respondents returned their questionnaire. The major economic activities considered were farming and non-farming activities, which include petty trading, black and goldsmith, tailoring, bicycle repairs-work, handicrafts, commercial motorcycling, black soap making, etc. The questionnaire used was designed to provide (i) the role of informal microfinance on housing of the respondents; (ii) the profile of the entrepreneur and enterprises; (iii) the personal credit and savings of individual respondents; (iv) the impact of credit on business operations and on household living standard; and (v) problems facing household in accessing credit. Besides, qualitative questions are asked about the impact informal microfinance on housing. The concern of this paper is data that relates to the impact informal microfinance on housing while other data that relates to the socio-demographic characteristics of the respondents (e.g. gender, age, marital status, household size, education) and the role of informal microfinance on economic activities were collected since they aid credit use.

3.2 The Model

Earlier works by Turner and Ficther,1972; Hardoy and Satterthwaite, 1989; Ferguson, 1999; Goldberg 2005; and Solares, 2007 have linked microfinance to housing /mortgage financing. Based on this, a multiple regression analysis of the Ordinary Least Square type was used in testing the validity of the impact of informal microfinance on housing financing of the selected individuals in the study area. Following Zaman 1999; Ijaiya and Ijaiya, 2004; Noah, Ijaiya and Ijaiya, 2009 method of analysis that uses econometric models, the model for this study with some modifications is stated as follows:

$$EAsi = f(RMfi, VHCsi) \qquad (3.1)$$

Where EAsi = housing financing proxied by the income generated by individual respondents from all economic activities.

RMfi = facilities by microfinance institutions.

VHCsi = vector of household characteristics of individual respondent.

It also follows that:

$$RMfi = (CFi, SFi, HFi, CDFi,) \qquad (3.2)$$

$$\text{and } VHCsi = (Gdri, Edui, Occi, HHsi) \qquad (3.3)$$

Substituting equations (3.2) and (3.3) into equation (3.1), the equation thus gives a multivariate relationship.

$$EAsi = f(CFi, SFi, HFi, Gdri, Edui, Occi, HHsi) \qquad (3.4)$$

With a multiple linear relationship as:

$$EAsi = \beta o + \beta_1 CFi + \beta_2 SFi + \beta_5 HFi + \beta_4 Gdri + \beta_5 Edui + \beta_6 Occi + \beta_7 HHsi + U \quad (3.5)$$

Where:

CFi = the amount of credit facilities provided to an individual respondent by informal microfinance in the last 12 months.

SFi = the amount saved by an individual respondents with the informal microfinance in the last 12 month.

HFi = the housing facilities based on the amount provided an individual respondent by the informal microfinance in the last 12 months.

Gdri = gender of head of individual household (0 for otherwise, 1 for male,)

Edui = education attained by individual head of household (0 for no school, 1 for primary, 2 for secondary, 3 for tertiary).

Occi = occupational status of individual head of household (0 for unemployed, 1 for farm activities, 2 for non-farm activities,).

HHsi = household size of individual household based on the number of people in a household.

Where:

βo = Intercept

$\beta_1, \beta_2 .... \beta_{14}$ = parameter estimates (or co-efficient) associated with the role of informal microfinance on economic activities of the rural dwellers under study.

U = error terms

Our a-priori expectations or the expected behaviour of the independent variables (CFi, SFi, HFi, Gdr, Edu, Occ, HHs) on the dependent variables (EAsi) in the model are Cfi>0:, Sfi>0:, HFi>0:, Gdri> <0:, Edui>0:, Occi>0:, HHi>0:, an indication that the more the values of the independent variables the more the value of the housing finance in the rural area.(see Koutsoyiannis, 1977; Oyeniyi, 1997; Asika,2002; Ogunbameru,2004; Greene,2008).

4.0 Empirical Results and Discussion

4.1 Results

The results of the regression analysis are presented inTable1 below

Table1: Multiple Regression Results of the Informal Microfinance and Housing Finance in Offa Local Government Area

Explanatory variables	Co-efficients and their t-values in parenthesis
Intercept(t)	1083.20 (0.31)*
CFi (t)	0.13 (6.03)*
SFj (t)	-0.10 (-2.22)*
HFj (t)	2.69 (12.29)*
$Gender_j$ (t)	42017.67(5.15)*
Edu_j (t)	-17249.06 (-4.09)*
Occ_j(t)	-8189.09 (-4.55)*
HH_j (t)	10891.98 (-4.55)*
Age_j (t)	-1798.58 (-3.06)*
$Mart_j$ (t)	26382.69 (1.99)
R^2	0.76
R^2 Adjusted	0.74
F-Statistics	49.06
No of observations	180

Source: Authors' Computation, 2009
*statistically significant at 5 percent level

The model shows a strong fit since it has a strong R-square of 76 percent. At the 5 percent level of significance, the F-statistics show that the model is useful in determining the impact of informal microfinance on housing financing in Offa Local Government Area as the computed F-statistic which is 49.06 is greater than the tabulated F-statistic valued at 1.90. Thus, holding the vectors of household constant, the co-efficients and associated t-values of the components indicated that the credit facilities provided for housing finance has the expected sign and is statistically significant at 5 percent level of significance. In terms of the magnitudes, most of the funds from the informal microfinance are used for housing finance need.

4.2 Discussion of the results

As observed in the result there exists a positive relationship between informal microfinance and housing finance in Offa Local Government Area. The reason for this can be linked to the inability of the respondents to get loans from the formal financial institution to build their houses. Their inability is caused by scarce mortgage lenders and housing developers, and where they are available; they are unaffordable and mostly focus on the middle and upper market segments. Besides, another reason is failure of government housing programme which makes housing loans inaccessible to the low income because of high interest rate, dearth of long – term funds, absence of secondary mortgage market, and inadequate branch network of Primary Mortgage Institutions for easy disbursement from the National Housing Fund; difficulty in assessing land, and title to land due to the shortcomings in the provision and implementation of Land Use Act of 1978. Others are inadequate incentives, concession and taxes, and non- availability of insurance framework. Thus corroborating the assertion of Ferguson, 1999 and Solares, 2007 that low income household results to informal microfinance because the formal financial institution loan is inaccessible to them. This result support our findings and the findings of Bolnick and Mitlin, 1999; Anzorena, 1996; Ferguson, 1999; Davies, 1999; Mjoli-Mncube, 1999; Morduch, 1998,1999; and Johnston and Morduch, 2008 that people used informal microfinance to improve their housing conditions where clients saved towards their housing programme- build, repairs and expand. For instance, in Bangladesh, Anzorena (1996) observed that informal microfinance provided over 330,000 housing loans to its saving- scheme members, while the Self-Employment Women Association (SEWA) in India and women in rural Bangladesh use their informal microfinance to build houses. (see Latifee 2003).

5.0 Conclusion and Recommendation

Using a multiple regression analysis, this research establishes a relationship between microfinance and mortgage finance in Nigeria. The results show that the credit facility provided by the informal microfinance in the study area is used for housing purposes by the respondents. Based on this, the study recommends the establishment of a rural regulatory body that would ensure quality of houses, remove risk involved in purchases of land and security of tenure. This step would encourage members of the informal microfinance to invest more on housing, thus reduce their spending on house repairs. The amount available could be used to improve their economic activities and thus their standard of living.

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Quantum of loan: Up to ₹3 crore

Renewal: Once in 2 years

Security: Term deposit of banks/NSCs/LIC policies/ Property, etc.

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Purpose: To provide working capital and Term loan finance to MSE borrowers

Eligibility: Applicants engaged in Manufacturing and / or Service activities and having minimum of 2 years standing and profit making for the past 2 years

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