MICROFINANCE AND POVERTY REDUCTION IN TOGO

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ABSTRACT

In order to solve the poverty problem, governments in developing countries have adopted a number of strategies, one of which is "microfinance". The purpose of this article is to analyze the implication of microcredits in terms of poverty reduction in Togo. For this purpose, we used data from the database QUIBB version 2011, to estimate the Probit model. The results obtained indicate that on average, households that have benefited from microcredit have a low probability of falling into poverty. The economic policy implication of this study supports microcredit policy as a good approach to poverty reduction.

Keywords: Microfinance, Poverty, Togo.

JEL Classification: G21, I32, O55.

INTRODUCTION

Poverty is a socioeconomic problem for most developing countries (Lasida et al., 2009) and for Verez (2011), the developing countries are characterized by a number of criteria such as food inadequacy, strong population growth, a waste of national resources accompanied by corruption, strong social inequalities, lack of middle class, and low literacy. And for the World Bank, poverty is defined as the purchasing power of a dollar amount during a given period (1.90\$/day). Thus, faced with this challenge, the poor have always conducted income-generating activities to meet their needs, economic growth in itself without equitable sharing of wealth is not sufficient to contain the flood of the most vulnerable people who are increasing from years to years and facing problems such as food insecurity, difficulties in accessing health care, drinking water, education and energy for their income-generating activities.

Faced this problem, it is a matter of knowing how to understand in an operational way this phenomenon of poverty which threatens the populations every day in order to find answers and adequate strategies of fight against this poverty. At the global level, different strategies have been adopted, namely the Sustainable Development Goals (SDGs), replacing the Millennium Development Goals (MDGs) that expire in 2015 in order to combat poverty, inequality and reduce the disparity between the countries.

As a result, microfinance has been one of the strategies popularized by researchers (Guerin 2004, Gentil and al., 2002) to ensure the autonomy of the most deprived people who do not have access to the traditional banking system (according to Planete Finance, CGAP, 90% of the world's population does not have access to credit because they do not have a savings account). The

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international reputation of this strategy with the consecration of the year 2005 as "International Year of Microcredit" by the United Nations Organization as well as the recognition of this strategy as means of fight against the poverty in the most remote places (rural areas) prove the importance given to microfinance today.

In Togo, microfinance represents a significant range of informal sector operators (Abalo 2007). However, microfinance has not always had a positive impact. Some authors have concluded that microfinance would have a negative impact on poor people because of the very high interest rates applied (Fode 2009, Mayoux 2007).

The general objective of our research is to measure the social performance of microfinance in Togo in the fight against poverty. Specifically, they are: (i) assessing the impact of microcredits on poverty reduction in Togo and (ii) proposing approaches to solutions for its improvement. The rest of the paper is organized into four (04) parts: (i) macroeconomic framework, (ii) literature review, (iii) methodology, and (iv) results and discussions.

MACROECONOMIC FRAMEWORK **State of Poverty in Togo**

Since 2011, Togo has experienced average economic growth of around 5% thanks to the resumption of international cooperation, public investment in the construction of economic infrastructure, employment promotion and so on. In such a context, poverty reduction will be possible if the growth generated is pro-poor. The Budget-Consumption Surveys and the Unified Questionnaire of Basic Welfare Indicators (QUIBB) assessed the situation of poverty in the country and measured the inequalities in the redistribution of the growth generated within the population.

A review of the overall results from the QUIBB survey reveals that poverty decreased by 3 percentage points in five years between 2006 (61.7%) and 2011 (58.7%) and 3.6 Percentage points in four years between 2011 and 2015 (55.1%). On the other hand, it should be noted that poverty has increased significantly (6.3 percentage points) in the capital and its urban periphery (Grand Lomé), from 28.5% in 2011 to 34.8% in 2015.

Compared to 2011, the share of food expenditure in household expenditure increased by 3.6 percentage points in 2015 (44.4% of total expenditure). This share is almost equal to that of 2006 (44.1% of total expenditure). Over the same period 2006-2015, health expenditure in total expenditure increased by 2.7 percentage points, from 3.3% in 2006 to 3.9% in 2011, to 6.0% 2015. The same applies to communication expenditure, which more than doubled between 2006 and 2015; this is explained by the penetration of Information and Communication Technologies (ICT) through the use of mobile phones, microcomputers, the Internet, and so on.

goods	2006	2011	2015		
(per category)					
Food	44,1	40,8	44,4		
Alcohol and	2,2	1,7	1,3		
Tobacco					
Clothing and Shoes	4,8	5,4	3,7		
Housing, Water and	12,9	11,2	7,4		
Electricity					
Home Care and	4,4	4,3	4,2		
Maintenance					
Health	3,3	3,9	6,0		
Transport	5,3	7,1	6,3		
Communication	2,2	3,9	4,9		
Leisure and Culture	1,0	1,0	0,8		
Éducation	3,7	4,9	3,4		
Hotel et Restaurant	7,5	6,5	7,9		
Goods and Services	8,7	9,4	9,7		
Total Expenditures	100,0	100,0	100,0		

Table 1: Decomposition of Household Spending by Category, 2006, 2011, 2015

Source: From QUIBB 2006, 2011 and 2015, INSEED estimations



Graphic 1: Household spending by category

<u>Source</u> : Author by data of QUIBB, 2006, 2011, 2015.

The incidence of poverty has increased from 61.7% in 2006 to 58.7% in 2011 and 55.1% in 2015. The analysis of the environment shows that over the three years, poverty is more

pronounced in rural areas than in other settings. It should be noted that in 2015, the incidence of poverty is 68.7% in rural areas, while 37.9% in other urban areas and 34.8% in Lomé.

Situation of microfinance in Togo

According to the IMF, the microfinance market has been booming for the past 5 years in Togo, with a coverage rate of 43% of the population by 2015, it is the highest penetration rate in the WAEMU zone. In comparison with the other countries of the WAEMU zone, Togo shows some dynamism in microfinance. With a population of 7% of the total area, its savings and credit outstanding (in 2009) represent 15% of those in the zone as a whole. Togo rivals the other more populous countries of Burkina Faso and Mali.

The sector's activity level in Togo has more than quintupled over the last 10 years, with a jump in 2008 (+ 75% for deposits and + 80% for loans), which can be explained by the renewed professionalism and the improvement of the economic situation of the populations. Its contribution to GDP is around 20%. However many units in this branch are still in the informal. In Togo, as in most African countries, the economic and social role of the informal sector is crucial because it contributes to meeting the needs of the most disadvantaged populations by providing them local goods and services, providing them jobs and Providing income. On the basis of available general information and data, it is possible not only to assess the sector's contribution to employment, GDP and training, but also to the mobilization of savings and the financing of the economy. According to the Statistics Direction estimations, the value added of the informal sector represents 33.20% of that of the manufacturing industry, 37.20% of that of trade and 51.9% of that of services. In general, the informal sector represents on average 32% of current GDP.

Indicators	2000	2005	2010	2011	2012	2013	2014	2015
Number of								
basics	50	149	198	196	196	196	181	183
institutions								
Number of	2	6	0	0	0	0	7	7
networks	2	0	0	0	0	0	/	/
Total	226 808	200 020	971 920	1025200	1 246	1 652	1 495	1 790
beneficiaries	220 808	308 028	0/1 029	1055209	558	339	154	833
Number of	103 870	1/9 9/7	444 081	522 241	627.040	850 607	701 513	806
mens	103 870	140 047	444 081	552 541	027 049	839 007	/01 515	534
Number of	107 884	144 650	261 117	125 527	528 007	746 121	638 065	782
womens	107 004	144 030	304 417	425 557	528 097	740 121	038 005	011
Moral	15.054	14 521	62 221	77 221	01 412	16 611	155 576	202
people	13 034	14 331	03 331	11 331	91 412	40 011	133 370	288

 Table 2: Indicators on DFS activities

Source: Ministry of Economy and Finance, 2016

The data below are in millions								
Years	2000	2005	2010	2011	2012	2013	2014	2015
Savings	14	29	84	102	117	130	136	144
deposits	665,80	086,84	644,69	551,62	019,70	204,40	550,57	498,06
Outstanding	13	24	70	89	101	109	111	118
loans	560,80	428,26	339,55	511,98	902,50	483,74	502,22	854,27
Total assets	19 844	36	106	137	148	165	178	ND
		484,64	666,08	722,23	187,71	626,66	338,37	

Table 3: Outstanding amounts

Source: Ministry of Economy and Finance, 2016

The table below shows the geographic locations of DFS by region as of December 31, 2015.

Regions	Maritime	Plateaux	Centrale	Kara	Savanes	Total
Apex structures	3	1	2	0	1	7
SFD mutualists or cooperatives	87	29	18	22	22	178
Non-mutual or non- cooperative SFDs	4	1	0	0	0	5
Total	94	31	20	22	23	190

Table 4: Distribution of SFD structures

Source: Ministry of Economy and Finance, 2016

According to the tables above, it is clear that the Maritime Region concentrates a greater number of structures of the Decentralized Financial System (SFD), followed by the Plateaux region and the Kara region (Table 4).

As regards the number of basic institutions and the number of networks, they increased over time over the period 2000 to 2015, with a slight decline in the period from 2014 to 2015. However, the number of the beneficiaries has increased over the period considered.

LITERATURE REVIEW

Acclassato (2008) notes that microfinance institutions (MFIs) have become an important component of the financial architecture in many developing countries, particularly in Africa and in particular in the West African Monetary Union (UMOA) because of the mass of cash: CFAF 173.4 billion at the end of 2003, up \$21.6 billion from 2002 and the size of the clientele coming from all social strata: more than 3.9 million beneficiaries in the union in December 2003. For Pal (2009), this would be an effective way to stimulate entrepreneurship among the poor so that their economic situation changes from the point of view of income security, prioritization of health, education, environment, women's empowerment and political participation.

In line with previous studies, other studies have shown that access to credit contributes to a significant increase in income among borrowing households compared to non-borrowing households in the same social categories (Soko 2009; Soulama 2005; Hofmann and al 2003; Ndiaye 2002).

Ndiaye (2002), for example, presents microcredit as a weapon against poverty following a case study in Senegal. Based on her analysis of the impact of the Senegalese Women's Access Program on Financial Services (AFSSEF), she mentions that the activities undertaken by women who received loans from 25,000 to 50,000 CFA francs were profitable on two levels: Incomegenerating activities such as trade and investment activities. In the case of income - generating activities, for instance, trade in local and cereal products, the sale is easy, supply is also easy, and women are able to sell at prices that allow them to recover the price of their produce, but also to have a certain profit that can enable them to have a repayment fund.

While several authors praise the beneficial effects of microfinance as well as their positive contributions to the poor, several other authors are rather reserved or feel that it is very difficult to measure the real impact of these micro-financial contributions on the poor (Servet 2006; Fode 2009). For example, Mayoux (2007), working on the specific case of women, shows that microfinance can advantageously influence certain facets of women's empowerment, such as increasing women's access to microfinance services, however, Mayoux (2007) highlights weaknesses in the empowerment process by showing that while women's access to microfinance has improved considerably over the past 20 years, access to programs in many regions, Credit unions and village banks remains weak. It shows that for most women who borrow, income increases only very slightly, that sometimes it is negative.

Fouillet and al. (2007) show that the praise given to microcredit now seems to have reached such a level that it may seem incongruous to question the limits of this so-called "financial revolution". According to these authors, a month after the "microfinance Summit in Halifax", some interventions indicated that this financial technique could not be considered a panacea for eradicating poverty.

According to Vincent (2000), micro-credits would have beneficial effects on beneficiaries only if these credits improve the social situation of the beneficiaries, who can thus find the funds needed to meet basic needs (health, food, housing, schooling, etc.).

METHODOLOGICAL APPROACH

Logistic regression models allow a regression area to be adjusted to data when the regression variable is dichotomous. Probit regression provides a model explaining the relationship between a binary response variable and a continuous constraint variable. Probit analysis measures the relationship between income, microcredit granted by microfinance, the area of household residence, education level, age and poverty. The model analyzes the impact of microfinance on poverty reduction.

Since the dependent variable of our model (poverty) is binary, that is to say it takes the value 1 if the household is poor and 0 if not, we use the Probit model in the analysis measure where we



assume the terms of errors follow a normal centered reduced law. Thus, it is assumed that the distribution function F follows a normal distribution. Thus, the formalization of the model is as follows: let Y be a binary random variable (that is, taking a value 0 or 1) and X a vector of variables assumed to influence Y. We assume that the model is written as follows: $P(Y_i=1/X_i) =$ $\emptyset(\mathbf{X}_{i}\beta) \forall i = 1, 2, 3, \dots, N$, where the function \emptyset () denotes the distribution function of the standard normal law. The functional form of the introduced Probit model is as follows: $Prob(P) = a_0 + a_1 Rev_t + a_2 Cre_t + a_3 Reg_t + a_4 Educ_t + a_5 Age_t + \varepsilon_t$ 4.1. Model Variables

The variables used in this model are described in the table below:

Table 5. V	allables Description		
Variables	Description	Measured	Expected signs
Poverty	Refers to poverty	Set to 1 if the household is poor	
Income	Refers to total household income	FCFA	-
Credits	Refers to the amount of microcredit	Takes1ifthehouseholdhasbenefited and 0 if no	-
Region	Refers to the area of residence of the household	0 for urban and 1 for rural	-
Educatio n	Refers to the area of the educated household	Takes the value 1 if the household is educated and 0 if no	-
Age	Refers to the age of the household	Takes1ifthehousehold isagedand0 if noifif	+/-

Table 5 · Variables Description

Source: Author 2017.

Data

The data used come from the basis of the Unified Questionnaire of Basic Wellbeing Indicators (QUIBB 2011). This database is very rich in data, ie data on household consumption, production and economic activities. However, in this article we have used data on poverty and access to micro-credits. The dependent variable (p = poverty) used in this model is a binary qualitative variable.

RESULTS AND DISCUSSION

The model specified above is estimated by the maximum likelihood method. The results obtained are given in the following table:

Variables	Coefficients	Standars Deviation	Probability
Income	-0,4764***	0,0904	0,0010
Credit	-0,0552***	0,0143	0,0000
Region	0,0257***	0,0047	0,0000
Education	-0,0575	0,0606	0,3420
Age	0,0014	0,0013	0,3040
n =514 ; Prob (chi	(2) = 0,0000		

Table 6: Marginal effects of the different explanatory variables (the dependent variable is poverty)

Source: Author from estimations, 2017.

***: indicates significance at the 1% threshold.

The results of this table indicate that the model is globally significant. This is highlighted by the probability of chi² equal to 0.0000. Specifically, the probability of a household being poor falls on average by 0.00552 if the household receives microcredit, in the same way poverty decreases on average by 0.004764 if there is redistribution of income by government to households. The probability of a household falling into poverty increases on average by 0.00257 if the household is located in a rural area. The education and age variables are not globally significant at the 5% threshold. But they show signs and its results can be interpreted and used for decision-making purposes in economic policy.

In Togo, microcredit influences the activities of small enterprises. According to a study by Abalo (2007), microcredit has an impact on micro-enterprise activities and this impact is measured by the volume of production, diversification of production, sales volume, competitiveness and profitability activities as well as the use of labor, production of working time, cash. It is therefore important to note that 85% of the companies that have benefited from the credit report that the credit has enabled them to increase their turnover and also the results show that access to credit contributes to the improved profitability and competitiveness for 64.2% of micro enterprises (Abalo 2007: 10-11). In the area of agriculture, the UNCDF/UNDP 2007 report indicates that farmers and ranchers have unanimously stated that microcredit is a profitable business, while microfinance practitioners are reluctant to finance the farmer because of the risks associated with this sector of activity.

In terms of economic policies, the improvement of saving conditions through the introduction of an interest rate on savings would be a source of motivation. In order to improve the conditions of savings, it is also necessary to make known the mechanism of remuneration of the savings to all the members and to introduce the interests for the savings in the long term. Expanding the supply of credits for specific purposes, such as education or health reasons, would benefit members. The improvement of credit conditions by increasing the amounts would also lead to the implementation of large projects while avoiding credit for more powerful economic players. In addition, expanding the range of products would also be a source of efficiency and diversity. An accompanying component would be important from the point of view of better defining the real needs of households and adopting the financing sought. Identify beneficiary management issues in order to provide solutions where possible.

CONCLUSION

It should be noted that microfinance today is a crucial tool for poverty reduction in developing countries, as is the case in Togo. The Probit model highlighted the impact of microcredit in poverty reduction. The tests revealed to be globally significant have proved that the granting of microcredit has a positive impact on the reduction of poverty. However, the risks related to the functioning (non repayment at maturity, frauds etc.) require microfinance to limit their scope of action. To reduce poverty considerably, we can consider some policies: microcredit policy, support policy, urbanization policy.

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Appendices

Appendix 1: Probit model estimations

Probit regression	Number of obs	=	514
-	LR chi2(5)	=	90.56
	Prob > chi2	=	0.0000
Log likelihood = -95.254011	Pseudo R2	=	0.3222

pauvrete	Coef.	Std. Err.	Z	P> z	[95% Conf.	Interval]
revenu reegion credit age education _cons	.1011499 .1041123 1.210674 .0013819 1731845 -2.862597	.0343977 .0248472 .2061694 .0086649 .3428756 .5497496	2.94 4.19 5.87 0.16 -0.51 -5.21	0.003 0.000 0.000 0.873 0.613 0.000	.0337316 .0554128 .806589 015601 8452084 -3.940087	.1685682 .1528119 1.614758 .0183648 .4988393 -1.785108

Appendix 2: Estimation of marginal effects

. mfx

Marginal effects after probit

y = Pr(pauvrete) (predict)

= .0310777	7
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variable	dy/dx	Std. Err.	Z	P> z	[95%	C.I.]	X
revenu	.0070866	.00255	2.78	0.005	.002084	.012089	5,96498
reegion	.0072942	.00201	3.63	0.000	.00336	.011229	2.3463
credit*	.1688868	.04331	3.90	0.000	.08401	.253764	.194553
age	,0000968	.00061	0.16	0.873	001093	.001287	47,1693
educat~n*	0136908	.03044	-0.45	0.653	073353	.045972	.871595

(*) dy/dx is for discrete change of dummy variable from 0 to 1