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Effect of Micro Finance Banks on Entrepreneurial Development

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Abstract

This study examined the impact of microfinance banks in entrepreneurial development of small scale enterprises in Anambra State. The objectives of the study is to identify the effects of microfinance banks in entrepreneurial developments of small scale enterprises in Anambra State. Effects microfinance banks has on entrepreneurial development of SMEs Anambra state were discussed. Objectives of microfinance policy and targets as regards to entrepreneurial development according Central Bank of Nigeria 2005 were discussed. The following findings were made: microfinance banks encourage entrepreneurial development of small scale enterprises through and fast easy accessibility of loans, low interest rate and no multiple changes on account. Based on the findings the following recommendations were made. Microfinance bank should encourage entrepreneurial development of small scale enterprises in Anambra State. Government should provide enabling environment for smooth operations of micro financing in Nigeria.

Key words: Microfinance, Entrepreneurship, Small Scare, Microfinance Bank

Since Nigeria attained independence in 1960, considerable efforts have been directed towards the nation's industrial development. The initial efforts were government-

led through the vehicle of large industry, but lately emphasis has shifted to Small Scale Enterprises (SSEs) following the success of SSEs in the economic growth of Nigeria (Ojo, 2009). One of the responses to the challenges of development in the developing countries particularly, in Nigeria, is the encouragement of entrepreneurial development scheme (Gibson, 2010). Entrepreneurship is the process of identifying, measuring, and communicating economic information to permit decision by users of the information, Brown (2014). The vision may be an innovation, idea and opportunity or simply a better way to do something. The end result of these processes is the creation of a new venture, formed under conditions of risks and considerable uncertainty. Entrepreneurship is often viewed as a function that involves exploitation of opportunities existing within a market and such exploitation, is most commonly associated with the direction and combination of productive input.

Entrepreneurial Development

James (2011) in spite of the increasing demand on developing entrepreneurial leaders, few of the numerous number of entrepreneurship development programs offered by higher education institutions have been dedicated to develop students' entrepreneurial leadership capabilities. Betty (2010) stated that microfinance banks are vital to the development of entrepreneurship activities in Nigeria. People have access to capital for entrepreneurship development in Nigeria through microfinance. According to him, microfinance banks have affected entrepreneurship development in the country positively. Eze (2011), is of the opinion that the major contributions of microfinance institutions to the developing economy like that of Nigeria is its role in promoting entrepreneurship development in the nation. One of the goals of entrepreneurship routed by successful Nigerian government has been the reduction of unemployment and poverty alleviation in Nigeria.

The term Bank is either derived from Old Italian word "*banca* " or from a French word "*banque* " both means a bench or money exchange table. Finance is the life blood of trade, commerce and industry. Nowadays, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. According to Oladejo and Oladipupo (2011), the banking sector in any economy serves as a catalyst for growth and development and therefore, sensitive and sacrosanct to the economy in terms of stability and growth. Development of any country mainly depends upon the banking system.

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and lends money to those who need it. Hornby (2000) defines a Bank as "an establishment for custody of money, which it pays out on customer's order. "The relevance of Banks in the economy of any nation cannot be overemphasized because they are the cornerstones, the linchpin of the economy of a country, (Oke, 2006). As the major holder of the nation financial assets, the Banking sector presents the largest

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potential risk for financial and reputational losses in the event of corporate failure and distress.

In 2011, Nigeria through the Central Bank introduced new classes of banking license in the country. Hence, Nigeria operates on four types of Banks which includes: The Central Bank of Nigeria (CBN), Merchant Bank, Specialized and Development Bank (Microfinance Banks, Mortgage Bank, Non-interest Banks) and Commercial Banks (Deposit Bank, Industrial Bank, Savings Bank, Agricultural Bank, Exchange Bank). The central Bank is the apex Bank. It performs the major role of monetary management through the annual monetary policy circular to Banks.

The word "micro" literally means small and finance also means investment or support; therefore microfinance can be defined literally as small investment or support. Groov (2015), stated that Microfinance can be defined as the practice of offering small, collateral free loans to members of co-operatives who otherwise would not have access to the capital necessary to begin small business or other income generating activities. Microfinance banking is about providing financial services to the economically active poor and low income household, who are traditionally not served by the conventional financial institutions. These services include credit savings, micro-leasing, micro-insurance and payment transfers to enable them engage in income generating activities. (Asemota, 2013). However, the microfinance policy launched on 15th December 2005 defined the framework for the delivery of these financial services on a sustainable basis to the micro, small and medium enterprises (MSMES) through privately owned microfinance banks. The Non-governmental Organizations or Microfinance institutions (NGO-MFIS) are also expected to transform to microfinance banks. (Dinye, 2006)

Concept of Bank and Microfinance Bank

The term 'Bank' has been defined in different ways by different economists. According to Walter Leaf in Somashekar (2009), "A bank is a person or corporation which holds out to receive from the public, deposits payable on demand by cheque." Also, Horace White in Somashekar (2009) defines a bank, "as a manufacture of credit and a machine for facilitating exchange." According to Prof. Kinley in Uttarwar (2014) "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use." Bank is a financial institution which accepts money from the public for the purpose of lending or investment repayable on demand or otherwise withdrawable by cheque, drafts, and order or otherwise." Kane (2008), considers banking to be transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transferring of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. Thus, we can say that a bank is a financial institution which deals in debts and credits. It accepts deposits, lends money and also [creates money. It bridges the gap between the savers

and borrowers. Banks are not merely traders in money but also an important sense manufacturer of money.

Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2007). Robinson (2015) defines microfinance as small scale financial services that involve mainly savings and credit services to the poor. Over twenty years ago, microfinance simply was meant for the provision of very small loans (microcredit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfers, as practitioners came to realize that the poor, who lacked access to traditional formal financial institutions, needed and required a variety of financial products to achieve meaningful improvement in their business activities. Microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor. Ogunleye (2009), is of the opinion that microfinance is about providing financial services to the poor, who are traditionally not served by the conventional financial institutions. He said the three features which distinguish Microfinance from other formal financial products are:

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

(CBN, 2005). The evolution of community banks as intermediaries of microfinance program in Nigeria in 1990 was supposed to reduce the stress which low income earners go through before they can have access to capital. It has been noted that robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to factors of production, especially capital. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

According to the CBN's regulatory and supervisory guidelines for microfinance banks in Nigeria (MFBs), a microfinance bank shall be construed to mean any company registered to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer and other financial services that are needed by the economically poor, micro, small and medium enterprises to conduct or expand their businesses as defined by these guidelines. Policy objectives of microfinance banks in Nigeria include:

1. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise could have little or no access to financial services.

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2. Promote synergy and mainstreaming of the informal subsector into the national financial system.
3. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
4. Contribute to rural transformation
5. Promote linkage program between universal/development banks, specialized institutions and microfinance banks.

In view of the above, microfinance service providers are expected to:

- (1) Provide efficient and effective financial services, such as credits, deposit, leasing and innovative transfer/payment services,
- (2) Undertake appropriate recruitment and retention of qualified professionals through transparent and competitive processes,
- (3) Adopt continuous training and capacity building programs to improve the skills of entrepreneurs or small scale owners;
- (4) Remain transparent and accountable in protecting savers' deposits (Adelaja, 2006).

Concept of Entrepreneurship development

Benson (2013), opines that entrepreneurship development is concerned with the study of entrepreneurial behaviour, the dynamics of business set-up, development and expansion of the enterprise. Entrepreneurship development (ED) refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes. It basically aims at enlarging the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development.

Peters (2012), is of the opinion that in almost all the definitions of entrepreneurship, it is agreed that it is about a kind of behavior that includes initiative taking, organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account and the acceptance of risk or failure.

Kizito, (2017) opined that the Effects Microfinance Banks have on Entrepreneurial Development of Small Scale Enterprises in Anambra State are:

Granting of Loans: The primary role of micro-finance banks is to provide micro loans to individuals or groups in need of it.

Poverty Alleviation: Microfinance Banks play an important role in the poverty alleviation of a particular country. This is because, the primary objective of a government seeking to alleviate poverty is to provide as many job opportunities as possible, as well as creating a means of generating income for businesses.

Creation of Employment Opportunities: The individuals, groups and businesses that Microfinance Banks provide with credit facilities, will in turn engage the services of other people in their businesses, thereby providing employment opportunities for those other people. Small scale businesses usually create job opportunities for people. Secretaries, receptionists, sales officers, cleaners and so on, are some of the positions for which people are employed in small enterprises.

Increasing Small Scale Enterprises: Microfinance banks provide a platform for people with business ideas to bring their dreams to reality. Gone are the days when people think that business is only for the rich and influential. Now, anyone can start a small business and walk into any microfinance bank for a loan to start the business.

Promoting Agricultural Production: Most poor people live in rural areas, giving them the opportunity to do Agriculture. Microfinance banks also provide credit facilities to farmers. Most poor people who live in rural areas are given the opportunities to practice agriculture. They can get loans for buying modern day farming equipment such as, tractors, ploughs, e.t.c. their abilities to foster economic development. The main objective of micro credit according to Sunitha, (2010) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

The specific objectives of microfinance policy and targets as regards to entrepreneurial development of small scale enterprises according to CBN (2005) the following:

1. Make financial services accessible to a segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
2. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
3. Promote synergy and mainstreaming of the informal sub-sector into the national financial system.
4. Contribute to rural transformation.
5. Promote linkage programmes between universal/development, specialized institutions and microfinance banks.

Based on the objectives listed, the targets of the policy are as follows:

1. To cover the majority of the poor but economically active population by 2020 thereby creating million jobs and reducing poverty.
2. To increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 5 percent in 2020.

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3. To promote the participation of at least two - thirds of the states and local governments in micro credit financing by 2015.
4. To eliminate gender disparity by improving women's access to financial services by 5% annually.
5. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually

Microfinance Policies and Goals

Devison (2016) asserted that the microfinance policy provides a platform to achieve the following specific objectives:

1. Provision of timely, diversified, affordable and dependable financial services to the economically active poor.
2. Creation of employment opportunities and increase the productivity and household income of the active poor in the country, thereby enhancing their standard of living.
3. Promotion of synergy and mainstreaming of the informal microfinance sub-sector into the formal financial system.
4. Enhancement of service delivery to micro, small and medium enterprises (MSMEs).
5. Mobilization of savings for intermediation and rural transformation.
6. Promotion of linkage programme between Microfinance Institutions (MFIs), Deposit Money Banks (DMBs), Development Finance Institutions (DFIs) and specialized funding institutions,
7. Provision of dependable avenues for the administration of the microcredit programme of government and high net worth individual on a non-recourse basis.
8. Promotion of a platform for micro finance service providers to network and exchange views and share experiences. Idemobi, (2011) asserted that multidimensional factors contribute to low credit recovery by MFIs. These factors can be summarized under borrower's wrong attitude to credit repayment. MFIs staff weak skills and corrupt tendency and infrastructural provision by the government, arguably, these factors have direct effect in encumbering genuine effort at alleviating poverty in Nigeria through instrumentality of micro credit.

Conclusion

This paper provides an investigation into the effects microfinance play on the entrepreneurial development of small scale enterprises. It studies, the way microfinance encourages entrepreneurial development of small business owners, the extent microfinance provides credit facilities and the extent microfinance banks improve the standard of living of small business owners.

The literature shows that the microfinance institutions are evident tools for entrepreneurship development due to the roles they perform in the Nigeria economy. Despite the various challenges surrounding microfinance in Nigeria, the institution services as a key player in the financial sector that has positively impacted the life of individuals, business organization, other financial institution, the government and the economy at large through the service it offers.

The findings of this study showed that microfinance institutes go a long way in the determination of the level of entrepreneurial productivity and development in the Nigerian economy. In order to enable the beneficiaries of microfinance scheme to fully appropriate the utility of the facility the monetary authority (CBN) must continue to appraise the credit delivery challenges

Recommendations

Based on the findings, the following recommendations are made:

1. Microfinance bank should encourage the entrepreneurial development of small scale enterprises in Anambra State.
2. Government should provide enabling environment for smooth operations of micro financing in Nigeria.
3. There is the need to establish more microfinance banks especially more in interior parts of Anambra State to improve the standard living of entrepreneurs, so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth.
4. Repayment problems and loan delinquency is a major threat to institutional sustainability, therefore entrepreneurs should endeavour not to divert loans given to them by microfinance banks.
5. The study will boost the morals of people to engage in entrepreneurship business for self-reliant instead of looking for white collar jobs.

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