

RESEARCH ARTICLE

An assessment of Micro Finance Banks Impact on Entrepreneurship development in Nigeria

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Abstract

Micro-credit has been accepted as an essential tool for promoting Small and Medium Enterprises because Small and Medium businesses have become a crucial segment in developing countries such as Nigeria. In line to these, this research attempt to assess the role of micro finance banks on the development of small and medium scale enterprise in Nigeria from the viewpoint of Entrepreneurs. multi-stage probability sampling technique was used. The study was carried out in Lagos State with One hundred and Twenty (120) Questionnaires administered and distributed to registered SMEs in Lagos state. One hundred and Four (104) Questionnaires were found useful for the purpose of the study representing 86% of the total questionnaire distributed. Both Primary and Secondary data was used. Data collected from the questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical technique using simple percentages. A non-parametric statistical test; Chi-square was used to test the formulated hypothesis. Based on the findings of this study, it is concluded that Effectiveness and efficiency on the part of the Micro finance banks has positive Influence on Entrepreneur Development because the bulk of the beneficiaries were people who engaged in trading and related businesses. Also the results of tested Hypothesis show that Micro finance banks have significant impact on SMEs development. To this end, It is recommended that Micro finance banks should sensitize the rest of Nigerians who engaged in small and medium scale business to embrace micro financing concept, The financial institution (MFBs) need to put more effort in financing SMEs and MFBs should encourage people at the grassroots by to cultivate the habit of saving in the bank so that, they can have direct access to loan

Keywords: *SMEs; MFBs; Business Development; Entrepreneurs; Lagos-Nigeria.*

Introduction

Generally especially in Nigeria, credit has been recognized as an essential tool for promoting Small and Micro Enterprises (SMEs). About seventy (70) percent of the populations are engaged in the informal sector or in agricultural production [1-5]. The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the rural area is vital, being the repository of the predominantly poor in the society and in particular, the SMEs. If this growth strategy is adopted and the entrepreneurial capabilities of the people is sufficiently stimulated and sustained, the positive multiplier effect will be felt throughout the economy. to give effect to these aspirations, various policies have been formulated over time by the Federal Government to improve rural enterprise production [6-8].

The Small and Medium scale entrepreneurs lack the necessary financial services, especially credit

from the commercial banks. This is because they are not considered credit worthy [9]. Consequently they depend on family, friends and other informal sources of funds to finance their businesses. Successive governments have come up with special rural bases programmes. Whose principal target is the overall development of rural enterprise with special consideration of small scale enterprise and also to empower rural resident. These programmes range from the establishment of Agricultural credit banks and so on. Unfortunately, most of the programmes failed to achieve the desired results. This led to the emergence of microfinance banks aimed at extending credit to micro-enterprises and encouraging entrepreneurship. This study is aimed at examining the role played by Micro finance banks in promoting Small and Medium Enterprise in Nigeria. It will also identify the challenges facing the microfinance banks.

Statement of the Problem

Micro financing is to offer sizeable loans to its low-income clients including the self-employed. Unfortunately, the bulk of less privileged Nigerians have not come to understand the idea of Micro financing or being adequately sensitized on the benefits involved. Surprisingly, those who have an idea of exactly what Micro financing is all about do not fall within the category of people who are expected to benefit from the program. It is written to investigate how micro finance banks impact on credit delivery to SMEs. Microfinance banks do not take the necessary precautions in the process of offering loans. The extent to which Micro Finance Banks can improve development of small and medium scale businesses is worth exploring. Though, much work has been done in Nigeria on micro-credit delivery channel, micro finance banks and Cooperative Financing Impact on poverty Reduction [5,9,10,11,12]. However, this study aims by assessing the Impact of Micro Finance Banks on the development of small and medium in Nigeria. Specifically, the study will answer the following research questions:

- Does introduction of Micro financing has Significant Impact on the Small and medium scale enterprise (SMEs) Development in Nigeria?
- To what extent has the Micro finance bank assisted in alleviating poverty?
- Is there any Relationship between Micro finance banks and SMEs Development in Nigeria?

Research Hypothesis

The hypothesis for this study are stated in the null form **H₀**: Micro finance banks has no significant impact on SMEs development.

Literature Review and Conceptual Explanation

Evolution of Micro-Financing

The origin of small lending (micro financing) can be traced to small villages usually in the developing world where family members and friends get together in money sharing groups. This method of pulling money together among friends and relations is common among the people who do not have opportunity to access credit from the traditional bank.

Evidences have shown that this concept is in every region and each region developed their own names, in West Africa, they were known in some parts as “tontines” in Bolivia, “pasankn” and across Mexico and Central America. More so the

history of micro credit in Africa can be traced back to 17th century. Among those countries that have the early version of micro lending was the Irish

During those times bylaw, no loan could be more than 10 or run for longer than a 20 week term, with weekly repayments. As with many contemporary microcredit institutions interest rates were low in this case around 8% per year much lower than those charged by local profiteers. Nevertheless Nigeria is an exception into the issue of micro lending. In Nigeria dated back to 1960, people from various regions have their own way of lending money in the western side of Nigeria; they call it “owo ele” which means interest in return. Also in the eastern part of Nigeria, it is called “esusu”

The pioneers of modern day microfinance having studied the method involved in micro lending at the early stage and possible its origin, there is need to consider at what point the method changed and who are the pioneers.

According to Hulme [13], most of the poor entrepreneurs do not have a better understanding about micro financing at the early stage of modern day micro financing. This therefore necessitates the need to set up a consistent on-the-ground program, essentially, to educate people with a view to showing interest in the idea.

Objectives of Micro Finance

The goal at micro finance institutions as development organization is to service the financial needs of served and underserved market as a means of meeting development objectives, these include in following:

- To reduce poverty
- To empower women or the disadvantaged population groups.
- To create employment.
- To help existing business grow or diversify their activities.
- To encourage the development of new business
- To create employment and income opportunities through the creation and expansion of SMEs
- To reduce rural families dependence on drought prone crops through diversification of their income generating activities.

Concept of Micro Finance

A lot of works have been done, and several literatures and reports have been written at

different levels by experts and people who have interestingly find themselves involved in the field of micro financing, more so these people have propounded various kind of theories and essential concept that are practicable in the field [10, 14-17]. The concept of micro financing was originally developed among the poor ones in the developing countries like India for example. With this, India now becomes a necessary country for referencing when it comes to issue of micro financing.

Expert and writers on this field have come up with various definitions of micro financing. In most of the definitions put forward, one common essential fact is that the services are mainly for the active poor people who do not have access to loan in the normal traditional institutions.

According to Anyanwu [18], micro financial services are needed everywhere, including the developed world. However in developed economies intense competition financial institution; with deferent mission, ensures that most people have access to some financial services. More broadly it refers to a movement that ensures that as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services including not just credit but also savings, insurance and funds transfer.

Key Principles of Micro Finance

Key principles of microfinance were developed in 2004 by Consultative Group to Assist the Poor [19] and endorsed by the group to eight leaders at the G8 Summit On June 10 2004, among the key principles summarizing a century and a half of development practice are the following:

- Poor people need a variety of financial services not just loans.
- Microfinance can pay for itself and must do so if it to reach very large number of people.
- Microfinance is about building permanent loan financial institutions.
- The job government has to do is to enable financial institutions not to provide them.
- The key bottleneck is the shortage of strong institutions and manager.
- More generally the principles assert that microfinance means building financial systems that serve the poor. Financial system includes strong financial institutions but also much more. More competitive financial markets better government regulatory services and better

complementary services (practitioner education editing and soon).

Prospect of Microfinance Institution in Nigeria

Nigerians, the rich and poor are enterprising and industrious. But the poor who account for over-half of the population do not have access to formal banking services and they rely heavily on formal and informal microfinance institutions for credit. Nigeria's large population, (over 130 million people) requires the production of goods and services on daily basis and funding is required for the production. The microfinance institutions operations are therefore expanding and have a prominent role to play in the development of small scale enterprises in Nigeria.

Since the microfinance institutions are in every way financing the small scale enterprises in order to keep them in line and also ensure that funds which they need are available and at the right time, the future of the small scale industry therefore is very bright in Nigeria.

Microfinance industry is faced with enormous challenges. The first is for the microfinance institutions to reach a greater number of the poor. The CBN survey 2005 indicated that their client base was about 600,000 in 2001 and there are indications that they may not be above 1.5 million in 2003. The government and its institutions, including the Central bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty. Also there is need for comprehensive study on MFIs in Nigeria that will cover the entire population estimate the level of financial activities and number of clients and determine the financial and operational sustainability of the MFIs sector.

Entrepreneurship Development

In today's world where technological change, liberalization, outsourcing, and restructuring rule, the subject of entrepreneurship has gained greater interest. The discussions centered on what actually constitute entrepreneurship and how far it extends. The term entrepreneurship is derived from the French word *entreprendre*-to undertake. This suggests that entrepreneurship is the process of undertaking activities concerned with identifying and exploiting business opportunities while assuming its associated risks. Entrepreneurship is about a kind of behaviour

that includes initiative taking, reorganizing economic activities and the acceptance of its risks [20]. It is important to note that entrepreneurial activities are universal and can therefore be promoted even in societies that manifest low entrepreneurship activities. Small enterprises in particular are central in achieving sustainable growth. They constitute about 90% of the business population in North America and they accounted for the most new jobs in the country [16]. Entrepreneurship involves taking chances, but new businesses do not emerge by accident [1,14]. They are usually founded as a result of motivated entrepreneur gaining access to resources and finding niches in opportunity structures.

Role of Microfinance Banks in promoting entrepreneurship

Credit Delivery

This is perhaps one of the most important role of Microfinance banks, as the loans extended are used to expand to existing business and in some cases to start new ones, according to CBN 2007) microfinance loan granted to clients is increasing from 2008 to date and most of it goes to financing microenterprises in rural areas. Ketu, [11] observed that microfinance banks have disbursed more than #800 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 8.0 percent of them are farmers and artisans. Microfinance banks have therefore been the main sources of sources of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and microenterprises is developed. Governments go into co-operatives to partner with the microfinance 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 enterprises and hence generating

employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance 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 acknowledgment 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.

Improvement is Skill Acquisition

Improvement of the condition of women of through the provision of skills acquisition and adult literacy is another role played by microfinance bank. 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 process is being shared and the entrepreneur if so wishes can continue on his own after the necessary skills and production techniques are acquired [21].

Facilitates Poverty Alleviation

Employment and income generation are important aspects of poverty alleviation effort. 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 microfinance institutions for success.

Methodology

The study made use of cross-sectional survey design. The study area was Lagos, Nigeria, Lagos was selected because is a commercial nerve centre with in Nigeria. Multi-stage probability sampling

technique was used, in which Lagos state was stratified into three geo political zone (Lagos-East, Lagos-Central and Lagos-West) from which the sample of various Owner of small medium scale enterprises (Entrepreneur) was drawn through the simple random sampling procedure. a sample of (120) One hundred and twenty entrepreneur were selected from a list of 4,585 registered SMEs in Lagos state as at the end of March, 2014. The return rate for completed questionnaire was 86 percent as we were able to get back 104 usable questionnaires out of 120 personally administered to our respondents which were employed for final analysis in this study. Data collected from the questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical technique using simple percentages. A non-parametric statistical test; Chi-square was used to test the formulated hypothesis.

Result and Discussions

Nature of Business by the Sample Entrepreneurs

The table I below shows different natures of business by the respondents. 103 respondents involved in trading, represents 86% of the sampled entrepreneurs, 10 respondents involved in production, represents 8.30% of the sampled entrepreneurs. Also 7 involved in Artisans, represents 8.30% of the sampled entrepreneurs. This implies that the respondents nature of businesses involved in trading product, production, artesian and others.

Table I: Distribution of the respondents on nature of business by the respondent

Business	Response	Percentage
Trading	103	86.0
Production	10	8.30
Artisans	7	5.70
Others	0	2.50
Total	120	100

Source: Field Survey 2015

Perception of Entrepreneur on Micro Finance Banks Effectiveness on Business Development

From table II below, 80 respondents representing 77% knows what microfinance banks are out to achieve, while 24 respondents representing 23% do not know the objective of micro finance banks. Furthermore, the table reveal that 76 respondents representing 73% have benefited from microfinance loan, while 28 respondents representing 27% do not. More so, the table show that, 86 respondents representing 83% agreed that they are comfortable with the interest rate policy, while 18 respondents representing 17%

said they are not comfortable with it. More so, the table indicates that all respondents representing 100% agreed that the bank should improve on its services. Finally the table confirms that 90 respondents representing 87% agreed that micro financing has positive impact on their business, while 14 respondents representing 13% disagree. This indicates that micro financing has positive impact on business development. Findings from Table 2 (q1-q5) also support the importance of Micro finance bank to entrepreneur development in Nigeria.

Table 2: Perception of entrepreneur on micro finance banks effectiveness on business development

Responses	View	Frequency	Percentage
Do you know what micro finance banks are out to achieve	Yes	80	77.00
	No	24	23.00
Have you benefited from microfinance loan	Yes	76	73.00
	No	28	27.00
Are you comfortable with the interest rates policy of MFBs	Yes	86	83.00
	No	18	17.00
Do you agree that the MFBs should improve on its services?	Yes	104	100.00
	No	0	0.00
do you agree that microfinance as government has policy position impact on your business?	Yes	90	87.00
	No	14	13.00

Source: Field Survey 2015

Perception of Entrepreneur on Effect of Micro Finance Banks on Business Development

From the table III below it can be seen that 85.58% agreed that financing exists in the business, 8.65% disagreed while 5.77% were undecided. Furthermore, 84.61% agreed that business regularly evaluate the effectiveness of finance while 12.5% disagreed and 2.88% were undecided. 76.96% agree that Micro finance banks positively Influence small and Medium Business, 15.39% disagreed while 7.65% were neutral. Also 66.35% agree that Micro finance bank improve on its services in Nigeria, 23.07% disagreed while 10.57% were neutral. Finally 11.99% agreed that Microfinance banks are not so important in the Development process of SMEs, 40.38% disagreed while 49.04% were neutral. Findings from Table 3 (q6-q10) also buttressed significance of Microfinance banks to SMEs Development in Nigeria

Test of Hypothesis

Ho: Micro finance banks has no significant impact on SMEs development, The result of the Chi-square analyzed to measure discrepancies

Table 3: Perception of entrepreneur on micro finance banks effect on smes development

Responses	Agreed		Undecided	Disagreed	
	A	SD	U	D	SD
Financing exists in the business	40 38.46%	49 47.12%	06 5.77%	07 6.73%	02 1.92%
business regularly evaluate the effectiveness of finance	36 34.61%	52 50.0%	03 2.88%	08 7.69%	05 4.81%
Micro finance banks positively Influence Small and Medium Business	32 30.76%	48 46.15%	08 7.65%	12 11.54%	04 3.855%
Micro finance bank improve on its services in Nigeria?	25 24.04%	44 42.31%	11 10.57%	08 7.69%	16 15.38%
Microfinance banks is not so important in the Development process of SMEs	05 6.25%	06 5.77%	51 49.04%	28 26.92%	14 13.46%

Source: Field Survey 2015

between the observed and expected frequency as well as the level of significance of the tested hypothesis as regard findings from Tables 4 presented below

Table 4: Analysis of Micro finance banks impact on SMEs Development Using Chi-Square

O	E	O-E	(O-E) ²	(O-E) ² /E
223	145.6	77.4	5990.76	4.115
345	145.6	199.4	39760.36	27.308
41	145.6	-104.6	10941.16	7.515
62	145.6	-83.6	6988.96	4.800
57	145.6	-88.6	7849.96	5.392
728	728.0			49.13

Source: Field Survey 2015

Since $X^2_c = 49.13$ Critical region = $X^2_{t(0.01,4)}=13.28$ level of significance: 99%

Hence, $X^2_c > X^2_t$ i.e. $49.13 > 13.28$

Statistically; findings from the above indicates that expected value is greater than observed value, with calculated X^2_{cal} 49.13 being greater than tabulated X^2_{tab} 13.28, with this analysis it conclude that the expected value remain significant at a critical level of 99%;Collectively; we reject null hypothesis stated earlier that: Micro finance banks has no significant impact in SMEs development. due to the result we accept alternative [22-24].

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Conclusion

Finding reveal that a consideration number of the people who patronize microfinance institution have knowledge about micro financing and this shows that they know what they want. Effectiveness and efficiency on the part of the Micro Finance banks has positive influence on the Entrepreneur Development because the bulk of the beneficiaries were people who engaged in trading and related businesses. Also the results of tested Hypothesis show that Micro finance banks have significant impact on SMEs development.

Recommendations

In view of the findings from the research work, the following recommendations were made:

- Micro Finance Banks should sensitize the rest of Nigerians who engaged in small and medium scale business to embrace micro financing concept.
- The financial institution need to put more effort in financing SMEs, thus role. Need to be felt by the SMEs in terms of growth and development.
- Entrepreneurs should be more receptive to new ideas and prepared to make financial commitments to ensure growth
- MFBs should encourage people at the grassroots by to cultivate the habit of saving in the bank so that, they can have direct access to loan.

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