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MICROSAVINGS: A SUBSTITUTE OR A COMPLIMENT TO MICROCREDIT IN THE FIGHT AGAINST CHRONIC POVERTY IN NIGERIA

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ABSTRACT

Microsavings practices are as old as human history: informal savings opportunities such as 'Susu' and rotating savings and credit associations (ROSCAS) have been in existence for time immemorial. Hence, savings pre-dates loans as even before the advent of the modern day medium of exchange people made provision for the 'rainy days' which today, helps in no quantifiable measure in addressing the problem of financial exclusion faced by economically active poor especially in underdeveloped and developing nations such as Nigeria. This paper therefore, employed the review of relevant literature to appraise the linkage between microsavings and microcredit as poverty fighting tools. The paper concludes that the two concepts complement each other and combining them will produce better effect on poverty reduction.

Key words: microsavings, microcredit, poverty.

INTRODUCTION

Prior to the popularization of microcredit with the Jobra, Bangladesh experience (Yunus, 1999); the level of global poverty was equally endemic. Still scholars who argued against microcredit for poverty alleviation assert that poverty is multidimensional and remains as microcredit only reduces income poverty but not other forms of poverty (Buckley, 1997). Again, with all its prominence, microcredit reaches mainly 'the wealthy poor'- those who fall above the poverty line rather than the core poor (Lønborg & Rasmussen, 2014). Thus, savings (as little as it can be) can be a source of consolation to the financially excluded poor. The importance of savings in positive transformation of family lives for time immemorial cannot be over emphasized as significant positive relationship exists between savings and empowerment in Nigeria (Nkpoyen, Bassey, & Eteng, 2012).

Savings pre-dates loans as even before the advent of the modern day medium of exchange people made provision for the 'rainy days' which today, helps in no quantifiable measure to address the problem of financial exclusion faced by economically active poor especially in underdeveloped and developing nations such as Nigeria. It is in this light that Adusei, (2013) opined that the paradigm shift from micro lending to microfinance aimed at reducing global poverty came as a result of the realization of the positive effects of savings mobilization in enhancing the well-being of the teaming poor. In fact, the poor needs reliable savings services as much or more as they need loans (Stewart et al. 2010). However, the poorest of the poor may be better off spending on food intake that will improve their health rather than saving the very little at the expense of their current necessities which may have negative consequences in future (Hulme, Moore, & Barrientos, 2009). Thus, the chronically poor may be very much at home with microcredit for both consumption smoothing and establishing micro income generating venture before toying with the idea of savings. This suggests that the MFIs may be facing the dilemma of deciding which of the product (microsavings or microcredit) is more beneficial to their customers (Ojo, 2013). Consequently, one question begging for an answer remains: Is microsavings a substitute or a compliment to microcredit in the fight against chronic poverty in Nigeria?

LITERATURE REVIEW

According to Ashta, Couchoro, and Musa, (2014), savings refer to amount of money kept by people with financial institutions. In this light therefore, micro savings stand for small fraction of the income of the poor that is safely kept by financial institutions mostly MFIs. From microfinance point of view, savings refers to money kept with a microfinance institution in this case a microfinance bank, mostly by poor, with the aim of meeting family needs and build up capital for initiating or expanding an income generating venture (Olu, 2009). This, points out the benefit of micro savings to both micro borrowers and microfinance institutions. Whereas to the former, voluntary, flexible and easily accessible savings help to inculcate savings habit in poor households and serves as an interest free source of funding consumption and business expenditures; compulsory group savings ensures loan repayment to the later (Onunugbo, & Nwosu, 2006). It is therefore concluded that savings have positive effect on borrowers' productivity in Nigeria.

According to Hulme, Moore, and Barrientos, (2009) three points should be taken into account in defining microsavings. These are the savers, the amount saved and the institution that collects the savings. With this focus in mind, microsavings stand for small amount of money kept by the poor and low income earners with specialized institutions.

The central focus of MFIs is employment creation by breaking the credit constraint of the ultra-poor, generating income thereby improving living conditions and reducing poverty level (Ashta et al., 2014).In addition to this central objective, MFIs also provide facilities for savings by accepting tiny clients' deposits at regular intervals for the purpose of accumulation of start-up capital and or meeting financial obligations, mainly that of payment of principal amount and the interest there from. In fact, Collins et al. (2009) argued that savings services benefit the poorest of the poor more than credit itself; his reason being that it facilitates business start-up or expansion, acquisition of assets and accommodation. It is not surprising therefore, that micro entrepreneurs heavily rely on accumulated personal savings as a major source of initial finance and look at alternative sources of funds for expansion (Gunu, 2010) cited in Ashta et al. (2014).

The poor find it difficult to save because of their economic disposition, but savings are needed to guard against shocks, provide cover for income and allow for capital accumulation. Tavanti, (2013) reported that though the poor suffer from little income, they still save a minute fraction of such incomes and that savings opportunities not only predate microcredit but are more important to the extremely poor. This is because savings shield poor borrowers from falling back into poverty due to uncertainties and emergencies. Additionally, poverty alleviation does not only end with improved economic welfare but also involves creation of a barrier from poverty (Swain & Floro, 2012); savings help micro borrowers achieve this protection (Tavanti, 2013). This position is supported by Afrane and Adusei, (2014) who stated that despite the serious challenges faced by the marginalized poor, they still save. This made them to emphasize the need for MFIs to migrate from microcredit provision to microfinance as savings can provide not only the foundation for capital formation but can also serve as means of mobilizing funds for MFIs' lending operations. However, this study was based on a single MFI in Ghana – Sinapi Aba Trust (SAT), using a four year panel data. Though a large sample size was used, the results obtained could have been better had other MFIs been included in the study.

The effect of savings on entrepreneurs' productivity in Nigeria is found to be positive (Ojo, 2009). To guard against risk of default, some amount of savings may be required by MFIs before credit is extended to an entrepreneur. This is because not only do client savings provide an obvious 'cushion' for timely repayment of loans, they can be used as an alternative and relatively cheap source of funds for the MFIs as loans rates are higher than those for deposits. In this light, savings is viewed in terms of voluntary (individual) and mandatory group savings. However, in general terms microsavings have not received the attention it deserves from the microfinance sector this, being accounted for by the much emphasis that is given to other microfinance products.

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Moreover, achieving a level of savings has a positive effect on savers' perception about themselves and helps them to be more prudent which in turn results in efficient utilization of financial resources in future. In this perspective, Jones, (2008) viewed that naturally, saving the poor and the financially underprivileged from the exploitative tendencies of money lender or 'loan sharks' as they are sometimes referred to by allowing the poor to have access to funds at relatively cheap rate can raise income and smooth consumption in the short run. Therefore, microcredit may not be a better option in the search for long run financial stability and independence of the poor who end up in the cycle of debt; future borrowing to finance (repay) the previous loan. In fact, it is this rather unfortunate scenario that makes scholars who kick against microcredit as an intervention alternative in addressing poverty to describe it (micro loan) as 'micro debt' adding that micro savings can be a better model in enhancing the welfare of the poor than 'micro-debt' which rather than being a solution to global poverty problem, shields developmental agencies from focusing on better intervention schemes (Stewart et al., 2010). Consequently, microcredit as a single remedy may end up pushing the hardcore poor into poverty trap; indicating that microcredit alone cannot significantly reduce poverty (Haque, & Yamao, 2008). This position is confirmed by conclusion reached by Kura, Kuperan, & Ishak, (2017) that microcredit is not a stand-alone remedy to the poverty question in Northwest, Nigeria.

CONCLUSION

The review of relevant literature revealed that both microsavings and microcredit have significant positive effects on poverty reduction. Each one of them uniquely contributes in enhancing the welfare of the underprivileged and financially excluded poor who are made to participate in the larger economy with the access to savings and loans provided by MFIs (Al-Shami, et al. 2013). Thus, rather than the much talk about 'paradigm shift' from 'micro-debt' to microsavings MFIs should not underrate the enormous contribution of each but should make both available to their customers. And strengthen their supervisory role of ensuring the amount lent is appropriately and efficiently used. Equally, MFIs clients should be encouraged to imbibe voluntary saving habit apart from the compulsory savings which secures the loan. Conclusively, microsavings and microcredit are neither rivals nor mutually exclusive antidote but compliments each other in their bid to reduce poverty and enhance the welfare of the poor. In fact, to be precise the two are inextricable components of financial intermediation aimed at poverty reduction (Afrane & Adusei, 2014).

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