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Microfinance Banks and the Economic Empowerment of the Small and Medium Scale Entrepreneurs in Kwara State of Nigeria

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Abstract

Microfinance banking which started formally in Bangladesh was introduced in Nigeria to take the place of community banking. This is with the hope that this policy will enable financial services (especially credit facilities) to extend to the grassroots and empower the small and medium scale entrepreneurs economically. It is based on this that the study was carried out to examine to what extent these entrepreneurs have been empowered by the microfinance banks. In doing this, three hypotheses were put forward and tested using T-test, ANOVA and Duncan range test. The results of the hypothesis basically revealed that microfinance banks have actually empowered these entrepreneurs effectively through credit facilities given to them. Also, the results show that the service providers benefit more than those in the trading and manufacturing segment. It is based on this findings that the study recommends amongst others that the microfinance banks should not only provide these credit facilities but should also create awareness for their customers on how they can continue to employ the funds collected gainfully to better their lives.

Key Words: Micro Finance, Economic Empowerment, Small and Medium Scale Entrepreneurs

1. Introduction

Micro finance banking which basically involves the provision of financial services to the poor is not a new topic in the world. Micro credit has existed in different forms over century. According to Boutoille, Anacarla, Steve, Syed, Mark, (2004), micro credit took place in Ireland in the 1700s where at its peak: 20% of households obtained small loans. What is beginning to gain a strong footing is the modern concept of micro credit which was developed in the mid 1970's by Professor Moh'd Yunus. He discovered that the smallest loan could make a huge difference to an individual's life. He also discovered that large financial Institutions were unwilling to make loans available because they perceived poor people as posing a high risk of default and viewed the costs and lack of infrastructures as barriers to entry. As a result of this, in 1976, Yunus opined that the grameen bank was established to make small loans available to poor Bangladeshis.

Historically, micro credit banking which is the same thing as microfinance banking has been pioneered by non-profit organizations but now it has moved from "non-profit" to "profit" ventures.

Adesina (2007) posits that the economies of many countries are now dictated by small and micro entrepreneurs. But due to certain problems, these micro entrepreneurs have not been given the much needed attention in developing countries. Adesina (2007) further explained that as a result of this, the World Bank group instituted the micro credit summit and has committed over $200m in concessional loans and investments to enable conference institutions build their port folios and extend outreach to the poor.

In Nigeria, the government through the Central bank has also recognized the significant role micro finance banks can play in boosting the activities of small and medium scale enterprises in a way that will raise high hopes for the survival of the sector.

Small and Medium Scale Enterprises are usually defined based on certain parameters such as number of employees, turnover, invested capital and total assets. Therefore, its definition is country specific but generally speaking, small and medium scale enterprises can be companies whose headcounts or turnover falls below certain limits. (See Essein 2001)

The major problem confronting these small/ medium businesses is the problem of funding (access to funds) Akanji (2001). These businesses have great difficulty in accessing the financial system which is dominated by Universal banks, for years, the priority of Universal banks has excluded small businesses. These Universal banks viewed poor small and medium scale businesses as posing a high risk of default.

Therefore the government has shown recognition for this by adopting the micro finance policy. This policy requires that all existing community banks convert to micro finance banks within 24 months from the approval date. Any of such community banks that fail within the given period will cease to operate at the expiration of the dateline. This directive of the Central bank of Nigeria has concrete move to pave way for a prosperous future and empower economically small businesses in Nigeria. (CBN 2005).

As defined in the new Webster's Dictionary (2007), "to empower" means "to give power" or "to enable" someone. Empowerment is about creating the condition conducive to enhancing motivation to perform and providing the individual with the ability to perform.

There are different empowerment strategies but a very fundamental one is financial intervention which leads to economic empowerment. "Economic empowerment "can be described as a set of policies or programs designed for a specific segment of the society with the aim of poverty alleviation. Gergis (1999) One of the schemes designed to empower citizens in Nigeria is the recognition of a special credit scheme for micro, small and medium enterprise s through the approval of the micro finance banking policy.

Despite the introduction of the micro finance banking scheme, some small and medium scale enterprises still complain of having finance problems. This may raise doubt as to whether most or all small and medium scale businesses in Nigeria do actually have access to these micro finance banks and whether they have effectively utilized the loans secured for the purpose for which they were obtained or not.

It is as a result of this problem that this paper is aimed at examining the extent to which microfinance banks have been able to empower the small and medium scale businesses. In doing this, the study raises the following hypothesis:

2. Research Hypotheses

Hypothesis 1

Ho: The economic empowerment offered by micro finance banks has no significant impact on the growth of small and medium scale enterprise in Nigeria

Hypothesis 2

Ho: Small and medium scale enterprise has not effectively utilize the credit facility given to them by micro finance banks.

Hypothesis 3

Ho: There is no similarity in the impact of the microfinance banks on the growth of the sub-segments of SME's.

The study is designed to cover the micro finance banks and small and medium businesses within Ilorin metropolis.

3. Literature Review

In recent time, if the small and medium scale enterprises (SMEs) are asked to rank their major constraints, funding will end up capturing the top spot. In addition, capital formation remains the most difficult task to be over-come by the SMEs operators in Nigeria. To this end, the Federal government of Nigeria through the Central bank of Nigeria (CBN) put in place a new Micro finance policy which is designed to create a frame work for a coordinated attack on the micro-business funding challenge.

Micro finance is referred to as small-scale financial services for both credits and deposits that are provided to people who farm, fish, herd, or operate small or micro enterprises where goods are produced (Egbon 2007). Akanji (2001) posits that micro finance operation should be seen as a strategy to reduce poverty. He reiterated further that a small number of highly effective micro finance programmes have demonstrated that low-income clients can use small loans productively, repay back fully and on time when given reason to do so and so save and often need savings services as much as or more than credit services.

Ijaiya (2006) was of the view that the dearth for formal credit in rural areas arises from low population densities, poor infrastructure, policy and institutional problems, remote difficult terrain and the small value of individual savings and loan transactions. Without doubt however, there will be the need to ensure that the micro business operators should be catered for adequately by the micro finance banks, the government on its own part should put in place some measures that will enhance the empowerment of the small and medium scale enterprises.

Akanji (2001) posits that despite the need for the establishment of micro finance in the rural areas, where small scale enterprises are predominantly situated, many micro finance providers find it difficult to locate there because of the high cost of providing the services and cost of establishing branches there.

In ensuring that this and other problems identified are solved, the past and present administrations in Nigeria put up series of measures in providing micro credit to the small and medium scale enterprises. CBN (2005) as part of its regulatory functions licensed two types of micro finance bank (MFB) in Nigeria and they are unit and state micro finance banks. A unit micro finance bank is licensed to operate in local government areas with a paid up capital of N20million. And a state micro finance bank is licensed to cover the state and can also open branches in different local governments of the state. Its required minimum paid up capital is N1billion.

The Nigeria deposit insurance corporation NDIC has said that available statistic from central bank of Nigeria shows that as at 31st January 2007, 607 community banks have converted to micro finance banks (MFB) while 109 licenses have been issued to new MFBs. What are these micro finance institutions and what are they expected to do.

Akanji (2001) states that micro finance institutions fit within a continuum of financial and in fact represent an essential component of an integrated financial system that serves the majority of citizens. He stressed further that micro finance institutions are now expected to attain high level of financial sustainability within a reasonable period of time. Over the past decade a handful of pioneer micro finance institutions have demonstrated not only the banks ability to serve the poor but also the potential for sustainability of financial institution that serve the poor. The micro finance as part of their responsibility has been under pressure to mobilize savings, apart from giving out loans to micro business operators and there is contention among practitioners about the wisdom of this trend.

Most of the formal institutions that purvey credit to the poor had not been successful. And the reason adduced for their failure had been limited knowledge of the poor (Akanji 2001). The view of Akanji,(2001) reflected that the micro finance is expected to under study the need of the poor, particularly the micro and small-scale operators. The credit need of the small and medium scale enterprises have been found to be very small compared to what the formal banking sector can possibly attend to and also the re-occurring problem of no collateral. These and other identified problems had led to the failure of other informal banks put in place to cater for the need of the SMEs.

In order for the micro finance banks not to witness the pit fall of the previous financial institutions such as the community banks and to cater for this sub sector of the economy, Akanji (2001) put forward the following principles:

- Simplified services: Make the credit programme customer friendly. Use a simple application process appropriate to low levels of literacy and numeracy and streamline operations to minimize staff time per loan;
- Offer small initial loans: start with very small loans appropriate for meeting day to day financial requirement of micro enterprises and motivate repayment by offering large loans as incentives for repeat customers;
- Offer short term loans: offer initial loans of three to six months with frequent repayment periods;
- Localize services, focus on scale: locate the locality. Locate where there is a critical mass client in order to reduce mass transaction costs;
- shorten turnaround time: limit the times between loan application and disbursement since the majority of micro loans are for working capital;
- motivate repayment: it could be done through group solidarity and joint liability;
- Recognize that the poor do save.

CBN (2005) reiterated that micro finance bank should also possess the following features:

1. The smallness of loans advanced and or savings collected;
2. The absence of asset based collateral; and
3. Simplicity of operations.

In essence, the provision of credit facilities to the small and medium scale enterprises by the microfinance bank will serve as a means of empowering them which will then metamorphosis into the economic development of the nation.

Website's Dictionary (2007) viewed the word empower as to give official authority to. Mc Ardle (1989) sees empowerment as the process whereby decisions are made by people who have to bear the consequence of those decisions (see also Rapaport 1987). Gergis (1999) emphasized that empowerment is about helping people unleash their creative and productive energies to achieve sustainable growth and continuous improvement in their living standards (see Conger and Kanugo 1998). Onxy and Benton (1995) posit that for employment to take its rightful course there is the need to answer the question of self reliance. To achieve this, personal goals must be set and they suggest the following:

a) Identification of need;
b) Identification of options or strategies
c) Decision or choice of action
d) Mobilization of resources and
e) The action itself.

It was further suggested by them. that to be empowered all the above steps must be completed by the participants themselves with minimal outside intervention.

Gergis (1999) on his own part reiterated that empowerment is supposed to bring closer those who hold power and those who are powerless, because empowerment moves the powerless into the positions of power and makes those at the higher levels of power accept sharing power with them. He stressed further that empowerment is in response to the failure of modernization and trickledown economy of the 1970s and the 1980s and the widespread perception of the state's inability to intervene successfully on behalf of the poor or other disempowered groups in the society.

In solving the problems identified above, Egbon (2007) posits that programmes like the special scheme for micro; small and medium enterprises should be strengthened and made more efficient and effective to their responsibilities. The means of doing this is by way of empowering the small and medium scale enterprises in Nigeria.

Essien (2001) states that a small-scale enterprise is an enterprise with a total capital employed of over N1.5m but excluding cost of land and with a labour size of between 11and 100 workers. Akinsulire (2006) reiterated that small and medium scale enterprises have three characteristics thus:

- Has a small share of the market; the small business entrepreneur directs his vision to the local community where he carries on his business ignoring wide and more distant markets;
- Ownership of the business is restricted to a few individuals typically in a family group;
- Not micro business that are normally regarded as those very small business that act as a medium for self employment of the owners;

3. Methodology

The research centered on micro finance banks and small and medium scale enterprises in Nigeria and their operations, within Ilorin Metropolis. The sample frame was the list of registered microfinance Banks with Central Bank of Nigeria and Small and medium scale enterprises with Kwara State Chambers of Commerce Industries, Manufacturing and Agriculture. From the sample frame, 10 microfinance Banks in Ilorin Metropolis were picked and 10 each from Trading. Service and Manufacturing for the small and medium scale enterprises. The researchers used the stratified Random sampling technique to select the cases as reflected in this study.

The Data for this study were sourced primarily through the questionnaires distributed to the respondents and secondarily from the list of registered microfinance banks and small and medium scale enterprises as well as relevant literatures. Three hypotheses were put forward to be tested as reflected in the introductory part of this research. Due to the smaller size of the microfinance banks selected which is less than 30; t-test statistical technique was used. A two tailed T-test statistical technique has been used to test the first two hypotheses. The formula is as given below:

Student's T-test $= t = \dfrac{x - \mu}{s\sqrt{n}}$

Where x = mean

μ = population mean

η = number of items in the sample

s = Std. Dev.

The test was carried out at an alpha of $t\ \alpha\ 0.05/2 = 0.025$. The degree of freedom of $(n - 1)$ where $n = 30$ for the SME's and 10 for the MFB's. Also, ANOVA has been used to further test the differences in the three sample means (i.e. trading, service and manufacturing segments of SME's). A post hoc test was carried out using Duncan range test to reveal the extent of differences among these sample means. This has been achieved through the use of statistical package for social sciences (SPSS).

4. Discussion of Findings and Interpretation of Results

The research study used questionnaires to collect data from the selected microfinance banks and the small and medium scale enterprises. In all ten (10) microfinance banks were identified, questionnaires were distributed among them and all the questionnaires were returned. Also ten (10) questionnaires were distributed to each of the selected categories of SME's as reflected in the methodology of this study. All the administered questionnaires were retrieved from the respondents.

The results of the first hypothesis tested are depicted in tables 1 and 2 below:

Table 1: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
CREDIT FACILITIES	10	8.4000	2.06559	.65320

Source: Author's Computations, 2009 using SPSS

Table 2: One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% confidence interval of the difference	
					Lower	Upper
CREDIT FACILITIES	-5.511	9	.000	-3.60000	-5.0776	-2.1224

Source: Source: Author's Computations, 2009 using SPSS

Results will be interpreted using the absolute values. The decision rule states that if the test value is greater than the critical value, we reject the null hypothesis, and accept the alternative hypothesis, Since the absolute value of /t/=/5.511/ > critical value $t\ {}^{\alpha}/_{2}$; n – 1 = 2.26 as reflected in table 2 above, we reject the null hypothesis and accept the alternative hypothesis. Therefore, the result shows that the economic empowerment offered by micro finance bank has significant impact on the growth of small and medium scale enterprises in Nigeria.

Table 3: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
MFB LOAN	30	10.3333	1.91785	.35015

Source: Source: Author's Computations, 2009 using SPSS

Table 4: One-Sample Test

	Test Value = 12					
	t	df	Sig. (2-tailed)	Mean Difference	95% confidence interval of the difference	
					Lower	Upper
MFB LOAN	-4.760	29	.000	-1.66667	-2.3828	-.9505

Table 3 and 4 above reflected the results of the second hypothesis tested from the tables since the absolute value of /t-value/ = /4.760/ > the critical value $t^{\alpha}/_{2}$; n – 1 = 2.042, we reject the null and accept the alternative hypothesis. Therefore, SME's has effectively utilized the credit facilities given to them by MFBs.

Although, the results of the hypothesis revealed that MFB's have impacted on the growth of SME's in Nigeria, but the test did not reveal if there is any difference in the impact the MFB's have on each of the segments of SME's. In revealing this differences, ANOVA has been used to test the third hypothesis. The results of the F-test shows that since F-value (2.429) < $F_{0.95}$; 27; 2 = 3.35 which is the critical value, we therefore accept the null hypothesis which states that microfinance banks do not impact on the three segments of the SME's in the same way.

The result of third hypothesis shows that there is an actual difference in the way the microfinance banks impact on these different sub-segments of SMEs. But the f-statistics will not tell us the extent of the difference.

The research goes further to look at the extent to which the microfinance banks impact on these SME's. in doing this, POST HOC Test was used to view the segment that felt the impact of the MFBs most. As shown in Table 4, Duncan range test revealed that both the service provider and the trading segments felt the impact of the MFBs more than the manufacturing segment.

Table 5: Descriptive

	N	Mean	Std. Deviation	Std. Error
Service provider	10	11.2000	1.68655	.53333
Trading	10	10.4000	2.06559	.65320
Manufacturing	10	9.4000	1.71270	.54160
Total	30	10.3333	1.91785	.35015

Source: Author's Computations, 2009 using SPSS

Table 6: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	16.267	2	8.133	2.429	.107
Within Groups	90.400	27	3.348		
Total	106.667	29			

Source: Author's Computations, 2009 using SPSS

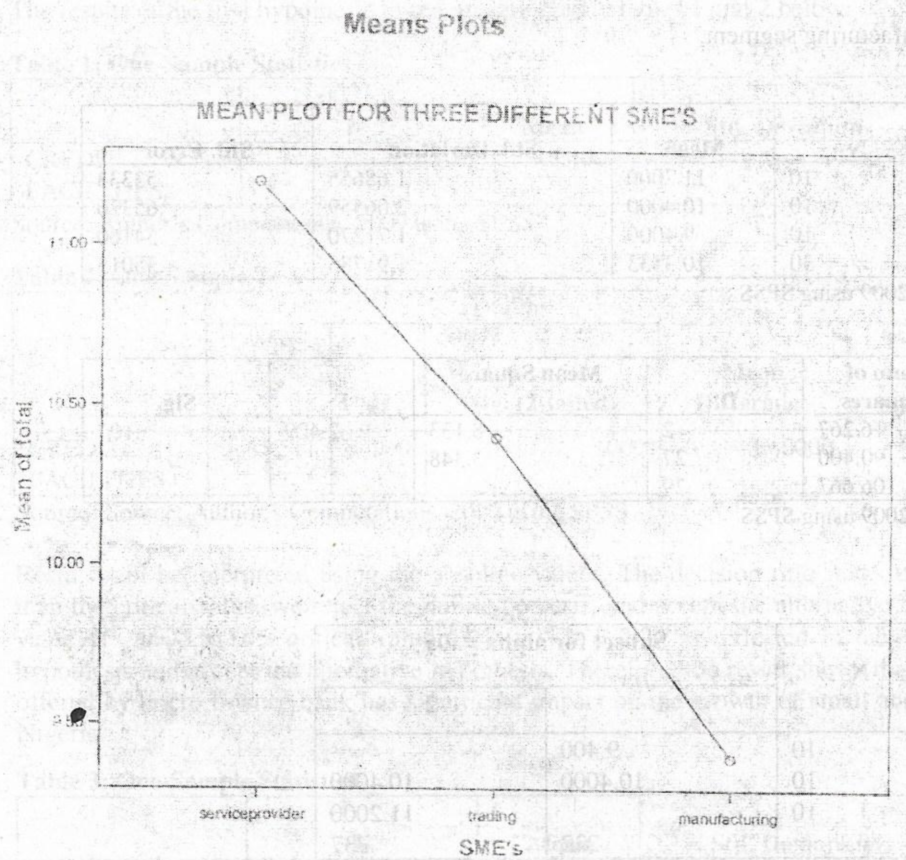
Table 7:
Duncan[a]

Segment	N	Subset for alpha = .05	
		1	2
Manufacturing	10	9.400	
Trading	10	10.4000	10.4000
Service provider	10		11.2000
Sig.		.232	.337

Source: Source: Author's Computations, 2009 using SPSS
Means for groups in homogeneous subsets are displayed.
a. Uses Harmonic Mean Sample Size = 10.000.

Table five above is a descriptive statistics of the ANOVA results and the post HOC tests. It shows that the service providers benefit most from the MFB's, followed by the trading and then the manufacturing. In this table the service provider has 11.00 mean total, followed by trading with 10.50 mean total and the manufacturing with 9.50 mean total.

Figure 1 below shows the results of the post HOC tests graphically.



Source: Field survey 2009

5. Conclusion and Recommendation

The main issue addressed in the study is the ability of the microfinance banks mto extend credit facilities to the small and medium scale entrepreneurs and also the ability of these entrepreneurs to utilize the loans given to them effectively. Literatures revealed that the needs of these small entrepreneurs are not being catered for by the universal banks hence spurring the need for banks that will specifically cater for them. The study therefore was carried out to examine to what extent the microfinance banks has been able to empower the small and medium scale entrepreneurs. The findings of the study revealed that the credit facilities given to these entrepreneurs to empower them have significant impact on the growth their enterprises, that the credit facilities have been utilized effectively by the beneficiaries and further revealed that the service and the trading benefit more than the manufacturing segment. From the results of the analysis, it can be concluded that the desired objectives of the microfinance policy has been achieved to a good extent.

6. Recommendations

Based on the above findings, the study puts forward the following recommendations:

- The microfinance Banks should continue to increase their awareness as some of these small scales Business do not even know about their existence.
- The microfinance Banks should not just give credit facilities but should also give training by organizing symposium, seminars, etc. to the beneficiaries of their credit on how to generally employ the funds collected.

- The MFB's should continue to extend their point of service to the very remote areas as those are their target customers.
- The target customers of MFB's are usually those that are outside the banking mainstream. Enlightenment programs should be provided on how they can have bank accounts.

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