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AN ASSESSMENT OF THE ROLE OF MICROFINANCE BANKS IN ENTERPRENEURIAL DEVELOPMENT IN SELECTED RURAL AREAS IN KWARA STATE

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Abstract

The concept of microfinance is not a new phenomenon; as it has operated for centuries in many forms in various economies of the world. The objective of this is to assess the role of Microfinance banks in relation to entrepreneurship development in rural areas of Kwara State. 300 copies of structured questionnaire were randomly distributed to selected respondents in rural areas of Kwara state; this was analysis with the use of Regression techniques. The findings indicate that there is an impact of microfinance on the development of entrepreneurship in selected rural areas of kwara state. The study therefore recommends that; practitioners in the microfinance industry must appreciate that financial sustainability is important for cash flow requirements of the entrepreneur in the rural areas.

Key words: Microfinance, Entrepreneur, Rural, Development.

Introduction

The concept of micro finance is not new. This is because the savings and credit groups that have operated for centuries include the "susus" of Ghana "chit funds" in India "tandas" in Mexico "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world. Confluence of Global Markets and Poverty Alleviation (CGAP),(2004), It further explains that formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks as a way to obtaining financial services through cooperatives and development finance institutions. One of the earliest micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over

Ireland. The principal purpose was making small loans with interest for short periods. At a peak period they were making loans up to 20% of all Irish households annually.

The CGAP (2004), indicated that in 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

The term "Microfinance", according to Jonathan and Barbara, (2001), pertains to the lending of extremely small amounts of capital to entrepreneurs in order to create a mechanism to alleviate poverty by providing with resources that are available. Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. Jonathan et al (2001) also noted that the poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to micro finance.

Ijaiya, Ijaiya, and Atoyebi, (2011) averred that microfinance is however, an extension of very small loans (micro-loans) to the unemployed, the poor entrepreneurs, and others living in poverty that are not covered by the formal financial institutions. This more so because these set of people are not considered because they lack collateral, steady employment and a veritable credit history, and cannot meet the minimal qualification to gain credit from the formal sector.

Broadly speaking, micro finance is the provision of small scale financial services to people who lack access to traditional banking services. The term micro finance usually implies very small loans to low-income clients for self-employment, often with the simultaneous collection of small amounts of savings. Therefore how this "small" and "poor" is defined affects what does and does not constitute microfinance. In view of Karlan and Nathanael (2007) "Micro finance" by its name clearly is about more than just credit, otherwise we should always call it micro credit. More so as remittances and insurance are becoming popular innovations in the list of services offered by financial institutions for the poor. In fact, it is no longer an exclusive institutions for the poor as, Commercial banks and insurance companies are beginning to go backwards to reach new markets, consumer products companies are targeting the poor with microcredit schemes.

Several studies however, have been made on micro finance banks and its operational effects on the individual. For examples: Mustapha (2009) examining the role played by micro finance banks towards the promotion of entrepreneurship in semi urban and rural areas of Nigeria, OjoOlu,(2009) determines the impact of micro finance on entrepreneurial development: The case of Nigeria. Study conducted by Karlanetal (2007) shows the Impact Evaluation for Microfinance: Review of Methodological Issues. Amin, Rai and Topa (2003) focus their article on the ability of micro finance to reach the poor and vulnerable. They focus their article in such a manner because of concerns that micro finance is only serving people slightly above or below the poverty line, and however the really poor and destitute are being systematically excluded. By contrast, Copestake, Bhalotra&Johnson, (2001) analyze the impacts of micro finance on firms and individual wellbeing in order to establish a link between the availability of micro finance and overall wellbeing of the poor. Sheherya and Richardson (2006) viewed the Impact of Microfinance on Poverty, Income Inequality and Entrepreneurship.

This study therefore intends to assess the roles played by microfinance banks towards entrepreneurship development in rural areas of Kwara State.

REVIEW OF LITERATURE

The National Bureau of Statistics, Annual Abstract of Statistics (2005), revealed that Nigerian economy is characterized by the existence of formal or institutionalized banking and financial systems and informal financial markets in both rural and urban areas. Formal financial institutions have been reluctant to lend to informal micro enterprises. The reluctance on the part of formal financial institutions to lend to informal micro enterprises may be attributed to a number of factors. First lending to informal micro economic units is considered typically risky. Informal micro economic units are unable to provide adequate collateral for credit. Second, most informal economic units in Nigeria are subsistence oriented or at best have limited profit motives because there are no plans for future expansion and as such capital accumulation through profits is not a prime objective of the business. Subsistence orientation constrains their repayment capacity making them default prone.

According to Jamil, (2008), micro finance refers to the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low income population on a sustainable basis. It recognized poor and micro entrepreneurs who are excluded or denied access to financial services on account of their inability to provide tangible assets as collateral for credit facilities.

Microfinance, according to Mustapha (2009) can be seen as a supply of loans, savings and other financial services to the poor. It is the practice of delivering those services in a sustainable manner so that poor households will have access to financial services so that they can build sustainable micro-enterprise. While micro-enterprise is a business that is independently owned and operated by its owners and does not meet certain standards of size which in most cases operated as informal business.

GOALS OF MICROFINANCE BANKS

The establishment of micro finance banks, according to Central Bank of Nigeria (2005), has become imperative to serve the following purposes:

- (i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;
- (ii) Mobilize savings for intermediation;
- (iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;
- (iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;
- (v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1 % of their annual budgets for the on-lending activities of micro finance banks in favour of their residents; and

- (vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government.

JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE BANKS

According to CBN, Report (2005), the following are reasons for the establishment of micro finance banks in Nigeria;

1. **Weak Capital Base:** The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to N20 million shareholders' funds unimpaired by losses. Similarly, the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB), with a proposed authorized share capital of N50.0 billion, has N10.0 billion paid up capital and only N1.3 billion shareholders' funds unimpaired by losses, as at December, 2004.

2. **The Existence of a Huge Un-Served Market:** The size of the unserved market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1 :57,000, that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit, with an average loan size of N8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represent percentages of 23.02 and 1.04, respectively. This reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP which less than one percent of total credit of the economy. The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

3. **Economic Empowerment of the Poor, Employment Generation and Poverty Reduction:** The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the micro finance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

4. **The Need for Increased Savings Opportunity:** The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at N34.2 billion. Similarly, their total loans and advances amounted to N11.4

billion while their aggregate deposit liabilities stood at N21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at N545.8 billion, out of which N458.6 billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

5. The Interest of Local and International Communities in Micro-financing: Many international investors have expressed interest in investing in the micro finance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor.

6. Utilization of SMEEIS Fund: As at December, 2004, only N8.5 billion (29.5%) of the N28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10% of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

Distinguishing Features between Microfinance Banks and Universal Banks

Criteria	Microfinance Banks Licensed to operate in as a unit bank in a LGA (aka Community Banks)	Microfinance Banks Licensed to operate in a State	Universal Banks
A Minimum paid-up capital/ shareholders' fund	N20.0 million (increases from N5.0 million)	N1.0 billion	N25.0 billion
B Scope of Activities covered by Licensed	To operate within a Local Government Area. Not to engage in sophisticated banking services such as forex business	To operate within a state. Not to engage in sophisticated banking services such as forex business but can receive tenured loans and equity from abroad	To operate nationally and in international markets. To operate forex transactions and domiciliary Accounts for customers

C	Limitation on credit to an individual or company	Limitation on credit to an individual or a company	Credit subject to a single obligor limit of 1% for an individual/corporate entity and 5% for a company	Single obligor limit applies
D	Limitations on deposits from an individual or a company	Limitation on deposit from an individual or a company	No limit	No limit
	Criteria	LGA Microfinance (aka Community banks)	State Microfinance Banks	Universal Banks
E	Access to public sector deposit	Permitted for only micro-credit programme on a non-resources basis and for payment purposes	Permitted for only micro-credit programme on a non-resources basis and for payment purposes	Permitted
F	Cheque writing accounts	Cheque issuing customized to the correspondence bank	Cheque issuing customized to the correspondence bank	Cheque issuing permitted
G	*Geographical coverage	In rural and urban areas	Must operate in both rural and urban areas within a state in a proportion prescribed by the CBN	All parts of Nigeria and foreign branches and subsidiaries

Role of Microfinance Banks in Promoting Entrepreneurship in Rural Areas Credit Delivery

This is perhaps one of the most important roles of Microfinance banks, as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2008) micro finance loans granted to clients is increasing from 2007 to date and most of it goes to financing microenterprises in rural areas. Ketu, (2008) observed that micro finance banks have disbursed more than N800 million micro credits to over 13,000 farmers across the country to empower their productive capacities. As such it is expected that agricultural output will increase with the increase in funding. The entrepreneurial capacity of the farmers will thus improve.

Boosting Small Scale Enterprises/Agriculture

About 60 percent of poor people in the country live in the rural areas and 80 percent of them are farmers and artisans (NBS, 2005). Microfinance banks have therefore been the main sources of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and micro enterprise is developed. Governments go into co-operatives to partner with the micro finance banks to raise bulk loans to

be disbursed to the beneficiaries, in so doing the banks are increasing and sustaining the number of people going into small businesses.

Employment Generation

Agriculture and micro enterprises contributes immensely to job creation, and are of particular interest to all Microfinance Bank in rural areas. Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by micro finance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban areas, these industries are more prominent in the rural areas. It has, therefore, been acknowledged that the rural setting is an arena of many industries, which could be developed to contribute significantly to the national economy, just as rural people are more frequently self-employed than urban people. Ketu, (2008).

Improvement in Skill Acquisition

Improvement of the condition of women through the provision of, skills acquisition and adult literacy is another role played by micro finance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefit analysis in the conduct of businesses. In most cases a profit sharing agreement is entered between a bank and an entrepreneur and new methods and innovations are passed to the prospective entrepreneur by the banks professionals, while at the end of the production period the proceed is being shared and the entrepreneur if so wishes can continue on his own after the necessary skills and production techniques are acquired, Umar (2008).

Facilitates Poverty Alleviation

Ketu, (2008) sees employment and income generation as important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes and in doing that promising entrepreneurs are supported and new ones emerged. The federal governments National poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving the United Nation's Millennium Development Goals (MDGs) by 2015 required these micro finance institutions for success. The success of these programmes and projects for advancement of the MDGs are linked with the promotion of entrepreneurs in rural areas and subsequent reduction in the level of poverty.

Other roles played by micro finance banks in view of Mustapha, (2009), include; reorientation of the rural populace on a sound financial practices, as well as issues such as reproductive health care, and girl child education. All these areas have a direct link with entrepreneurial capabilities of the rural people.

Methodology

A structured questionnaire of 300 copies was distributed through random sampling technique in the selected rural areas entrepreneurs in the study areas and was analyzed using regression techniques with the help of Statistical Packages for Social Sciences (SPSS). The techniques adopted however, in order to assess the role played by microfinance banks (the independent variable) on the rural entrepreneurial development (the dependent variable) in kwara state. With a model $y = a + bx$

Model Summary

Model	R	R-square	Adjusted R Square	Std. of the estimate
1	0.775 ^a	0.765	0.736	231368.5577

Predictors (Microfinance)

From the above computation, the coefficient (r) is given as 0.875. This figure indicates that there is a high positive relationship between the existence of the micro finance banks and the entrepreneurial development in the selected rural areas. The R² calculated value (.765) also shows that entrepreneurial development in the rural areas is at 76.5%.

Coefficients^a

Model	Unstandardized coefficient		Standard Coefficient Beta	t	Sig.
	B	Std. Error			
1(constant)	-71612	171914.03		-.417	0.688
MFBs	7500E-02	0.015	0.875	5.108	0.001

a. Dependent variable: Entrepreneurial Development

With a 95% level significant, the critical value (i.e, tabulated value) is 1.860 and the calculated t-value which is 5.108 is greater, therefore shows that micro finance banks played a vital role on the development of entrepreneurial in the selected rural areas.

Discussion of Findings

The model summary table provides information about the regression analysis employed for the study. The R² is the correlation between entrepreneurial development and microfinance. 'R square' is the 'coefficient of determination'. It states the proportion (percentage) of the (sample) variation in the dependent variable that can be attributed to the independent variable(s). In this study, 76.5% of the entrepreneurial development in the selected rural area accounts for the presence of the micro finance activities. The 'adjusted R square' refers to the best estimate of R square for the population from which the sample was drawn. Finally, the 'standard error of estimate' indicates that, on average, entrepreneurial development deviate from the predicted regression line by a score of 231368.5577. Therefore nullifying the hypothesis which states that there is no significant impact of micro finance activities in the development of entrepreneurship in the selected rural areas at $R = .875^a$, $R^2 = .765$, $t = 5.108$ and then accept that there is an impact of microfinance in the development of entrepreneurship in selected rural areas of kwara state.

Conclusion and Recommendations

The main objective of this paper is to assess the role of micro finance banks on the entrepreneurial development in rural areas in Kwara state. By using a distinct quantitative method that controlled for programme placement bias as well as an empirical model which controls for the bias of self selection into programmes, the paper observes that, through participation in the microfinance services, established customers diversified and accumulated various assets in the form of financial, human and physical capital. Thus, participation in the micro finance programmes significantly improved customer's living standards through asset accumulation. Stakeholders in the micro finance sector have important roles to play in the dissemination of micro finance as a strategy for poverty reduction.

The below outlined are some lessons learnt from the study and suggested policy directions for future actions in the micro finance sector.

- *Insurance products for the poor:* Practitioners in the micro finance industry must understand that cash flow requirements are not the only burden that clients bear. Funerals for family members, as well as maintaining health status of household members and providing education for children, also place a heavy burden on clients and threaten their ability to fulfil loan repayment obligations. To address this burden, micro finance providers could collaborate with insurance companies to put in place affordable insurance products that will cover funeral costs for clients.
- *Financial sustainability and impacts:* It has been observed that programmes that have achieved higher levels of financial sustainability make larger impacts on changes in the borrowers' standard of living. This goes to buttress the argument that pursuing full financial sustainability is the surest way to deliver the most benefits to participants. This strengthens the argument that MFBs must be allowed to charge market interest rates to remain profitable and sustainable without any governmental interference. Disbursement of micro-loans set up by governments and donors must also be the sole responsibility of the private sector order to ensure their sustainability and, therefore, outreach.
- *Agricultural sector:* Rural areas are characterized by the adoption of poor technology, dependent on unreliable climate, poor infrastructure, small and fragile market, and precarious income flows that denies the access of many rural households. So, efforts can be made to develop the rural financial systems to ensure smooth operations and thereby contributing to agricultural productivity and tackling the poverty.

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