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Contributions of Microfinance Banks to Small and Medium Scale Entrepreneurial Development in Nigeria (A Case Study of Lagos State)

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Abstract
Rural microenterprise is undoubtedly very crucial and has a very high significance in spurring economic development. The importance of microfinance to entrepreneurial development made the Central Bank of Nigeria adopt it as the main source of financing entrepreneurship in Nigeria. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Nigeria (Ubom, 2003). This study examined the role of microfinance banks in financing rural microenterprise development in Nigeria.The research designs adopted for the purpose of this study were the Survey and Explanatory Research Methods in which case both primary and secondary data were used for analysis purposes. The analysis of data indicated that the microfinance banks are not adequately financing the rural entrepreneurs. There is a significant difference in the number of entrepreneurs who used the MFBs and those who do not.It is therefore being recommended that there is need for the Microfinance Banks (MFBs) to put more effort in financing the rural micro entrepreneurs. Their role needs to be felt in terms of structured framework for proper and acceptable repayment period and single digit interest rate. Also, all tiers of Government in Nigeria should also improve the existing security apparatus in the economy. The guarantee of having a secured investment and life is paramount to microfinance and banking business in any part of the world.Conclusively, a well structured microfinance institutional system in the country will lead to higher returns on equity, rural development, access to fund for the poor both in the rural and urban areas and will spur entrepreneurship in Nigeria.

Introduction

The issue of sustainable development in Third World countries like Nigeria has been a growing concern to both the government and the private sector. One of the responses to the challenges of development in the developing countries is the encouragement of entrepreneurial development scheme. Nigeria had even taken more steps that are robust by including entrepreneurial studies in the academic curriculum of her educational system. The belief of such policy makers is that such decision will inculcate entrepreneurial spirit in the mind of people to prepare them for wealth creation through small-scale enterprises (Fasua, 2006).

The importance of microfinance to entrepreneurial development made the Central Bank of Nigeria adopt it as the main source of financing entrepreneurship in Nigeria. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Nigeria (Ubom, 2003). It is imperative to understand that the microfinance banks are mainly to make finance or credit accessible to the rural micro entrepreneurs for sustainable development. But many of the microfinance providers have avoided rural and especially agricultural finance, in part because of the negative past experiences in rural lending, especially direct agricultural credit programs. In the past, government and donors supported many subsidized lending programs to spur economic growth and agricultural development. It is widely acknowledged that subsidized credit leads to excess demand and that the benefits of receiving cheap loans are generally reaped by relatively wealthy and politically connected farmers rather than by targeted smallholders. It is therefore no longer difficult to realize the reasons for the deficiencies in the rural micro enterprise development. Hence the need to examine the role of microfinance banks in financing rural microenterprise development in Nigeria.

Literature Review

Microfinance is defined here as the provision of wide and broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income households and their farm or non-farm enterprises.

Park and Ren (2001) noted that microfinance programs are united in aiming to provide financial services to individuals traditionally excluded from the banking system, especially women. Most microfinance initiatives explicitly target the poor. They overcome conventional obstacles to banking with the poor by paring down traditional branch – banking structures to reduce transaction costs, by using collateral substitutes that harness peer screening and monitoring effort via group lending contract, and by creating dynamic incentives and increasing loan sizes over time conditional on repayment histories.

At its simplest, microfinance is an economic approach to the delivery of financial services to individuals that are hitherto unreachable at a fee that is affordable and economic to the users of such services. At the same time, funds from the providers of financial services were to generate returns for the users, thereby building up their enterprises and creating employment opportunities, which will help to reduce the poverty level in the economy. Microfinance is a holistic approach designed to improve the lot of rural micro entrepreneurs in accessing fund as at when needed from the conventional banks.

Udeaja and Ibe (2006) gave a broader definition of a micro finance institution (MFI) as an organization specifically providing financial services to the poor. The organizational form varies but may be a credit union, downscaled commercial bank, financial NGO, or credit co-operative. The formality also varies, from those formal institutions subject to both general laws and to specific banking regulation and supervision (development banks, savings and postal banks, and non-bank financial intermediaries) through the semi formal providers who are required to abide by the general and commercial laws but not regulated by bank regulation and supervision (financial NGOs, credit unions and cooperative) to informal providers and non-registered groups. Ownership may also vary from those which are government owned, such as the rural credit cooperatives in China; member-owned, such as the credit unions in West Africa, socially minded shareholders, such as many transformed NGOs in Latin America; and profit-maximizing shareholders, such as the microfinance banks in Eastern Europe.

According to Ojo (2009), the practice of microfinance in Nigeria is rooted in its culture and dates back several centuries. They were formerly Community Banks because they were to operate in certain specified areas. They were not to have branches. This was because they would be able to have control and manage the number of people in such environment or community. While the microfinance institution has not been rooted in the past, the informal sector of the microfinance institution was always present. The family unit, a component of the informal sector in Nigeria, is strong and people frequently rely on their family's support when other avenues fail. Other informal microfinance institutions provide savings and credit loans to its members; structured like solidarity loans. In recent years, the microfinance institution has developed to more than just the informal sector. The formal microfinance institutions provide savings, credit, and insurance facilities to the public. Similar to other countries, the goal of the microfinance institutions is to provide access to credit for the rural and urban, low-income earners, however its impact has been limited due primarily to inadequate funds.

As the microfinance institutions in Nigeria continued to grow, there were no established governmental policies for regulating and supervising activities in the industry. In 2000, the World Bank, in a meeting with the Nigeria government regarding microfinance, recommended that the Central Bank of Nigeria should take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation of MFIs. In responding to this recommendation, the Central Bank of Nigeria conducted a baseline study of MFIs in 2001. The survey identified constraints on the operations of MFIs, specifically the lack of performance standards and the absence of regulatory frameworks.

The evolution of microfinance in the 1970s is to break the barricade to access capitals by low-income individuals for developmental purposes. Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2000).

To say that microfinance empowers the entrepreneurial spirits that exist among small-scale entrepreneurs worldwide is not an exaggeration. Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of small and medium scale enterprise (CBN, 2005).

Government, Microfinance, And Entrepreneurial Development

A direct relationship exists between governmental privatization and entrepreneurship within a country. As a result, significant improvement has been made on the part of the Nigerian government to increase the participation of its citizens over years. To aid the survival and growth of young enterprises, the government and some business minded private organizations often called NGOs (Non-governmental organizations) have set up supporting bodies to assist in this regards. Such agencies have, as part of their objectives, assisted would-be entrepreneurs with technical, managerial and sometimes financial supports. In many instances, the target audiences are unaware of the existence of these bodies and in some cases are aware but not sure of how to benefit from their services. These agencies are Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), MTN Foundation, Growing Foundation, First Cash, Brand to Wealth, Ford Foundation and Co-operative Bodies.

Methodology

The data used in the study were the time series data of Susu Microfinance credit to the micro-enterprises, the interest rate and repayment period of such micro-credit as provided by Susu Micro-Finance Bank Limited and the panel data resulting from the information gathered in the survey phase of this study.

Model Specification

The following relationships were examined in this study:

$RED = m (MFC, I_R, R_P, U)$ ……………………………………..1
$RED = \beta_0 + \beta_1 MFC + \beta_2 I_R + \beta_3 R_P$……………………………2
$\beta_0 > 0; \beta_1 > 0; \beta_2 < 0: \beta_3 > 0$
Where:
RED = Rural Micro-enterprise Development
MFC = Susu Microfinance Credit to the Micro-enterprises.
I_R = Interest Rate
R_P = Repayment Period
U = Error Term

Results and Discussion

Table 1: Presentation and Interpretation of Results

Dependent Variable: RED				
Method: Least Squares				
Date: 08/16/13 Time: 02:49pm				
Cases(adjusted): 1 13				
Included Cases: 13 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	3.266932	0.833912	3.917598	0.0035
MFC	0.001997	0.001337	1.493483	0.1695
IR	-0.004620	0.164172	-0.028144	0.9782
RP	-0.035548	0.106273	-0.334500	0.7457
R-squared	0.230492	Mean dependent var		3.353846
Adjusted R-squared	-0.026010	S.D. dependent var		0.290446
S.E. of regression	0.294199	Akaike info criterion		0.638541
Sum squared residuals	0.778979	Schwarz criterion		0.812371
Log likelihood	-0.150514	F-statistic		0.898596
Durbin-Watson stat	2.464730	Prob(F-statistic)		0.478833

Source: Econometric View

On expectation the constant intercept of the Rural Development function (3.2669) came up with positive sign, thus suggesting the development potential of micro-enterprises in the rural setting. The partial slopes of Microfinance Credit (0.001997), Interest Rate (-0.004620) and Repayment Period (-0.035548) all came with the right signs. The positive sign of the coefficient of Microfinance credit indicates that an increase in micro-credit will lead to the development of micro-businesses in the rural area all other things being equal. The negative signs of the partial slopes of Interest Rate and Repayment period are indications that increase in interest rate and repayment period is anti-development to rural micro-enterprises.

Coefficient of Determination, R^2=0.2942 indicates that approximately 30% developmental change in micro-business in rural areas is due to changes in microfinance credit and lending rate, and loan repayment period simultaneously: Thus a significant 70% was due to other factors such as personal saving, unofficial borrowing, grants from families an friends among others. By this result therefore, the Rural Micro-enterprise function is a poor fit: Micro-finance policy has no significant impact on the development of rural micro-business in Nigeria.

Again, the evaluation of the autocorrelation condition of Error Term in the function conducted using Durbin-Watson statistic suggests the absence of serial autocorrelation of error term in the function [$d^*=2.464730 \approx 2$].

Conclusion and Recommendations

This research work has been able to identify the role of the microfinance in the rural microenterprise development in Nigeria. The analysis of data indicated that the microfinance banks are not adequately financing the rural entrepreneurs. There is a significant difference in the number of entrepreneurs who used the MFBs and those who do not. Intriguingly, the unfavourable conditions attached to loan procurement are anti-development of the entrepreneurial growth. But the result of analysis emanating from the study shows that there is a potential for growth in the microenterprises if given full support. This is complemented with their shorter repayment period, high rate of returns on loan among others.

Conclusively, a well structured microfinance institutional system in the country will lead to higher returns on equity, rural development, access to fund for the poor both in the rural and urban areas and will spur entrepreneurship in Nigeria. It is therefore imperative that the following steps need to be taken for better impact of micro financial institutions on the entrepreneurial development of the Nigerian economy.

There is need for the Microfinance Banks (MFBs) to put more effort in financing the rural micro entrepreneurs. Their role needs to be felt in terms of structured framework for proper and acceptable repayment period and single digit interest rate. Also, rural micro entrepreneurs should be more receptive to new ideas and be prepared to make financial commitments to ensure growth. However, it is also recommended that the MFBs should encourage the formation of cooperatives so that a number of beneficiaries that are engaged in similar business can collectively enjoy their services and thereby reducing the high operating cost experienced.

Finally, governments should cause and entrench a stable political environment through appropriate laws and practices that allay the fears of potential domestic investors. The Industry will thrive in an economy that is devoid of political quagmire. All tiers of Government in Nigeria should also improve the existing security apparatus in the economy. The guarantee of having a secured investment and life is paramount to microfinance and banking business in any part of the world.

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